REAL ESTATE MARKET REPORT

2017

BALTIC STATES CAPITALS
VILNIUS, RIGA, TALLINN

OBER HAUS
REAL ESTATE ADVISORS

REALIA
GROUP

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GROUP

Realia Group is the largest provider of expert services specialising in the brokerage and management services of apartments, properties and commercial facilities in the Nordic countries. We provide our customers with comprehensive solutions in the field of property services for housing and the business sector.

Realia Group consists of Realia Isännöinti Oy, Realia Management Oy, Huoneistokeskus Oy, SKV Kiinteistönvälitys Oy and Huom! Huoneistomarkkinointi Oy in Finland. A/S Ober-Haus operates in the Baltic region.

Realia Group employs approximately 1,900 professionals, and its turnover is approximately EUR 100 million. Realia Group is owned by Altor Fund IV, a Nordic private equity fund.

Ober-Haus Real Estate Advisors is the largest real estate agency operating across the Baltic region including Estonia, Latvia and Lithuania. Ober-Haus Real Estate Advisors is a highly experienced provider of the most complete property services including residential and commercial real estate services, property management and property valuation services and has, since 1994, grown to employ over 270 real estate professionals in 24 offices across the region.

Ober-Haus Real Estate Advisors is a highly experienced provider of the most complete property services:

- residential and commercial real estate services;
- property management;
- investments advisory;
- property valuation services;
- market research;
- consultancy.

Based on our international experience and knowledge about local market specifics we help our clients make the right choices.

OBER-HAUS - ALL REAL ESTATE SERVICES!

REALIA GROUP MEMBERS:

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Ober-Haus has 10 offices in Lithuania (Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai, Panevėžys and Druskininkai) with over 110 real estate experts working there and lead the group in terms of the annual number of real estate operations. Major local and foreign companies, medium-sized and smaller companies, investment funds and private investors trust the quality of the services that Ober-Haus offers. A team of independent experts provide all real estate services: mediation in letting, selling and purchasing commercial and residential real estate, valuation of movable and immovable property, business valuation, market research and analysis.

LITHUANIA

OBER HAUS REAL ESTATE ADVISORS

COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

Coordinates:	56 00 N, 24 00 E
Area:	65,200 km^2
Border countries:	Belarus, Latvia, Poland, Russia
Capital:	Vilnius
Ethnic groups:	Lithuanians 84.1%, Poles 6.6%, Russians 5.8%, other 3.5%

CURRENCY

Currency:	Euro (EUR)
Since:	January 1, 2015

2017 FORECASTS

GDP growth, %:	2.5 - 2.8
GDP per capita, €	13,700
Private consumption growth, %:	3.8
Average annual inflation, %:	1.5 - 3.0
Unemployment rate, %:	7.5 - 8.0
Avg. monthly gross wage, €:	810
Avg. gross wage annual growth, %:	5.0 - 6.0

POPULATION	2011	2012	2013	2014	2015	2016
Lithuania	3,052,600	3,003,600	2,971,900	2,943,500	2,921,300	2,888,600
Vilnius	536,100	533,300	537,200	539,700	542,600	543,500
Kaunas	317,300	310,800	306,900	304,000	301,400	297,800
Klaipėda	162,900	160,100	158,500	157,300	156,100	154,300
Šiauliai	109,700	107,700	106,500	105,600	104,600	103,000
Panevėžys	100,000	98,500	97,300	96,300	95,200	93,600

ECONOMICS	2011	2012	2013	2014	2015	2016
GDP growth, %	5.9	3.6	3.4	2.9	1.7	2.3
GDP per capita, €	10,324	11,157	11,821	12,428	12,900	13,300
Private consumption growth, %	4.3	3.2	5.3	4.6	4.1	4.8
Average annual inflation, %	4.1	3.2	1.2	0.2	-0.7	0.7
Unemployment rate, %	14.8	13.2	11.8	10.7	9.1	7.6
Average monthly gross wage, €	593	615	646	677	714	771
Average gross wage annual growth, %	3.0	3.7	5.0	4.8	5.5	8.0
Retail sales growth, %	9.1	6.8	5.8	6.2	4.4	7.0
FDI stock per capita, €	3,672	4,072	4,321	4,363	4,673	4,470

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS

ECONOMIC GROWTH HEATS UP THE REAL ESTATE MARKET

Increasing wages, declining unemployment rate and fairly optimistic expectations determine consistent growth in consumption and in Lithuania's economy. Positive changes in the development of the country's economy also determine further augmentation of the real estate market in the bigger regions of the country. In 2016 GDP grew by 2.3%, after growing 1.7% in 2015. Analysts forecast 2.5-2.8% growth of GDP in 2017.

In 2016, the annual inflation rate was 1.7%. The increase in prices has mostly been due to the increase of some food products, transport and services prices, however, there were some products with decreased prices (heat energy, telephone services, electricity and gas). Forecasts are for CPI growth of 1.5-3.0% in 2017.

The minimum wage in Lithuania was increased from €350 to €380 on July 1, 2016. There are no discussions among politicians about further wage increase for now. Minimal wage increased by almost 27% since the beginning of 2015.

Gross wages increased by 7.9% in Lithuania in Q3 2016 (compared to Q3 2015), to €793 per month before taxes. The average net monthly after tax wages in Q3 2016 was €616. Salary growth in 2017 is expected to be 5.0-6.0%.

Unemployment fell to 7.6% at the end of 2016. Analysts project average unemployment of 7.7% in 2017.

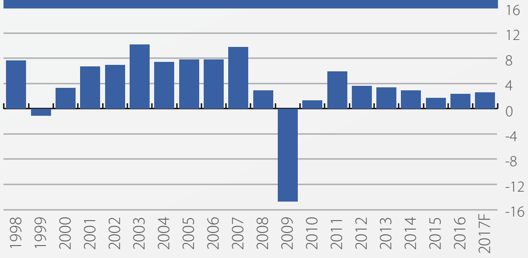
Confidence among Lithuanian consumers is slowly increasing. The consumer confidence indicator in December 2016 as compared with December 2015 increased by two percentage points to negative 5. In December 2016, 33% of consumers believed that country's economic situation would improve insignificantly in the coming twelve months, 20% of them thought that the country's economy would deteriorate and 44% thought that situation wouldn't change.

Exports in Lithuania in 2016, compared to 2015, decreased by 1.6%. This is a third year in a row when exports volumes are decreasing.

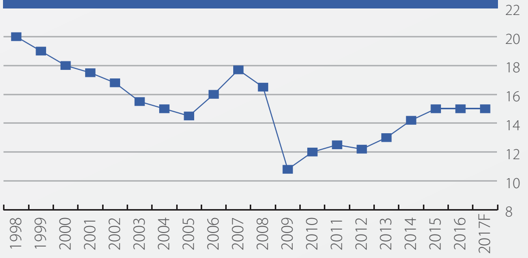
Annual increase of constructions costs was 1.6% in December 2016. The overall change in prices was mainly influenced by a 6.5% increase in wages and salaries. In this period, the biggest increase was recorded for residential buildings (2.3%). Renovation of buildings went up in price by 2.5%.

As of September 2016, direct foreign investment totalled €12.8 bln (4.2% decrease compared to September 2015), which is €4,470 per capita.

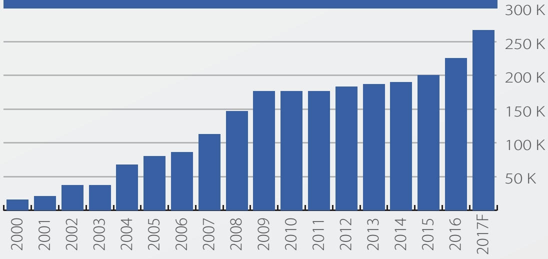
GDP GROWTH, %



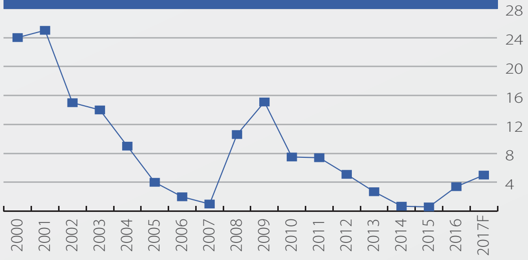
A CLASS OFFICE RENTS, €/SQM



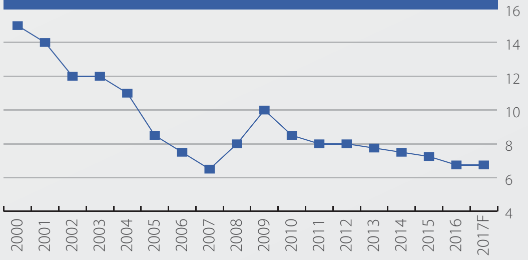
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELDS, %



END-2016 SNAPSHOT / VILNIUS

TOTAL OFFICE SPACE	627,400 SQM
TOTAL OFFICE VACANCY RATE	6.4 %
VACANT OFFICE SPACE	40,100 SQM
A CLASS OFFICE VACANCY RATE	3.4 %
B CLASS OFFICE VACANCY RATE	8.1 %
TOP OFFICE RENTS (SQM / month)	€16.50
A CLASS OFFICE RENTS (SQM / month)	€13.50 - €16.50
B CLASS OFFICE RENTS (SQM / month)	€8.50 - €13.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €4.00

RAPIDLY GROWING SUPPLY OF OFFICES SLOWS RENT GROWTH

SUPPLY

In 2016, the Vilnius market for modern offices continued to grow rapidly. Some bigger projects completed have significantly expanded the stock of office space, and developers are not intending to decrease their development volumes. In total six new projects were completed in 2016 bringing 80,800 sqm of office space to the market. After completion of these projects, the total area of usable modern office space (A and B class) grew by almost 15% to 627,400 sqm at the end of 2016 (see all projects on OHMAP). Currently Vilnius has 1.15 sqm of usable office space per capita. By floor space, A class constitutes 36% of the total modern office premises in Vilnius, and B class - 64%.

Given developers' plans and the projects in progress, an impressive quantity of new office projects/stages is expected in 2017. Plans are to complete fifteen projects of different scale, as a result of which almost 83,000 sqm of new office space will be provided. If all of these projects are successfully implemented, it will be another significant annual growth in supply.

More and more developers implement projects that will qualify for international certification of the environmental assessment of buildings (BREEAM and LEED). Developers believe that the certified sustainable buildings with cost-cutting solutions will allow for a higher competitiveness among other projects.

To offer tenants not only the traditional lease model but also other solutions, developers and other companies continue to develop the fully-equipped office lease segment. The lease of such workstations is of particular relevance for small companies, which can choose both the required term of lease (workstations can even be leased for certain hours of the day) and the required number of workstations as well as a package of additional services. Two new serviced offices were opened in 2016 in Vilnius: WorkLand (2,000 sqm) on Gedimino Ave. and a sublessee Baltic Business Centre (1,300 sqm) in Quadrum business centre on Konstitucijos Ave. In the start of 2017 UMA (1,200 sqm) co-working space with additional 30 small sized fully-equipped offices was opened in the new developed office project (Delta) in Technopolis Ozas campus.

Despite the supply leap in 2016 and 2017, developers in Vilnius also have some serious plans for 2018. Projects in different stages can offer considerable amount of office space, although the dates of final completion of these projects will depend on the overall situation of the real estate market and on the economic situation in the country (it is of particular importance whether the current pace of development of international companies in Lithuania will be retained or not). Lithuania's second largest city, Kaunas, is trying to follow the example of Vilnius and not only increases the competition in the city's office market but also challenges Vilnius itself. Companies developing their office projects in Kaunas probably expect that the service centres that are still undergoing expansion in Lithuania will decide to establish themselves in Kaunas too – previously, when the supply of office premises was not vast, this was hardly likely. It is therefore evident that truly impressive challenges await the office market in the foreseeable future.

DEMAND

In 2016, 75,900 sqm of office premises was leased in Vilnius business centres, which is 44% more compared to 2015. Demand for modern premises remains sufficiently high and this is reflected in the take-up of new projects. The majority of the office space in business centres completed in 2016 had been leased before their completion.

Expanding business services sector in Lithuania keep rapidly growing office market stable. According to data from Invest Lithuania, banking, insurance, financial services providers and IT companies are most dominant and their share of the industry has grown to 60%. Companies that provide these services are among the main users of modern office premises and the situation in the modern offices sector will depend on the subsequent development of these companies.

Despite high demand, rapidly increasing office supply in Vilnius contributes to increase in the overall vacancy rate. The vacancy rate of modern offices in Vilnius increased from 4.1% to 6.4% in 2016, and the total space of vacant premises increased to 40,100 sqm. At the end of 2016, the vacancy rate for B class buildings was 8.1% (totaling 32,400 sqm), while the vacancy for A class buildings was 3.4%, totalling 7,700 sqm of vacant space.

Ober-Haus forecasts that vacancy will keep raising and could even reach around 8-10% at some point of 2017. This does not mean however that only new projetcs are likely to face serious challenges: some of the tenants currently occupying buildings that were completed earlier may be attracted by new projects and want to move there.

RENTS

The rapidly growing supply of modern offices has slowed rent growth. In 2016, minor changes in the class B offices segment were recorded. In 2016 B class office rents increased by 2% and now range between €8.50 and €13.00 per sqm. A class office rents stayed flat in 2016 and are €13.50-€16.50 per sqm in Vilnius.

Depending on the building, additional costs (single, double and triple net) for tenants are from €2.50 to €4.00 per sqm. Also, newly developed business centres no longer provide free parking spaces for their tenants (this used to be the common practice in the market earlier) and charge for parking places additionally instead.

An even fiercer competition of owners of office buildings is expected, which means that any growth in rents in the foreseeable future is unlikely. Nowadays developers infrequently talk about the increase of rents at office buildings operated by them, especially in case of projects under construction where they are eager to let as much of the area as possible before the completion of construction. A broad choice of office premises in Vilnius city is blocking the growth of rents that has been quite rapid in early years. For comparison, in 2012–2015, the rents of modern offices in Vilnius have been increasing on average by 5% annually. The modest changes in rents in 2016 have demonstrated that developers feel the increasing competition even in the conditions of an active market. Ober-Haus forecasts that minor negative adjustments of office rents are possible in 2017. This forecast does not apply to the market as a whole, but some developers may decide to review their pricing policies and make them more beneficial for tenants.

INVESTMENT

After a record year in 2015 (since 2008), the demand for Lithuanian commercial property remained robust through 2016. In total 39 properties (modern office, retail and industrial property worth over €1.5 million) were sold in Lithuania, with a total value of €253 million. This was down by almost 6% over 2015. Unlike in the previous years, in 2016 most investments were made in the premises of the industrial sector. This was led by a sale of the large-scale logistic center in Kaunas district. The share of investment turnover by value in 2016 was as follows:

36% – industrial, 35% - offices and 29% - retail properties.

According to the value of purchased property, Estonian, US (with the single deal) and Lithuanian capital companies were the leading investors (67% from all investments). The remaining investments attracted buyers from Swiss, German, Norwegian, Russian and Dutch capital companies. Lowering commercial property yields and expanding geography of investors (for example new investor from US), signals the attractiveness of the Lithuanian real estate market. During 2016 office and retail yields declined by another 25-50 basis points in Vilnius to 6.0-8.0%. Warehousing premises are interested in no less than 8.0-8.5%.

Despite flat rents, steadily decreasing yields gradually increase the value of commercial property in Vilnius. In 2016 the A class office yields decreased on average by 50 basis points – from 7.25% to 6.75%. Thus, the capital value index for A class offices over 2016 increased by over 7%; such capital value was last recorded in the start of 2007 and in the second half of 2008. This shows that at the moment, prime property values are only lower than the levels recorded at the market peak in 2007–2008.

One of the most interesting transactions in the Baltic states was reported in March 2016 when Laurus, a joint venture of Partners Group and Northern Horizon Capital, acquired 42 different commercial units across the Baltic countries (the 84,000 sqm portfolio mainly consists of the headquarters and branches of SEB bank) from the Dutch company Geneba. In 2014, Geneba took over the major portion of the real estate portfolio in the Baltic states managed since 2007 by Homburg Invest.

At the end of 2016 EfTEN Real Estate Fund III acquired the L3 office building on Laisves Avenue in Vilnius. The B class office building, which has a total above ground area of 6,800 sqm, was acquired from it's developer E.L.L. Real Estate for €8.7 million.

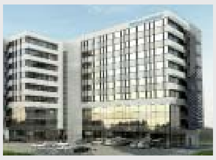
LEGAL NOTES BY ***SORAINEN***

Rent is usually paid in advance, generally monthly. Rent is typically indexed based on local or European Union inflation (HICP) rates. Recent practice shows that rent is usually indexed by European Union or European Monetary Union HICP rates. In addition to rent, tenants pay for utility services and a service charge for property maintenance. Payment of a security deposit or a guarantee is usually agreed. Triple net leases have become a standard for "A" class offices. Double net leases are more common for other classes of property. As a rule, the owner is responsible for fitting out leased premises up to a standard level set by the landlord. Typically, standard lease agreements are used in larger properties.

Lease agreements must be registered with the Real Estate Register if they are to be invoked against third parties.


QUADRUM

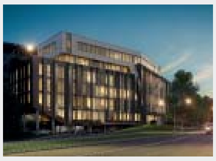
RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**QUADRUM** – In Q3 2016, Norwegian developer Schage finished construction of the first stage of the biggest A class office project in Lithuania. The first stage consists of two 12- and 17-storey buildings (North and East) with 25,500 sqm of useful office space and additional space for conference halls and other services. The top-class project with BREEAM certification in the new Vilnius business district (on Konstitucijos Avenue), has attracted many companies: DNB Bank, Tark Grunte Sutkiene, Avion Express, Newsec, Auga Group, Baltic Business Centre and other tenants. At the end of 2016, around 80% of the office space had been leased. Asking rents for the remaining office premises are €16.50 per sqm. The second stage with the third building is scheduled for development in 2017.	25,500 (North & East)	Q3 2016 (North & East)
	**CITY** – Local developer Hanner finished construction of a B class business centre on Zalgirio Street in Q3 2016. The 5-6-storey building with a total area of 20,000 sqm has around 18,000 sqm of useful office space with the largest office space per floor in the market (up to 3,600 sqm). At the end of 2016, around 65% of the office space had been leased. Office space is available at rents from €11.00 per sqm.	18,000	Q3 2016
	**135** – Local developer Eika finished construction of a B class business centre on Zalgirio Street at the end of 2016. The 5-6-storey building with a total area of 8,400 sqm offers 7,300 sqm of office space and additional space for meeting and conference rooms, restaurant and other services. This high energy efficiency building has parking for 200 cars and bicycles. The inner yard and the roof terrace is equipped with recreational and entertainment areas. At the end of 2016, around 75% of the office space had been leased. Asking rents for the remaining office premises are €13.00 per sqm.	7,300	Q4 2016
	**HIGHWAY** – Local developer Inreal valdymas finished the reconstruction of an old administrative building on Savanoriu Avenue in Q4 2016. This high energy efficiency project offers 4,600 sqm of useful B class office space with 130 parking places next to the building. Office space is available at rents from €9.00 per sqm.	4,600	Q4 2016
	**Vilniaus Vartai Business Gateway** – A closed-end real estate investment fund INVL Baltic Real Estate in late 2015 acquired two floors in the multi-functional complex Vilnius Gates on Gyneju Street. These premises were previously mainly used for retail purposes. The new owner carried out a complete reconstruction and conversion of the premises at the end of 2016 and it now offers 5,400 sqm of modern office space and around 1,800 sqm of commercial/retail premises. In summer 2016 the UK's Barclays bank leased a 550 sqm premises and opened Rise Vilnius – a startup co-working space for the FinTech community. Other office space was leased to Swedbank service centre and other hi-tech companies. Premises on the ground floor will be leased to restaurants, cafes and other services. At the end of 2016, 90% of the office space had been leased. Asking rents for office premises are from €13.00 per sqm and rents for retail premises are from €16.00 per sqm.	5,400	Q4 2016
	**Delta** – At the end of 2016, the Finland-based company, Technopolis, completed its development of a B class office project in the Technopolis Ozas campus in the territory of Ozo Park. Currently, the Technopolis Ozas campus is comprised of four office schemes – Alfa, Beta, Gama and Delta with over 60,000 sqm of leasable office space. The new two-building and 9-storey complex has provided 20,000 sqm of useful office space to the market. One of the buildings is fully leased to Western Union. At the end of 2016, over 90% of the total office space had been leased.	20,000	Q4 2016

INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+370 5 210 97 00**

OBER HAUS
REAL ESTATE ADVISORS

NEW PROJECTS

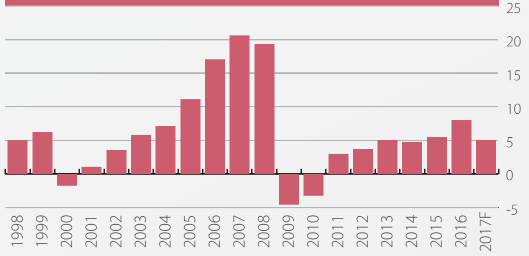
	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**Santariskes Medical Business Center** – Local developer Realinija is finishing the development of a medical office building in Santariskes district in a medical campus. The 5-storey building with 2,000 sqm of useful space will be completed in Q1 2017. Total investments will reach €2.5 million. All space has been leased to medical industry tenants.	2,000	Q1 2017
	**MAXIMA HQ** – MAXIMA LT, a leading retailer in Lithuania, is finishing the development of the office and retail complex in Naujamiestis district, on Naugarduko Street. The project comprises a 5-storey building with 4,650 sqm of office area and the shopping centre (MAXIMA XX) with a total area of 4,700 sqm. Almost 420 parking spaces will be provided around the building and on the shopping centre roof. The shopping centre was opened in September 2016 and the office building is expected to be completed in early 2017. After completion MAXIMA LT will move its employees to the new office building.	4,650	Q1 2017
	**Green Hall 2** – After successful completion of the Green Hall project in 2009, SBA Concern is finishing the second A class business centre on the right bank of the Neris River in Upes Street. The project comprises a 7-storey building with 7,500 sqm of useful office area, which will combine new technologies with the elements of nature and will include geothermal heating which leaves minimal traces of CO_2, as well as quiet ventilation creating a healthier environment, energy-saving double facade, etc. Next to the building, there will be an electric vehicle charging station intended for progressive transport. The project will also include a 2-storey underground car park. The end of construction works is scheduled for Q2 2017. Office space is offered from €16.00 per sqm.	7,500	Q2 2017
	**PENTAGON** – Local development company Realco, is developing a modern B class office building in the territory of Ozo Park, next to Siemens Arena, Ozas shopping centre and Vichy Aquapark. The 7-storey building will bring 12,900 sqm of office area to the market in Q3 2017. The will be underground and multistorey car parking for 406 cars. The building is designed to get an A class energy efficiency certificate and will be certified according to the international LEED green building certification system. Asking rents for office premises are €13.00 per sqm.	12,900	Q3 2017
	**Narbuto 5** – E.L.L. Kinnisvara, one of the leading real estate development companies in the Baltics, is continuing the development of an A class office building in Zverynas district, on T. Narbuto Street. The 6-storey building with 4,600 sqm of office space will be completed in the first half of 2017. A total of 115 parking spaces will be provided in the underground car park. The project is being developed in compliance with BREEAM. Office space is available at rents from €15.00 per sqm.	4,600	H1 2017
	**L25A** – This A class energy efficiency building is being developed in Zverynas district, on Liepyno Street. The 5-storey office building with 1,600 sqm of office space is scheduled for completion by the middle of 2017. The advantage of this building is its close proximity to the city centre, quiet and prestigious location with alternative for tenants who appreciate smaller scale projects. Office space is available at rents from €13.00 per sqm.	1,600	MID-2017

NEW PROJECTS

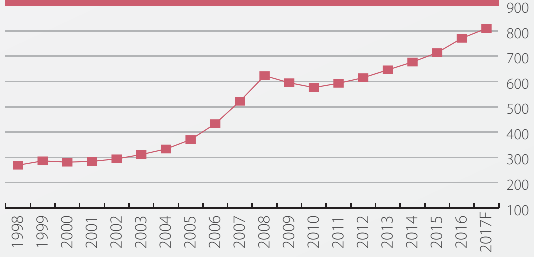
	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**Duetto** – At the end of 2015 the construction and development company YIT Kausta started construction of two identical 10-storey office buildings in the Virsuliskes district next to the new western bypass. The total area of the project is 16,700 sqm and total investments will reach €23 million. Completion of the first building with 7,800 sqm of usable office space is scheduled for the start of 2017. The main tenant in the first building will be Lindorff with around 5,000 sqm of office space. Office space is available at rents from €12.00 per sqm.	7,800 (I building)	Q1 2017 (I building)
	**Park Town** – MG Valda, real estate development company, is developing an A class office project in Konstitucijos business district, on Lvovo Street. The total area of the project is over 22,000 sqm and total investments will reach €40 million. The project is being developed in compliance with BREEAM. Completion of the first building (West Hill) with 6,700 sqm of usable office space is scheduled for Q2 2017. The second building (East Hill) should be completed by the end of 2018. Average asking rents for office premises are €14.00-€15.00 per sqm.	6,700 (West Hill)	Q2 2017 (West Hill)
	**Saltoniskiu 7** – Local company M.M.M. projektai, is developing a modern A class office project in Zverynas distric, on Saltoniskiu Street. The first 6-storey building with a total area of almost 12,000 sqm is fully leased to one tenant – Danske Bank Global Service Lithuania (GSL). The first building should be completed by the end of 2017. The second building with a total area of 15,000 sqm has been fully leased to the technological solutions company Telia Lietuva and construction should be completed by the end of 2018. The full development of this 2 ha site should be completed after the construction of the third office building and the multi-storey car park.	12,000 (I building)	Q4 2017 (I building)
	**3 BURES** – East Capital Explorer, a Swedish investment company, has started the construction of a third building next to the existing A class office project on Lvovo Street, right next to Konstitucijos Avenue. The site with the existing project was acquired by this investment company in 2014. The new 23-storey and A class office building with around 11,000 sqm of usable office space is scheduled to be completed the end of 2018. Around 70% of the office space has already been leased to Swedbank.	11,000	Q4 2018

GREEN HALL VALLEY

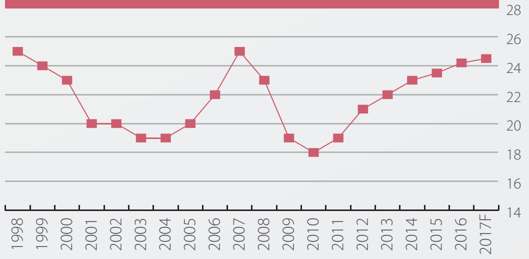
AVERAGE SALARY GROWTH, %



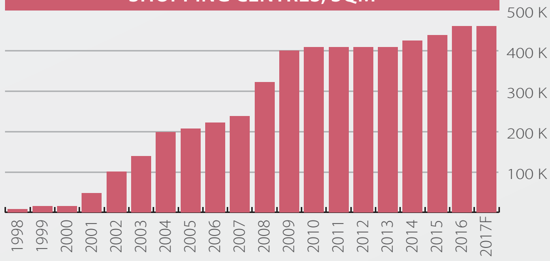
AVERAGE SALARY PER MONTH (BRUTTO), €



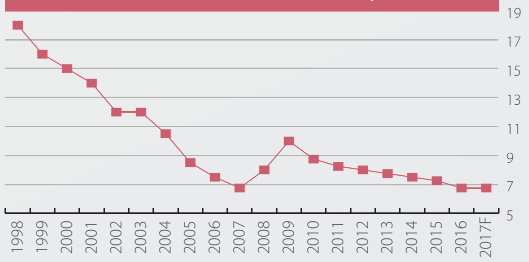
AVERAGE MALL RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



END-2016 SNAPSHOT / VILNIUS

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	460,500 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	0.85 SQM
SHOPPING CENTRE VACANCY RATE	0.9 %
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €13.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€14.00 - €37.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€50.00 - €70.00
HIGH STREETS RENTS (SQM / month)	€17.00 - €45.00

INVESTMENT DIRECTED TO UPGRADE AND EXPANSION OF OPERATING SHOPPING CENTRES

SUPPLY

The most important news in the retail market in 2016 was launching of the operations of the German supermarket chain Lidl in Lithuania. In June, this low-priced product retail chain opened 15 stores followed by another seven in the second half of the year. Lidl will continue expansion of its new standard size stores in various cities across the country. The German chain is ready to compete with other market players not only by its operations in the strategic locations of the cities, but also by its investment in environmentally friendly solutions. According to Lidl, all its buildings in Lithuania comply with top evaluation according to BREEAM In-Use – the international certification system of buildings for sustainability. So the Lidl seeks to attract the broadest range of buyers not only with its low prices of goods, but also by introducing a modern shopping spot in its new concept stores.

In 2016, Depo, a Latvian retail chain selling construction materials and household goods, started operations in Lithuania. The first shopping centre of the retail chain was opened in Klaipeda city in late 2016. The chain plans to open four new shopping centres in Vilnius, Kaunas and Panevezys in 2017. The total area of the five shopping centres is expected to reach 100,000 sqm.

Development of bigger traditional shopping centres both in Lithuania as a whole and in Vilnius in particular takes place thanks to the expansion of already operating shopping centres. In 2016, no large shopping centres were opened in Vilnius, but expansion stages of three operating shopping centres were completed. The biggest expansion was the second stage in the development of NORDIKA shopping centre located in the southern part of Vilnius. The second stage of NORDIKA added another 20,100 sqm of retail premises in the May 2016. With over 35,000 sqm of total retail area and over 50 tenants NORDIKA shopping centre is the fourth largest shopping centre in Vilnius (in terms of GLA). In Q1 2016 was finished the expansion of DomusPro shopping center next to the Ukmerges Street. The second stage has added an additional 3,400 sqm of retail area. At the end of 2016, the upgraded and expanded OUTLET PARK was opened. This was the third stage of expansion of this shopping centre, on completion of which the shopping centre expanded to 14,000 sqm of retail space.

After completion of expansion of these three shopping centres, the retail area in traditional shopping centres grew by 25,100 sqm per year. At the end of 2016 there were 26 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable retail area of 460,500 sqm. Currently Vilnius has 0.85 sqm of shopping area per capita.

It is likely that, in 2017, no major changes in supply will be recorded in the traditional shopping centres segment. Construction of a large shopping centre is planned in Drujos Street in Vilnius (former site of Audejas textile company), but the project has not been introduced yet and is unlikely be implemented before 2018. It is therefore likely that, in 2017, owners of shopping centres will direct investments to the upgrade of already operating shopping centres and focus on the improvement of their tenant structure.

DEMAND

The growing local consumption was recorded once again. In 2016 retail turnover grew by 7.0%. This growth has a positive effect on the real estate market and the interest in retail premises in Vilnius continues to remain high. The growing sales volumes encourage retailers to actively look for new retail premises both in shopping centres and in retail streets. Finding any vacant premises in the main shopping centres remains a challenge, however. The vacancy rate of shopping centres in Vilnius increased from 0.6% to 0.9% in 2016. Shopping centres in Vilnius are fully leased out and minor vacancy rate is observed only due to a few less successful shopping centres.

As almost there are no any available retail premises in the main shopping streets (Gedimino Avenue, Pilies Street, Didzioji Street, Vokieciu Street), small businesses keep expanding in the other zones of the Old Town or central part of the city.

Internet retailing is also undergoing rapid development. Although this method of shopping has not yet surpassed the traditional shopping at shopping centres, the increasing sales volumes of internet retailing signal about possible changes in the retail premises sector. According to forecasts of market research company Euromonitor International, in 2016, internet retailing in Lithuania will reach a turnover of EUR 393 million, which is a 23% increase compared to 2015 and a 50% increase compared to 2014. It is expected that, similarly to previous years, apparel and footwear (27% from total sales in 2016) and consumer electronics and appliances (26% from total sales in 2016) will account for the greatest sales shares. The turnover from the sale of these goods in 2016 is expected to increase, respectively, by 25% and 20%.

RENTS

The fully leased out shopping centres and the growing sales volumes continued to result in the growth of incomes received by shopping centres and in the growth of tenants' costs connected with lease of premises. In 2016, rents increased by another 3-5% in most of Vilnius shopping centres. No positive rent changes were recorded only in less successful shopping centres (shopping centres with poor concepts or in less attractive locations).

Rents for a medium sized (150-300 sqm) units in a major shopping centres run from €14.00 to €37.00 per sqm and up to €50.00 – €70.00 for small sized units. Rents for anchor tenants are €9.00 – €13.00 per sqm.

Rents for retail premises in the high Vilnius streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) went up by 8% in 2016. In the end of 2016, rents for medium sized retail premises (100–300 sqm) in such streets were €17.00 – €45.00 per sqm.

Ober-Haus believes that retail rents will rise slightly in 2017.

INVESTMENT

After a record year in 2015 (since 2008), the demand for Lithuanian commercial property remained robust through 2016. In total 39 properties (modern office, retail and industrial property worth over €1.5 million) were sold in Lithuania, with a total value of €253 million. This was down by almost 6% over 2015. Unlike in the previous years, in 2016 most investments were made in the premises of the industrial sector. This was led by a sale of the large-scale logistic center in Kaunas district. The share of investment turnover by value in 2016 was as follows: 36% – industrial, 35% - offices and 29% - retail properties.

According to the value of purchased property, Estonian, US (with the single deal) and Lithuanian capital companies were the leading investors (67% from all investments). The remaining investments attracted buyers from Swiss, German, Norwegian, Russian and Dutch capital companies. Lowering commercial property yields and expanding geography of investors (for example new investor from US), signals the attractiveness of the Lithuanian real estate market. During 2016 office and retail yields declined by another 25-50 bps in Vilnius to 6.0-8.0%. Warehousing premises are interested in no less than 8.0-8.5%.

In mid-2016 the Estonian company, Zenith Capital Management acquired the remaining shares of the company which owned the NORDIKA shopping centre in Vilnius and now fully owns the project. NORDIKA shopping centre which has a total area of 38,000 sqm was developed in two stages by Lithuanian developer VPH. The first stage was completed and the shopping centre opened in September 2015. The second stage was opened in May 2016. Details of the transaction have not been disclosed.

At the end of 2016 the Deka-S-PropertyFund No. 2, managed by German company Deka Immobilien Gmbh, transferred ownership of the BIG shopping centre in Vilnius to WestInvest Gesellschaft fur Investmentfonds (operates as a subsidiary of DekaBank, which together with its subsidiaries, forms the Deka Group). The shopping centre, with a total area of almost 18,000 sqm and located next to Ukmerges Street, was acquired by Deka Immobilien Gmbh in 2007 for €36 million. Details of the current transaction have not been disclosed.

LEGAL NOTES BY SORAINEN

Typically, 3-5 year lease agreements are common. Triple net leases are not universally used. Double net leases are more common. Marketing costs are either fixed or covered by the service charge. As a rule, contributions to a sinking fund are rarely agreed in the retail market, while use of step rents and turnover rents has increased recently. As a rule, the tenant is responsible for finishing the premises.

Lease agreements may be invoked against third parties only if registered with the Real Estate Register.

RECENT DEVELOPMENTS

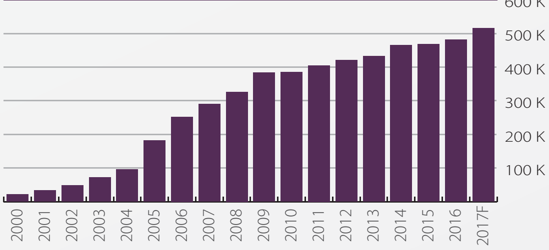
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**DomusPro** – Having completed the first stage of the shopping centre next to Ukmerges Street in 2014, developer TK Development finished the extension of DomusPro in Q1 2016. The second stage has added an additional 3,400 sqm of retail area, which was fully leased to Hansa tiles market and the Fitus fitness center.	+3,400 (II stage)	Q1 216 (II stage)
	**NORDIKA Shopping Valley** – The first stage of the NORDIKA shopping centre was opened near IKEA on Vikingu Street in September 2015. The second stage of NORDIKA added another 20,100 sqm of retail premises in May 2016. With over 35,000 sqm of total retail area and over 50 tenants NORDIKA shopping centre is the fourth largest shopping centre in Vilnius (in terms of GLA). The total investment in NORDIKA amounts to €50 million. The developer of the project is the Lithuanian developer VPH.	+20,100 (II stage)	Q2 2016 (II stage)
	**OUTLET PARK** – At the end of 2016, the upgraded and expanded OUTLET PARK was opened. This was the third expansion of the outlet shopping centre. This third expansion brings the total retail space available to 14,000 sqm. The third stage added around 1,600 sqm of additional retail area on the ground floor and additional space for leisure activities on the second floor. The shopping centre hosts companies which sells a variety of brands, some of them well known, such as: Adidas, Puma, Triumph, United Colors of Benetton, Nike, Reebok and others. Main retailer is food chain Maxima. The developer of the project is the Lithuanian developer Ogmios centras.	+1,600 (III stage)	Q4 2016 (III stage)

NEW PROJECTS

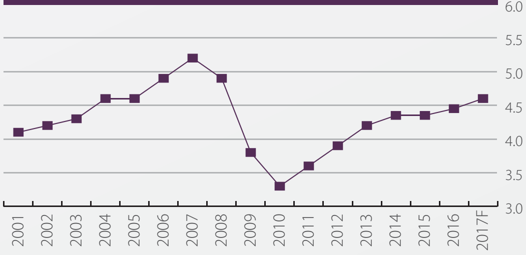
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
DEPO	**Depo DIY** – The Latvian-based building materials and household goods chain Depo opened its first Lithuanian store in Klaipeda at the end of 2016. Depo has plans to expand to other cities in Lithuania: two stores in Vilnius, one in Kaunas and one in Panevezys. Two stores with a total area of 55,000 sqm should be opened in Vilnius in 2017.	55,000	2017

OBER HAUS
REAL ESTATE ADVISORS

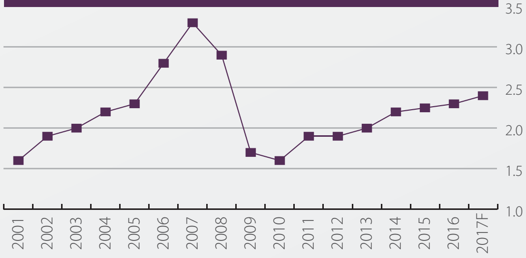
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



END-2016 SNAPSHOT / VILNIUS

TOTAL NEW WAREHOUSE SPACE	481,400 SQM
WAREHOUSE VACANCY RATE	1.9 %
ANNUAL WAREHOUSE RENTS CHANGE	+ 2-3 %
NEW WAREHOUSE RENTS (SQM / month)	€3.70 - €5.20
OLD WAREHOUSE RENTS (SQM / month)	€1.60 - €3.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

LARGER PROJECTS EXPECTED TO BE IMPLEMENTED IN 2017

SUPPLY

The rather uncertain demand for warehousing premises, specific requirements of tenants (location and technical parameters of the building) as well as the slow down in the growth of rents fail to create favourable conditions for developers to develop the new projects. Still, it cannot be said that the development of warehousing buildings has stopped altogether. Financially stronger companies implement projects that meet their needs themselves or development of smaller projects intended for lease.

Five small-scale projects with total warehousing area of 12,800 sqm were completed in Vilnius in 2016. Three of those projects were built and intended exclusively for the needs of the companies engaged in their development. The recent projects increased total leasable area of modern warehousing premises in Vilnius and its surroundings to 481,400 sqm.

In the end of 2016 74% of modern warehouse supply is located within the city limits. The bulk of warehouses are developed in the southwestern industrial zones of Vilnius (Kirtimai, Vilkpede, Aukstieji Paneriai and Zemieji Paneriai), as well as near the strategic highways: Vilnius – Kaunas and Vilnius – Minsk.

Warehouses with an area exceeding 10,000 sqm currently make up 54% of the current supply. Warehouses with an area from 5,000 to 10,000 sqm make up 26% of the supply, and the remaining 20% are warehouses with less than 5,000 sqm.

In 2017, at least three warehousing projects with a total area of 34,000 sqm should be implemented in Vilnius. These projects are being developed by Baltic Sea Properties, Ad Rem and Sirin Development.

DEMAND

According to the official statistics overall revenues from services supporting the warehousing and transport sector have increased in the country in 2016. Same positive changes can be observed in revenues of companies engaged only in warehousing and storage services. Revenues from warehousing and transport services increased by 5.9% in Q1-Q3 2016 and revenues only from warehousing and storage increased by 4.1%.

Since developers did not offer any major projects in 2015 or 2016 (the market was dominated by projects developed for own needs or for specific tenants), the stable and slowly improving situation in the logistics sector has resulted in a decrease in the vacancy rate. The vacancy rate of modern warehouses in Vilnius region decreased from 4.5% to 1.9% in 2016.

It is likely that no major changes in the supply and demand ratio will be recorded in the near future. Some of the projects planned for 2017 already have tenants or will be used for providing logistics services of companies developing them, which means that any major growth in the quantity of vacant premises is unlikely. However, at least several projects will offer some modern warehouses, and a minor increase in vacancy can be expected.

RENTS

The rapid rebound of rents of new warehouses from the latest lowest level in 2010 has been notably slower in recent years. Rents for old and new warehouses and industrial premises increased by 2-3% in 2016. At the end of 2016, rents for new modern warehouses near the city centre were from €4.70 to €5.20 per sqm, depending on the size. Near or outside the city limits, rents range from €3.70 to €4.50 per sqm. Renovated premises are being offered at prices from €2.50 to €3.00 per sqm. Average and lower quality premises are from €1.60 to €2.00 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

The growing economy of the country, improving performance indicators of companies and balanced development of warehousing premises will likely support the vitality of the sector. Investors are showing interest in already developed and operating objects and this also signals that this segment of real estate is not completely forgotten. Ober-Haus forecast slight increase of rents in 2017.

INVESTMENT

After a record year in 2015 (since 2008), the demand for Lithuanian commercial property remained robust through 2016. In total 39 properties (modern office, retail and industrial property worth over €1.5 million) were sold in Lithuania, with a total value of €253 million. This was down by almost 6% over 2015. Unlike in the previous years, in 2016 most investments were made in the premises of the industrial sector. This was led by a sale of the large-scale logistic center in Kaunas district. The share of investment turnover by value in 2016 was as follows: 36% – industrial, 35% - offices and 29% - retail properties.

According to the value of purchased property, Estonian, US (with the single deal) and Lithuanian capital companies were the leading investors (67% from all investments). The remaining investments attracted buyers from Swiss, German, Norwegian, Russian and Dutch capital companies. Lowering commercial property yields and expanding geography of investors (for example new investor from US), signals the attractiveness of the Lithuanian real estate market. During 2016 office and retail yields declined by another 25-50 bps in Vilnius to 6.0-8.0%. Warehousing premises are interested in no less than 8.0-8.5%.

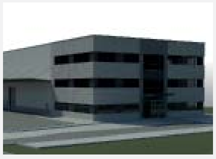
In the second half of 2016, the largest industrial investment transaction in Lithuania's history was announced. A logistic centre with a total area of over 67,000 sqm in Kaunas district was acquired by the real estate investment fund CPA®:17–Global which is operated by the US-founded investment fund W. P. Carey Inc. The purchaser bought the logistics centre from Baltic Retail Properties. The sole tenant DIY chain Kesko Senukai will continue leasing it from the new owner (a lease period for the next 15 years was established). The value of the transaction, including related acquisition taxes and costs, amounted to €60 million.

EfTEN Real Estate Fund III acquired three logistics centres in Lithuania, Estonia and Latvia from one of the largest logistics concerns, DSV, with a sale-and-leaseback deal. In Lithuania, the purchased object was a logistics centre in Paneriai district on Stasylu Street with a total area of 11,600 sqm. Details of the transaction have not been disclosed.

LEGAL NOTES BY SORAINEN

The industrial real estate market has developed over the past few years and leases have become of better quality than used to be the case. Rents are usually indexed on the basis of local or European Union inflation (HICP) rates. Triple net leases are not universally used.

RECENT DEVELOPMENTS

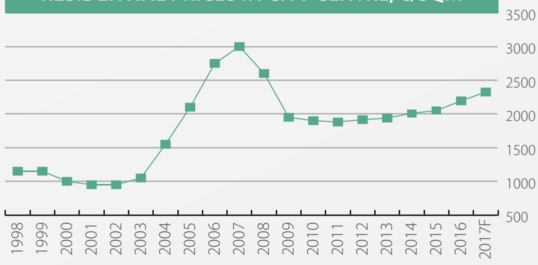
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**WOODLINE logistic centre** – A company that sells raw materials for the furniture and interior industry, has completed construction of a logistics centre in Aukstieji Paneriai on Jankiskiu Street. The first stage with 4,700 sqm warehouse premises and 1,200 sqm office premises was completed in mid-2016 and is fully leased. Asking warehouse rents were €5.30 per sqm, offices – €8.00 per sqm.	4,700	MID-2016
	**Wirtgen Group logistic centre** – The Lithuanian company Wirtgen Lietuva, which belongs to the German construction equipment group of companies Wirtgen Group, has finished the construction of a 2,400 sqm sales and service centre for its own needs on Liepkalnio Street in Q3 2016.	2,400	Q3 2016

NEW PROJECTS

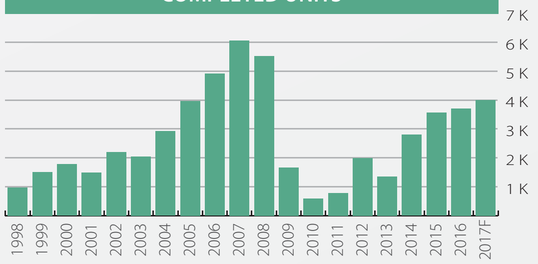
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**BSP logistic centre** – The Norwegian investment company Baltic Sea Properties (BSP) is finishing construction of a built-to-suit logistic centre in the vicinity of Vilnius next to the Vilnius-Druskininkai highway. The logistic centre which has 12,100 sqm of warehouse premises and 1,300 sqm of office premises will be completed in Q1 2017. The project is leased to the logistic company Rhenus Svoris. A further extension will increase the total area of the logistic centre to over 18,000 sqm.	12,100	Q1 2017
	**Liepkalnis Industrial Park** – Local developer SIRIN Development, one of the leading industrial property developers and owners in Lithuania, is developing a 48,000 sqm industrial park in the southern part of Vilnius on Liepkalnio Street. The first stage with 14,600 sqm warehouse premises and around 1,600 sqm office premises is scheduled to be completed in Q3 2017. The second stage with 16,000 sqm warehouse building with office premises should be completed in 2018. Asking warehouse rents are from €4.50 per sqm.	14,600 (I stage)	Q3 2017 (I stage)
	**Rodunios Road** – Local developer Sausupio projektai is preparing to develop a 4,500 sqm warehouse in the territory of Vilnius Airport on Rodunios Road. The warehouse with 3,650 sqm warehouse premises and 850 sqm office premises will be completed in Q1 2018. Asking warehouse rents are €5.00 per sqm, offices – €7.00 per sqm.	3,650	Q1 2018

> “AFTER A RECORD YEAR IN 2015 (SINCE 2008), THE DEMAND FOR LITHUANIAN COMMERCIAL PROPERTY REMAINED ROBUST THROUGH 2016.”

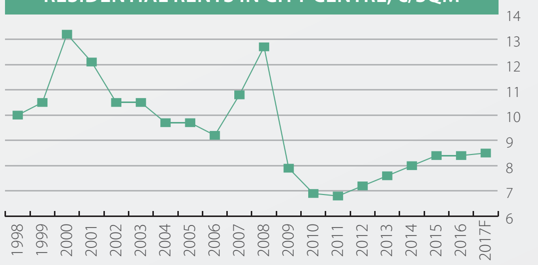
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



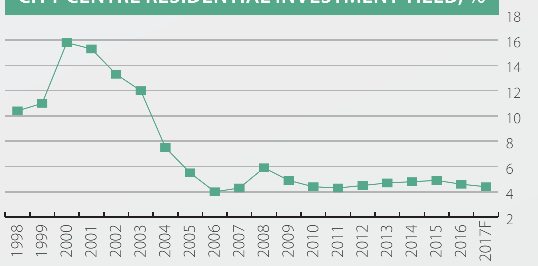
COMPLETED UNITS



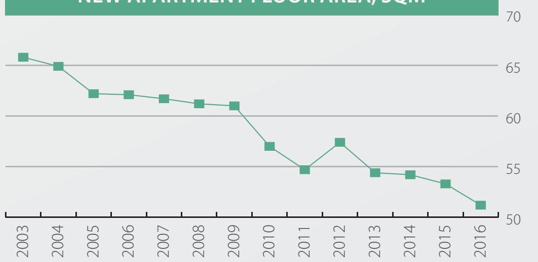
RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



NEW APARTMENT FLOOR AREA, SQM



END-2016 SNAPSHOT / VILNIUS

ANNUAL APARTMENT PRICE CHANGE	+ 6.8 %
NEW APARTMENTS BUILT	3,709
AVERAGE NEW APARTMENT FLOOR AREA	51.2 SQM
ECONOMY CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	€1,000 - €1,400
MIDDLE CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	€1,500 - €1,900
LUXURY CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	FROM €2,000
FINAL APARTMENT FIT-OUT	€200 - €300
RESIDENTIAL INVESTMENT YIELD (city centre)	4.6 %

RECORD APARTMENT MARKET PERFORMANCE IN 2016

PRICES

The year 2016 saw record growth in apartment prices in all five largest cities of Lithuania (Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys) since 2008. It should be noted that following a longer break, speedier growth of prices was noticed not only in the capital city of the country but also in other cities. Still, the biggest price increase was again recorded in the country's capital. Vilnius continues to be seriously ahead of other regions of the country and remains an obvious leader in the country both in terms of the market activity indicators and positive price changes.

Apartment prices in Vilnius increased by 6.8% in 2016, after increase of 3.6% in 2015, according to the Ober-Haus Lithuanian apartment price index. As a result, the average price at the end of 2016 rose to €1,417 per sqm. Since the last lowest price level in May 2010 till December 2016, apartment prices increased by 22.7% (by €263 per sqm). In 2016 prices for new construction apartments increased by 6.3% and old construction apartments increased by 7.3%.

Prices for new construction apartments in residential districts in the end of 2016 ranged from €980 to €1,700 per sqm without final fit-out.

In Lithuania new apartments are generally sold shell, which is without any fit-out at all. Apart¬ments sold shell require average of €200 – €300 per sqm to fit-out with floors, painting, lights, bathrooms and kitchen.

By the end of 2016, a standard two-room apartment (45-50 sqm) in a Soviet-era concrete block building located in a residential district cost from €47,000 to €58,000. Prices of apartments which are in old brick buildings are 10-20% higher. The lowest price for old construction unrenovated apartments in Vilnius residential districts is €780 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €1,100 to €2,000 per sqm for unrenovated and from €1,550 to €3,500 per sqm for renovated apartments. Prices of new construction apartments are now offered for €1,700 to €3,500 per sqm without final fit-out. Prices of new apartments in exceptional projects can exceed €4,000 per sqm.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas), old apartment prices range from €1,000 to €2,500 per sqm. Prices of newly built apartments range from €1,450 to €2,800 per sqm without final fit-out.

In 2016, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate Vilnius surroundings have increased by 6%.

Detached houses (150-200 sqm with land plots of 600–1,000 sqm) located in a new housing areas with full infrastructure in Vilnius district or near city limits (typically 10–20 km from the city centre) are sold as shell at prices ranging from €110,000 to €165,000. Prices for semi-detached houses (100-125 sqm with land plots of 250–400 sqm) range from €95,000 to €125,000. Full final fit out generally costs €175 – €225 per sqm or more.

The price for fully finished 150-200 sqm sized detached house within the city limits (city residential districts) averages between €170,000 and €390,000, and from €240,000 to €600,000 in the city's more prestigious neighbourhoods where a considerable share of the house price is represented by the high price of land in these districts. Houses with a greater area and in the most prestigious locations of the city are offered for as much as €1,000,000 – €2,000,000.

In the present-day situation, the main reasons for market activity and price growth remain the same as in previous years: growing income of the population, particularly low loan interest rates and continuing interest in housing as an investment. People's expectations about the future – both for their financial welfare and changes in prices – are also important.

Population surveys show that the biggest regions of the country continue to demonstrate the growing expectations of people about changes in the prices of housing in the nearest future. SEB bank Housing Price Indicator illustrates that in the end of 2016 as many as 55% of Lithuania's respondents hoped that housing prices would increase in the next 12 months (at the end of 2015, this indicator amounted to 52%). Meanwhile, 12% thought that prices would decline (a year ago this figure was 13%) and 23% thought that they would not change (also 23% – a year ago). Looking at individual regions, it can be seen that the population of Vilnius County expects prices to increase the most – 69% even anticipated further increases in prices. Meanwhile, the residents of other counties were not so optimistic and subject to the region from 36% to 54% of them expected an increase in price. In some of Lithuania's counties, the number of those who thought that housing prices would grow reduced in a year.

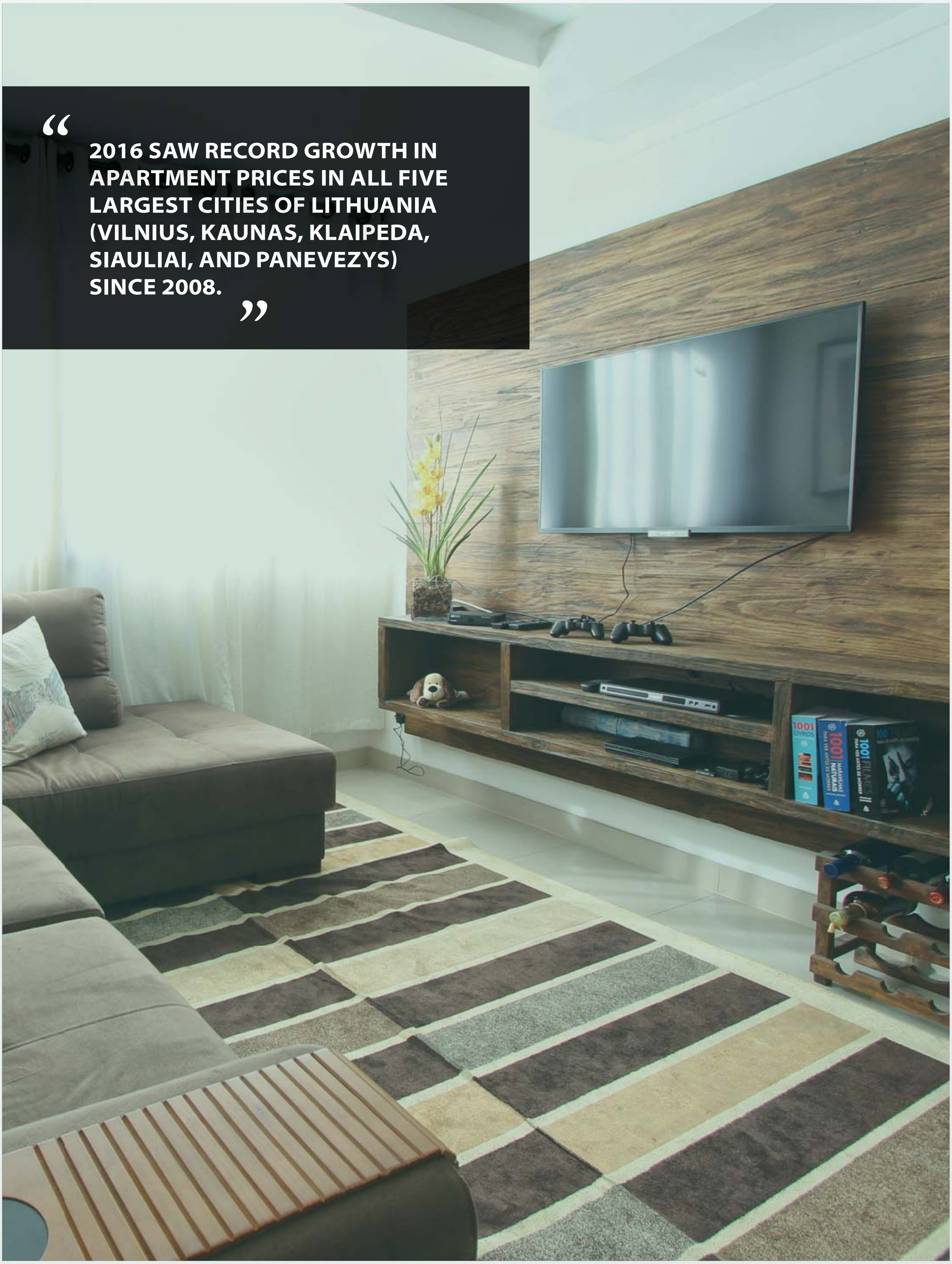
Therefore, with similar market conditions prevailing and in the absence of external impacts (problems on the regional or global scale), it is likely that the increase in housing prices in the capital city of the country is pre-programmed. Ober-Haus believes that in 2017 housing prices in Vilnius will show increase of no less than 5%.

SUPPLY

According to Ober-Haus data, 3,709 apartments (in 49 different projects) were constructed in Vilnius in 2016, which is by 4% more than the number of apartments constructed in 2015. The number of apartments built in 2016 in Vilnius is the highest since 2008. The growing volumes of housing construction signal that the optimism of developers has not vanished. Good indicators of housing sales and the favourable economic situation attract not only experienced real estate developers to the housing development industry but also companies of quite different fields as well as inexperienced or financially weaker investors. The abundant number of projects and apartments creates good conditions for sustainable development of the housing market. Purchasers continue to have a particularly wide choice of housing projects in almost all zones of Vilnius city. At the same time, the plentiful supply of housing protects the market from any sharper price bouncing.

Looking at the apartment projects, which were constructed in Vilnius in 2016, the major portion of the supply of apartments are middle class apartments that without fit-out sell at €1,450 to €1,900 per sqm and account for up to 48% of the total supply of apartments. The supply of economy class apartments — the selling price of which (without fit-out) is between €1,000 and €1,400 per sqm accounts for 39% of the total supply.

The supply of luxury housing is noticeably growing for the second year in a row in the capital city. Developers have become more daring in providing higher class apartments in excess of €2,000 per sqm (without fit-out) to the market. Traditionally, these projects are developed in the centre of the city, the Old Town or in prestigious areas. If only 6% of newly built apartments in Vilnius in 2014 were prestigious high-value apartments, so in 2015 this indicator increased to 8% and jumped to 13% in 2016.



“2016 SAW RECORD GROWTH IN APARTMENT PRICES IN ALL FIVE LARGEST CITIES OF LITHUANIA (VILNIUS, KAUNAS, KLAIPEDA, SIAULIAI, AND PANEVEZYS) SINCE 2008.”

The average floor area of newly built apartments continues to decrease and hit the lowest point since 2003. The average apartment floor area of projects implemented in 2016 was 51.2 sqm, which is 2.1 sqm smaller than those built in 2015. And from 2003 to 2016, the average floor area of newly constructed apartments was reduced by 14.6 sqm, i. e. by 22%. The main reason for the decrease in the total area of apartments is not only that smaller apartments are being designed, but also that the number of smaller apartments in a project is increasing. The standard practice is that the vast majority of apartments in a project, as many as 50-60%, are two room apartments.

Developers in Vilnius do not plan to reduce the scope of construction and in 2017 will certainly satisfy the needs of the market. According to Ober-Haus data, around 4,000 new apartments should be built in Vilnius in 2017.

Changes in the supply of new housing are also observed in the market for detached and semi-detached houses in Vilnius region. The increasing income of the population and the growing need for larger living area have recently encouraged developers to direct some of their investment into the development of houses. According to Ober-Haus data, almost 320 detached and semi-detached houses were built by developers in and around Vilnius in 2016, which is a 39% increase compared to 2015. This is the best annual supply indicator since 2007, when nearly 490 new houses were supplied for the market.

If compared the development of house projects with the most active time period in 2007, we can see certain distinct differences. Today, developers present to the market a completely different product that reflects the current realities: a smaller living area for a lower final price. While in 2007 the average total area of houses built in Vilnius region was 186 sqm, in 2016 the average area was 111 sqm, which is the lowest indicator for the past 15 years that will hardly change in the foreseeable future.

Developers currently invest in the house projects of various size; the projects are dominated by row houses, i.e. attached houses with relatively small areas. While earlier a typical project consisted of detached houses and semi-detached houses connected by means of garages, today developers normally offer attached row houses, which normally do not have indoor parking facilities. Parking spaces are normally provided outside or under sheds of houses. Yet the total area of houses decreases not only on the account of garages but also in terms of living area: it is now normal to design houses with a living area of approximately 80–100 sqm.

DEMAND

The year 2016 was indeed exceptional for the residential market. In 2016, Vilnius witnessed record-breaking activity – the number of apartment transactions registered in a year was the highest yet and exceeded the indicators of 2007 by 2%. Evidently, the particularly high and even record demand programmed the increase in apartment prices.

Vilnius in 2016 saw a 13% increase in apartment sales and a 9% decrease in house transactions. In 2016, on average 918 sales of apartments and 63 sales of private homes were made in Vilnius each month. Although activity in the sector of private houses was not as good as in 2015, it still remained one of the highest yet.

Obviously, good apartment sales indicators were determined by the abundant supply of new housing. Developers must surely have been content with the results of 2016 as the number of apartments offered at present to the market corresponds to demand. According to Ober-Haus data, 4,340 apartments in newly built buildings or buildings under construction were purchased directly from developers in 2016 in Vilnius. This is 33% more than in 2015 and by 41% more than was sold in 2014. In 2016, on average over 360 new apartments were sold each month in the primary market in Vilnius.

The reducing number of unsold newly built apartments also shows that the housing market remain exclusively active in the capital city of Lithuania. According to Ober-Haus data, the number of unsold new apartments on the Vilnius primary market decreased by 30% during 2016. At the end of 2016 there almost 1,020 unsold newly built apartments in the finished apartment buildings. Some of the apartments do not seem attractive to buyers due to their layout, size, legal status, or other characteristics, but some developers, seeing the activity in the market, do not tend to provide any considerable discounts, i.e. they are ready to offer less attractive properties for longer time periods rather than reduce the prices of such properties.

Current market activity leads to believe that developers will be able to successfully complete projects already started and will see the same high activity in new apartments market in 2017.

THE MORTGAGE MARKET

Current mortgage interest rates in Lithuania are at the lowest level, which lasts for a few years already. In 2016 interest rates for new mortgages stayed flat in the range of 1.9-2.0%. In November 2016 average mortgage interest rate was 1.9%.

In the end of 2016 the total value of outstanding residential loans stood at €6.50 bln. Currently in Lithuania, the value of household loans is about 17% of GDP. This rate is one of the lowest compared to other EU countries (EU28 average in 2015 – 48.1%).

Lithuanians increasingly take out mortgage loans, and loan volumes continued to grow in 2016. According to data from the European Central Bank, mortgage loans for EUR 1,219 million were provided in Lithuania in 2016, which is a 16% increase compared to 2015. In 2015–2016, mortgage loans for an average of over EUR 94 million were provided per month, which is nearly double compared to this figure in the time period from 2010 to 2014.

As residential prices are increasing at the same pace as people's income, the housing affordability has stayed at the same level. In

2016 an inhabitant of Vilnius can purchase 5.8 sqm in a medium-class apartment for his average (net) annual salary. Current price to income ratio is the highest since 1998.

The Bank of Lithuania has updated Responsible Lending Regulations (RLR) in November 1, 2015. Under the updated RLR, the maximum amount of a borrower's monthly credit repayment and interest (under all obligations), can't be above 40% of sustainable monthly income. However, in assessing customers' applications for a housing loan, credit institutions will have to check whether the customer would be financially able to withstand likely leaps in interest rates. For the calculations, the actual interest rate, but not below 5%, will have to be used. It has also been established that the maximum maturity of credit can't exceed 30 years, i.e. will be 10 years shorter.

The soon-to-be-enacted Mortgage Credit Directive in Lithuania and all the other EU Member States will bring some changes in relations between the credit recipient and credit giver. On 1 July 2017, a law on credit related to real estate will come into effect in Lithuania; this will apply to all new contracts. The drafters of this law hold the view that this will lead to the best ever and the most consumer-friendly practice of housing crediting being supplemented and systematised.

RENTS

2016 saw an average 1-2% increase in apartment rents, after rising 5% in 2015 in Vilnius.

Typical two-room old construction apartment in Vilnius residential districts rents for €190 to €250 per month in the end of 2016. The same size new construction apartment rent starts from €300 per month. Maintenance costs are additional.

Rents for equipped two-room apartments (old or new) in the central part and prestigious districts of Vilnius range from €250 to €580 per month, and for three-room apartments from €300 to €800 per month. Rents for bigger and good equipped apartments in the Old Town can be from €800 to €1,200 per month. Maintenance costs are additional.

Fully equipped houses of 100–200 sqm in the outskirts of Vilnius are usually offered for rent at €550 to €1,100 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and city centre or Old Town are higher and vary from €850 to €2,200 per month. Maintenance costs are additional.

Buy-to-rent is very attractive investment option among non-professionals in the market, because the interest rates offered by credit institutions are very low and other investments are too complicated to manage. Mainly buyers choose a sufficiently profitable form of investment by purchasing one or two room apartments in various areas of Vilnius. In 2016, the overall gross rental yield for such property in the city centre was around 4.5–5.0% and in residential districts – 5.0-6.0%.

However, the further growing number of unprofessional investors and particularly growing supply of new construction average class apartments (usually offered for rent at €450 to €550 per month) can adjust the rents of this segment slightly downwards. Still, Ober-Haus expects overall residential rents will keep stable in 2017.

LEGAL NOTES BY SORAINEN

Residential leases are regulated by Lithuanian law more strictly than commercial leases. Lithuanian legislation establishes specific rules related to the condition of leased residential premises, the right of family members to reside with the tenant, termination of the lease agreement (eg a tenant may terminate any lease agreement on residential premises by giving one month's written notice), and eviction of the tenant (this can be done only with a court order). However, rent may be agreed freely. Institutional investors, who offer residential property on lease, are almost not available at all.

“TYPICAL TWO-ROOM OLD CONSTRUCTION APARTMENT IN VILNIUS RESIDENTIAL DISTRICTS RENTS FOR €190 TO €250 PER MONTH IN THE END OF 2016. THE SAME SIZE NEW CONSTRUCTION APARTMENT RENT STARTS FROM €300 PER MONTH.”

RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Uzupio vartai** – At the end of 2016, local investment fund Lords LB Asset Management, finished construction of the luxury residential project in Uzupio district on Polocko Street. In order to retain the classical facade elements of the historical building next to the Old Town, part of the building was restored and the rest was newly built. The 3–4-storey residential building comprises 36 apartments ranging in size from 34 to 94 sqm with commercial premises on the ground floor. At the end of 2016 over 65% of the apartments had been sold. The prices of the available apartments without fit-out are from €2,550 to €3,000 per sqm.	€2,550 - €3,000	Q4 2016
	**Linkmenu Lakes** – Local developer Realco is developing a new residential project in Snipiskes district. The project will consist of five 5-storey residential buildings with 551 apartments. The first two residential buildings with 248 apartments ranging in size from 28 to 92 sqm were completed in Q3 2016. The price of apartments without fit-out ranges from €1,350 to €1,700 per sqm.	€1,350 - €1,700	Q3 2016
	**Naujamiescio aleja** – At the end of 2016, local developer PPI Group, finished the construction of two buildings in Savanoriu Avenue. The 9-storey buildings comprise 106 apartments ranging in size from 31 to 71 sqm. Sales price of the available apartments without fit-out are from €1,500 to €1,950 per sqm. At the end of 2016 over 70% of the apartments had been sold or reserved.	€1,500 - €1,950	Q4 2016
	**Zveryno simfonija** – A luxurious apartment project in Zverynas district on Vytauto and A. Mickeviciaus streets was completed at the end of 2016. There are 16 apartments situated in three 2- and 3-storey buildings. The price of the last unsold apartments without fit-out are €3,200-€3,500 per sqm.	€3,200 - €3,500	Q4 2016
	**Naujoji Pilaite** – Local developer Vilmestos projektai is continuing the development of another six residential buildings (10th quarter) in Pilaites district on Istuties and Tolminkiemio streets. The first two 6- and 8-storey A class energy efficiency apartment buildings with 132 apartments were fully completed by the end of 2016. The price of apartments without fit-out ranges from €1,350 to €1,500 per sqm. At the end of 2016 over 75% of the apartments had been sold or reserved.	€1,350 - €1,500	Q4 2016
	**Vilneles namai** – Local company Anreka has finished construction of a 9-storey residential building in Naujoji Vilnia district on Karklenu Street. The building with 185 apartments was finished in Q3 2016. Apartments with 1-4 rooms range in size from 29 to 83 sqm. At the end of 2016 over 80% of the apartments had been sold or reserved. The sales price of the available apartments without fit-out are from €900 to €1,300 per sqm.	€900 - €1,300	Q3 2016
	**Bendoreliai** – After successful completion of over 100 row houses and 40 apartments in Bendoreliai in 2011-2015, next to the Old Ukmerges Road, local developer Markeris is continuing the development of this housing settlement. A further 28 row houses and 58 apartments were completed during 2016. The row house are 110 sqm with land plots of 200-300 sqm and without fit-out are priced at €96,000-€108,000. The 57-97 sqm apartments are priced from €750 to €1,100 per sqm.	€750 - €1,100 €96,000 - €108,000 (for a row house)	2016

NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Magnus Residence** – At the beginning of 2016 local company Apex group started a project in the very centre of Vilnius on Gedimino Avenue. The 6-storey building with 29 apartments and 7 commercial premises on the ground floor will be completed in Q2 2017. The apartments range in size from 38 to 175 sqm, buyers will be able to plan the apartment layout as they wish. Sales price of the apartments without fit-out are from €3,200 per sqm.	from €3,200	Q2 2017
	**Basanaviciaus namai** – Local developer Realinija has started construction of a 6-storey apartment building in Naujamiestis on Basanaviciaus Street. The building with 70 apartments and commercial premises on the ground floor will be completed in Q4 2017. All apartments will have glazed balconies and loggias. There will be a large two-level underground car park. Sales prices for 36-69 sqm apartments without fit-out are from €1,800 to €2,100 per sqm. At the end of 2016 around 25% of the apartments had been sold or reserved.	€1,800 - €2,100	Q4 2017
	**Uzupio krantines** – The real estate development company MG VALDA is finishing the development of a residential project in Uzupis district on Polocko Street. On the right side of the Vilnele river there will be 15 blocks of 3-storey residential buildings with mansards, with a total of 188 apartments. Apartments of 1-5 rooms range in size from 36 to 126 sqm. The apartments on the ground floor will have terraces. Construction will be completed in Q2 2017. The price of apartments without fit-out ranges from €1,700 to €2,500 per sqm.	€1,700 - €2,500	Q2 2017
	**Pilies apartamentai** – A seven-building residential project, next to the city centre on Olimpieciu Street. The project is being developed by Hanner and will be completed in the first half of 2017. The 4-storey buildings comprise 172 apartments ranging in size from 40 to 130 sqm. Some of the apartments will face the Neris river and Gediminas castle. Asking apartment prices without fit-out range from €2,300 to €4,700 per sqm. At the end of 2016 almost 35% of the apartments had been sold or reserved.	€2,300 - €4,700	H1 2107
	**Namu pynes** – In the second half of 2016 local developer EIKA started the construction of a seven A class energy efficiency apartment buildings project in Zirmunai district on Tuskulenu Street. The first two 9-storey residential buildings with 138 apartments will be completed in Q2 2017. One to four room apartments range in size from 26 to 89 sqm. Sales prices of the apartments without fit-out are from €1,650 per sqm. At the end of 2016 around 35% of the apartments had been sold or reserved.	from €1,650	Q2 2017
	**Levandu namai** – A two-building residential project in Pasilaiciai district on Pavilnioniu Street. The 8-storey building comprises 55 apartments ranging in size from 30 to 92 sqm. This is the second building in this project – the first building with 26 apartments was built in 2014. The price of apartments without fit-out ranges from €1,200 to €1,400 per sqm. At the end of 2016 over 40% of the apartments had been sold or reserved. The second building will be completed in the first half of 2017.	€1,200 - €1,400	H1 2017

NEW PROJECTS

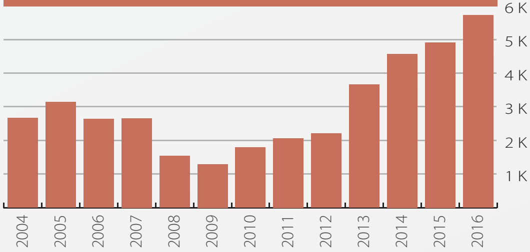
	DESCRIPTION	PRICE (sqm)	COMPLETION
	**Karaliauciaus slenis** – Local developer Citus construction is finishing the construction of five residential buildings in Pilaites district on Elbingo Street. The 4-storey A class energy efficiency apartment buildings with 160 apartments will be fully completed by Q2 2017. The sales price of 35-61 sqm sized apartments are from €1,300 to €1,500 per sqm. At the end of 2016 over 70% of the apartments had been sold or reserved.	€1,300 - €1,500	Q2 2017
	**Neries ardai** – At the end of 2016 local developer Citus construction started the construction of a low-rise complex in Lazdynai district, next to the Neris river. Three A class energy efficiency apartment buildings with a total of 65 apartments will have underground parking, balconies and a children's playground in the inner courtyard. The 2-4 room apartments range in size from 35 to 107 sqm. At the end of 2016 over 60% of the apartments were reserved even though construction had only just started. Asking prices of the available apartments without fit-out are from €1,750 to €2,400 per sqm. The project will be completed in Q3 2017.	€1,750 - €2,400	Q3 2017
	**Herkaus alejos** – In 2016 local developer Franko namai started a development of 82 houses in Pilaites district (a district in the western part of the city). The development will offer seven different types of houses ranging in size from 92 to 149 sqm. The first stage with around 30 houses should be completed in mid-2017. The sale prices of houses without fit-out are from €130,000 to €170,000.	€130,000 - €170,000 (for a house)	H2 2017

HERKAUS ALEJOS

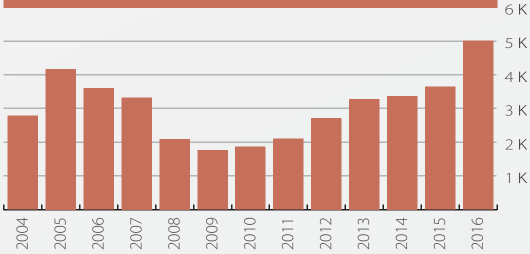
“**3,709**

APARTMENTS (IN 49 DIFFERENT PROJECTS) WERE CONSTRUCTED IN VILNIUS IN 2016.”

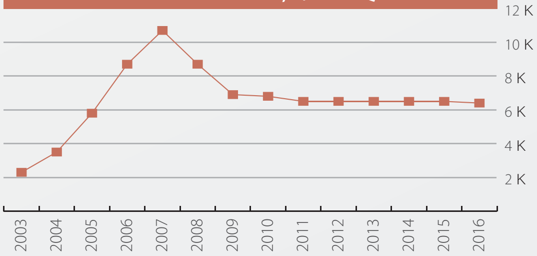
LAND TRANSACTIONS IN VILNIUS CITY



LAND TRANSACTIONS IN VILNIUS DISTRICT



LAND PRICES FOR PRIVATE HOMES IN VILNIUS SUBURBS, €/100 SQM



END-2016 SNAPSHOT / VILNIUS

ANNUAL LAND PRICE CHANGE (for development in the central part of the city)	+ 10-15 %
TOTAL LAND TRANSACTIONS CHANGE (Vilnius city)	+ 16 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (SQM)	€400 - €1,500
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€60 - €200
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€20 - €80

DEVELOPERS ACTIVELY ACQUIRED LAND PARCELS IN THE CENTRAL PART OF THE CITY

PRICES

The year 2016 saw really high activity in the market of bigger land parcels in the capital city. Developers were interested in various purpose land parcels in the central part of Vilnius city and other prestigious areas of the city. Prices of these land parcels increased by approximately 10-15% in a year. Meanwhile, the market of land parcels situated further from the central part of the city (in residential districts) remained stable and no noticeable changes in prices were recorded.

Asking prices for plots in the central part of the city or other prestigious districts suitable for residential development (with detail plan or construction permit) are now €400 - €1,500 per sqm of land, or roughly €300 - €1,000 per gross buildable square metre of residential space.

Plots in the living suburbs for residential apartment developments (with detail plan or construction permit) now range from €60 to €200 per sqm, which works out to roughly €70 to €200 per gross buildable square metre of residential space.

No changes were recorded in the market of land parcels for individual houses either, no such changes have been recorded in the last 5 years. In principle, this is determined by a sufficiently fast growing supply of land parcels on the outskirts of Vilnius city. Land parcels suitable for the construction of individual houses are offered both by private persons and developers which prepare entire packages of land parcels for sale (communications are installed, access roads are built and any other welfare is ensured). For this reason, purchasers have fairly good options both in terms of choice and negotiation. In the end of 2016, prices for plots for private homes with partial or full infrastructure were €20 – €30 per sqm in the cheaper suburbs, to as high as €40 – €80 per sqm in Visoriai, Riese, Bajorai, Kalnenai, Gulbinai.

High market activity increased prices for agricultural land by 5-10% in Lithuania in 2016. Currently, depending on location (land productivity) and size, agriculture land prices range from €1,000 to €5,000 per hectare.

DEMAND

Total land transactions in Lithuania increased by 9% in 2016, according to the data of the Central Registry. Activity in the land market in Lithuania in 2016, in general, remained at the same level as the 2013-2015 period.

A growth in the number of transactions involving land parcels is further recorded in Vilnius region and the 2016 indicators are noticeably in excess of the indicators for 2013 to 2015. Total land transactions increased by 16% in 2016 in Vilnius city, to 475 transactions per month. Total land transactions increased by 37% in 2016 in Vilnius district, to almost 420 transactions per month.

In the end of 2015 the construction and development companies Merko statyba and E.L.L. Nekilnojamas turtas purchased a two land plots on Ceikiniu Street next to the city centre for €12.4 million. On this 2 ha site the companies plans construction of residential and commercial property.

At the beginning of 2016, a land parcel with an area of 3.1 ha in Drujos Street in Markuciai district (former site of Audejas textile company) was sold. One of the investors – real estate projects development and property management company VPH – was planning to invest around €60 million in this territory by the year 2018 and to build a big shopping centre there. However, in the second half of 2016, it was announced that VPH had backed off from the project and sold its share to the Lords LB Special Fund III of the investment management company Lords LB Asset Management. Any details of the transaction and any development plans for the territory are not disclosed yet.

In early 2016, a subsidiary of the real estate development company Eika took over the right of lease of a 1.38 ha land parcel from Homburg Tuskulenai in Zirmunai district on Tuskulenu Street. No other details of the transaction have been revealed. There are plans to build up to 7 multi-apartment buildings with 400 apartments by 2021.

At the beginning of 2016, Litectus, a subsidiary of SEB bank, sold the 1.2 ha territory with buildings of the former St. Jacob Hospital near Lukiskes square in the centre of Vilnius for €10.9 million. Litectus bought this property in an auction back in 2011.

In May 2016, the fund Lords LB Special Fund II operated by the investment management company Lords LB Asset Management purchased land plots of the 0.6 ha parcel on the right side of the Neris river between Konstitucijos Avenue and Upes Street. It is planned to construct an office building on the territory. However, neither the value of the transaction, nor the dates for the commencement of the development in the territory have been revealed by the investors.

In May 2016, the real estate development company Vastint Lithuania and the public company Turto Bankas finalised a transaction worth €12.35 million, this included the territory of the former Red Cross Hospital in the central part of Vilnius; the territory is composed of a 1.79 ha parcel with buildings occupying an area of 16,500 sqm on the parcel and situated among the streets of Zygimantu, Radvilu and Tilto. Vastint Lithuania bought the property in an auction of Turto Bankas which was held for the ninth time. The acquired territory is to accommodate a mixed purpose quarter.

In the middle of 2016, Panevezio keliai sold its subsidiary which managed the territory of the former Skaiteks factory in Vilnius' Uzupis district with an area of 5 ha. The shares of the company were acquired and all obligations were taken over by the real estate development company MG Valda. MG Valda plans to implement the concept of the former owner in the territory, namely, to establish an exceptional residential area with well-arranged infrastructure, interesting working places, cultural life and active community. No other details of the transactions have been revealed.

At the end of 2016, the real estate development company YIT Kausta Bustas acquired some buildings on a 1.2 ha land parcel in the territory of the former brewery Vilniaus Tauras in the central part of the city. It is planned to use the acquired land plot for the construction of multi-apartment buildings. No other details of the transaction have been revealed.

LEGAL NOTES BY SORAINEN

Private land is usually leased for agriculture. Lease of state-owned land under privately held buildings is very common.

On sale of a building the right to use the land beneath the building (eg ownership, lease right) must be transferred to the buyer along with the building.

An individual or legal person together with related persons cannot acquire (own) more than 500 ha of agricultural land. Besides the 500 ha limit, for acquisition of agricultural land additional conditions apply (eg three years' experience in agriculture and other requirements that the potential buyer must meet).

Investments in land (including agricultural, forestry and inland waters) by non-Lithuanian citizens or legal persons are not restricted if European and Transatlantic Integration criteria are met. The same rules as those applicable to Lithuanian citizens also apply to non-Lithuanian citizens or legal persons.

OBER HAUS
REAL ESTATE ADVISORS

LITHUANIAN REAL ESTATE TAXES AND LEGAL NOTES

REAL ESTATE TAXES

ACQUISITION

In Lithuania real estate can be acquired either directly (asset deal) or by acquiring shares in a company holding real estate (share deal).

In case of an asset deal the transfer of real estate is subject to notary and registration fees in Lithuania:

- Notary fees are 0.45% on the value of real estate. However, the fees shall not be less than EUR 28.96 or exceed EUR 5,792.40 for one transaction;
- State duties imposed upon the registration of a transfer of real estate are typically not material and vary depending on the real estate value (up to EUR 2,330).

Whether or not a transfer of real estate is taxable with VAT mainly depends on the characteristics of the real estate (e.g. transfer of new buildings is subject to VAT at the standard VAT rate of 21%, whereas transfer of old buildings is VAT exempt with an option to tax it in particular cases – please refer to "SALE" section below). In order to ensure correct taxation and recovery of input VAT, the acquisition process and its documentation should be managed carefully.

In case of a share deal the transfer of shares in a real estate holding entity is subject to the notary fee of 0.4-0.5% on the value of transaction (the fee shall not be less than EUR 14.48 or exceed EUR 5,792.40), when:

- More than 25% of limited liability company's shares are sold;
- The sale price of the limited liability company's shares sale exceeds EUR 14,500 except for certain exemptions.

The transfer of shares in a real estate holding entity is subject only to registration of a new shareholder (fee EUR 2.9). Other registration fees do not apply as the direct legal owner of real estate remains the same. The transfer of shares in a real estate holding company is generally not taxed with any VAT.

From legal and tax perspective a share deal is typically related to a take-over of potential historical liabilities of the company. Therefore, the preferred acquisition form and associated benefits versus risks should be carefully considered.

RENT

VALUE ADDED TAX (VAT):

Rent of real estate (buildings and land) is generally VAT-exempt, with certain exceptions for residential premises and premises for parking of vehicles, etc.

Whereas rent is VAT-exempt according to the general rule, a VAT payer is entitled to opt for taxation, i.e. VAT can be charged on rent of the property if the customer is a taxable person registered for VAT purposes. If a company exercises this right in respect of one rent transaction, the same VAT treatment should apply to all analogous transactions for at least 24 following months.

CORPORATE INCOME TAX (CIT):

For local Lithuanian entities income from rent of real estate is considered as taxable income which is in general subject to 15% CIT under regular taxation rules of company business activities (i.e. only profit is taxed). Reduced CIT rate applies for small companies - entities with fewer than ten employees and less than EUR 300,000 in gross annual revenues can benefit from a reduced CIT rate of 5%.

WITHHOLDING TAX (WHT):

For foreign entities income from rent of real estate located in Lithuania is subject to 15% WHT. WHT is levied on the total proceeds of rent. The risk of constituting a taxable presence (i.e. the so-called permanent establishment) in Lithuania due to business activities within the country should be considered.

PERSONAL INCOME TAX (PIT):

For local and foreign individuals income from rent of real estate located in Lithuania is subject to 15% PIT on gross income. Upon certain conditions, individuals can opt to pay a fixed amount of tax on rent of real estate once a year, if such property is lent to individuals and not to legal entities. In such a case individuals should obtain a business certificate for rent of residential premises.

SALE

Disposal of real estate in Lithuania can be effected either by selling the property (asset deal) or by selling shares in a company holding real estate (share deal).

See the applicable notary and registration fees in section "ACQUISITION".

Sale of shares of a Lithuanian company holding real estate is subject to general taxation rules for sale of shares (i.e. there is no specific taxation due to the real estate being the main assets of the company). The actual taxation, however, depends on a number of various criteria and circumstances, e.g. the seller (i.e. corporate or individual and local or foreign tax resident), shareholding proportion (i.e. percentage of total shares held and shares to be sold), holding period, etc. Therefore, in case of a share deal a detailed tax analysis may disclose material tax differences between various options available.

In case of an asset deal, taxation questions are more straightforward. Separate tax aspects applicable to a direct disposal of real estate are described below.

VALUE ADDED TAX (VAT):

According to the general rule, sale of new buildings (in use for less than 24 months after their completion), unfinished buildings, building land or land with new buildings is subject to VAT at the standard rate of 21%. Sale of buildings completed or re-constructed earlier than 24 months ago is VAT-exempt, with an option to apply VAT if the purchaser is a taxable person registered for VAT purposes. The right of option is implemented in the same way as explained in section "RENT".

CORPORATE INCOME TAX (CIT):

For local Lithuanian entities income from sale of real estate is considered as taxable income which is in general subject to 15% CIT under regular taxation rules of company business activities (i.e. only profit is taxed).

WITHHOLDING TAX (WHT):

For foreign entities income from sale of real estate located in Lithuania is subject to 15% WHT. A foreign entity may submit a specific request to the Lithuanian Tax Authority and achieve re-calculation of WHT on the capital gains only (instead of on total sales proceeds).

PERSONAL INCOME TAX (PIT):

For local and foreign individuals sale of real estate located in Lithuania is subject to 15% PIT, unless certain exemptions apply. Tax is levied on the capital gains, i.e. sales proceeds less acquisition costs (however, a foreign individual can achieve this only by submitting an additional request for re-calculation of tax to the Lithuanian Tax Authority, since initially the tax is calculated on the gross proceeds).

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.3% to 3% depending on municipalities. In Vilnius, the RET rates established for 2017 are:

- 1% - standard RET rate;
- 0.7% - for cultural, leisure, catering, sport, educational or hotel buildings (with some exceptions);
- 3% - for actually used real estate, that is not 100 percent completed and for real estate that is not used at all or is abandoned or unattended.

Residential and other personal premises of individuals are exempt from tax where the total value of EUR 220,000 is not exceeded, whereas the excess value is subject to 0.5% RET. Total non-taxable value is increased by 30% to real estate held by families which meet certain criteria. Tax base is the average market value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (performed every 5 years) or using the replacement value (costs) method. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

LAND TAX

Land tax applies on land owned by companies and individuals, except for the forest land.

Land tax rates range from 0.01% to 4% depending on local municipalities. In Vilnius, the Land tax rates established for 2017 are:

- 0.12% - standard rate;
- 4% - for the land that is not used and for the land with buildings recognized as unauthorised construction.

The tax base is the average market value determined according to the mass valuation performed not rarer than every 5 years. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

In 2012 the methodology used to calculate the land tax was changed and there was a transitional period set for the period 2013-2016 in case the taxable value increases. Therefore, the land tax expenses has been increasing gradually. As of 2017 land tax will be applied on 100% of tax base.

LAND LEASE TAX

Users of state-owned land are subject to land lease tax. The tax rate ranges from 0.1% to 4% of the value of the land. The actual rate is established by municipalities.

OBER HAUS REAL ESTATE ADVISORS

LEGAL NOTES

INTRODUCTION

The real estate market in Lithuania is based on the principles of private ownership and ownership immunity, prudence, fairness, justice and protection of the rights of those legitimately acquiring real estate. The Lithuanian legal environment has proven to be tailored not only to prosperous economic times, but also to complicated market circumstances.

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

Real estate and related rights are registered with a special public register – the Real Estate Register. The purpose of the public register is to provide official information about registered real estate, its owners, the rights of owners and other persons to real estate, and restrictions on those rights. Real estate must be registered with the Real Estate Register in order to be transferred, mortgaged, or otherwise disposed of. Failure to register rights to real estate results in limitations on invoking those rights against third parties.

Title to real estate passes as of the moment the real estate is transferred. An agreement on acquisition of real estate is valid and binding on the parties irrespective of registration with the Real Estate Register. However, it may only be invoked against a third party after registration with the Real Estate Register. The rules and requirements for registration are the same throughout Lithuania. Applications for registration of real estate and related rights should be filed by the acquirer. An application should be accompanied by the documents evidencing transfer of title to real estate (ie notarised sale–purchase agreement, donation agreement, etc).

ACQUISITION OF REAL ESTATE

GENERAL

A real estate transaction may only involve property registered with the Real Estate Register. Relevant information must appear correctly in the title transfer document, ie the unique number of the real estate, area, purpose of use, address, description of the land plot where the property is located (in the case of transfer of a building).

Generally, the seller must transfer to the buyer both the title to real estate and the right to use the land plot occupied by real estate and which is necessary for use of the real estate according to its purpose. If the real estate sale–purchase agreement does not include the buyer's rights to the land plot on which the real estate is located, it may not be certified by a notary and, even if certified, is ineffective. If the seller does not own the land plot on which the building stands, the seller may sell the building only with prior consent of the land owner.

LETTER OF INTENT AND HEADS OF TERMS

Ordinarily, a letter of intent (LOI), heads of terms (HOT), or preliminary agreement details what the parties have to do before entering into the main agreement for acquisition of real estate, the main terms and conditions of the contemplated transaction, and liability for not entering into the main agreement. It should be noted that LOI are more customary for higher value business transactions. Usually, a preliminary agreement, HOT or LOI sets out obligations of the parties to be followed during negotiations for a certain period. Breach of those obligations and (or) main terms and conditions entitles the injured party to claim compensation for damage, including penalties.

The LOI, HOT or preliminary agreement must be in writing. If the parties fail to meet this required form, the agreement is ineffective. There is no legal requirement to notarise an LOI, HOT or preliminary agreement.

CHANGE OF OWNERSHIP

Title to real estate passes as of the moment of transfer of the property to the buyer. The transfer must be recorded by signing a transfer-acceptance deed. This may be structured as a separate document; alternatively, provisions to that effect may be incorporated in the agreement on real estate acquisition.

LEGAL STRUCTURES OF REAL ESTATE TRANSACTIONS

The Lithuanian legal environment has proven to be largely flexible in meeting the demands and expectations of international investment practices. Complex business structures are tailored to the needs of investors. These structures range from incorporation of a special purpose vehicle (SPV) to other contractual instruments.

PRINCIPAL LEGAL STRUCTURES

The following are common in real estate investment (REI) transactions in the local market by foreign investors:

SHARE DEAL

Share deals relating to real estate are commonly used in practice. Acquisition of a target holding real estate may be performed via an SPV incorporated either in Lithuania or elsewhere.

It should be noted that a share sale-purchase agreement needs to be notarised when more than 25% of shares is transferred or the price of share transfer exceeds EUR 14,500 (not applicable to shares of a public limited liability company). This requirement is not mandatory only if the accounting of shares is performed following the rules and procedures of Lithuanian laws on the securities market.

Currently, investors circumvent the notarial form requirement by switching to double-tier accounting of shares:

- accounting of shares is transferred to an independent manager (eg licenced credit institution or financial brokerage firm);
- also, shares of the company are registered with the Central Securities Depository of Lithuania and an ISIN number is issued.

Costs for switching to double-tier accounting of shares are not yet fixed by law and are slightly lower than notary fees. The notarial fee for certifying a share sale-purchase agreement amounts to 0.4-0.5% of the transaction value and is capped at EUR 5,792.

A share sale-purchase agreement does not need to be publicly registered, unlike an agreement on sale-purchase of real property. A list of new shareholders must be filed with the Register of Legal Entities; however, failure to do so does not have any impact on ownership rights to shares.

Issues usually to be tackled while structuring a REI transaction as a share deal include, eg: target company history, employees, unnecessary assets, subsidiary operations, related party transactions, transferability of loan facilities, deferred taxes and financial assistance.

ASSET DEAL

As common as share deals, asset deals usually require a narrower scope of due diligence review than share deals, and are more tax-transparent from the due diligence perspective.

An agreement on sale-purchase of real estate must be certified by a notary public. Failure to notarise an asset transfer agreement makes it ineffective. Notarisation and registration of transfer with the Real Estate Register marginally increase the transaction costs.

For transfer of certain real estate the parties may be required to meet particular procedures, eg for sale of buildings situated on land owned by a third party, consent from the land owner must be obtained; prior to sale of real estate – objects of cultural heritage as well as real estate under construction – the respective authorities must be notified and specific documents must be obtained.

Another bottleneck of an asset deal over commercial property is the statutory right of a tenant to terminate the tenancy agreement on change of ownership of the leased property. In practice this issue is tackled by collecting waivers of such rights from tenants.

Asset deals may involve recharacterisation risk, ie an REI transaction structured as an asset deal may be recharacterised as sale of a business. As a result, investors may be exposed to additional risks related to transaction validity and liability to creditors and employees of the former owner of the target. When concluding asset deals, potential VAT liabilities, including both taxation of the transfer itself and potential obligation to adjust historic VAT liabilities, should be diligently considered.

SALE-LEASEBACK

Sale-leaseback is more common in the industrial and office sectors.

The structure of a sale and leaseback transaction should ensure tying the sale of the property to a lease agreement. Various security instruments (eg guarantees, deposits, reconciliation) are commonly used in such REI transactions in order to secure the flow of sustainable income from the target and proper performance of long-term obligations of the parties.

FORWARD PURCHASE

Projects under development have more often been structured as forward purchase transactions. In these cases the investor undertakes a forward commitment to purchase the property along with project financing commitments. The developer usually acts as a developer until completion of the project or may act as project developer under a development contract while title to the target property on construction goes directly to the investor.

These REI investment structures are rather complex, may involve particular elements of share and asset deals, and usually involve other arrangements related to project development (eg development agreements, escrow arrangements, project management and letting agreements).

JOINT VENTURE

Joint ventures are quite commonly formed for project development purposes both by local developers and foreign investors.

In a joint venture, various contractual instruments are used in order to define, eg project goals, responsibilities of the parties, terms for profit-sharing between the partners, terms related to project management, project exit mechanisms. Commonly, the partners establish an SPV to develop the project. The internal relationship between the partners is usually agreed in a shareholder agreement and related documentation. Commonly, the scope of such transactions includes execution of asset management, project management and property management agreements as well as other related transaction documentation.

LEGAL NOTES

PUBLIC-PRIVATE-PARTNERSHIP PROJECTS (PPP)

PPP projects in Lithuania may take the form of a concession, Private Finance Initiative (PFI) or mixed capital venture. Local and foreign investors have a right to propose PPP projects to be implemented, which are mandatory for public institutions to discuss. The regulation was established to encourage long-term cooperation between the State and municipal authorities and private investors, while mobilizing private and public investment to revive regional economies, achieve social outcomes and ensure long-term changes.

FORM OF AGREEMENTS

Real estate sale-purchase agreements (asset transfer transactions) must be in written form and certified by a notary.

Share transfer transactions must be in written form. A private limited liability company share sale-purchase agreement must additionally be notarised when more than 25% of shares is transferred or the price of share transfer exceeds EUR 14,500 (for possible exemption please see above). It should be noted that a share subscription agreement, when all or part of a share issue is paid up by real estate, must also be in written form and certified by a notary.

If these agreements fail to meet their required form conditions, they are ineffective.

LANGUAGE REQUIREMENTS

Transactions by Lithuanian legal and natural persons must be in Lithuanian. Failure to do so, however, does not make such transactions invalid. Translations into one or more languages may be attached. Transactions with foreign natural and legal persons may be in a language acceptable to both contracting parties. However, all transactions to be confirmed by a notary or filed with public registers must also be in Lithuanian.

DUE DILIGENCE

Legal due diligence of target real estate is strongly advisable before investment or divestment. From the perspective of both seller and buyer, due diligence forms a basis for contract negotiations, risk distribution, verification of purchase price, and pre- and post-closing commitments. Due diligence checks on, eg ownership title, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for supply of utility services – all information including material facts related to real estate. It should be noted that a general statutory principle exists that if an encumbrance of property is not registered with the Real Estate Register, Mortgage Register or Register of Acts of Property Seizure it does not exist until proven otherwise in court.

PRE-EMPTION RIGHTS

Pre-emption rights may be established on a statutory or contractual basis. For instance, a co-owner of real estate enjoys a pre-emption right to acquire a legal share of real estate being sold to third parties, save for cases when the sale is by public auction. In addition, if real estate and the land plot on which it stands have different owners, the owner of real estate situated on a land plot enjoys a pre-emption right to acquire the land plot if being sold. The state has a pre-emption right to acquire land in state parks, protected areas and other protection zones.

As a general principle, if a seller of real estate fails to comply with an existing pre-emption right requirement, the person who enjoyed the pre-emption right may apply to the court for an order transferring the rights and obligations of the buyer within the statutory limitation period.

TYPICAL PURCHASE PRICE ARRANGEMENTS

Purchase price payment arrangements may differ depending on agreement between the contracting parties. If no credit or third party financing is involved, the purchase price payment is usually divided into two parts: the first instalment is paid on the day of signing a preliminary agreement or signing and confirming the real estate transaction by the notary, whilst the remainder of the purchase price is paid after certain conditions precedent are met, such as signing the transfer-acceptance deed. Title to real estate may be transferred irrespective of complete settlement between the seller and buyer. In order to secure the interests of the seller or buyer, title to real estate may be transferred before or after payment of the entire purchase price.

RELATED COSTS

Certification of real estate sale – purchase agreements by a notary and registration of title with the Real Estate Register respectively involve a notary fee and state duty. The notary fee amounts to 0.45% of the real estate transaction value, capped at EUR 5,792 for transactions that involve one real estate object and at EUR 14,481 for transactions involving two or more real estate objects. State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired and depends on the average market value of the real estate. State duty varies from EUR 3 to EUR 1,448 per object.

During a real estate transaction, parties may also incur further costs depending on services used, such as brokerage and valuation fees, bank fees and due diligence fees.

The notary fee for transfer of shares transactions (when applicable) amounts to 0.4-0.5% of the transaction value and is capped at 5,792 EUR. For transactions that involve the transfer of shares of two or more companies, the notarial fee (when applicable) is capped at EUR 14,481.

MERGER CONTROL

Structuring a real estate investment transaction should take into account merger control regulation, since applicable thresholds are rather low and a real estate investment transaction might require notification of and permission for concentration (acquisition).

Irrespective of whether it is a share or an asset deal, an anticipated concentration must be notified to the Lithuanian Competition Council, whose consent to a concentration is required where the combined total income of the undertakings concerned (received from the Lithuanian market) is over EUR 14.5 million for the financial year preceding the concentration and the aggregate income of each of at least two undertakings concerned (received from the Lithuanian market) is over EUR 1.45 million for the financial year preceding concentration.

RESTRICTIONS

RESTRICTIONS ON ACQUIRING REAL ESTATE

Buildings and other constructions may be acquired by Lithuanian or foreign natural or legal persons without restrictions.

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land, inland waters and forest unrestrictedly, except for acquisition of agricultural land. In the latter case the total area of agricultural land possessed by either a natural or a legal person and persons related to them is limited to 500 ha. For the purpose of this restriction related persons means: (i) spouses, parents together with their children; (ii) persons who directly or indirectly (via an entity in which a person has not less than 25% of votes) have more than 25% of the votes in an entity; (iii) legal persons in which the same person has more than 25% of the votes. Besides the 500 ha limit, for acquisition of agricultural land additional conditions apply (eg 3 years' experience in agriculture).

Foreign legal and natural persons may acquire title to land, inland waters and forests under the same conditions as Lithuanian citizens and legal persons if they comply with European and transatlantic criteria set in Constitutional Law. The European and transatlantic integration criteria recognized by Lithuania are met by foreign entities if they are set up in:

- Member States of the European Union or states parties to the European Treaty with the European Communities and their Member States; or
- Member Countries of the Organisation for Economic Cooperation and Development (OECD), states parties to the North Atlantic Treaty Organisation (NATO), or the European Economic Area Agreement (EEA).

Foreign natural persons are assumed to comply with European and Transatlantic criteria, if they are:

- Citizens or permanent residents of any of the states specified above; or
- Permanent residents of Lithuania but not holding Lithuanian citizenship.

Entities that do not meet these criteria are not entitled to acquire land, inland waters and forest as owners; they are entitled to use and possess such real estate on some other basis, eg rent.

Real estate may be encumbered with servitudes (easements), pre-emption rights, lease rights registered with the Real Estate Register, mortgages, and other encumbrances that should be taken into consideration when using or constructing real estate. Residential property may be considered to be family assets, disposal of which is subject to limitations established by law.

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

Real estate must be used in accordance with its purpose, following zoning and planning requirements, conditions of encumbrances (eg easements, protection zones). Further, the law establishes specific requirements on use of real estate cultural heritage objects. Transfer of title or rights of management of properties registered as cultural heritage objects requires one month's advance notice to the heritage protection authority.

PROPERTY MANAGEMENT

For maintenance of real estate, property management companies or associations may be used. In multi-apartment houses, owners of apartments may establish an association of owners. The status, rights and obligations of these associations are regulated by a special law.

LEASE AGREEMENTS

GENERAL

General terms and conditions of lease agreements are regulated by the Civil Code. However, parties to lease agreements may freely agree on most aspects. In order to secure the interests of a natural person as tenant, residential leases are regulated more strictly than commercial leases by setting specific rules related to the condition of leased residential premises, the right of family members to live with the tenant, termination of lease agreement and eviction of the tenant.

Lease agreements may be invoked against third parties only if registered with the Real Estate Register.

DURATION AND EXPIRY OF LEASE AGREEMENT

Lease agreements may be concluded for a fixed or indefinite term. The term is agreed by the parties, but the maximum term in any case cannot exceed one hundred years. If the tenant continues to use leased property for more than ten days after expiry of the term and the owner does not object, the lease agreement is taken to be for an indefinite term.

Generally, either party may terminate a lease of an indefinite term by giving three months prior notice, unless the parties agree on another notification period. A residential lease of an indefinite term can be terminated by the landlord by serving on the tenant six months advance written notice, whereas the tenant may terminate a residential lease by serving advance written notice of one month.

A tenant who has duly performed obligations under a lease agreement has a right of first refusal to renew the lease agreement on its expiry.

Last but not least, under Lithuanian law a tenant may terminate a lease agreement following change of real estate owner.

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES AND SERVICE CHARGE)

Rent payments for a lease of commercial premises are subject to agreement by both parties. Generally, the tenant pays the rent monthly in advance. As to leases of residential premises, the law explicitly states that an owner may not demand payment of rent in advance, with the exception of the rental for the first month.

Utility services, such as electricity, heating, water, are charged additionally according to the meters or proportionately to the area of the leased premises if individual meters are not installed. Usually it is agreed that the tenant compensates expenses of the owner for maintaining leased premises. A guarantee, deposit or other similar security ensuring payment of rent and costs may also be required.

REAL ESTATE FUNDS

It is possible to establish real estate collective investment undertakings (both closed-end and open-end) in Lithuania.

MORTGAGE

It has already been several years since the procedures of execution and foreclosure of mortgages in Lithuania have been significantly simplified. A mortgage is established by a contractual agreement of the parties, which may be executed as a separate agreement or be part of the other agreement. A contractual mortgage requires only the approval of the notary and a subsequent registration with the Mortgage Register. Mortgage registration with the Mortgage Register is now an administrative process (rather than a judicial one, as used to be the case). Under the amendments, the requirement to execute the mortgage in a standard form is cancelled.

Foreclosure of mortgage is no longer carried out through the courts; instead, it is done by applying to a notary for an enforcement record. A possibility to foreclose on a mortgage by transferring the title to the mortgaged immovable property to the creditor is foreseen by the Civil Code. Moreover, it is also possible to mortgage a property to be acquired or constructed in the future.

There is a possibility to execute a mortgage over a legal entity, ie its property (pool of assets), the composition of which may change in the normal course of business of the mortgaged entity.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Based on the new regulation on territorial planning, which entered into force as of 1 January 2014, the right to build in an urbanised territory and a territory under urbanisation may be exercised without preparing the detailed plan, if such construction complies with the master plan. As a result, construction on a land plot may be carried out according to a master plan.

Other new key planning provisions are as follows:

- Territorial planning documents of projects of national importance have been introduced.
- Special plans are deemed a part of the master plan and the number of special plans has been reduced.
- A district (quarter) is the smallest area for planning.
- Organisation of territorial planning documents has been transferred to state and municipal institutions.
- The procedure for establishing special conditions of land use and for changing both the purpose of land use and land plot boundaries has been simplified.

- A procedure for correction of the territorial planning document has been introduced that allows the change (not material and without deviation from the higher territorial planning documents) of certain solutions of territorial planning documents in a simplified way; for detailed plans some corrections are available during preparation of technical design.

- Environmental impact assessment and public health impact assessment is carried out prior to technical design (impact assessment of solutions during territorial planning has been abandoned).

- A new information system for preparation of territorial planning documents in Lithuania and for state supervision of the territorial planning process (TPDRIS) has been introduced.

- A territorial planning document enters into force from registration with the register of territorial planning documents.

CONSTRUCTION

According to existing regulations, the erection, modification and demolition of buildings and other structures (depending on the complexity of intended works) require either documents authorising construction activities or design approval (if obligatory). The State Territorial Planning and Construction Inspectorate under the Ministry of the Environment has been authorised to issue a document permitting construction where a municipal administration fails to issue it within the established time limits and does not indicate the reasons for not issuing it.

Construction may be carried out only based on a building design prepared by a professional architect or engineer. Building design documentation must comply with territorial planning documents and meet official building norms.

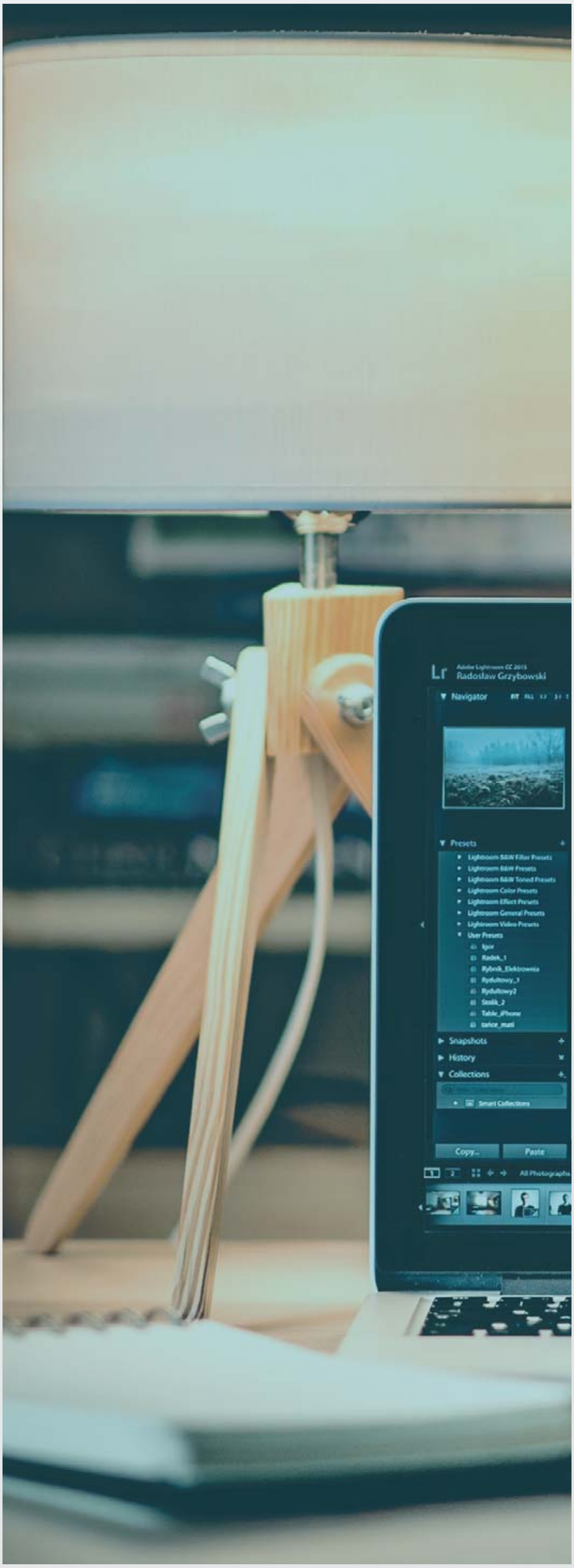
Major changes as of 1 January 2017 under the amendments to the Construction Law are as follows:

- Special requirements to building design (ie special architectural, heritage or protected areas requirements) are no longer mandatory to be obtained (to be issued only upon the request of the client).

- Conditions for connection and special requirements to building design remain valid for five years, if a construction permit has not been obtained.

- New types of mandatory insurance have been introduced: insurance of construction works (replacing the mandatory insurance of civil liability of the contractor) and the mandatory civil liability insurance of the contractor of the expertise of the project.

- The contractor is now required to provide a security for the performance of its obligations to the client, the amount of



which cannot be less than 5 per cent of the construction value, for a validity period not shorter than three years.

- A developer must also provide a security to the buyer of the real estate against the improper performance or non-performance of the contractor's obligations during the construction warranty period (eg due to contractor's insolvency or bankruptcy), which has to comply with the same terms and conditions as prescribed for the contractor as noted above.

After completion of construction, reconstruction, modernisation or other construction activities (depending on the complexity of work performed), either the state authorities inspect the building to check whether it complies with design requirements and issue a certificate on completion of construction, or the builder issues confirmation of compliance. The building may not be used without this documentation (certificate of completion or confirmation of compliance) or without having registered the building and rights in rem to it with the Real Estate Register. As of 1 January 2017, this requirement also applies to residential buildings.

After the completion of construction, the real estate and its rights in rem must be registered with the Real Estate Register no later than three months after receipt of the deed of completion of construction.

There is no longer an obligation for the main construction participants (designers, contractors, technical supervisors) to participate in completion of construction. A certificate of energy efficiency of a building should be obtained before issuance of the certificate of completion of construction or confirmation of compliance. Moreover, the certificate of energy efficiency of a building should be obtained before sale or lease of the property. The certificate should be placed in a visible location in hotel, administrative, commercial, services, catering, transport, cultural, educational, sports, medical treatment and recreational buildings (when the area used is more than 500 m^2). A certificate of energy efficiency of a class 'A' building has become a requirement to the newly constructed buildings from 1 November 2016.

The contractor, the architect and the technical supervisor of the construction are liable for collapse of the object or defects. The warranty periods (5, 10 and 20 years) are calculated from the date of transfer to the developer (customer) of all construction works carried out by the contractor and/or from completion of construction work.

The Construction Law allows legalisation of an illegal construction if construction is in line with territorial planning documents and with mandatory environmental protection, heritage conservation and protected areas legal requirements. However, a fee accrues and is payable in cases of legalisation, depending on the scope of illegal construction.

INSOLVENCY

If a company is unable to cover its liabilities, then bankruptcy or restructuring proceedings may ensue.

RESTRUCTURING

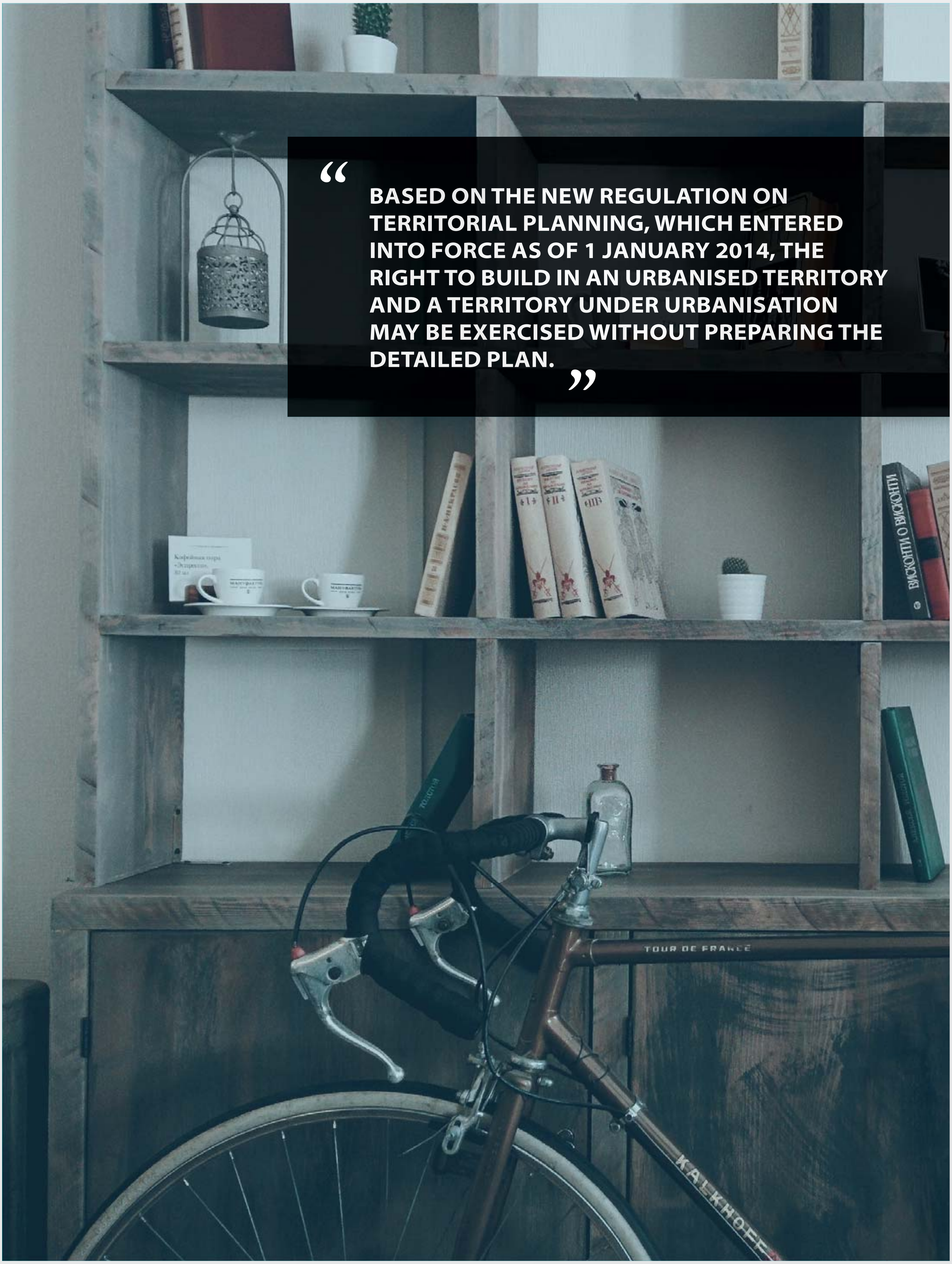
Restructuring proceedings may be run if realistically a company may overcome its temporary financial problems. Restructuring of the company may not exceed five (4+1) years. Company restructuring is a tool that allows creditors to restructure their claims and provides better opportunities for the company to survive. Operations by the company's management bodies are not suspended during restructuring proceedings. During restructuring proceedings, creditors are ranked with first priority given to claims secured by mortgaged/pledged property. Under recent legislative amendments, initiation of restructuring proceedings requires no approval of creditors, which step in only upon an affirmative decision of the court to start restructuring.

BANKRUPTCY

Generally, bankruptcy proceedings may be commenced if a company is insolvent. Operations by the company's administrative institutions are suspended and management is performed by the insolvency administrator. Declaration of bankruptcy triggers suspension of accumulation of loan interest, interest set by law, contractual penalties, and late payment interest. Creditors are ranked, with first priority given to claims secured by mortgaged/pledged property. Bankruptcy administrators are selected randomly by using a special e-system.

SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS



> “BASED ON THE NEW REGULATION ON TERRITORIAL PLANNING, WHICH ENTERED INTO FORCE AS OF 1 JANUARY 2014, THE RIGHT TO BUILD IN AN URBANISED TERRITORY AND A TERRITORY UNDER URBANISATION MAY BE EXERCISED WITHOUT PREPARING THE DETAILED PLAN.”

EXECUTIVE OFFICER IN LATVIA

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Ober-Haus operates in 7 cities in Latvia (Riga, Valmiera, Jelgava, Liepāja, Ventspils, Jēkabpils, Daugavpils) with over 50 real estate experts working there. Major local and foreign companies, medium sized and smaller companies, investment funds and private investors trust the quality of the services that Ober-Haus offers. A team of independent experts provide all real estate services: mediation in letting, selling and purchasing commercial and residential real estate, valuation of movable and immovable property, business valuation.

LATVIA

OBER HAUS
REAL ESTATE ADVISORS

COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

Coordinates:	57 00 N, 25 00 E
Area:	64,600 km^2
Border countries:	Belarus, Estonia, Lithuania, Russia
Capital:	Riga
Ethnic groups:	Latvians 62.1%, Russians 26.9%, Belarusians 3.3%, Ukrainians 2.2%, Poles 2.2%

CURRENCY

Currency:	Euro (EUR)
Since:	January 1, 2014

2017 FORECASTS

GDP annual growth, %	3.0
GDP per capita, €	13,333
Private consumption annual growth, %	3.5
Average annual inflation, %:	1.6
Unemployment rate, %:	8.7
Avg. monthly gross wage, €:	899
Average monthly gross wage annual growth, %	4.8
Retail sales growth, %	5.2
FDI stock per capita, €	6,672

POPULATION	2011	2012	2013	2014	2015	2016
Latvia	2,074,600	2,044,800	2,023,800	2,001,500	1,986,100	1,968,900
Riga	659,400	649,900	643,600	643,400	641,000	639,600
Daugavpils	93,600	90,900	89,200	87,400	86,400	85,900
Liepaja	76,900	74,800	73,500	71,900	71,100	70,600

ECONOMICS	2011	2012	2013	2014	2015	2016
GDP growth, %	5.5	5.6	4.2	2.4	2.7	1.6
GDP per capita, €	9,873	10,800	11,480	12,020	12,314	12,595
Private consumption growth, %	5.3	5.7	6.2	4.8	3.5	3.5
Average annual inflation, %	4.4	2.3	0.0	0.6	0.2	0.0
Unemployment rate, %	15.4	13.9	11.3	10.8	9.9	9.5
Average monthly gross wage, €	660	685	716	765	818	858
Average gross wage annual growth, %	4.3	3.8	4.5	6.8	6.8	5.1
Retail sales growth, %	2.4	7.3	3.8	3.6	4.9	4.0
FDI stock per capita, €	4,512	5,017	5,716	5,995	6,268	6,425

SOURCE: LATVIAN DEPARTMENT OF STATISTICS, MINISTRY OF FINANCE OF LATVIA

MAJOR RESIDENTIAL MARKET DRIVER – HOUSING GUARANTEE PROGRAMME WILL CONTINUE IN 2017

Due to geopolitical uncertainty, GDP increased by just 1.6% in 2016. Forecasts are for GDP growth of 3% in 2017. GDP growth in 2015 was 2.7%, while in 2014 it was 2.4%.

Inflation in Latvia remains low for the fourth year in a row; 0.0% in 2016, while it was 0.2% in 2015. Forecasts are for inflation growth of 1.6% in 2017.

Latvia officially became the 35th member of the OECD on 1 July 2016. It is expected that this will increase FDI and improve the country's future credit rating (the Standard & Poor's credit rating in 2016 was A-).

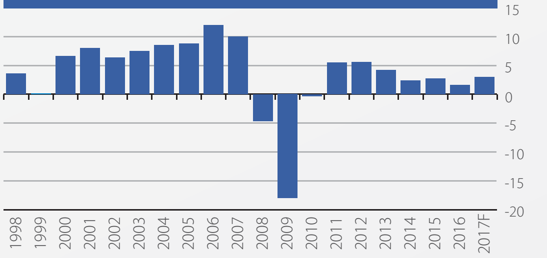
The minimum wage will increase by €10 to €380 on 1 January, 2017. This is the fourth successive increase in the minimum wage over the last four years; the total growth over the past four years is €95.

New increased taxes will affect all companies that pay the microenterprise tax in Latvia, with approval being finally given to increase microenterprise tax from 9% to 15% and to 12% for companies with a turnover up to €7,000. The changes come into force on 1 January 2017.

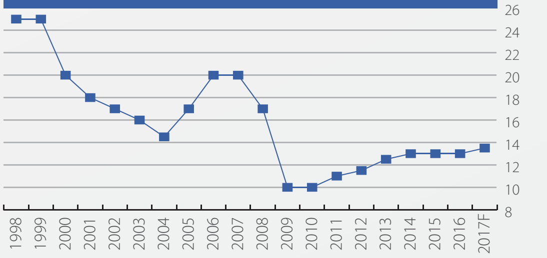
The housing guarantee programme was saved by government and will be available in 2017. Commercial banks issue loans to families, and the state provides loan guarantees to those banks that have concluded cooperation agreements. The idea of the guarantee is to reduce the first payment for new families when they purchase or build housing. The amount of the guarantee depends on the number of children. The housing guarantee programme was one of the major driving factors in the residential market in 2016. A total of 50% of all residential credits were issued under this programme in Q1 2016.

The merger of Nordea and DNB banks in Q2 2017 will push them into the leading position in the Baltic States. Both banks will operate separately until the deal is finalised. Following the merger, it is forecast that the banks will have a combined share of 30% of credits in Latvia.

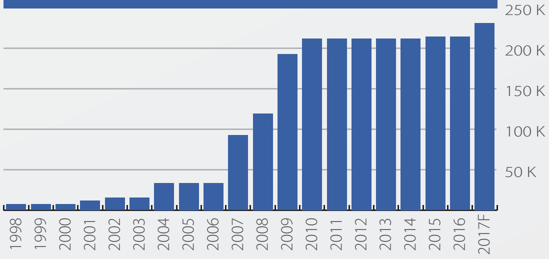
GDP GROWTH, %



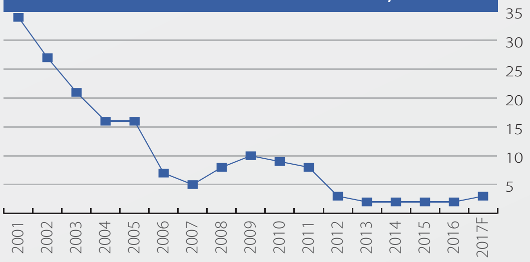
A CLASS OFFICE RENTS, €/SQM



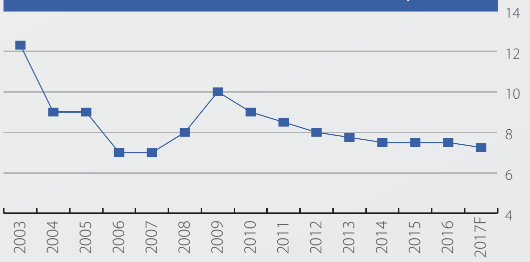
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



END-2016 SNAPSHOT / RIGA

TOTAL OFFICE SPACE	746,300 SQM
TOTAL OFFICE VACANCY RATE	7 %
A CLASS OFFICE VACANCY RATE	5 %
B CLASS OFFICE VACANCY RATE	8 %
TOP OFFICE RENTS (SQM / month)	€16.00 - €17.00
A CLASS OFFICE RENTS (SQM / month)	€12.00 - €15.00
B CLASS OFFICE RENTS (SQM / month)	€7.00 - €11.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €5.00

A CLASS OFFICE BUILDINGS COMING AFTER 5-YEAR BREAK

SUPPLY

The completion of three new office projects in 2016 added 9,600 sqm of office space to the market. Total office area at the end of 2016 stood at 746,300 sqm.

The Skanste neighbourhood is slowly but steadily developing as the city's new CBD. With already successful business centres such as the SWH Office Centre, Jupiter Centre and LNK Centre, at the beginning of 2017 the developer Hanner is planning to finish the first A class office building in five years. This building has been built according to the BREEAM sustainable construction standards.

In 2017, four new office buildings should be completed with a total office space of more than 40,000 sqm.

Hanner is continuing to develop its successful business centre in the Jauna Teika project. At the end of 2016, it began construction of a 17,000 sqm office building and this project is scheduled for completion by the beginning of 2018.

The left bank of the Daugava River is developing rapidly, and expected projects from developers Domuss and Vastint could add 120,000 sqm to the market within, presumably, the next 3-4 years. The big advantage of this location is its close proximity to Riga International Airport. This would be a distinct advantage in attracting large international companies that are interested in renting large spaces on a single floor, but for now lack of supply discourages potential tenants from choosing Riga as their SSC/BPO.

DEMAND

A substantial deal was made in 2016 when VISMA, a leading Norwegian IT company, signed a lease in the yet to be finished A class office building Place eleven taking 3,200 sqm. Also MARS, the American global manufacturer, will relocate to Place eleven taking 660 sqm of office space.

TELE2, the telecommunication operator, opened their new SSC on Mūkusalas Street with office space of 1,700 sqm.

The Latvian national airline airBaltic opened their new office in the build-to-suit building at Tehnikas Street with GLA of 6,200 sqm.

In 2015, Nordea bank relocated part of their office (1,000 sqm) from an A class office building, Alojas Biznesa Centrs, to a B class office building, Unity Biznesa Centrs, and by the end of the 2016 had expanded to 3,000 sqm there.

Ober-Haus observes a trend where companies are trying to optimise expenses and are therefore looking for more suitable, thus smaller and cheaper office space. Highest demand is from the IT, financial and healthcare sectors.

Companies are looking for small offices (less than 100 sqm) in A class office buildings to stress the company's prestige and are willing to pay rent significantly above the market price, but supply is extremely limited for this kind of premises.

There is also a problem with larger spaces in office buildings. For example, if a tenant is looking for more than 1,000 sqm on one floor, such possibilities are non-existent. Considering the limited supply of quality office space, clients are ready to consider options in buildings that have not yet been completed.

The overall office vacancy rate increased to 7% in Riga in 2016. The vacancy rate of A class offices increased to 5% and B class offices remained at the level of the previous year with 8%.

An important feature of the market is that potential tenants are being addressed and welcomed before the completion of projects, yet they remain cautious since there are chances that project completion dates will be postponed.

RENTS

The weak new supply in 2016 increased the office rents by 5% in Riga. Rents range from €12.00 to €15.00 per sqm for A class offices and from €7.00 to €11.00 per sqm for B class offices at the end of 2016.

Some A class office buildings are even asking top rents of €16.00–€17.00 per sqm with additional charges for utilities and service.

Utilities and service charges in A class buildings range from €2.50 to €5.00 per sqm per month.

INVESTMENT

Two office buildings were acquired by IT companies for their own needs in 2016. IT company DYNINNO bought an office building at Jeruzalemes Street for €6 million. IT company EVOLUTION GAMING bought a building at Brivibas Street for €12.4 million where they had been the anchor tenant.

Pillar Investment acquired the headquarters of airBaltic at Tehnikas Street for €6.2 million.

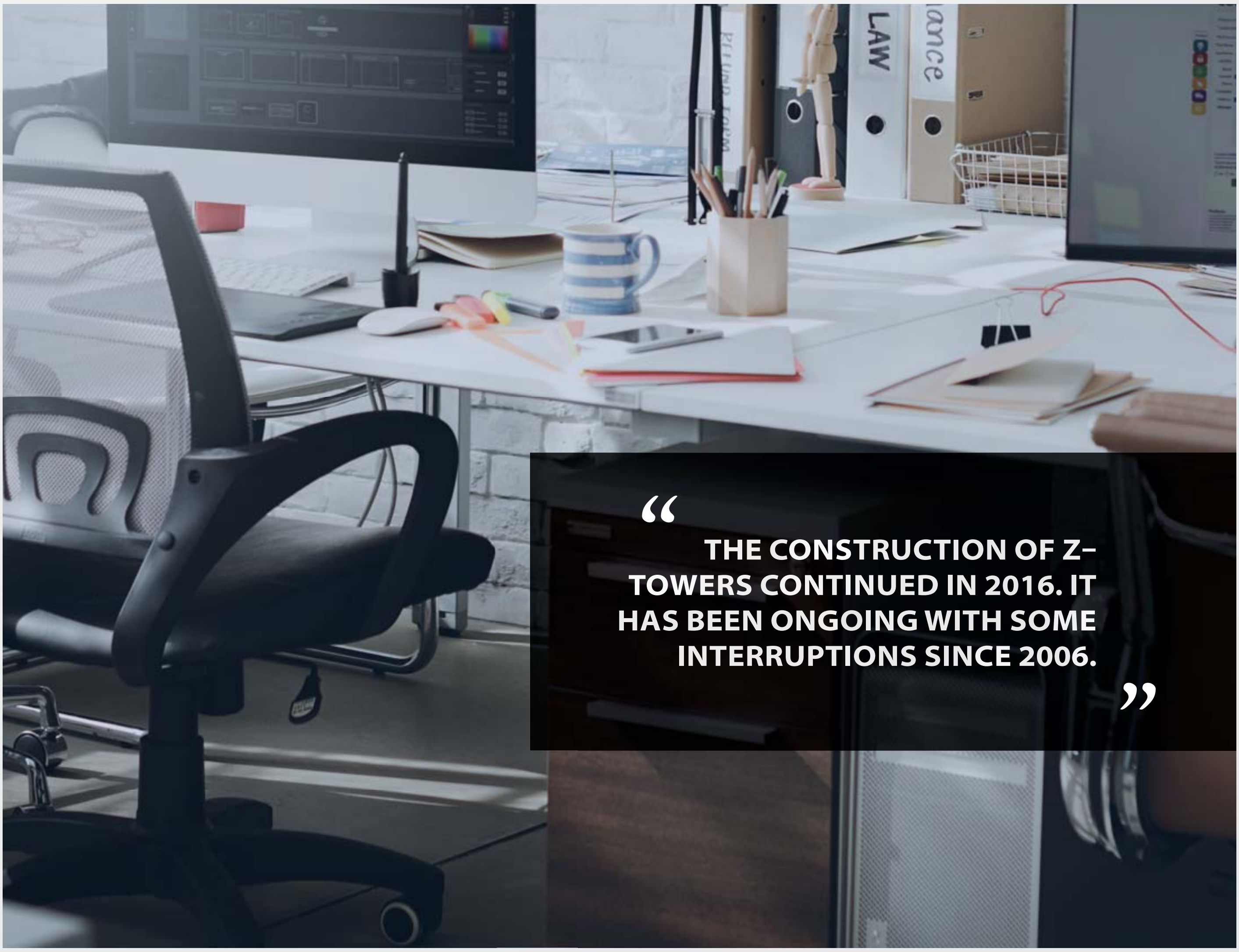
LEGAL NOTES BY SORAINEN

Rents are paid in advance, usually monthly, sometimes quarterly, and are indexed to local or EU inflation. In addition to rent, tenants usually pay a maintenance fee and cover their own utility costs, invoiced by the owner or supplier after use. Security deposits for two to three months' rent are generally required by the owner or lessor. The owner usually pays all applicable real estate taxes.

Lease agreements for both business centres and office space are of rather good quality, though typically the owner prepares a standard lease agreement, in favour of the owner. On transfer of title, only lease agreements registered with the Land Register are binding on the new owner of real estate. Transfer of title to real estate does not entitle a tenant to terminate a lease agreement. This can be done only at the discretion of the new owner of real estate.

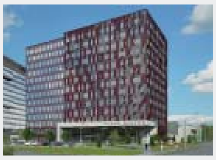
RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**airBaltic headquarters** – In the first half of 2016, airBaltic, the Latvian national airline, moved their offices from Helio biroji and airport to a build-to-suit building at Tehnikas Street with GLA 6,200 sqm, thus leaving more than 1,500 sqm vacant in the Helio Biroji project.	6,200	H1 2016
	**Mukusalas Biznesa Centrs** – Developer Mukusalas Biznesa Centrs finished a build-to-suit office building for the TELE2 SSC telecommunications company with GLA 1,700 sqm.	1,700	2016
	**D91** – This building was finished in the first half of 2016 with GLA 1,700 sqm in the industrial part of the city, at Darzciema Street. At the end of 2016 the building was fully leased at rate of €7.00 per sqm to several tenants, thus proving that a good location is absolutely essential in attracting new tenants.	1,700	H1 2016

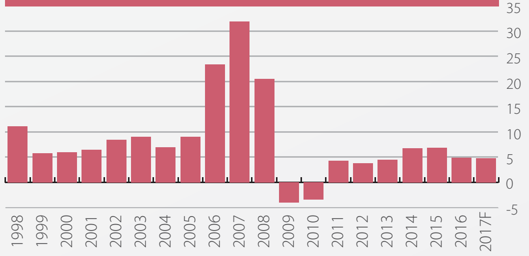


“THE CONSTRUCTION OF Z–TOWERS CONTINUED IN 2016. IT HAS BEEN ONGOING WITH SOME INTERRUPTIONS SINCE 2006.”

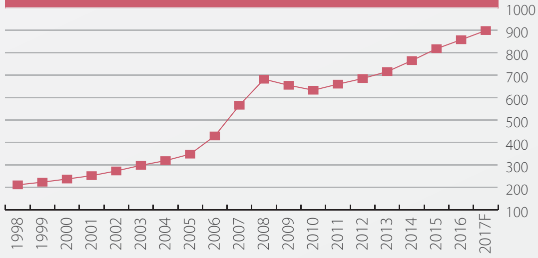
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Katrinas Osta** – This office building with 1,700 sqm of office space is scheduled to be completed at the beginning of 2017. The advantage of this building is its close proximity to the Port of Riga, and this favourable location will no doubt be of interest to companies working in the port business. The development is being carried out by SIA Catri, a local developer. Rents stand at €12.00 per sqm.	1,700	Q1 2017
	**Place 11** – Hanner plans to complete an office building with office space of 14,000 sqm at Sporta Street at the beginning of 2017. This will be the first A class office complex built during the last 5 years in Riga and will have the BREEAM international sustainability certificate. Asking rents are from €14.00 to €16.00 per sqm.	14,000	Q1 2017
	**Muksusalas Biznesa Centrs** – At the beginning of 2017 owners of this business centre will finish construction of a B class office building with total space of 2,000 sqm.	2,000	Q1 2017
	**Z-Towers** – The construction of Z–Towers continued in 2016; it has been ongoing with some interruptions since 2006. The South tower will have 24,000 sqm of office space. Construction will be completed by the end of 2017. The developer is AS Towers Construction Management.	24,000	Q4 2017
	**Teodors** – At the end of 2016 Hanner continued its successful development of business centres by starting construction of the Teodors office building, which will add 17,000 sqm of office space at the beginning of 2018.	17,000	2018
	**Business Garden Riga** – The developer Vastint is working on this office complex in Pārdaugava, on the left-bank of Riga. The first stage will consist of two 5-storey buildings with total office area of 14,200 sqm. Construction is scheduled to start at the beginning of 2017 and could be completed in 2018. In total five buildings will be built with more than 42,000 sqm of office space.	14,200 (I stage)	2018 (I stage)

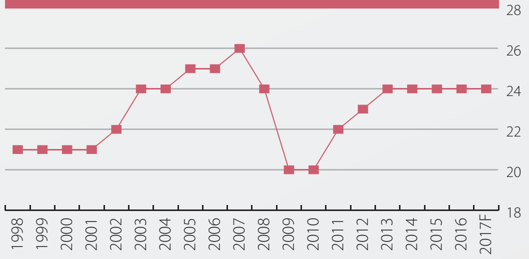
AVERAGE SALARY GROWTH, %



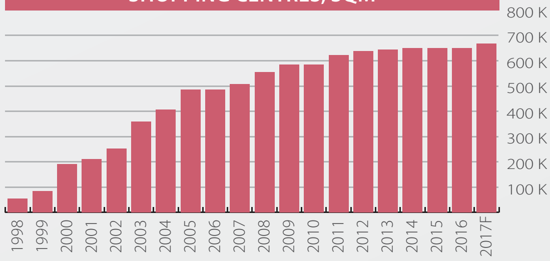
AVERAGE SALARY PER MONTH (BRUTTO), €



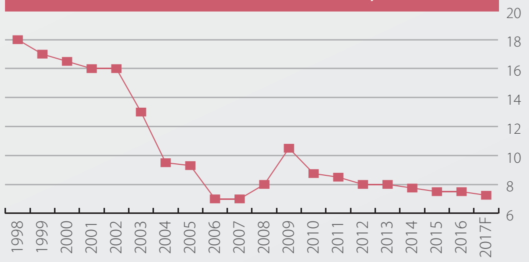
AVERAGE MALL RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



END-2016 SNAPSHOT / RIGA

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	649,000 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.01 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€5.00 - €9.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€15.00 - €35.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€25.00 - €50.00
HIGH STREETS RENTS (SQM / month)	€20.00 - €50.00

CHANGES IN OWNERSHIP OF SHOPPING CENTRES – PROMISING OUTLOOK FOR FURTHER DEVELOPMENT

SUPPLY

No new shopping centres (counting those over 5,000 sqm of GLA with over 10 tenants) or other retail schemes were opened in Riga in 2016. At the end of 2016, Riga had 649,000 sqm of total leasable space in shopping centres. Currently Riga has 1.01 sqm of shopping area per capita. However, some new retail areas were due to optimisation of existing retail units.

The availability of space in the largest shopping centres in Riga at the end of 2016 was around 4%. However, even though there is available space in some shopping centres, the landlords are paying more attention to the quality of tenants for maintaining and improving their own concepts, and are actively working on better customer satisfaction by paying more attention to the entertainment areas. For example, more fitness centres have become involved in traditional shopping centres.

Spice, Alfa, Galleria Centrs, Mols and Riga Plaza, the most successful shopping centres, are still benefiting from increased turnover, but they are experiencing a decreasing number of visitors. Still, the number of single purchases is growing, which is increasing the total turnover in shopping centres.

The Prisma grocery chain has made considerable changes in their five retail spots by re-planning their sales areas, closing one of them in the Domina shopping centre and sharing some of its space with other tenants in the four remaining units, thereby delivering 15,000 sqm of retail space to the market.

Depo DIY has two more projects in the development stage with planned openings in 2017–2018. The first one is in Jelgava where the developer Eften Capital is negotiating with the municipality and organising a public consultation. The next project will be in Riga, Imanta district on the same shopping street as the Damme shopping centre, Maxima XX and Imanta Retail Park.

It also seems increasingly likely that the Swedish IKEA will build a retail centre with the opening scheduled for 2018/2019. This follows the finalisation of a land purchase agreement and agreement with Riga municipality at the end of 2016 on the reconstruction of a traffic unit at the cross-roads of Juglas and Bikernieku streets.

DEMAND

Regardless of the geopolitical instability in the East and difficult situation in Europe, which makes the future uncertain, the Latvian retail market continues to grow. Average growth in the retail sector in 2016 was around 1.8% which shows slow but gradual improvement.

The additional factors slowing the growth of retail turnover are zero or very low inflation rate, negative population dynamics and growth of on-line shopping. Internet sales have trebled since 2010 (only Latvian registered e-shops are taken into account) reaching a considerable turnover in 2016 (€200 million).

Low expectations of future economic growth are a considerable argument for retailers to put a brake on further plans to open new shops.

The most popular retail areas in Riga are located on Aspazijas, Terbatas, K. Barona, Elizabetes, Merkela and Dzirnavu Streets. The Old Town of Riga is becoming a more and more important location for retail and catering. These areas are easily accessible from the main tourist attractions. The number of tourists is still growing in 2016, however the Old Town has lost its consumers from Russia; they were previously the largest clients for the shops in this district.

Riga city centre and Old Town traditionally remain entertainment areas within the city and demand for space suitable for shops, bars, clubs and restaurants remains high, although availability is limited. Tenants are demanding big display window and built-in ventilation systems and a chance to build a summer terrace for a restaurant.

In 2016 a growing demand was observed from catering companies that are prepared to pay higher rents. Clothing stores prefer shopping centres, except for some higher-price level stores that demand a prime location in the retail streets in city centre.

Ober-Haus expects higher demand for catering premises in the Old Town and city centre at the beginning of 2017 in preparation for the summer season.

In February 2016 on Valnu Street in the Old Town the first new-concept Statoil store which primarily functions as a coffee and snack shop opened. In April 2016 the Laura Ashley new home textile salon opened in the newly built Centrus residential building on Dzirnavu Street. A growing demand was observed for fitness and gym clubs during 2016. There were 3 major openings – People (1,500 sqm) in Imanta Retail Park, Lemon gym (1,300 sqm) in furniture retail complex Mebelu nams in Purvciems district and My Fitness (1,500 sqm) in Galleria Riga.

Retail locations on Brivibas, A. Caka, and crossing streets in the active city centre are not in very much demand by retailers and are frequently occupied by short-term "compromise" tenants such as second-hand shops or outlets. Some activity was demonstrated in 2016 by non-bank financial establishments with the opening of service points in the city centre. Retail premises outside the centre in residential districts of Riga are in demand by shops selling daily consumer goods and furniture.

During 2016 Galleria Riga underwent major reconstruction works to accommodate the popular clothing shop H&M, which opened at the end of 2016 on 3 levels with an entrance from the ground floor. Fashion shop Collection Of Style (1,000 sqm) and fitness club My Fitness (1,500 sqm) also opened in 2016. A large Mango shop is planned for 2017. Major changes started in Galleria Riga in August 2016 when BPT Real Estate took over the management functions from CBRE.

Sky&More is successfully maintaining its position and is continuing its development of upmarket fashion establishments with the opening of the second stage of the men's fashion section in the Fashion & More concept store (2,000 sqm) on the second floor. During 2017 a similar section with a high-priced children's clothing store will be implemented. The upper end of the market is less influenced by economical fluctuations and the Sky&More shopping centre is proof of this with a steady flow of shoppers and growing turnover of shops.

The Stockmann shopping centre, a classical department store (mainly food & clothing), rented out part of its premises to other retailers due to falling sales. These retailers operate under their own trademark within the Stockmann premises. Amongst them are the well-known Costa coffee, the book store Zvaigzne, toy shop XS Rotaļlietas, watch shop Laiks and electronic shop Euronics. Additional tenants are located on different floors offering a wider choice for customers together with Stockmann's fashion departments.

RENTS

In 2016 rents for retail stores in the centre of the city fell on average by 5%. Rent level varies from €10.00 to €30.00 per sqm per month for small-sized premises up to 100 sqm.

In high traffic areas in the Old Town, most rents are between €20.00 and €40.00 per sqm per month reaching €50.00 per sqm for exclusive premises. In small crossing streets in the city centre and the Old Town rents are between €10.00 and €20.00 per sqm per month.

In 2016 there was no change in rents in shopping centres: starting from €5.00 per sqm per month (for premises over 1,000 sqm), from €15.00 to €35.00 for medium-sized premises (150–300 sqm), and €25.00–€50.00 (less than 100 sqm). Anchor tenants pay between €5.00 and €9.00 per sqm per month.

INVESTMENT

In the middle of 2016 Eften Capital AS concluded a deal by acquiring shares of the Domina Shopping, entertainment and office centre with financial support from Nordea bank. The purchase price was €74.5 million which is the biggest separate investment object in Eften's history. Therefore, positive changes are expected in Domina for visitors and tenants. It was announced that the Maxima supermarket and Spirits & Wine shops was going to be opened in 2017. Domina is a second biggest centre in Riga by total area, exceeding 120,000 sqm.

In October 2016 Finnish Kesko Oyj purchased the Galerija Azur shopping centre through the intermediate owner Lithuanian KS Holding which was, at the time the legal owner and operator of the shopping centre. Galerija Azur is a medium-size conventional type shopping centre with a total area of 25,000 sqm and Rimi as the anchor tenant. The new owner has announcement a future investment of up to €16 million to improve the quality of premises and tenant mix.

In September 2016 Riga Plaza fashion and entertainment centre was sold to Lone Star Funds a global investment fund, for €93.4 million. The previous owners were New Century Holdings and Plaza Centers NV. The total area of Riga Plaza is 90,000 sqm with 49,000 sqm of GLA.

LEGAL NOTES BY SORAINEN

Typically, one anchor tenant or a few medium-size tenants lease each property. As a rule, tenants are charged for use of common areas and management of the building, as well as common marketing activities. The owner usually pays taxes applicable to the rent and the property, as well as sometimes insurance costs. Turnover rents are commonly used in Latvia. Typically, the tenant is responsible for finishing and equipping leased premises for use, and rent free periods may be agreed.

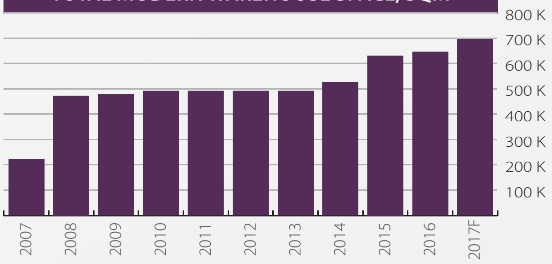
Lease agreements for the retail properties are of rather good quality, but usually prepared in favour of the owner. When deciding on entering into such lease agreement, pay attention to distribution of maintenance and renovation obligations between the owner and the tenant, as these may not be set very clearly in lease agreements. There is no standard approach to the set-up and use of marketing funds. Rents are indexed to local or EU inflation. Lease agreements survive change of ownership and are binding on the new owner only if registered with the Land Register.

NEW PROJECTS

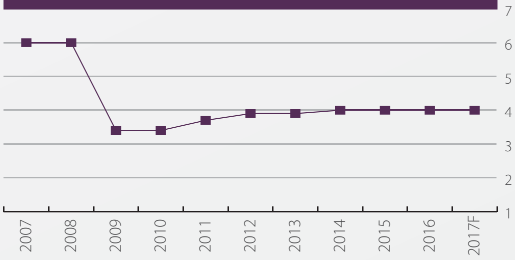
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Alfa** – The Alfa shopping centre next to the Cinnamon cinema will be expanded. The total area of Alfa will be expanded from 93,000 sqm to 117,000 sqm. The area available for rent will therefore increase from 47,800 sqm to 65,600 sqm. The new building will have three floors: two for shopping and the third for entertainment and restaurants. Alfa will also be equipped with underground parking. The project is scheduled to be finished in 2017.	+17,800	2017
	**Origo** – Next to the Origo shopping centre, there are plans to build a 5-storey multifunctional complex, including office space on the two upper floors and a shopping centre on the first three floors. The planned total area of the complex is 40,200 sqm, including 15,750 sqm for retail lease, 9,000 sqm for office area, and 8,200 sqm for the basement, where there will also be underground parking for 150 cars. The planned investment for the project is €50 million. The project is scheduled to be finished by 2018.	15,750	2018
	**Akropole** – A subsidiary of the Lithuanian Akropolis Group, will develop a multifunctional Akropole centre in Riga. In December 2016 the company announced the beginning of construction works. Currently, Akropole is the largest development project, which will be built on a 14.8 ha plot of land on Maskavas Street. This project with a total area of 98,000 sqm, will include 62,000 sqm of retail space for approximately 200 tenants. The anchor tenant will be Maxima XXX. Additional space for recreational and other types of commercial activity will also be available in Akropole. The completed project will also include 9,000 sqm of office space.	62,000	N/A
	**Imanta Retail Park** – IRP is continuing their project, which has a total retail area of 14,500 sqm on the ground floor. The People fitness club was opened in 2016, which covers an area of 1,500 sqm. Further expansion of shopping centre is planned for 2017. After the expansion, additional 5,000 sqm will be offered for different tenants next to the Prisma grocery store, which recently sublet half of its 8,000 sqm to the Lithuanian retailer of children goods Kotryna with concepts Toy City and Baby City. It is also expected that the planned Depo project next to IRP should have a positive impact on this expanding project.	+5,000	2017
	**Damme** – This shopping centre in Imanta district has plans for expansion in 2017 by adding an additional 1,000 sqm of retail space including the opening of Lido restaurant.	+1,000	2017

INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+371 6 728 4544**

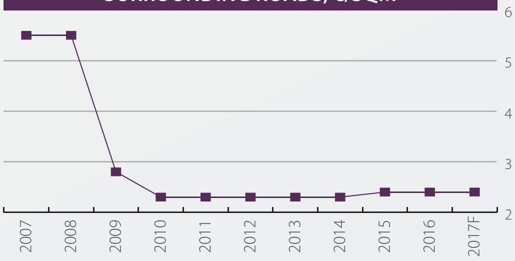
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



WAREHOUSE RENTS ON SURROUNDING ROADS, €/SQM



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END-2016 SNAPSHOT / RIGA

TOTAL NEW WAREHOUSE SPACE	646,000 SQM
WAREHOUSE VACANCY RATE	4.2 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €5.00
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.50
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€0.40 - €0.80

AFTER ONE NEW PROJECT IN 2016, A SUFFICIENT SUPPLY INCREASE IN 2017

SUPPLY

Only one larger warehousing project with a total area of 15,000 sqm was finished in 2016 in Riga and its immediate surroundings. This is in huge contrast to 2015 when four new warehousing projects with total warehousing area of 111,000 sqm were completed. The total amount of modern warehousing space in Riga and its immediate surroundings reached 646,000 sqm at the end of 2016.

Completion of five warehouses with a total area of almost 50,000 sqm is scheduled for 2017. The biggest project (VGP Park Kekava) and its first stage with 20,000 sqm was postponed from 2016 to 2017.

At the end of 2016, there were some vacant areas in several popular logistic centers. Olaine Logistics Park has 6,500 sqm of available warehouse space. Eirkel Business Park in Jelgava is offering renovated warehouse premises with a total area 12,000 sqm. The business centre is located in Jelgava. Dommo Business Park is offering 2,000 sqm of warehouse space.

DEMAND

As availability of free space increases, the interest of investors in new warehousing projects decreases, except when there is a contract with a tenant and facilities are build-to-suit for a specific client. This kind of cooperation is offered by all the largest developers of industrial buildings. In 2016 the vacancy rate in the industrial sector increased from 3.5% to 4.2%.

The greatest demand is for warehousing and production facilities of 500 to 1,000 sqm in Riga and its surroundings.

Most of the free space supply is outside Riga city, for example in Olaine or Jelgava. There are spaces available with larger areas and lower prices, but the biggest demand is for warehousing and production facilities in Riga city.

RENTS

Rents for warehouses did not change in 2016. At the end of 2016, rents for new warehouses in Riga city and its surroundings ranged from €3.50 to €5.00 per sqm. Rents for old construction warehouses (from poor quality to fully renovated) range from €1.50 to €3.50 per sqm.

INVESTMENT

SIA Balmoral sold a warehouse and office building with 3,000 sqm on K. Ulmana Street, Marupe, Marupe parish for €3.7 million Q1 2016. The buyer was SIA UNISEB.

In Q2 2016, SIA NIF Investicija bought an office and warehouse building with a GLA of 5,570 sqm on Tīraines Street in Riga for €2.56 million. The seller was TP Real Estate.

SIA SERVISA CENTRS bought an office and warehouse building with a GLA 2,000 sqm on Plienciema Street in Marupe for €1.45 million in Q3 2016. The seller was SIA Piche.

In Q4 2016, Pillar Investment 3 bought a warehouse and office building with GLA 11,500 sqm on Krustkalni, Kekavas parish, for €6.2 million. The seller was SIA Piepilsetas NI.

LEGAL NOTES BY SORAINEN

Industrial leases are quite simple; finance and construction opportunities are readily available. Rents are indexed to local or EU inflation. Usually, the parties conclude triple net lease agreements where the tenant pays all maintenance costs. Projects are usually built for the specific needs of the owner or the intended end-user.

> **“COMPLETION OF FIVE WAREHOUSES WITH A TOTAL AREA OF ALMOST 50,000 SQM IS SCHEDULED FOR 2017.”**

RECENT DEVELOPMENTS

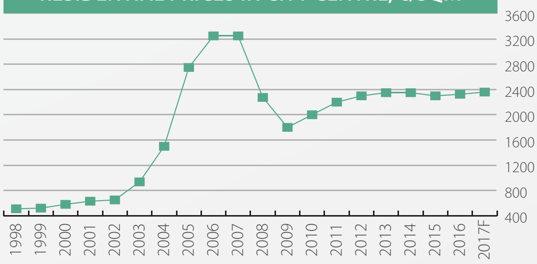
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Balt Cargo Solutions** – In 2014 the company entered the market with a 24,000 sqm warehouse in Jaunbumani. The second stage with a total area of 15,000 sqm was delivered in Q3 2016. The third stage 2,500 sqm is under construction and will be completed in 2017. The final stage of 4,000 sqm will be build-to-suit according to tenants needs.	15,000 (II stage)	Q3 2016 (II stage)

NEW PROJECTS

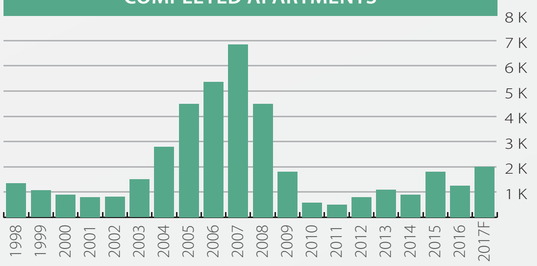
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Daugavgrivas Street** – UA Investor has started the development of a second warehouse on Daugavgrivas Street. The second stage with a 3,700 sqm warehouse premises will be completed in Q1 2017. Asking warehouse rents are €4.50 per sqm.	3,700 (II stage)	Q1 2017 (II stage)
	**VGP Park Ķekava** – VGP has started development of a project at the intersection of the A7 and A5. The entire project will consist of 60,000 sqm of warehouse space. The project will be developed by VGP and will provide turnkey solutions from concept to handover of the final building approval and future expansion. The A7 is an important highway also known as the Via Baltica and is only 18 km from Riga. The first stage with 20,000 sqm is planned to be completed in Q2 2017. Asking warehouse rents are €4.30 per sqm.	20,000 (I stage)	Q2 2017 (I stage)
	**Elipse BLC** – A modern business and logistics centre built in 2009 in the territory of the business park of Riga International Airport is expanding. The second stage with 8,600 sqm warehouse premises and around 1,000 sqm office premises is under construction and will be finished in Q3 2017. Asking warehouse rents including maintenance costs are €5.50 per sqm.	8,600 (II stage)	Q3 2017 (II stage)
	**Ulmana Gatves Industrial Park** – The project is located in Marupe, close to Karla Ulmana Street and Riga International Airport. The project with a total area of 14,000 sqm is under construction and planned in two stages. First stage (7,000 sqm) should be delivered at the end of 2017. The project is being developed by Piche.	7,000 (I stage)	Q4 2017 (I stage)
	**Balt Cargo Solutions** – In 2014 the company entered the market with a 24,000 sqm warehouse in Jaunbumani. The second stage with a total area of 15,000 sqm was delivered in Q3 2016. The third stage 2,500 sqm is under construction and will be completed in 2017. The final stage of 4,000 sqm will be build-to-suit according to tenants needs.	2,500 (III stage)	2017 (III stage)

> “AS AVAILABILITY OF FREE SPACE INCREASES, THE INTEREST OF INVESTORS IN NEW WAREHOUSING PROJECTS DECREASES.”

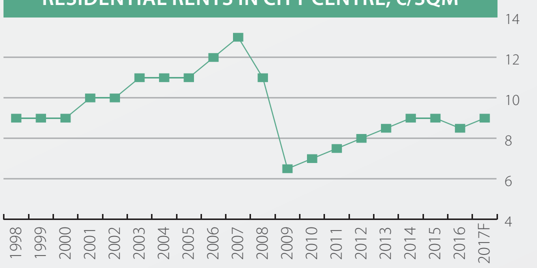
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



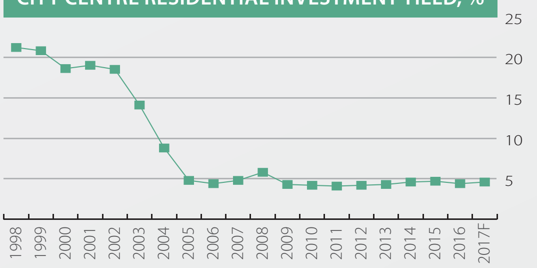
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



END-2016 SNAPSHOT / RIGA

NEW APARTMENTS BUILT	1,250
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€550 - €1,000
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,200 - €1,800
OLD CONSTRUCTION APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM)	€900 - €3,600
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€1,700 - €4,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.4 %

MOST SUCCESSFUL PROJECTS MERGE LIVING AND BUSINESS FUNCTIONS

PRICES

In 2016 the greatest positive changes in prices were recorded for old construction apartments in residential districts of Riga. Prices of old construction apartments increased by almost 7% and by the end of the year ranged from €550 to €1,000 per sqm. And most deals were done in a Soviet-era concrete block buildings with a range of €600-€800 per sqm.

Prices for new construction apartments in residential districts increased by 3-4% in 2016 and by the end of the year ranged from €1,200 to €1,800 per sqm. New apartments are usually sold with everything finished except for the kitchen.

Prices of new apartments in the central part of the city and the Old Town ranged from €1,700 to €4,000 per sqm at the end of 2016, and asking prices for very exclusive projects reached as high as €5,000-€6,000 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €900 to €1,800 per sqm for unrenovated and from €1,500 to €3,600 per sqm for renovated apartments.

The activity of the housing market is maintained by moderately rising prices, where housing affordability is not decreasing (income of the buyers' is growing at a similar rate as house prices). It is likely that in 2017 there will be a moderate price increase of 4–6% in Riga.

SUPPLY

Almost 1,250 apartments were delivered in Riga in 2016, 250 units less than expected. Ober–Haus expects almost 1,500 new apartments to be completed in 2017.

Developers are offering new apartments while they are being constructed and buyers are actively reserving these; some projects are almost sold out before they are even completed, for example developments by Hanner, Bonava, Merks and others.

At the end of 2016, there were almost 1,200 unsold apartments available in the primary market in completed projects. The number of unsold apartments is 25% less than it was at the end of 2015.

Successful projects with good sales results are built in mixed territories, these projects merge the living and business functions. Clearly there are three perspective areas of such developments – district of Skanste with Merks, Pillar, NP Properties, LNK Group and Hanner developments, living and business complex of Jauna Teika developed by Hanner and the district of Kliversala and Kipsala developed by R.EVOLUTION CITY, Strabag, Pro Kapital Latvia, YIT and also private developers. All these territories share similar qualities – the business environment successfully merges with the living environment, both existing nearby experiencing synergy and providing high infrastructure standards. Usually these advantages combined with great marketing activities guarantee good sales results.

The year 2015 was characterised by high demand for new economy class projects having a small area, good design, and energy efficiency. This tendency is continuing and was almost a standard in 2016, but could sometimes deter those buyers that are looking for something different, for example an apartment with a separate kitchen. Ober-Haus expects this tendency to continue in the next few years as a compromise between the low ability of locals to pay and developers to operate profitably.

A state guarantee programme for new families, which was introduced in 2015 and provides a minimum of the first payment, has contributed to the upturn in the market. The Programme has become so important that for example, in Q1 2016 50% of all residential credits were issued within this programme.

DEMAND

Due to the relatively high activity of banks and the housing guarantee programme, the number of apartment transactions rose by 14% and the average price increased by 19% in 2016.

Demand in the residential districts generally comes from local buyers, while apartments in the city centre are purchased by both local buyers and foreigners.

As usual, the key factors for successful projects are a reasonable price, good location, high quality construction and finishing materials and fittings, and the majority of units actually being sold.

In new projects, small three room apartments with a total of 60–70 sqm and two room apartments with a total area of 50 sqm are the most demanded.

The buyer profile of the new projects are locals – new families, usually aged from 28 up, working in IT or in international companies.

Demand for apartments in buildings of the pre-war period in the central part of the city remains high. Potential buyers are looking for apartments of between 50 and 80 sqm that have been renovated, have two or three separate rooms, and are priced between €80,000 and €100,000. If there is no elevator in the building, interest in apartments above the third floor is substantially lower; there is also very low interest in apartments on the first floor. Local residents also express interest in apartments with three or four rooms and an area in excess of 100 sqm in renovated buildings with gas heating and a price up to €150,000; the supply of such apartments is quite low. When choosing apartments, local residents pay particular attention to expenses associated with utilities and upkeep, the reputation of the management company, and the ownership of land with the apartment. Important factors include the existence of heat consumption meters, parking, and the price of a parking place.

Apartments in Soviet-era block houses are very much in demand due to the fact that they dominate the residential market and are less expensive. Buyers frequently decide to move to a bigger apartment in a similar project than chose a more expensive new project.

Clients in the market for houses are interested in units in the outskirts of Riga with a price up to €150,000. There is a lot of interest in houses in the price range of from €40,000 to €65,000 in Ogre and Ikšķile and with a price up to €100,000 in Ķekava municipality. Most often buyers are young families with small children living in rented apartments in Riga city or Riga region. There is increased interest in plots of land priced between €10,000 and €15,000 for residential housing construction. In Marupe municipality, there is interest in land plots with a price of between €40,000 and €55,000.

THE MORTGAGE MARKET

Loans are offered in euros and have maturities up to 30 years. The average mortgage interest rate for new borrowers at the start of 2017 was 2.2–2.5% (depending on the customer's financial standing). Clients can borrow up to 85% of a property's value with standard deal structure and even up to 95%, if they qualify for the housing guarantee programme.

Outstanding mortgage loans in Latvia total 25% of annual GDP. The mortgage market slowed during the years of the crisis, but banks resumed active lending in the second half of 2010. Since 2010 the portfolio of mortgage loans has decreased by almost 15% in Latvia, but during 2016 mortgage loans rose by 3%.

RENT

Riga saw an average 8% decrease in apartment rents in 2016, after rising around 5% in 2015. The rental market in 2016 was influenced by the increase in real estate tax for landlords who have no one declared within the premises. This means that there are additional expenses on the part of the landlord or tenant. Despite the law on Premise Rent many tenants may refuse to declare themselves in an apartment or pay real estate tax. So, in the long term, some landlords may choose to sell their flats in the future.

Open, bright and modern apartments with a modern interior and minimalistic, Scandinavian style are still in demand in the city centre and popular residential districts. However, there is a limited number of such apartments.

The highest rents for apartments are in the city centre, Old Town and other prestigious districts and new developments. Two-room upper level apartments are available for €600–€800 per month. A three-room apartment costs €700–€1,500 per month, four-five-room apartments for €1,500-€2,000. During the second half of the year there has been a great demand for unfurnished four to five room apartments.

The highest demand is for two room flats within the price range of €450–€500. Also in demand are three room flats starting from €500–€700, as well as four-room apartments starting from €800-€1,000. There is a strong shortage of good flats within this price category.

Twice a year there is great demand for apartments from foreign students. Their budgets have decreased as well; they are prepared to pay no more than €350 per person for apartment rent. For up to €350 per month they can get a good quality one-room apartment in the city centre or they can get a larger one by sharing with two or three other students.

Economy class one-room apartments with rents from €220 to €300, two-room apartments with rents between €280 and €400 and three-room apartments for €350–€550 per month in popular residential districts are in demand all year long.

In residential districts the rent for a one-room apartment is around €160-€220, for a two-room apartment – €220–€270, for a three-room apartment – €240–€360. Also, the rents very much depend on the utility expenses. Rents in new developments are usually 30-40% higher.

LEGAL NOTES BY SORAINEN

Residential leases are regulated by Latvian law more strictly than commercial leases. However, rents may be agreed upon freely. Residential leases are binding on new owners regardless of whether they are registered with the Land Register.

"AS USUAL, THE KEY FACTORS FOR SUCCESSFUL PROJECTS ARE A REASONABLE PRICE, GOOD LOCATION, HIGH QUALITY CONSTRUCTION AND FINISHING MATERIALS AND FITTINGS, AND THE MAJORITY OF UNITS ACTUALLY BEING SOLD."

RECENT DEVELOPMENTS

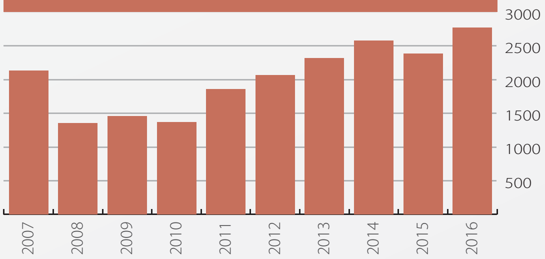
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Imantas Ozoli** – This project comprises of two 10-storey buildings, located at Jūrmalas Avenue in Imanta and is being developed by SIA KBO. The first building, with 108 apartments was finished in 2016. The second building will be finished in 2017. Apartments range from 30 to 71 sqm, with prices starting at €1,260 per sqm for a fully finished apartment. Already, 50% of the apartments in the first building have been sold.	from €1,260	2016 (I building)
	**Priedes** – Located on Pupuku Street in the Bisumuiza area, developed by YIT Celtnieciba. The first stage comprised two 5-storey buildings with 40 apartments each and was finished in 2016. There are 32 aboveground and 44 underground parking spaces. The second stage with two more buildings will be finished by the end of 2017. Apartments range from 49 to 65 sqm. Prices are from €1,200 to €1,450 per sqm for a fully finished apartment. Already 75% of the apartments in the first two buildings have been sold.	€1,200 - €1,450	2016 (I stage)
	**Sarlotes 7** – This project comprises a 6-storey building with 20 apartments, located in the city centre, Sarlotes Street and was developed by LOFT. The project was finished in Q2 2016. Apartments range from 33 to 152 sqm. The project has both surface and underground parking. Sale prices were from €2,000 to €3,000 per sqm for a fully finished apartment. The project is almost sold out.	€2,000 - €3,000	Q2 2016

RIVER BREEZE RESIDENCE

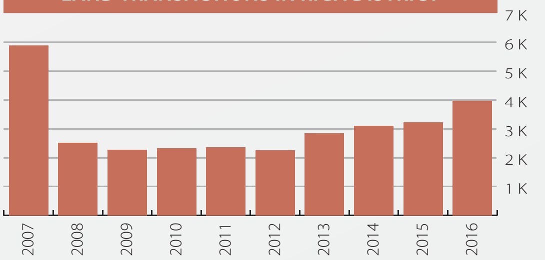
NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Lapsu 12** – This project comprises a 4-storey building with 46 apartments, located at Lapsu Street in Darzciems and is being developed by SIA Bonava Latvija (former NCC Housing). Apartments range from 39 to 75 sqm, prices are from €1,200 to €1,280 per sqm for a fully finished apartment. The project will be finished in Q2 2017, but all the apartments were already sold in 2016.	€1,200 - €1,280	Q2 2017
	**PRUSU 4B** – This project comprises three 4-storey buildings with 69 apartments, located in the Kengarags area on Prusu Street and is being developed by Bonava. Apartments range from 29 to 75 sqm. Prices are from €1,300–€1,400 per sqm for a fully finished apartment. Construction works started in 2016 and the development will be finished at the end of 2017. The first building is already sold out, and 75% of the apartments in the second building have been reserved.	€1,300 - €1,400	Q4 2017
	**Klijanu 2F** – Located on Klijanu Street, in the centre of the city, developed by a private investor, this 8-storey building will contain 34 apartments. Apartments range from 23 to 234 sqm and prices start from €1,200 per sqm for an apartment without full finishing. The development will be finished at the end of 2017. Already 50% of the apartments have been reserved.	from €1,200	Q4 2017
	**Skanstes parks** – Located on Grostonas, J. Dikmana and Vesetas streets in the centre of the city, developed by Merks (Merko Ehitus group). This complex will consist of three apartment buildings with 202 apartments. The first building with 52 apartments will be built on Grostonas Street. Two to five-room apartments will range from 50 up to 140 sqm. The price for apartments will begin at €2,200 per sqm. The company expects construction to last until the middle of 2017.	from €2,200	H1 2017
	**Jauna Teika** – The project is located in Teika, Ropazu Street, and is being developed by Hanner. The third construction phase will consist of three buildings with 360 apartments. Apartments will range from 43 to 87 sqm. The price for apartments will begin at €1,480 per sqm. Construction works are expected to be completed by mid-2018. When the third phase is complete, the project will contain more than 800 apartments.	from €1,480	H1 2018 (III stage)
	**26 Vesetas** – The project is located on Vesetes Street, in the centre of the city and is being developed by Hanner. This project will consist of two 10-storey apartment buildings with 102 apartments. Apartments will range from 40 to 70 sqm, prices will start from €1,600 per sqm for a fully finished apartment. Construction works will be finished at the end of 2017.	from €1,600	Q4 2017
	**J5** – Located on Jeruzalemes Street, in the centre of the city. The complex will consist of 3 parts – two new developments, and one reconstructed 19th century building. The project will contain 44 apartments. Apartments will range from 44 to 185 sqm, prices will start from €2,800 per sqm. Construction works started in 2015 and the project will be finished in 2017.	from €2,800	2017
	**River Breeze Residence** – Located on Kugu Street in Kliversala, the project will be developed by Kliversala a subsidiary company of Pro Kapital Latvia. The 7–storey building will contain 48 apartments. Apartments will range from 56 to 316 sqm, and prices will range from €3,300 to €6,000 per sqm. The project will be finished in 2017.	€3,300 - €6,000	2017
	**Ezerparka Nami 2** – The second phase of the multifunctional Ezerparks project located on Rusova Street in Ciekurkalns, the project is being developed by New Europe Real Estate. The second phase will consist of three 5-; 6- and 10-storey buildings with 184 apartments. Apartments will range from 30 to 72 sqm, and prices will range from €1,400 to €1,800 per sqm. Construction works will be finished in 2018.	€1,400 - €1,800	2018

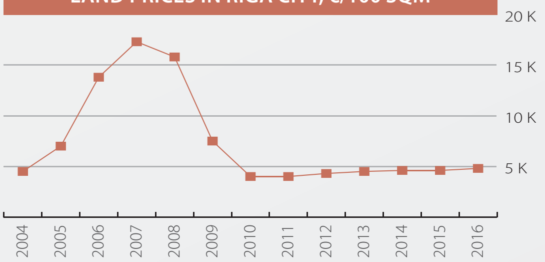
LAND TRANSACTIONS IN RIGA CITY



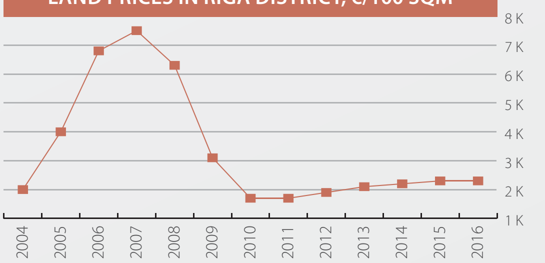
LAND TRANSACTIONS IN RIGA DISTRICT



LAND PRICES IN RIGA CITY, €/100 SQM



LAND PRICES IN RIGA DISTRICT, €/100 SQM



LEGAL NOTES BY SORAINEN

Investments by foreigners from the EU and from states which have concluded agreements on mutual promotion and protection of investments with Latvia are generally unrestricted, except for acquisition of agricultural and forestry land and land plots in border areas and special protection zones.

END-2016 SNAPSHOT / RIGA

TOTAL LAND TRANSACTIONS CHANGE (RIGA CITY AND DISTRICT)	+ 20 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (SQM)	€300 - €3,000
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€30 - €200
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€30 - €80

BOTH SUPPLY AND DEMAND OF LAND PLOTS HAVE STABILISED

SUPPLY

Large existing developers like Bonava (fmr. NCC), YIT, Merks, AFI Europe and others continued to build up their residential land plots, which were acquired during the real estate bubble.

Similar to residential land, in the market of commercial and mixed-use land existing developers like New Hanza City, NCH, Vastint, ELL and others already have enough land plots to develop. It is important to mention that some of these land plots are also available for sale, due to lack of anchor tenants with signed pre-leases.

Large pieces of land with high-intensity and mixed development zoning are not in great demand, because of the needed investment volumes. And current market demand is not enough to start large scale projects. One example is Preses nams, at Balasta dambis in Riga, the former Soviet-era editorial offices and printing house buildings on a 5.8 ha land plot, which is now abandoned and for sale. Any future concept would foresee demolition of the existing 22-storey and the other five buildings, so the property has to be considered as a land plot.

The portfolios of the banks have decreased, yet there are still some land plots and mixed types of properties to develop. As they are owned by subsidiaries of the banks, the banks are willing to finance these properties in order to empty their portfolios. Land plots are estimated to be near 18% of their remaining portfolios.

PRICES

Residential land prices in Riga remain unchanged and are between €30 and €80 per sqm in the suburbs both for multi-apartment and private developments. Private plots in some cases (in Teika, Mežaparks) may even reach €100 to €250 per sqm.

Commercial land with construction possibilities did not experience significant price changes in 2016. Prices for land in the city centre range from €300 to €3,000 per sqm. In residential districts, prices are between €30 and €200 per sqm.

DEMAND

Total land transactions increased over 16% in 2016 in Riga city and by 23% in Riga district.

Some market players (developers and smaller private investors), having fully or partly finished their projects, have started to show interest in land and unfinished buildings. The reason for the interest in unfinished multi-apartment buildings is that developers are afraid of possible bureaucratic problems with empty land developments (like public hearings about volumes, architectural design, insulation, cutting of trees, etc., which may even cause the development to be abandoned), so they see that existing buildings can be developed quicker.

The market saw increased interest from neighbouring Lithuanian and Estonian developers for land plots in the centre of Riga and other prestigious districts, as they see some potential in the Riga market.

There is still interest from supermarket operators to acquire land in Riga and suburbs of Riga close to main roads and in other cities in Latvia. The plots of land being sought are between 2,000 sqm and 20,000 sqm. Other smaller and more specialised retailers, service centres, automotive industry players (e.g. car showrooms, fuel stations, etc.) are also interested in plots of land sized 1,000–4,000 sqm in Riga neighbourhoods.

The market can expect greater interest from manufacturing clients looking for land plots of 1–2 ha with or without old-stock buildings, located in the industrial areas and suburbs of Riga. However, such land plots are not widely available, and the asking price is €20–€30 per sqm. Still, clients would be ready to pay in the range of €10–€15 per sqm.

Old-stock buildings create competition for land purchases, as it is cheaper to buy an old one than to build a new one. Transactions in the area of Ganību dambis, Uriekstes Street showed that buildings can be bought for €60-€70 per sqm. Even further improvements keep the costs of such a building lower than a new one.

INVESTMENT

Investment deals in 2016-2017, signal positive trends in multi-apartment residential and mixed-use development.

In December 2017, the construction and development company YIT bought a 1.56 ha land plot at Anniņmuizas bulvaris, in Imanta, a rather popular residential micro-district in Riga. The transaction price recorded was €1.12 or €72 per sqm.

In August 2016, Istrom Investments Limited, purchased a 1.25 ha land plot at Brivibas Street, in Riga for €5.6 million. The land plot is located in a mixed use, Riga historical centre protection zone.

IKEA announced that it had reached agreement on purchasing land from several owners, in Stopiņi parish and Riga outskirts. The total amount of land to be acquired was 42 ha.

Rimi Baltic, €3 million – as part of their investment to develop the existing logistics complex, Rimi acquired a neighbouring 7.54 ha of land in Augusta Deglava Street.

Development of small and mid-size shops is characterised by a land plot at Pededzes iela, in central Marupe, a prominent Riga suburb, €830,000, 2.2 ha, €38 per sqm. Purchaser SIA Saltora (Maxima group connected company). The Marupe municipality has already issued a construction permit for a new shopping centre.

Typical mid-size residential development transaction – a land plot of 1,836 sqm from SEB subsidiary company Latectus was purchased by SIA Pilsētas torņi for €235,000, making it €128 per sqm. It is located in a popular, so-called quiet centre area – Ierocu Street, Miera Street in Riga.

In July, 2017, SIA KBO, the representative of a Finnish developer bought a 3.8 ha (~€86 per sqm) land plot in the developing Skanste area for €3.3 million. The land plot is located in the centre-development, Riga historical centre protection zone.

€3.3 million – 1.15 ha land with buildings for development purposes, in Bruninieku Street and Stabu Street block, in Riga historic centre area, acquired by SIA Valdemara parks, via a claim auction.

The government of Latvia is also a player in the land market; during the last year and a half Altum, the state fund, has purchased 2,038 ha or 112 properties for a total of €4.6 million. The purpose is to rent this land for extension of existing farmers and new beginners in the agriculture business. Activities in 2016 accounted for 1,500 ha, and the fund plans to spend another €3 million in 2017.

OBER HAUS
REAL ESTATE ADVISORS

LATVIAN REAL ESTATE TAXES AND LEGAL NOTES

OBER HAUS REAL ESTATE ADVISORS

REAL ESTATE TAXES

ACQUISITION

- Upon acquisition of land or land and buildings, or a building property which includes a residential building (including function-related buildings), a 2% stamp duty is levied on the property value.
- Upon acquisition of land or land and buildings, or a building property which includes only a non-residential building or non-residential buildings and related engineering structures, a 2% stamp duty is charged on the real state value, capped at € 42,686.15.
- If legal title is transferred under a deed of gift, a 3% stamp duty is levied on the property value.

In all three cases described above, if legal title is transferred to spouses, children, parents, siblings, stepsisters/stepbrothers, grandchildren, great-grandchildren and grandparents, for registration of legal title in Land Register, a 0.5% stamp duty is charged on the value of a real estate (RE).

As of July 2016, the reduced rate of 0.5% is applied to registration of the rights to the property with the land register for a RE, which is obtained through statutory government assistance and the value of which does not exceed EUR 100,000; in case the value of such RE exceeds EUR 100,000, the stamp duty is EUR 500 plus 2% of amount exceeding EUR 100,000.

If a RE is invested in the share capital of a company, a 1% stamp duty is payable on the investment value. In case of acquisition of a residential property from a legal person, which carries out business activities, a 6% stamp duty is charged on the value of the residential property.

The value of a RE for the purposes of stamp duty is determined as the highest value of:

- The value stated for each property in case of acquisition agreement;
- The value of a property with higher value in case of exchange agreement;
- The value of open-ended or eternal payment in case of sustenance agreement;
- The value of investment in case the RE is invested in share capital;
- The highest bid value of a property in case an auction has been conducted, or in case there was no auction – a starting price;
- The cadastral value of each property and the value of forested areas. The cadastral value of the property is valid for unlimited time if it has not changed according to a written Notice or electronically available information from the Land Register.

There are number of persons exempt from paying the stamp duty for registration of legal title in the Land Register, for example:

- A company if the legal title has been obtained as a result of reorganisation;
- Companies providing services for needs of society, such as public transport companies, ports, companies providing water, gas, electricity to society, etc.

RENT

VALUE ADDED TAX (VAT):

In general, companies pay 21% VAT on the rental value, with the exception of a residential property leased to individuals for dwelling purposes, which is exempt from VAT.

CORPORATE INCOME TAX (CIT):

Rental income is taxed at a rate of 15%. Companies can deduct all expenses related to their rental business, and the value of the RE used for commercial purposes can be depreciated for tax purposes at a rate of 10% a year under the reducing balance method.

PERSONAL INCOME TAX (PIT):

Rental profit is taxed at a rate of 23%. A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filled. In this case, all expenses related to rental activities are deductible, and any loss can be offset over a period of three years.

A person that is not registered with the tax authorities for commercial purposes pays PIT at a reduced rate of 10% after filing the annual income tax return, if the lease agreement is registered with the Latvian tax authorities within

5 business days after signing it with the lessee. The taxable income may be reduced by the amount of real estate tax paid.

If a person has not registered the lease agreement with the Latvian tax authorities, nor has it registered for commercial purposes with the tax authorities, the income from lease will be subject to 23% PIT with no deduction for expenses associated with rental activities.

SALE

VALUE ADDED TAX (VAT):

The sale of a RE is generally VAT exempt, with the exception of a new unused RE or development land. The definition of a new unused RE includes:

- A new unused buildings, or its part, and the related land, or part of the related land;
- A new building, or its part, that has been used and is sold for the first time in the first year of maintenance, and the related land, or a part of the related land;
- A building, or its part, in case it has not been used after reconstruction, renovation, restoration, and the related land, or a part of the related land;
- A building or its part, that has been used and is sold for the first time in the first year after reconstruction, renovation, restoration, and the related land, or a part of related land;
- A building under construction, or its part under construction, that has not been maintained, and the related land, or a part of related land;
- A building, or its part, that is under reconstruction, renovation, restoration, and has not been maintained, and the related land, or a part of the related land.

The development land is defined as a piece of land that has a construction permit issued for building work or for the construction of engineering communications or roads. However, the parcel qualifies as development land only if the construction permit has been issued after 2009. The land is not meeting the definition of development land if the construction permit for construction works has been issued:

- Before 31 December 2009, and renewed or extended after 31 December 2009;
- After 31 December 2009, but the purpose of the land has been changed and no longer is intended for building purposes.

The applicable rate of VAT is 21%.

In case of reconstruction, VAT is levied on the difference between the selling price and the value before reconstruction.

The taxpayer may recover input VAT paid on the acquisition if the property is used to make taxable supplies.

VAT-registered traders may opt to charge VAT on supplies of used real estate (generally exempt) if the sale is made to VAT registered person.

VAT-registered traders may opt to charge VAT on supplies of used real estate (generally exempt) if the sale is made to VAT registered person.

In addition, please note that Latvian tax authorities has issued an opinion which states that in case the RE and the related land belong to two different persons and one of the real estates is sold, VAT applies to this particular transaction if the related RE is subject to VAT (i.e. it is unused RE or development land). The same conditions would apply in case of trilateral agreement.

CORPORATE INCOME TAX (CIT):

If a Latvian company sells a RE, any capital gain is taxed at a rate of 15%. Generally, the taxable gain is calculated as selling price less net book value and any balancing charge/allowance arising on the removal of the property from tax accounts.

WITHHOLDING TAX (WHT):

If a non-Latvian resident company sells a RE located in Latvia to a Latvian company, the proceeds attract a 2% WHT. This tax must also be withheld on a non-resident company's proceeds from the sale of particular RE or shares in a Latvian or foreign company if Latvian RE represents more than 50% of the company's asset value (whether directly, or indirectly through participation in one or more other Latvian or foreign entities) in the tax period the sale is made, or in a previous tax period.

A recent ruling by the State Revenue Service exempts WHT on proceeds where shares in a RE company are sold through a share exchange as part of a group reorganisation.

CIT Act allows non-residents from EU or Double Tax Treaty (DDT) countries to pay 15% on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence.

PERSONAL INCOME TAX (PIT):

If an individual sells a RE for non-commercial purposes[1], a 15% PIT is charged on the difference between the acquisition cost and the selling price.

If capital gains exceed EUR 711.44 a month, then a capital gains tax return must be filed and on a monthly basis by the 15th day of the following month. If monthly capital gains are from EUR 142.30 up to EUR 711.44, a capital gains tax return must be filed on a quarterly basis by the 15th day of the following month. If monthly capital gains are EUR 142.29 or less, a capital gains tax return must be filed on an annual basis by the 15th day of the following tax year. The capital gain tax should be paid within 15 days after the submission of a capital gains tax return.

REAL ESTATE TAXES

The exemptions:

- RE held for at least 60 months and registered as the seller's primary residence for at least 12 months before the sale during the period of 60 months is PIT exempt;
- RE held for at least 60 months, provided that during 60 months prior to the sale it has been the sole RE of the taxpayer;
- The sole RE has been reinvested during 12 months period from the sale into another RE of the same function.

The above mentioned exemptions is applicable also to the residents of EU/EEA and countries with which Latvia has concluded DTT.

A person selling RE for commercial purposes must register with the tax authorities and such income is subject to 23% PIT.

REAL ESTATE TAX (RET)

RET is levied on all land and buildings in Latvia owned by individuals or companies. The local authorities in Latvian regions and towns are free to set tax rates on RE located in their area between 0.2%–3% of cadastral value. If not done, then state defined rates apply. A rate exceeding 1.5% may be charged only on improperly maintained RE. Applicable rates for the following year must be published by 1 November of the current year.

If the local authorities do not publish their own rates, RET rates on dwelling houses, auxiliary premises and garages not used for commercial purposes vary according to their cadastral value:

- 0.2% of cadastral value below €56,915;
- 0.4% of cadastral value between €56,915 and €106,715;
- 0.6% of cadastral value above €106,715.

The residential property owned by proprietors is eligible for reduced rates (0.2% to 0.6%), but only in cases the property is rented out and the rent rights are properly registered within the Land Register of Latvia. There is also a new obligation to notify the local council in case the business activities are carried out in the residential property. The same notification must be submitted in case the business activity has ceased.

Relief is available to certain categories of taxpayers (such as families with three or more children under the age of 18). Certain municipalities can apply specific rules to enable a taxpayer to a reduced rate, e.g. the obligation to have registered primary residence in the particular RE.

All other types of RE, including land and property used for commercial purposes, attract 1.5% RET.

3% RET applies to structures that are environmentally degrading, have collapsed, or endanger human safety.

The same rate of 3% is also applied for newly constructed buildings in case the permitted construction period has expired. The tax is applicable from the next month following the expired date and will be charged till the month the building is maintained in line with statutory procedures. The rate will be charged on the highest of cadastral value of the related land and the cadastral value of the building itself. There is a specific transition period, covering the construction permits issued before 1 July of 2013 and not extended till 31 December 2014, according to which the tax will be payable.

Unused agricultural land is taxable:

- At the basic rate of 0.2%–3% set by the local authorities, or at 1.5% if not set by the local authorities, plus
- A surcharge of 1.5%.

As such, the total rate on improperly maintained agricultural land can reach 4.5% of cadastral value.

The RET is not applied to the state, local, state or municipal limited liability companies and limited liability companies providing regulated public services, the ownership or legal possession of an existing engineering:

- railways, city rail tracks, airport runways,
- bridges, trestles, tunnels and underground roads,
- ports and navigable channels, berths and their quays, constructions of port aquaria,
- dams, aqueducts, irrigation and cultivation waterworks,
- main pipelines for supplying water,
- trunk lines of communication,
- trunk electricity transmission lines,
- gas distribution systems,
- power station buildings,
- sport buildings,
- chimneys,
- lighting constructions and fences.

Please note that above mentioned exemption is not applied if the property is leased to a person (legal entity or individual) who performs business activities.

To ensure that the tax burden rises proportionately, from 1 January 2016 any increase in the cadastral valuation of land units (their parts) with an area of over three hectares situated in administrative territories outside towns and cities is capped at 10% of their taxable amount set for the previous tax year. To apply this cap, at least one of the uses of such land must be 'Farmland', 'Forestry land and protected nature territories where business is prohibited by law', or 'Land of water bodies'. The cap is to apply up to the tax year 2025. Apply this cap, at least one of the uses of such land must be 'Farmland', 'Forestry land and protected nature territories where business is prohibited by law', or 'Land of water bodies'. The cap is to apply up to the tax year 2025.

OTHER

CIT:

In the situation where one company invests RE into the share capital of another company and performs revaluation for this purpose, the taxable income should be increased/decreased by the respective difference between the market value determined by a certified expert and the nominal value, as a result of revaluation before the investment in another company.

VAT:

Construction services

Construction services as defined in the VAT Act attract reverse-charge VAT if:

- Services are rendered in Latvia;
- The supplier and customer are both registered for VAT purposes, and
- Non-cash payment is made.

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[1] *A person is considered to be performing activities for commercial purposes if:*

- There are three or more similar transactions a year or five similar transactions over three years, or

- Income arising on one or more transactions exceeds €14,229.

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REAL ESTATE ADVISORS

LEGAL NOTES

INTRODUCTION

Recent trends in the real estate market indicate that the number of deals and their value are on the previous year's level.

During 2016, investments were mostly in non-residential properties; investments in residential properties by foreigners from non-EU states have rapidly decreased. In addition, due to the amended regulation on acquisition of agricultural land, some struggles have arisen with investments in the agricultural (and consequently the forestry) sector.

TITLE TO REAL ESTATE, LAND BOOK

Title to real estate is transferable subject to registration with the Land Register. Buildings are also registered with the Land Register. In general, buildings are considered to be a part of the land beneath them. However, as a result of land reform or due to long term lease relations, a land plot and a building situated on it may belong to different owners. As of 1 January 2017, the Building Right has come into force. This new regulation prohibits building a residential house on another person's land plot. In other words, the so-called "split property" is not allowed with respect to residential buildings (however, it does not affect split properties established until 1 January 2017). The building right is a transferable right with a minimum term of 10 years subject to registration with the Land Register on the name of the entitled person who is allowed to build a non-residential building or an engineering structure on the land plot encumbered by the building right.

In addition, it is possible to register certain engineering constructions, such as roads, bridges and landfills, as independent real estate objects with the Land Register, thus ensuring broader financing opportunities, as these constructions now can serve as fully-fledged collateral.

The Land Register keeps information regarding the legal status of real estate, including all encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations. The Land Register is a public register: the information it contains is publicly available and is binding on third parties. It is also available in a database version in Latvian via internet in return for a fee. For the convenience of clients, the Land Register and State Land Service have increased their mutual cooperation, thus reducing the number of documents to be filed in order to register title or other modifications with the folio. Please, however, keep in mind to ensure that both the Land Register and the State Land Service data in respect of the same real estate is updated and match, as sometimes differences in the data kept by both registers might burden further actions with real estate (including transfer of title).

ACQUISITION OF REAL ESTATE

GENERAL

Real estate may be acquired as a building and land plot beneath (entire or ideal parts), or as a building (if registered with the Land Register as a permanent property object), or land (if registered with the Land Register as a permanent property object) or an apartment, or an engineering construction.

A specific regulation applies to acquisition of constructions which need not be registered with the Land Register as separate properties. Registration of legal possession in this case is performed and kept within the State Land Service. However, public credibility of such registration is not clear.

LETTER OF INTENT AND HEADS OF TERMS

In practice, letters of intent (LOI) and preliminary agreements are used in order to bind negotiating parties to a contemplated large scale real estate transaction. Under these agreements, the buyer can require conclusion of a sale contract.

Usually, an LOI sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) and states other obligations of the parties to be followed during a certain period. Breach of the exclusivity obligation under LOI or preliminary agreements entitles the relevant party to claim compensation of damage, including specific contractual penalties.

CHANGE OF OWNERSHIP

Each transaction with real estate and registration of ownership rights with the Land Register involves a number of formalities, which have to be completed or resolved before title transfer. For instance, any real estate tax debt and tax for the entire year on a particular property has to be settled – if not, registration of ownership rights with the Land Register is not possible. The period for registration of title to real estate with the Land Register is ten days as of filing all necessary documentation with the Land Register, although in more complex cases it may be prolonged for up to 30 days.

LEGAL STRUCTURE OF REAL ESTATE TRANSACTIONS

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, take the following into account:

- notary fees and state duty arising from real estate sales are not applicable to the sale of shares in a company;
- ownership of shares is transferred as agreed in the sale agreement, at the time of signing the agreement, or on registration, which takes only a few days;
- on completion of transfer of shares, the buyer assumes responsibility for the whole company including any matters that occurred before change of ownership;
- due diligence investigations are more extensive as a share deal transfers the entire company (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;
- applicability of financial assistance rules;
- deferred tax issues.

Asset transfer involves the following benefits and drawbacks:

- asset transfer is subject to notary fees and state duty and in this respect is more expensive than a share transfer;
- limited scope of due diligence investigation since the review concerns only the target asset;
- in the case of non-residential real estate transactions, only lease contracts registered with the Land Register bind the new owner after purchase of the target asset;
- agreements on supply of utilities and other services must be assigned to the buyer or new agreements signed with service providers;
- an asset transaction may in some cases be treated as a business transfer, in which case all obligations associated with the enterprise may be transferred from the seller to the buyer.

PORTFOLIO DEALS

Foreign investors enter into portfolio deals because they provide sufficient diversification and volume, a larger market share, and reduce overall risk and relative cost.

FORM OF AGREEMENT

Transactions with real estate require written form, as well as registration with the Land Register. There are no requirements for notarisation of the purchase agreement.

Registration of ownership rights with the Land Register is carried out on the basis of a corroboration request signed by both the seller and the buyer in the presence of a notary public.

In addition to the purchase agreement and corroboration request, other documents have to be prepared and filed with the Land Register (eg waiver of rights of first refusal by the local municipality).

LANGUAGE REQUIREMENTS

There is no specific requirement under Latvian law to use only the official state language (Latvian) in agreements on real estate. Parties may choose the language of the agreement themselves. However, the original of the purchase agreement to be submitted to the Land Register must bear a notarised translation of the purchase agreement into Latvian.

The corroboration request to the Land Register is prepared and signed in Latvian at a notary.

DUE DILIGENCE

Before carrying out a real estate transaction, it is advisable to research the status of the real estate, eg encumbrances (as the Land Register may not contain the actual data), permitted use as set by the local authority, lease agreements affecting the real estate. The results of research may help set the final purchase price reflecting the value of the real estate.

RIGHTS OF FIRST REFUSAL

Local authorities have the right of first refusal in respect of acquisition of real estate (land and buildings) located in their territory. Only after the municipality has decided not to exercise its rights of first refusal a purchase agreement can be registered with the Land Register and ownership transferred to the buyer. In addition, a specific regulation covers execution of rights of first refusal to agricultural land, whereby for example the Latvian Land Fund and the lessee of the particular land plot have rights of first refusal.

Should the building and the land plot have different owners, the owner of the building situated on the land plot to be sold has a right of first refusal with respect to the land plot, and vice versa. Additionally, co-owners of real estate have rights of first refusal with respect to the ideal part of immovable property being sold.

Generally, rights of first refusal are exercised within two months after the purchase agreement is delivered to the persons entitled to those rights. Local authorities have to decide on exercising their rights of first refusal within a period of 5 to 20 business days (depending on the type of real estate) after receiving the purchase agreement.

LEGAL NOTES

Rights of first refusal may be also agreed upon between the parties or established by law in other cases.

A person with a right of first refusal, such as a co-owner of real estate, who is not offered the possibility to exercise their right, then acquires buy-out rights. Buy-out rights entitle a person denied the possibility to exercise the right of first refusal to acquire the property from the new owner on the same terms.

TYPICAL PURCHASE PRICE ARRANGEMENTS

Usually the parties agree to use an escrow account in a bank. During registration of the real estate title, neither the seller nor the buyer has access to the funds transferred to the escrow account. These funds are released only after registration of the buyer's real estate title with the Land Register and fulfilment of other conditions agreed by the parties (if any). In smaller transactions, more often the parties agree to deposit the funds with a sworn notary. The funds are transferred to the seller's bank account by the sworn notary after registration of the buyer's real estate title with the Land Register.

RELATED COSTS

Sharing of costs incurred during purchase is a matter for agreement between the parties. As a rule, the buyer pays for state and stamp duties, whilst notary and escrow account fees are shared equally between the parties.

Generally, state duty amounts to 2% without a ceiling of either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. However, if an apartment (including non-residential premises in apartment buildings) property is purchased by a legal person, the amount of state duty is 6%. Nevertheless, state duty may not exceed EUR 42,686.15 when buying only commercial real estate.

In addition, an index of 1.5 is applied when calculating state duty if registration of title has been delayed by more than 6 months. Stamp duty for registration of title and issue of a Land Register folio is approx EUR 22.

Preparing and attesting signatures for the application to the Land Register costs approx EUR 100.

MERGER CONTROL

Transfer of real estate may be subject to prior approval by the Latvian competition authority (Competition Council). According to the Competition Law, acquisition of assets or of the right to use those assets is considered to be a merger if it increases the market share of the buyer of the assets and the usage rights in any relevant market.

The intended merger must be notified for approval to the Competition Council if the aggregate turnover in Latvia of the undertakings involved in the transaction exceeds EUR 30,000,000 million for the financial year preceding the concentration. However, if the aggregate turnover of each of at least two merger participants does not exceed EUR 1,500,000, the notification is not required.

The Competition Council is entitled to review mergers falling below the above thresholds within 12 months after implementation if the parties' combined market share exceeds 40% in the relevant market and it is likely that a significant impediment to effective competition will be created. In case of uncertainty, the parties have the opportunity to submit a voluntary notification or to obtain a waiver from the Competition Council.

In acquiring or leasing real estate for a grocery chain or retailer, specific considerations should be taken into account.

In transactions involving assets, note that several mergers among the same parties within a period of two years and as the result of which one party obtains assets (a portion of or all the assets) of two or more other undertakings or the right to use these assets, are deemed a single merger occurring on the day when the last merger takes place.

A filing fee for examination of merger notifications in Latvia is EUR 2,000-8,000 depending on the aggregate turnover of the participants.

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

Restrictions on real estate acquisition in Latvia apply to land plot purchases. Foreigners from non-EU states should be aware of several restrictions on acquiring land plots in Latvia. Buyers should also investigate restrictions on use of real estate. Acquisition is restricted in eg coastal areas, heritage protection zones.

EU CITIZENS AND LEGAL ENTITIES

Certain limitations apply to acquisition of agricultural land in Latvia. An EU citizen (including a Latvian citizen), or a citizen of the EEA and Switzerland can acquire not more than 10 ha of agricultural land without limitations. A natural person who wishes to acquire more must satisfy the following:

- register as a performer of commercial activities;
- be without tax debts in their country of domicile;

- confirm in writing that after purchase of the land they will start agricultural activities with the particular land within 1 or 3 years from the purchase depending on whether the particular land in the previous or current year has been a subject of single area payments or direct payments under EU Regulations;

- confirm that (1) the person has a definite agricultural education or (2) has received single area payments during the last 3 years, or (3) the person receives direct payments or (4) their income from agricultural activities during last three years has formed at least one third of all their income.

Stricter limitations are set for legal entities. Consequently, a legal entity may acquire not more than 5 ha of agricultural land without strict limitations. A legal entity that wishes to acquire more must comply with all the following rules:

- it is registered as a tax payer in Latvia and has no tax debts in Latvia or its country of domicile;

- all shareholders must be EU, EEA or Swiss citizens or citizens of other countries that have concluded agreements on protection of investments with Latvia;

- the entity must identify all its beneficiaries and all of them must be EU, EEA or Swiss citizens;

- confirm that the entity has received single area payments during the last 3 years, or receives direct payments or the entity's income from agricultural activities during the last three years has formed at least one third of all its income;

- confirm in writing that after purchase of the land the entity will start agricultural activities with the particular land within 1 or 3 years from the purchase depending on whether the particular land in the previous or current year has been the subject of single area payments or direct payments under EU Regulations;

- at least one employee or shareholder has received an agricultural education or the entity should have at least one shareholder whose income from agricultural activities during last three years has formed at least one third of that person's total income.

The maximum area of agricultural land that can be owned by one person is 2,000 ha.

Unlike the situation with agricultural land, no restrictions apply to EU citizens and legal entities to acquire land plots in cities in Latvia.

CITIZENS AND COMPANIES OF EEA AND SWISS CONFEDERATION

Citizens of the European Economic Area or Swiss Confederation and companies registered in the European Economic Area or Swiss Confederation may acquire land plots. They must comply with the requirements imposed on citizens of the EU or companies registered in the EU (the companies must likewise be registered as tax payers in Latvia). However, that only applies for acquisition of land. Therefore, apartments or buildings may be acquired without further restrictions and limitations, unless the land beneath the apartments or buildings is included in the deal. In most cases, apartment ownership also comprises a certain ideal part of a land plot, the land plot being in the co-ownership of all apartment owners in the building.

Certain restrictions apply to foreigners if the land is located in state border land and special protection zones.

MORTGAGE

Often purchase of real estate is financed by third party (eg bank) loans. Therefore, the financier requires security in the form of a mortgage.

In order to register a mortgage on real estate, a loan and mortgage agreement should be concluded. An application to register the mortgage with the Land Register must be signed in the presence of a notary public and state duty of 0.1% of the loan value must be paid. The Land Register registers the mortgage within ten days as of filing the necessary documentation.

PROPERTY MANAGEMENT

Maintenance of real estate is usually carried out by the owner or by a maintenance company.

MANAGEMENT OF RESIDENTIAL BUILDINGS

Maintenance and management of a residential building is an obligation on the owners of the building, that is, apartment owners. In small buildings, this is usually carried out by the owners themselves. In larger buildings, maintenance and management tasks are usually outsourced. The Law on Management of Residential Housing provides minimum requirements for management of residential buildings. The law also regulates relations among persons involved in management of residential buildings, such as managers, owners of residential buildings and others.

Management structure of residential buildings depends on the ownership structure.

LEGAL NOTES

LEASE AGREEMENTS

GENERAL

General terms for lease and tenancy agreements are laid down in the Latvian Civil Law and the Law on Apartment Leases. The contents of lease and tenancy agreements are subject to agreement between the parties. Lease agreements on real estate remain binding on new owners if registered with the Land Register. Otherwise, a buyer of real estate may terminate an unregistered agreement at its own discretion. However, the tenant is entitled to compensation from the previous owner for termination of a lease agreement before expiry.

At the same time, the Law on Apartment Leases protects the rights of tenants. Residential tenancy agreements are binding on new apartment owners under the Law on Apartment Leases without registration with the Land Register. However, only permanent residents of Latvia and persons who reside in Latvia based on a temporary residence permit may claim protection under this rule.

DURATION AND EXPIRY OF LEASE AGREEMENT

The duration and expiry of lease or tenancy agreements are usually set in the agreement. Latvian law lays down some general rules and these agreements may be for a specified or unspecified term. As for termination, the law lays down only general rules. More specific provisions on termination are regulated by the Law on Apartment Leases, adopted in order to protect the interests of tenants. Unilateral termination by the owner of a residential tenancy agreement is more limited. Termination is permitted only in cases explicitly stated by law, for example, the tenant is damaging the apartment or the building, the tenant owes rent or payments for basic services, the tenant sub-leases residential space without the owner's consent. In addition, termination is permitted if capital repairs or demolition of the building are necessary. However, in that case the owner must provide the tenant(s) with equivalent residential premises.

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES)

Latvian law sets no specific procedure regarding payment of deposits, or a procedure for paying rent.

Accessory expenses are payments for maintenance and utilities, such as water, gas, electricity, heating. The tenant usually pays these in addition to rent. In practice, a security deposit in the amount of one to two months' rent is often required by the owner. The owner uses the security deposit if the tenant is in breach of the agreement, for example, by failing to pay the rent. If the security deposit is not used due to breach of agreement, it is applied to the rental payment for the last months of the tenancy term or returned to the tenant after expiry of the tenancy agreement.

PPP & INFRASTRUCTURE

In Latvia, a PPP project may be procured in accordance with the Law on Public and Private Partnership (PPP Law). The law sets the procedure for awarding contractual PPPs – public contracts and concessions – and setting-up institutional partnerships. Under the PPP Law a public contract is a long-term (over five years) public works contract or a public services contract where the private partner's contribution is paid by the public partner. A concession, on the other hand, is a contract of the same type as a public contract, except that the whole or a major part of the consideration for the work to be carried out or the services to be provided is the right to exploit the construction or service. This could be, for example, payment of the object or service by end-users, or payments by the public partner which are linked to end-user demand for the object or service, such as a shadow-toll for a road. The PPP law also specifies the framework for institutional partnership where the public and private sector establish a joint venture through a competitive procedure, and afterwards the public partner enters into a public contract or concession directly with the joint venture.

INVESTMENT FUNDS AND REAL ESTATE

The Latvian Investment Management Companies Law regulates real estate-related operations of investment funds. Both foreign and domestic investments may be administered through an investment fund. Fund units may be subject to public or private offering. Only closed-end investment funds may invest in real estate.

Real estate acquired by an investment fund must be registered under the name of the investment management company managing the fund, and it can be sold or encumbered only with permission of the custodian bank. Assets of a fund may be invested in real estate located in Latvia, the EU, EEA or OECD member countries, or other countries specified in the prospectus once the real estate has been valued and the valuation is approved by an independent expert panel appointed by the management company. Real estate owned by the investment fund may not be managed by the investment management company itself and therefore will most likely be managed by a professional real estate management company.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Municipalities (local authorities) have the authority to define permitted use of real estate in their territory, to set limits on construction activity and to issue building permits. Even if the particular territory has a general territorial plan, a detailed plan can be required. This may take from approx six months to over one year.

CONSTRUCTION

The Construction law states that a construction permit is received in the initial stage but does not allow immediate start of construction. To obtain a construction permit, the applicant must develop a building design in the minimum composition and file it with the local construction board. If construction of the proposed building is possible, the construction board issues requirements and conditions to ensure design works. Construction itself can start only when all the requirements and conditions included in the construction permit are fulfilled and accepted by the Construction Board.

ACQUISITION OF DISTRESSED ASSETS

Distressed real estate can be acquired on the basis of a voluntary agreement between the parties, in a procedure of 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 thorough due diligence should be performed as the possibility of problems is much higher. For example, during financial difficulties of the owner, real estate may be managed and maintained poorly or the term of validity of construction documentation might have expired.

Compulsory enforcement procedure is carried out by bailiffs and is executed through auction. Compulsory enforcement is performed under the Civil Procedure Law.

Acquisition of real estate during insolvency proceedings is also usually performed at auction, organised by the insolvency administrator. During insolvency, the operations of the company's administrative institutions are suspended and management is performed by the insolvency administrator. The insolvency process, including the auction procedure, is regulated by the Insolvency Law and the Civil Procedure Law.

OBTAINING A TEMPORARY RESIDENCE PERMIT

A temporary residence permit can be obtained for a period not exceeding five years if a third-country national acquires one real estate in Riga, Jurmala, and surrounding regions, or acquires a maximum of two pieces of real estate outside these territories with a total purchase price of at least EUR 250,000 (assuming that the total cadastral value is not less than EUR 80,000). If the cadastral value is lower, then a certified real estate valuer will have to confirm that the market value of the real estate is at least EUR 250,000. Upon a positive decision on granting of a residence permit, a third-country national will have to pay a fee of 5% from the real estate purchase value into the state budget.

Only transactions involving purchase of real estate functionally related with buildings will enable an application for a temporary residence permit. The transactions with agricultural or forest land do not qualify for grant of a temporary residence permit.

A third-country national with a valid Latvian temporary residence permit is entitled to enter Latvia and reside there at any time during the validity period of the temporary residence permit. Moreover, with a Latvian temporary residence permit the third-country national (without obtaining additional documents or performing registration) can also travel and reside in other Schengen Area countries for a period not exceeding the term specified by national regulations of the respective country.

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Ober-Haus was established in 1994 and has now four offices in Estonia (two in capital Tallinn and one in Tartu and Jõhvi) with over 70 real estate experts working there. Our professional team of experts provide wide range of real estate services such as residential and commercial real estate selling, purchasing and letting services, property valuation, real estate consulting, property management and market research and analysis.

ESTONIA

COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

Coordinates:	59 00 N, 26 00 E
Area:	45,200 km^2
Border countries:	Latvia, Russia
Capital:	Tallinn
Ethnic groups:	Estonians 69.0%, Russians 25.5%, Ukrainians 2.0%, Belarusians 1.1%, Finns 0.8%

CURRENCY

Currency:	Euro (EUR)
Since:	January 1, 2011

2017 FORECASTS

GDP annual growth, %	2.2
GDP per capita, €	15,900
Private consumption annual growth, %	2.7
Average annual inflation, %	3
Unemployment rate, %	7.5
Average montly gross wage, €	1,152
Average montly gross wage annual growth, %	3.0
Retail sales growth, %	5.0
Exports annual growth, %	3.4
Imports annual growth, %	3.1
FDI stock per capita, €	13,774

POPULATION	2011	2012	2013	2014	2015	2016
Estonia	1,329,700	1,325,200	1,320,200	1,319,400	1,316,000	1,317,800
Tallinn	416,000	420,000	430,000	434,600	440,000	444,000
Tartu	103,700	100,000	99,500	98,500	97,500	94,000
Narva	65,500	60,500	60,000	59,000	58,600	58,200

ECONOMICS	2011	2012	2013	2014	2015	2016
GDP growth, %	7.5	3.9	1.7	2.9	1.5	1.6
GDP per capita, €	12,560	13,560	14,300	15,030	15,400	15,500
Private consumption growth, %	7.5	4.9	3.8	4.8	4.7	3.4
Average annual inflation, %	5.0	3.9	2.8	-0.1	-0.4	0.1
Unemployment rate, %	10.9	10.2	8.6	7.4	6.6	6.9
Average monthly gross wage, €	839	887	949	1,005	1,065	1,118
Average gross wage annual growth, %	5.9	5.7	7.0	5.9	6.0	5.0
Retail sales growth, %	11.5	11.6	6.2	6.5	7.0	5.0
Exports annual growth, %	38.0	4.3	2.6	3.1	-0.6	3.0
Imports annual growth, %	37.0	8.8	3.1	2.1	-1.4	3.0
FDI stock per capita, €	9,503	10,830	12,126	12,916	13,269	13,516

SOURCE: ESTONIAN DEPARTMENT OF STATISTICS, MINISTRY OF FINANCE OF ESTONIA

ECONOMIC GROWTH WILL ACCELERATE IN 2017

Estonia's economic growth in 2016 was 1.6%. In 2017 the economic growth will accelerate to 2.2%, mainly with the support of investments in the public sector and other spending. At the same time external demand and investments of enterprises, which, until now, have been held back by weakened external demand and production capacity, will increase. According to forecasts, in 2018 and 2019, the economy will grow by 3.0% and 2.9%, respectively. This acceleration in growth is mainly based on investments in enterprises and exports.

As a result of the operational reform, more people have entered the employment market, alleviating the work force shortages at lower wage jobs, the sector currently facing the biggest problem.

The speed at which salaries grow has started to decline, but the pressure for growth will not substantially reduce, because the main factors (lack of suitable work force and the reduction in the population) will dictate the situation on the employment market for the next few years. The average income in Estonia rose 7.3% in 2016 and it is expected to slow down to 5.0% in 2017. Gross wages increased by 7.1% in Q3 2016 (compared to Q3 2015), to €1,119 per month before taxes. The average net monthly wage after tax in Q3 2016 was €902.

The period of lower prices that has lasted for two years is over and the rate of inflation has started to accelerate. Inflation was 0.2% in 2016 and it is expected to accelerate to 2.5% in 2017.

As increases in wages are slowing, it is expected that the rate of consumption will slow down also. Then again, the savings rate of households has been high during recent years and the amount of savings has risen to an all-time high allowing for the avoidance of drastic changes in consumption habits.

The general indicators of competitiveness have not, despite fast increases in labour expenses, declined this year. This is also indicated by the increased export of value added Estonian goods.

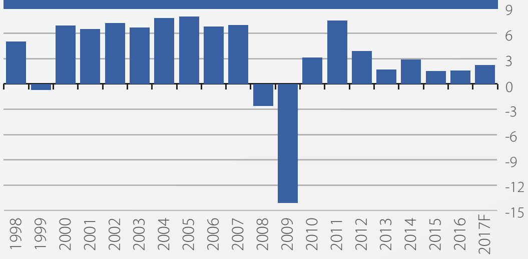
The budget of the governmental sector will probably stay in deficit for the next three years.

High employment and rising salaries have increased the security of consumers and their consumption capabilities. Compared to the large increase in salaries, there was little increase in inflation, 0.1% in 2016, further increasing usable real income. As in previous years, households did not direct all their income to consumption, but rather increased their savings. Private consumption rose to 3.3% in 2016.

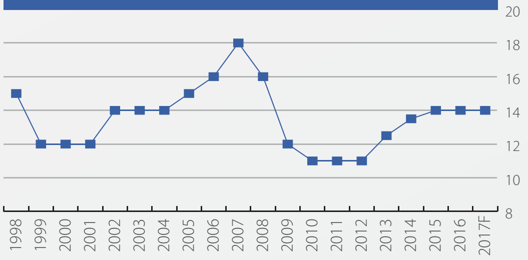
Unemployment in 4Q 2016 was at 6.8% and will rise to 8.2% by the end of 2017.

The construction price index declined by 0.8%, compared to 2015. The reason behind this is the lower price of materials.

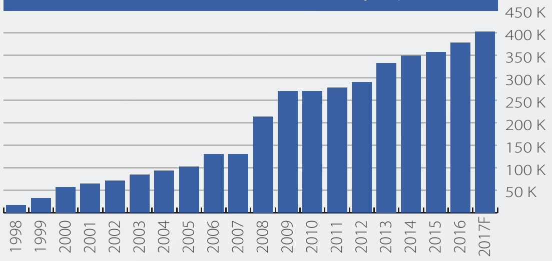
GDP GROWTH, %



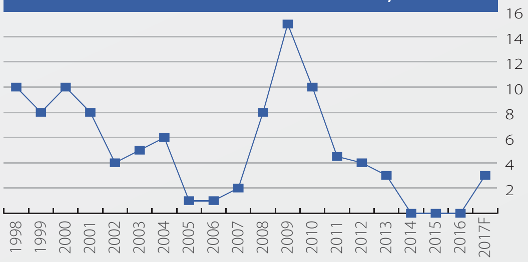
A CLASS OFFICE RENTS, €/SQM



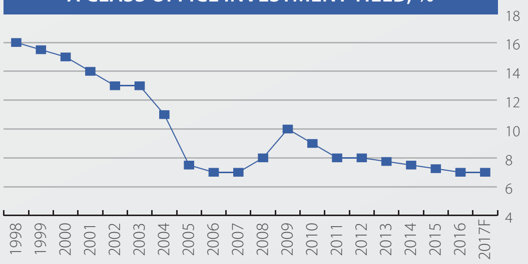
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



END-2016 SNAPSHOT / TALLINN

TOTAL OFFICE SPACE	906,500 SQM
A CLASS OFFICE VACANCY RATE	~ 0 %
B CLASS OFFICE VACANCY RATE	5 %
TOP OFFICE RENTS (SQM / month)	€17.00 - €18.00
A CLASS OFFICE RENTS (SQM / month)	€12.00 - €16.00
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €11.50
ADDITIONAL OFFICE COSTS (SQM / month)	€2.00 - €4.50

OFFICE CONSTRUCTION IS BOOMING IN TALLINN

SUPPLY

The most active post-crisis office space development is taking place in Tallinn due to the demand for higher quality and well-located premises. In total eleven new projects were completed in 2016 bringing 60,500 sqm of office space to the market. After completion of these projects, the total area of modern office premises grew by 7% to 906,500 sqm of office space at the end of 2016.

It is expected that in 2017-2018, at least 10 new office projects should be completed in Tallinn; this will add over 100,000 sqm of new office space to the market.

DEMAND

The reason behind all of this demand is the expansion and creation of new enterprises, especially in the IT sector. Most of the potential customers for A class office spaces are tied to external companies and their representative firms. The vacancy of A class spaces is close to zero, and for the B class spaces it is about 5%.

The vacancy rate in lower quality and less desirable locations is rising, and owners have to make investments in order to keep their customers or change the functions of their buildings.

RENTS

The rapidly growing supply of modern offices has kept A class rents steady in Tallinn in 2016. In the end of 2016 rents amount to €12.00 – €16.00 per sqm for A class offices and €8.00 – €11.50 per sqm for B class offices. The rents of single smaller exclusive A class offices are up to €17.00 – €18.00 per sqm. In the suburbs, rents for offices in less valued locations and buildings are €3.00 – €7.00 per sqm per month. Ober-Haus expects that the coming large amount of office space will put pressure on rents.

The sale and purchase market of office spaces is still illiquid. Deals have been done depending on the location, with the most common range of €900-€2,200 per sqm. In a few projects in the centre of Tallinn, prices have been between €2,100 and €3,000 per sqm..

INVESTMENTS

Taking into account the population, the investments in office spaces are only one fifth of that in Scandinavia and when compared by GDP, the difference is half.

In 2016, investors were only interested in objects with a good location, a solid tenant structure and an even flow of money. In general investors are looking for properties with a yield of 7.0%.

In July 2016, Baltic Horizon Fund, having recently listed their real estate fund shares on the Tallinn Stock Exchange, bought the property of G4S, built in 2013 and located at Paldiski Road. The net area of the building is 9,100 sqm. The selling price was €18.5 million with a yield of 7.5%.

In October 2016 Colonna Capital OÜ bought the renovated Scala City commercial building, with a net area of 5,000 sqm, located in the centre of Tallinn next to Tartu Road. The seller was the subsidiary company of SEB bank and the building was fully rented. The main tenant is OpusCapita Competence Center OÜ, belonging to Itella Group. The yield or the price of the deal were not disclosed.

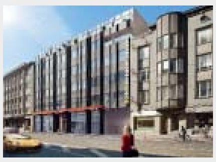
In November 2016 Colonna Capital OÜ bought a commercial building that was completed in 2014 and located at Metalli Street (Metalli maja) – a district that is becoming more of a business centre. The main tenant of the building is the Estonian Unemployment Insurance Fund. The price and the yield of the deal were not disclosed.

Lords LB Baltic Fund IV expanded their activities in Estonia by buying the commercial building Euroopa Maja located at Rävala Avenue. The premises are rented on a long-term basis to the representatives of the European Commission and the European Parliament. Altogether there are 9,670 sqm of rentable office space in the building. The yield was 6.5% and the price of the

LEGAL NOTES BY ***SORAINEN***

Rents are usually payable monthly in advance. Payment of rent in advance for more than one month is not customary. Tenants generally pay for their own utilities, invoiced by the owner after use. Rents are typically indexed to local inflation. Triple net leases are common for commercial properties but not universally used. The concept of sinking fund is not very common, although use of the concept of normal wear and tear is widely accepted. Quite commonly, payment of rent and costs is secured, eg by rent deposit, bank or mother company guarantee. Leases survive transfer of property title. However, unless the lease is registered with the Land Register, the new landlord obtains the right to terminate the agreement upon becoming the owner by terminating the lease within three months as of becoming the owner. This requires three months advance notice and the new owner must show that it needs the premises for own use. In recent years, asset deals have become more common than share deals.

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Explorer** – In the near vicinity of the Harbour of Tallinn and the Old Town a 6-storey innovative A class office building with an underground parking facility and total 5,000 sqm of office was completed in Q1 2016. The building will be LEED Platinum certified. On the ground floor, there are commercial and catering areas. The price when renting the whole office floor was €14.40-€16.50 per sqm with service charges of €2.50 per sqm. Most of the space has been rented out. It was built by YIT Ehitus and developed by Capital Mill.	5,000	Q1 2016
	**Norra Maja** – In the so-called Baltika quarter near the centre of Tallinn a 7-storey, energy efficient A class office building. The total area of the building including the underground parking facility is 13,300 sqm, of which 7,600 sqm is office space. The price ranges from €11.00 to €14.00 per sqm. The building was completed in Q1 2016 and all the space has been rented. The cost of the construction was €11 million, it was built by Nordecon and developed by Kawe.	7,600	Q1 2016
	**Novira Plaza** – In the most prestigious commercial district in Central Tallinn a 15-storey A class office building with underground parking facilities and offices with expansive views, totalling up to 4,000 sqm and 13 apartments were built. The sale prices for the offices are €2,400–€3,000 per sqm, the commercial areas of the ground floor sell for €3,500 per sqm and the underground parking spaces for €20,000. The rental prices are €13.00-€20.00 per sqm. Most of the areas have been either sold or rented out. The building was completed in Q3 2016, built by Bauschmidt and developed by Novira Capital.	4,000	Q3 2016
	**Valukoja street 8 (Õpiku maja)** – A 13-storey A class office building, one of the largest in Estonia and the Baltics, was built in Ülemiste City, with a total area of 46,500 sqm, consisting of two parts, both of which include 14,750 sqm of office space. The building has an energy rating of B and meets the requirements for a LEED Gold certificate. Most of the premises have been rented out, at rents of between €12.50 and €15.00 per sqm. The main tenant is ABB Global Service Center. The first stage with 14,750 of GLA was completed in Q4 2016. The second stage should be finished by 2018. It is being built by Merko and developed by Mainor Ülemiste.	14,750 (I stage)	Q4 2016 (I stage)
	**Tartu Road 83** – A functional 8-storey A class office building with a total 4,000 sqm of office GLA sqm and a 2-storey underground parking facility was built next to the logistically important road connecting the centre of Tallinn to the airport. The selling price of the office spaces range from €2,150 to 2,600 per sqm, the rents are €11.50-€15.30 per sqm. The building was completed in Q3 2016 and more than 50% of the office space has been sold or rented. It was built by Bauschmidt and is developed by Novira Capital.	4,000	Q3 2016
	**Pärnu Road 18** – Next to the main square and close to the Old Town, a 6-storey A class, architecturally impressive office building with 1,800 sqm of designated office space, was built in Q3 2016. The prices for the service and commercial areas located on the main floor are €27.00 per sqm, for the offices located on the 1st to 6th floor, the prices are €15.00-€16.00 per sqm. The building was developed by TTP.	1,800	Q3 2016
	**Eesti Telekom** – Next to one of the most important road junctions in the centre of Tallinn, located at Mustamäe Street 3/3A, a 14-storey A class office building with office space of 9,000 sqm was completed at the end of 2016. The main tenant is Eesti Telekom, which has taken 7,300 sqm. The rents are €12.50 per sqm. The project is developed by EKE Invest, Polaris Kinnisvara and Reterra Estate. Total cost of the investment was €10.6 million.	9,000	Q4 2016
	**Centennial, Endla Street 15** – Located in the centre of Tallinn with easy access, a 1960s office building was reconstructed as a modern office building with 6,880 sqm of office space. The office space rents range from €10.00 to €13.00 per sqm with service charges of €2.50 per sqm. About 20% of the premises are still available. The building was completed in Q3 2016 and was developed by Novira Capital.	6,880	Q3 2016

NEW PROJECTS

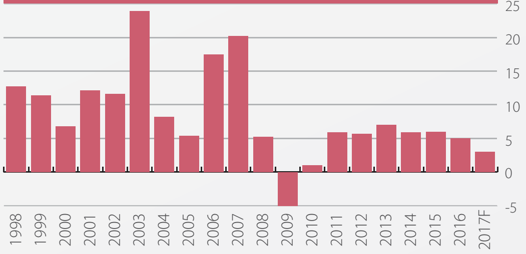
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Tehnopol2KV** – In the Tehnopol technology park, which is a fast-developing business and commercial campus, near the edge of Tallinn, an 8-storey A class office project with two buildings and an underground parking facility is being built with construction and projecting standards so high, that it allows for high-tech research and development centres to be founded within. The nearest neighbours are the Tallinn Technological University, Tehnopol's Startup Incubator and the IT College. The total area of the building is 11,500 sqm of which 7,340 sqm is office space. The building will be completed in Q3 2017. It is being developed by Astlanda.	7,340	Q3 2017
	**Superministeerium** – According to the procurement made by State Real Estate Ltd., a modern and energy efficient common building will be built on Suur-Ameerika Street, which will be rented by the Ministry of Finance, the Ministry of Economic Affairs and Communications, the Ministry of Social Affairs and the Ministry of Justice. The expected rent price is €14.00 per sqm, the size of the building is expected to be 16,000 sqm, 11,400 of which is to be rentable office space. The building will be completed in Q3 2017. The winner of the procurement and the developer is Fund Ehitus.	11,400	Q3 2017
	**Järvevana 7B** – Hepsor is building an A class innovative, close to nature office building with 5 storeys and a total 6,000 sqm of GLA, next to the recently reconstructed main motorway. It s planned to use geothermal heating. The office rents range from €10.50 to €12.50 per sqm, sale prices are €1,800 per sqm and additional costs €2.00 per sqm. The building will be completed by the end of 2017. It is developed by Hepsor Kinnisvara and built by Mitt & Perlebach.	6,000	Q4 2017
	**Kohtumaja** – A 7-storey office building will be built as per the procurement of the State Real Estate Ltd. next to Tartu Road 83 at Lubja Street 4, located at a logistically convenient location and it will house Harju County Court, the northern district Prosecutor's Office and the Centre for Registries and Infosystems. The total area of the building will be 25,000 sqm, of which 20,000 sqm is office space and the building will be completed by the spring of 2018. The cost of the building is €29.0 million, it is being built by Rand ja Tuulberg and Astlanda Ehitus.	20,000	H1 2018
	**Töökoja Street 2** – A 7-storey office building will be built in this fast-developing area in the centre of Tallinn. The ground floor will be designated for commercial areas, the 1st and the 2nd floor will be for parking and the 3rd to 6th floor will be designated as office spaces. The total area of the building will be 10,500 sqm, of which 6,500 sqm is GLA. The building will be completed in 2017 and built by Rand ja Tuulberg.	6,500	2017
	**Alexandre Liwentaal** – Technopolis Ülemiste the developer of Ülemiste city – a business campus located in the vicinities of the airport and the centre of Tallinn – is investing €13.6 million in a new 13-storey A class office building in this territory. The rentable area of the office space is 9,100 sqm and there will be parking for about 430 cars. The building will be LEED Gold certified; the building is named after Alexandre Liwentaal for its environmental sustainability. The project will be completed in Q2 2018.	9,100	Q2 2018

NEW PROJECTS

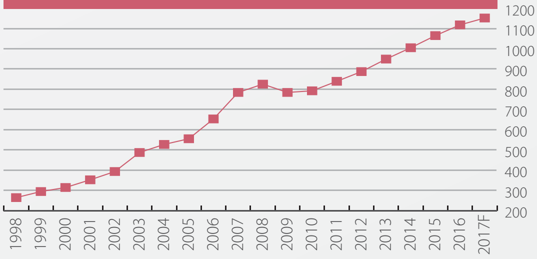
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Maakri Street 19/21** – The so-called Maakri Quarter complex of A class office buildings located at the heart of Tallinn´s CBD with a total area of 36,000 sqm, of which 14,000 is office GLA, is under development. The complex consists of 30-storey, 10-storey and a 4-storey buildings. In addition, 4 historic buildings in the neighbourhood will be restored. A total of 3,000 sqm are planned as a retail and catering area and there will be 167 parking spaces. The main tenants will be Pohjola Bank, Seesam Insurance and Eften Capital. The full project will be completed in the spring of 2018. The cost of the construction is €30.0 million; it will be built by Merko and developed by Taali Grupp.	14,000	H1 2018
	**Porto Franco** – Next to the so-called Admiralty pool located in the immediate vicinity of both the harbour of Tallinn and the Old Town, Porto-Franco is a business and commercial complex with a seaside promenade, a unique glass roof and an internal street. There will be around 30,000 sqm of office space. The offices will have panoramic views and high ceilings. Various commercial surfaces, cafés and restaurants are planned for the centre. There will also be an underground parking facility for 1,250 cars. Various office spaces ranging from 40 to 1,200 sqm are available and the rents range from €14.00 to €18.00 per sqm. Total cost of the project is €160 million. Preparation works have already started on the site and the office complex should be completed by the end of 2018. Developed by Porto Franco.	30,000	Q4 2018
	**Valukoja street 8 (Õpiku maja)** – A 13-storey A class office building, one of the largest in Estonia and the Baltics, was built in Ülemiste City, with a total area of 46,500 sqm, consisting of two parts, both of which include 14,750 sqm of office space. The building has an energy rating of B and meets the requirements for a LEED Gold certificate. Most of the premises have been rented out, at rents of between €12.50 and €15.00 per sqm. The main tenant is ABB Global Service Center. The first stage with 14,750 of GLA was completed in Q4 2016. The second stage should be finished by 2018. It is being built by Merko and developed by Mainor Ülemiste.	14,750 (II stage)	2018 (II stage)

EESTI TELEKOM

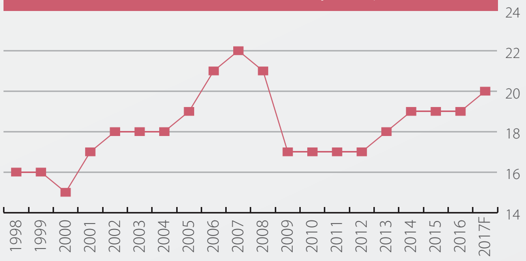
AVERAGE SALARY GROWTH, %



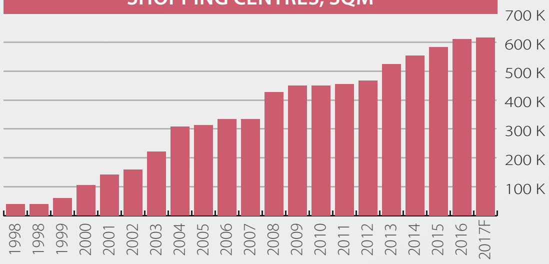
AVERAGE SALARY PER MONTH (BRUTTO), €



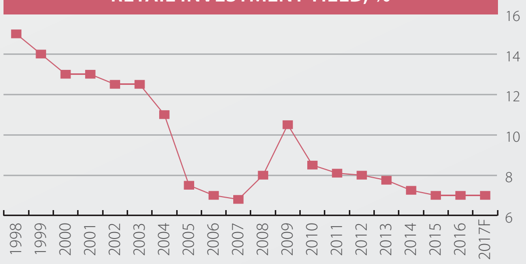
AVERAGE MALL RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELD, %



END-2016 SNAPSHOT / TALLINN

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	603,800 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.36 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€8.50 - €13.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€13.00 - €20.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€35.00 - €70.00
HIGH STREETS RENTS (SQM / month)	€20.00 - €40.00

LOW VACANCY RATES PUSHING UP NEW DEVELOPMENTS

SUPPLY

In 2016, three larger retail projects were opened in Tallinn. At the beginning of the year, Mustamäe Keskus shopping centre was opened in Tammsaare Street, the Arsenal shopping centre was opened in Kalamaja district and Kärberi Centre in Lasnamäe, Mustakivi district. The useful retail area of these shopping centres is 27,000 sqm.

At the end of 2016, there were 41 shopping centres (counting those having over 5,000 sqm of GLA and over 10 tenants) with a total leasable area of 603,800 sqm. Tallinn currently has 1.36 sqm of shopping centre per capita, which is one of the highest figures in Europe.

Construction of one of the largest T1 shopping centres was continued and the preparation works on Porto Franco were started. A construction permit is being sought for an entertainment and shopping centre called Tallink City. In addition, existing centres and Tallinna Kaubamaja are planning expansions. Once these shopping centres are opened, approximately Tallinn will have 160,000 sqm of retail space in 2018/2019. However, this amount of retail space doesn't seem sustainable and some projects might be postponed to later years.

The reason behind delays in the development of new projects is the already well-developed retail property market in Tallinn with high figures of existing retail space per capita. In reality, rapid growth can only be achieved at the expense of larger purchasing power and increasing population.

Supermarkets close to home are being developed by Selver and Rimi, and as of now there are three supermarket-type stores under development in Tallinn.

A recent trend among shopping centres is the addition of entertainment possibilities on the premises (cinemas, restaurants, gyms).

In the interests of reducing marketing expenses and providing better service, brands under the same ownership – Rimi and Säästumarket have been merged. This means that the only discount type store chain has now been brought under the Rimi brand. Furthermore, in 2017 Statoil Fuel & Retail will begin to trade under the Circle K global brand of convenience stores.

In Q4 2016 Marks & Spencer announced their departure from the Estonia and is closing both of their stores in Tallinn.

DEMAND

Private consumption continued to grow in 2016. The yearly growth rate was 4% and the effect on the growth of the economy was substantial. The main reason behind this was the growth of real income (salaries). Wholesale volumes have been increasing since 2010.

In 2016 the shopping centres' sector continues to display the same trends as in previous years. Due to high demand there were almost no vacant premises in the largest shopping centres in Tallinn, with a vacancy rate near zero at the end of 2016. The reason behind this is strong sales stemming from increased incomes.

In planning shopping centres the main goal is to differentiate oneself from the competition with different concepts, especially when it comes to the entertainment part. The risk is mainly that the rapid growth of retail space or the amount of space per consumer is growing faster than incomes and purchasing power, meaning that sales per unit of space will decrease. In addition, internet shopping affects consumption significantly, and there is a growing trend to buy convenience goods from shops nearer home rather than in a large centre.

RENTS

Rents in larger shopping centres remained largely unchanged because most of the rental contracts are linked to the consumer price index. There is also no change in prices for new contracts. At centres located at less desirable locations, pressure to reduce prices was noted.

In 2016 rents for a medium sized premises (150-300 sqm) in retail centres ranged from €13.00 to €20.00 per sqm, smaller units for €35.00-€70.00 per sqm. Rents for anchor tenants run from €8.50 to €13.00 per sqm. On city streets next to active walking zones the rents for premises were from €20.00 to €40.00 per sqm.

INVESTMENTS

In 2016, there was growing interest in investing in commercial spaces in Tallinn, mainly due to the increasing volume of wholesale and favourable interest levels. However, investment has been limited by the lack of properties for sale. Investors are increasingly interested in middle and larger sized shopping centres with a stable cash flow and that are located in a priced area and they expect yields of at least 7.0%.

East Capital Baltic Property Fund, a real estate fund managed by East Capital, bought the Mustamäe Keskus shopping centre with a total rentable area of 13,500 sqm in Q1 2016. The sellers of Mustamäe Keskus were ISA Investeeringud, Torres Holding and Tallinna Tehnopark, all based on Estonian capital. The price of the deal was €27.5 million and the yield has not been disclosed.

The well-known EfTEN Kinnisvarafond II AS bought Magistrali shopping centre located in the suburb of Mustamäe in Tallinn in Q1 2016. There are 65 different tenants in the shopping centre with a rentable area of 11,700 sqm. The largest tenants in Magistrali are RIMI, Koduekstra, Rademar, Seppälä and Takko Fashion. The price of the deal was €24.0 million with the yield remaining undisclosed. The buyer of Magistrali was consulted by the law firm FORT and the deal was financed by Danske Bank. The seller was Citycon.

LEGAL NOTES BY SORAINEN

Even in the case of investment grade properties there is no standard approach as to the set-up and use of marketing funds. Turnover-based rent is widely used. Rents are typically indexed to local inflation, although indexation is not always enforced. Distribution of maintenance and renovation obligations in agreements may not be clearly set out.

OBER HAUS
REAL ESTATE ADVISORS

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Mustamäe Keskus** – The entertainment and shopping centre with 13,500 sqm of GLA and which has one of the best multiplex cinemas in the Baltics was built next to Tammsaare Street in Tallinn, encompassing a total of 21,000 sqm. The main tenants at Mustamäe Keskus are Rimi, Apollo cinema and the MyFitness gym. The cost of the construction was €32 million, it was built by Astlanda and Eventus Ehitus and developed by local investors. The centre was completed in February 2016 and was sold to the real estate fund East Capital Baltic Property Fund II.	13,500	Q1 2016
	**Kärberi Kaubanduskeskus** – a new shopping centre was opened in Lasnamäe, a suburb of Tallinn. The total rentable space in the centre is 5,500 sqm and the anchor tenant is Selver, which is part of the Tallinna Kaubamaja Group, with an area of 1,900 sqm. In addition to Selver there are d-päike, the cosmetic store L-cosmetics, beauty salon, optics store Norman Optika, Südameapteek, Rikets florist's, Koduekstra, pet store, SybesShop, selling computer and various electronics, liquor store Araxes and the fast food chain Chow King. The centre was completed in Q2 2016 and was developed by Megaron Kinnisvara OÜ.	5,500	Q2 2016
	**Arsenal** – With its unique architecture, this 8,000 sqm shopping centre in Põhja-Tallinn Kalamaja region is in an old arms factory. In total there are more than 30 shops and service providers and 10 restaurants and cafes. The anchor tenant is Selver, the other main tenants are CityAlco, Instrumentaarium, Apotheka, Ideaalkosmeetika and Seppälä. Arsenal was opened in autumn 2016. Developer is Arsenal Center OÜ.	8,000	H2 2016

NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Norde Centrum** – The shopping centre which is located in the area between the city centre and the very tourist-attractive harbour is to be expanded. The plan will concentrate on attracting higher volumes of people approaching from the harbour and increasing visibility on the side which faces the centre of the city. During recent years this shopping centre was fully let. The present area of 12,000 sqm will be expanded to 18,000 sqm and in total there will be 60 tenants. The main tenant will remain Rimi in the Hypermarket format, other shops will be expanded and new catering establishments will be added. In addition, the name of the centre will be changed when it opens in the autumn of 2017. The developer is Capfield – the owner of several shopping centres – which plans to invest around €11 million in the expansion.	+6,000	H2 2017
MAXIMA	**Maxima XXX** – next to the motorway connecting the two districts of Tallinn – Haabersti and Mustamäe, one of the largest retail chains Maxima, is planning to establish a hypermarket with a total leasable area of 5,400 sqm, 5,000 sqm of which will be a Maxima store. Construction will be completed in 2017; investment – €9 million.	5,400	2017

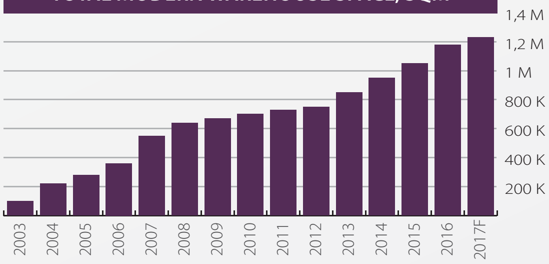
INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+372 665 9700**

NEW PROJECTS

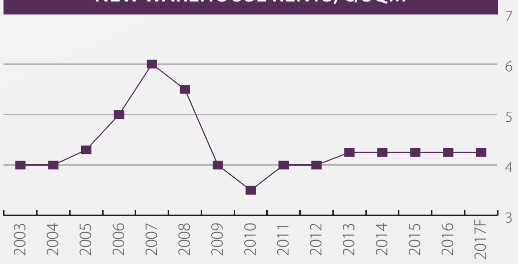
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	Bauhaus Rocca al Mare – Bauhaus, the well-known construction and gardening store, will establish a second DIY centre in a suburb of Tallinn, complete with a Drive-In Arena, a parking lot, technical facilities and access roads. The retail space of the partially multi-storey centre will be over 14,000 sqm. The centre will open in Q2 2017; investment – €23 million.	14,000	Q2 2017
	**T1 Shopping Center** – This shopping centre located at Peterburi Road is the newest and largest regional shopping centre project under development in Tallinn. The centre is being built on the edge of central Tallinn, next to one of the most important and largest intersections in the vicinity of Sikupilli and Ülemiste shopping centres. The total area of the centre will be 130,000 sqm. Around 55,000 sqm of retail space will host more than 200 shops and the main tenant will be Selver Hypermarket with a total area of about 6,000 sqm. The total amount of investment will reach about €90 million (developer Pro Kapital loaned €65 million from the international funding platform TSSP). The opening of the centre has been pushed to autumn of 2018.	55,000	H2 2018
	**Porto Franco** – The preparation works have started on this unique shopping and office complex, called Porto Franco. The complex will have a seaside promenade and a unique glass roof and will be located near the Harbour of Tallinn, through which more than 10 million people pass per year. There will be about 35,000 sqm of retail space. The complex will have fashion shops, gourmet food, cafés, restaurants areas and a large hypermarket. There will also be an underground parking facility for 1,250 cars. The whole project will cost €160 million and should open at the end of 2018. Developed by Porto Franco.	35,000	Q4 2018

PORTO FRANCO

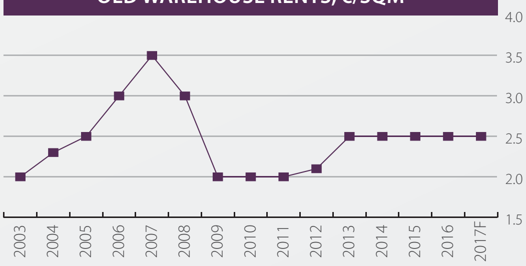
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



OWN USE DEVELOPMENTS ARE DOMINATING

SUPPLY

Five new warehouse projects with a total warehousing area of 130,000 sqm were completed in Tallinn and its surroundings in 2016. All these projects were developed for own use. These projects increased the total leasable area of modern warehousing premises in Tallinn and Harju County to 1,180,000 sqm.

The largest developments in Tallinn and its surroundings in 2016 are Coop and Maxima logistic centres, with a total area of 90,000 sqm.

As the new developments take place exclusively for own needs, the warehousing sector has been fairly balanced during recent years when compared to the office and retail sectors.

So-called stock office type premises sized 300–700 sqm in logistically attractive locations in the suburbs continued to be popular, because they allow businesses to combine their warehouse, office and store.

END-2016 SNAPSHOT / TALLINN

TOTAL NEW WAREHOUSE SPACE	1,180,000 SQM
WAREHOUSE VACANCY RATE	5 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €5.00
OLD WAREHOUSE RENTS (SQM / month)	€1.5 - €3.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

DEMAND

In 2016, customers showed growing interest in spaces located near Tallinn in Rae parish next to Tartu Road and Tallinn Ring Road. Also popular were the so-called stock-office type spaces available at various locations in Tallinn.

Due to the development of storage and manufacturing spaces being highly tied to external demand and directly tied to the economic expansion supported by export and due to the fact that 2016 brought no significant changes to economic growth, there was a vacancy rate of around 5% at the end of the year.

Finding a tenant for B class spaces in secondary locations is still problematic, despite attractive prices. Owners of older storage and manufacturing spaces have to find means to renovate their properties in the near future in the interest of maintaining their customers. Taking into account today's rental levels it can be said that it is not viable to build new storage and manufacturing spaces without a definite tenant because of the very different needs of customers for spaces.

RENTS

During 2016 rents for warehousing premises were stable in Tallinn region. At the end of 2016, rents for new modern warehouses at the most attractive locations were from €4.50 to €5.00 per sqm. Near or outside the city limits, rents range from €3.50 to €4.50 per sqm. Renovated premises are being offered at prices from

€2.50 to €3.00 per sqm. Average and poor quality premises are from €1.50 to €2.00 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

Foreign clients with specific requirements are prepared to pay higher rents than the market average, but their expectations concerning the location and quality of the facilities are also significantly higher.

The rents of smaller A class stock-office facilities up to 500 sqm are €5.00–€7.00 per sqm and lease contracts are generally concluded for 3–5 years.

INVESTMENTS

Over the past few years, local investors have been actively looking for objects, but have owners have high expectations of sale prices and only a few bigger deals were concluded in 2016. In the current market situation, investors are expecting a yield of at least 8.0% from storage and production facilities in and near Tallinn.

EfTEN Capital Real Estate Fund III AS acquired three logistics centres in Estonia, Latvia and Lithuania from one of the largest logistics concerns, DSV, with a sale-and-leaseback deal. In Estonia, the purchased object was a logistics centre in good condition, built in 2003 and with a total surface area of almost 16,000 sqm. The price of the deal was €14.4 million; the yield has not been disclosed.

LEGAL NOTES BY ***SORAINEN***

Most industrial properties are owner-occupied. Good-quality tenants are in short supply, as are sufficiently universal properties to create an investment market. Sale-leaseback arrangements are sometimes used.

OBER HAUS
REAL ESTATE ADVISORS

RECENT DEVELOPMENTS

	DESCRIPTION	**SIZE** (GLA, sqm)	COMPLETION
	**Maardu logistics centre** – A logistics centre with an area of 15,000 sqm was built in the developing storage and logistics neighbourhood near Muuga Harbour near Tallinn. The size of the investment was €6.0 million and the building was completed in Q1 2016, ordered by Infor Invest and built by Merko Ehitus.	15,000	Q1 2016
	**Coop Logistics Centre** – The largest retail company in Estonia, Coop, to whom brands such as Maximarket, A ja O, Konsum, E-Ehituskeskus and Tööriistamarket belong, built one of the largest logistics centres in the developing area in Rae parish, Soodevahe village, near Tallinn, with an area of 45,000 sqm. The centre will aggregate an office along with refrigerated and regular storage facilities. The object was completed in Q4 2016 with an investment cost of €24 million and built by Astlanda Ehitus.	45,000	Q4 2016
	**Maxima Logistics Centre** – Maxima made a substantial development step in Estonia – with the opening of the biggest and most up-to-date logistics centre in the country. The logistics centre near Tallinn, in Rae Parish has 45,000 sqm and 130 loading bays; it was completed in Q1 2016. The centre employs 350 people; investment amount was €35 million. It is the biggest Maxima development project of the last year.	45,000	Q1 2016
	**Baltic Logistic Solutions** – BLS, a subsidiary of Sanitex – the leading food and convenience goods retailer in the Baltics, built their first logistics centre in a fast-developing area of Tallinn with the interest of better serving their customers. The net area of the complex is 21,300 sqm, of which 15,000 sqm are storage sections with different temperatures. Per the customers' needs, additional services such as printing of labels, marking of products, compilation of products, repackaging, advertising on vans etc are available. The building was completed in Q2 2016 and built by Astlanda Ehitus.	21,300	Q2 2016
	**Priisle business park** – a logistics and industry park of 26,800 sqm being built in the Lasnamäe borough of Tallinn, in the vicinity of Muuga harbour and Peterburi Road, at Priisle 10. A total area of 22,000 sqm of multifunctional, energy efficient so-called stock-office type spaces with flexible space solutions are being built. The area of the park is 3 ha and it will be built in 4 phases. The first building with a size of 3,880 sqm was completed in Q2 2016. The rental prices of storage areas are around €6.00 per sqm, office spaces €8.00 per sqm and additional costs are €1.20 per sqm. The investment into the 1st phase was €2.7 million, built by Eventus Ehitus and developed by Hammerhead.	3,880 (I building)	Q2 2016 (I building)

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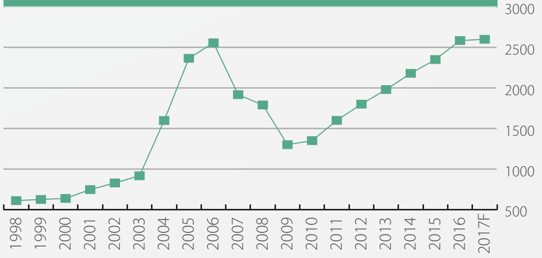
NEW PROJECTS

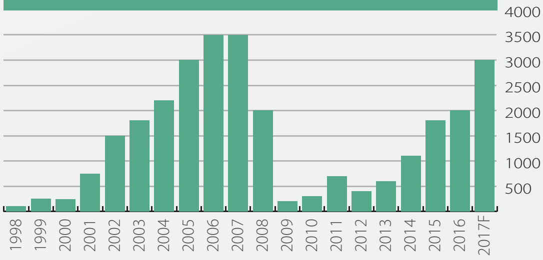
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Smarten Logistics** – the well-known logistics company is building a logistics centre in stages in Rae parish, near the Tallinn–Tartu Road and Tallinn Ring road, in Rukki Technical park, which will have, in its completed state, around 45,000 sqm of space. The first stage was 17,000 sqm and it was completed in Q1 2015. In Q2 2016, works on the second stage, an area with about 13,000 sqm of space, were started, set to be completed in Q2 2017. The size of the investment is around €3.8 million. Built by Eventus Ehitus and Nordecon Betoon.	13,000 (II stage)	Q2 2017 (II stage)
	**Baltic Agro** – the wholesale enterprise Baltic Agro along with Baltic Agro Machinery has started building a 5,000 sqm agricultural centre in Rukki technical park at a cost of €4.0 million. The new centre will have storage for gardening and plant protection goods along with a maintenance and spare part storage for John Deere products. The complex will also include a salesroom and office for Baltic Agro. The building will be completed in Q2 2017 and is built by Maru Ehitus.	5,000	Q2 2017
omniva	**Omniva** – Omniva the national mail and logistics enterprise is building the largest modern logistics centre in the Baltics near Jüri. The move to the new facility is planned to take place in 2018. Complete investment is around €10 million and the centre will create 300 jobs. The current logistics centre in Pallasti Street in Tallinn will shortly be put on the market with the proviso that the company can continue their operations there until the opening of the new facility in 2018. Omniva is planning to open their network of automated package machines across the Baltics in 2017.	19,000	Q4 2018
	**Kõrtsi Street 7** – 25,000 sqm of built-to-suit storage facilities are being built next to Tartu Road in Rae parish near Tallinn. The areas of the rentable spaces range from 600 to 25,000 sqm, to be outfitted according to customers' wishes whether with office or leisure spaces. The building is being built according to modern European standards, ensuring high energy efficiency and remarkable savings on running costs when compared to older buildings of the same class. The modern building is heated with gas, includes a sprinkler system, drive-in ramps, a smoke removal system and electronic loading bays. The rental prices for storage areas are €4.5 per sqm plus additional costs. The first building with a size of 7,500 sqm will be completed in 2017.	7,500 (I building)	2017 (I building)
	**Loovälja technical park** – The technical park is about 1 km from the Border of Tallinn, in the vicinity of the Tallinn Ring Road and the Port of Muuga, next to Peterburi Road. According to the valid detail plan, the properties may be split into four business and manufacturing areas with sizes ranging from 19,100 to 51,700 sqm. Central technical networks exist. Two properties are available, with the other 2 sold. Total building area is 46,100 sqm, maximum height of the buildings is 17 m. Clients can rent various storage and manufacturing spaces according to their needs with a price of €4.5 per sqm. Maru Ehitus is the developer.	46,100	N/A
	**Raku business park** – in the business park being developed around 6 km from the ring road in a suburb of Tallinn, there are a total of 10 commercial and manufacturing properties ranging from 5,400 sqm to 9,900 sqm. The property with a valid detail plan is designated for clients with both larger and smaller needs for space. The overbuilding right detailed in the plan gives a future possibility of expanding to neighbouring properties. So-called key solutions are being offered – project and building per the customer's wish. At the moment all the properties are available. Maru Ehitus is the developer.	N/A	N/A

OBER HAUS
REAL ESTATE ADVISORS

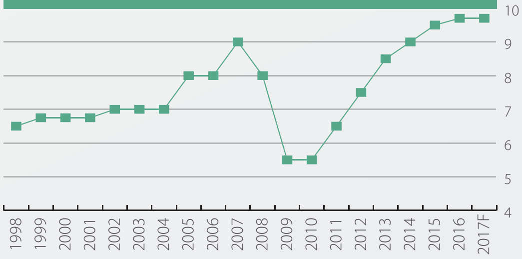
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



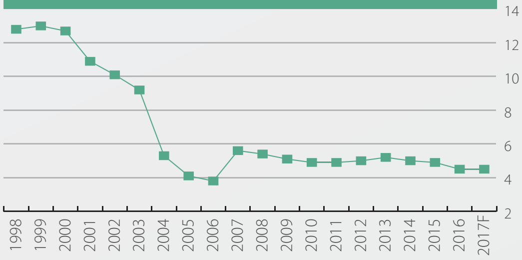
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



END-2016 SNAPSHOT / TALLINN

NEW APARTMENTS BUILT	2,000
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€1,000 - €1,600
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,500 - €2,200
OLD CONSTRUCTION APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM)	€2,000 - €4,500
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€2,300 - €5,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.5 %

SUFFICIENT INCREASE OF NEW APARTMENTS EXPECTED IN 2017

PRICES

The average price for apartments in Tallinn grew 12.2% in 2016 and was €1,746 per sqm in December 2016.

The reasons behind the increased prices for apartments have been low interest rates, rise in salaries and purchasing apartments as an investment. One of the reasons behind purchasing new apartments is also energy efficiency (lower heating costs). Altogether 40% of the deals took place without a bank loan and overall 10-20% of the apartments were bought as investments.

New apartments cost €2,300-€5,000 per sqm in the city centre and €1,500–€2,200 per sqm in the residential districts.

Prices for apartments vary mainly due to the location. Most transactions were in the city centre and involved apartments in good condition in modern or fully renovated buildings, with prices from €2,000 to €2,900 per sqm.

In buildings with the best views or special architectural features, prices sometimes exceed €3,000 per sqm. Well-renovated flats in the Old Town cost from €2,700 to €4,500 per sqm.

In the residential districts, most of sales were for cheaper one or two room Soviet-era apartments in need of renovation. These flats cost from €1,000 to €1,300 per sqm. Apartments in excellent condition situated in popular locations of residential districts costs €1,300 to €1,600 per sqm. Apartments in less sought after locations are much less marketable, even if they are in good condition. In popular suburb locations like Pirita, Nõmme and Kakumäe, prices for modern apartments range from €1,800 to €3,000 per sqm.

RENTS

In 2016, rents for apartments in Tallinn increased very slightly, because the supply of modern apartments has increased.

At the end of 2016, the asking price was €8.00–€9.00 per sqm for rental apartments in the suburbs of Tallinn and €10.00 per sqm in the city centre.

In the centre of the city, demand is highest for one- or two-room furnished apartments, which rent for €430 to €550 per month, preferably with parking. Tenants pay their own utilities on top of the rent.

The gross rental yield of apartments in Tallinn in 2016 was up to 5.0-5.5% depending on the location and the property. Owners generally conclude short-term rental agreements and check tenant backgrounds very carefully.

SUPPLY

In 2016, 2,000 new apartments were completed in Tallinn, compared to 1,800 new apartments in 2015. Although development used to mostly take place in the city centre and its immediate vicinity, active development has now also begun in the suburbs and the area near Tallinn. It is expected, that around 3,000 new apartments will be completed in Tallinn in 2017.

At present, there are apartments for sale in 120 newly developed projects in Tallinn and another 40 projects in the immediate vicinity of the city. At the same time, most projects are small and the development of larger projects takes place in stages. It is expected, that around 3,000 new apartments will be completed in Tallinn in 2017.

Clients primarily value smaller development projects located in or near the city centre.

The development of apartments is in the hands of larger developers such as Merko, Endover, Metro Capital, NCC-Bonava and YIT).

DEMAND

The number of apartment deals rose by 4.8% and the total volume rose by 8.6% in 2016.

In 2015, 90–320 new apartments were sold each month, which is 19% of all apartment transactions in Tallinn, while in 2016 130–360 new apartments were sold each month which is 24% of all apartment transactions. Since demand exceeds supply, most apartments were booked and sold during the course of construction. Still, apartments in some projects have been for sale for 3-5 years and developers have to lower prices to attract buyers.

PRIVATE RESIDENCES

In 2016, the average prices of individual houses in Tallinn and Harjumaa rose 11%, the number of transactions decreased by 3.8% and the transaction volume increased by 6.9%.

Based on the nature of the dwellings, the most desirable are new or up to five years old 130-180 sqm houses with modern technical solutions and economic heating systems, priced between €170,000 and €250,000. The increase in the price of such houses, depending on the exact location has been 5-10%.

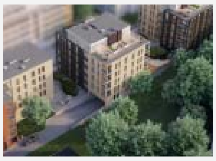
Most of the deals take place in Tallinn and up to 25 km from Tallinn, especially in Viimsi, Rae, Harku parish and the average price was the highest in Rae and Viimsi parish.

An increase in price can be noted based on the location, especially in the priced and well-established private residence boroughs of Tallinn (Nõmme, Kakumäe and Pirita) and in the parishes bordering Tallinn.

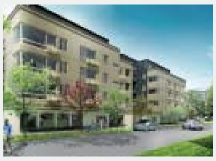
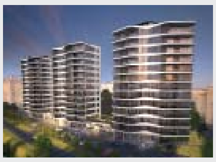
LEGAL NOTES BY SORAINEN

Residential leases are generally not subject to rent control, with the exception of residential properties owned by local government. However, when buying a property with tenants, problems might arise in evicting them upon termination of the lease. In Estonia, possession of property is protected and even if termination is valid, it is prohibited to summarily evict tenants if they do not leave voluntarily. In that case, a claim must be filed with the court for recovery of the premises from illegal possession and eviction is possible only by bailiff based on court decision.

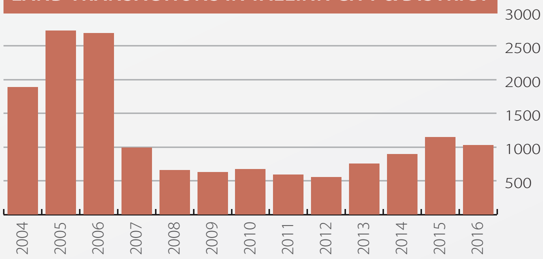
RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Saani Street 2** – At the end of 2016 the construction and development company YIT had finished constructing a project in the vicinity of the Old Town. The project offers a superb life quality and consists of three 5- and 6-storey buildings with an underground parking facility, a leisure area and a children's playground. There are 62 apartments, priced between €2,150 and €2,850 per sqm. In addition there will be 5 office spaces and 3 commercial spaces with display windows. Storage areas are included in the price and a parking space in the garage will cost €12,000 and €10,000 in the courtyard.	€2,150 - €2,850	Q4 2016
	**City Residence, Tartu Road 56** – City Residence is a modern development project complete with rooftop terraces, winter gardens and a two-storey underground parking facility, located near one of the main streets in the centre of Tallinn. The building has a so-called Smart Home solution and on the 7th floor there are exclusive so-called Platinu Collection special apartments. The ground floor will include commercial spaces and the project has 85 apartments, priced between €1,700 and €4,150 per sqm. Parking spaces in the underground facility cost €15,000. The building was completed in Q4 2016. So far 80% of the apartments have been booked and sold. Built by Bauschmidt and developed by Endover.	€1,700 - €4,150	Q4 2016
	**Merevärava, Vibu Street 6/8/10** – A development project with a Scandinavian style, consisting of 4 houses with underground parking facilities. The Merevärava homes will be built in the seaside borough of Kalamaja, which is becoming an increasingly popular neighbourhood. In between the houses there will be leisure areas, a playground and private yards. There will be elevators in the dwellings, an apartment-based heating and ventilation system and storage areas. The first stage, Vibu Street 6, was completed at the end 2016. The whole project will be completed in 2017 and there will be a total of 84 new apartments. The prices range from €1,800 to €3,800 per sqm, including a parking place. So far 80% of the apartments have been booked and sold. Developed and built by YIT.	€1,800 - €3,800 (I stage)	Q4 2016 (I stage)

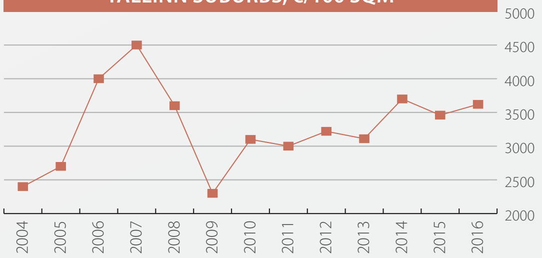
NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Jakobsoni Street 7** – a development project in the modern style of the 1930s being built next to quiet alleys in the heart of Tallinn, which will consist of three buildings and underground parking facilities. Most of the apartments will include a spacious balcony or a terrace. The enclosed yard will include a leisure area and a children's playground. There are a total of 75 apartments with one to four rooms, priced between €2,500 to €3,400 per sqm. The project will be completed in Q2 2017. Developed and built by YIT.	€2,500 - €3,400	Q2 2017
	**Poordi Street 3/5** – An exclusive development project consisting of 4 buildings located between the Old Town and the harbour of Tallinn, in the Admiralty Quarter. The ground floors will consist of commercial spaces, and altogether there will be 120 apartments with prices ranging from €2,800 to €4,800 per sqm. Storage spaces range from €3,000 to €7,700 and parking spaces from €16,000 to €25,000. The complex will be completed in Q2 2017 and is developed by Capital Mill.	€2,800 - €4,800	Q2 2017
	**Meerhof 2.0, Pirita Street 20A** – An exclusive development project located in the immediate vicinity of the centrum, the sea and Kadrioru Park, consisting of two buildings. Meerhof 2.0 is the latest development of the Meerhof Residents project, which was completed and deemed a great success in 2015. Most of the apartments include a view to the sea, open balconies and terraces, parking spaces in the basement garage and the so-called smart home solutions. The principles of Feng Shui have been followed in the planning and building. There are a total of 142 apartments in the complex, with prices ranging from €2,050 to €6,150 per sqm. The building will be completed by autumn-winter of 2017, and already over 40% of the apartments have been booked and sold. Developed by Metro Capital and built by Nordecon.	€2,050 - €6,150	Q4 2017
	**Aurora Park** – a fair-priced development project located in the suburb of Tallinn, next to lake Harku on Astangu Street. There are health trails, shopping and entertainment centres nearby. Three 8-storey buildings will be built, with a total of 241 apartments, with all of them having a balcony or a terrace. Prices start from €55,000 per apartment and range from €1,250 to €2,050 per sqm. The buildings will be completed during 2017 with 50% of the apartments already being sold and booked. The developer is Endover Kinnisvara.	€1,250 - €2,050	2017
	**Skyline Residence** – A development project consisting of 3 tower buildings located between midtown and the popular Kadrioru Park on Lasnamäe Street. There will be a total of 14 apartments with spacious balconies and the prices range in the first – currently under construction – building from €2,350 to €3,300 per sqm and the parking spaces in the garage are €16,000. Storage spaces range from €3,000 to €5,000. The first building will be completed in Q4 2017, the other buildings in 2018-2019. Over 50% of the apartments have been booked and sold. The developer is U.S. Invest.	€2,350 - €3,300	Q4 2017
	**Linda and Kalev houses** – A development project consisting of two 6-storey energy efficient buildings located in the quiet alleys of the mid-town on Staadioni Street. Linda house has an energy class of A, Kalev has an energy class of B. Most of the apartments have a balcony or a terrace and all of them have high ceilings. A total of 73 apartments with prices ranging from €2,150 to €3,100 per sqm and parking spaces in the garage are €12,900. By the end of 2016 more than 70% of the apartments were sold or booked. The buildings will be completed in Q2 2017. The developer is Stadium Real Estate.	€2,150 - €3,100	Q2 2017

LAND TRANSACTIONS IN TALLINN CITY & DISTRICT



LAND PRICES FOR PRIVATE HOMES IN TALLINN SUBURBS, €/100 SQM



LEGAL NOTES BY SORAINEN

Generally, no restrictions exist on foreign natural or legal persons purchasing land. Restrictions exist for agricultural and forestry land. All companies must meet certain qualifications or obtain special permit to purchase over 10 ha of agricultural or forestry land. Non-EEA and non-OECD country citizens as well as legal persons must obtain a permit to acquire agricultural and forestry land. Further restrictions apply to non-EEA citizens for acquiring land in certain border regions or smaller islands.

Construction requires a construction permit issued by local municipality. Construction must generally comply with local spatial planning, in particular detailed plans. Existing detailed plans may be non-practical and entail investment obligations in local infrastructure. When buying land for construction, the existing detailed plan must be thoroughly investigated to ensure its applicability.

END-2016 SNAPSHOT / TALLINN

ANNUAL LAND PRICE CHANGE (TALLINN AND HARJUMAA)	+ 3.5 %
TOTAL LAND TRANSACTIONS CHANGE (TALLINN AND HARJUMAA)	- 10.3 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (SQM)	€300 - €1,000
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€50 - €300
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€50 - €100

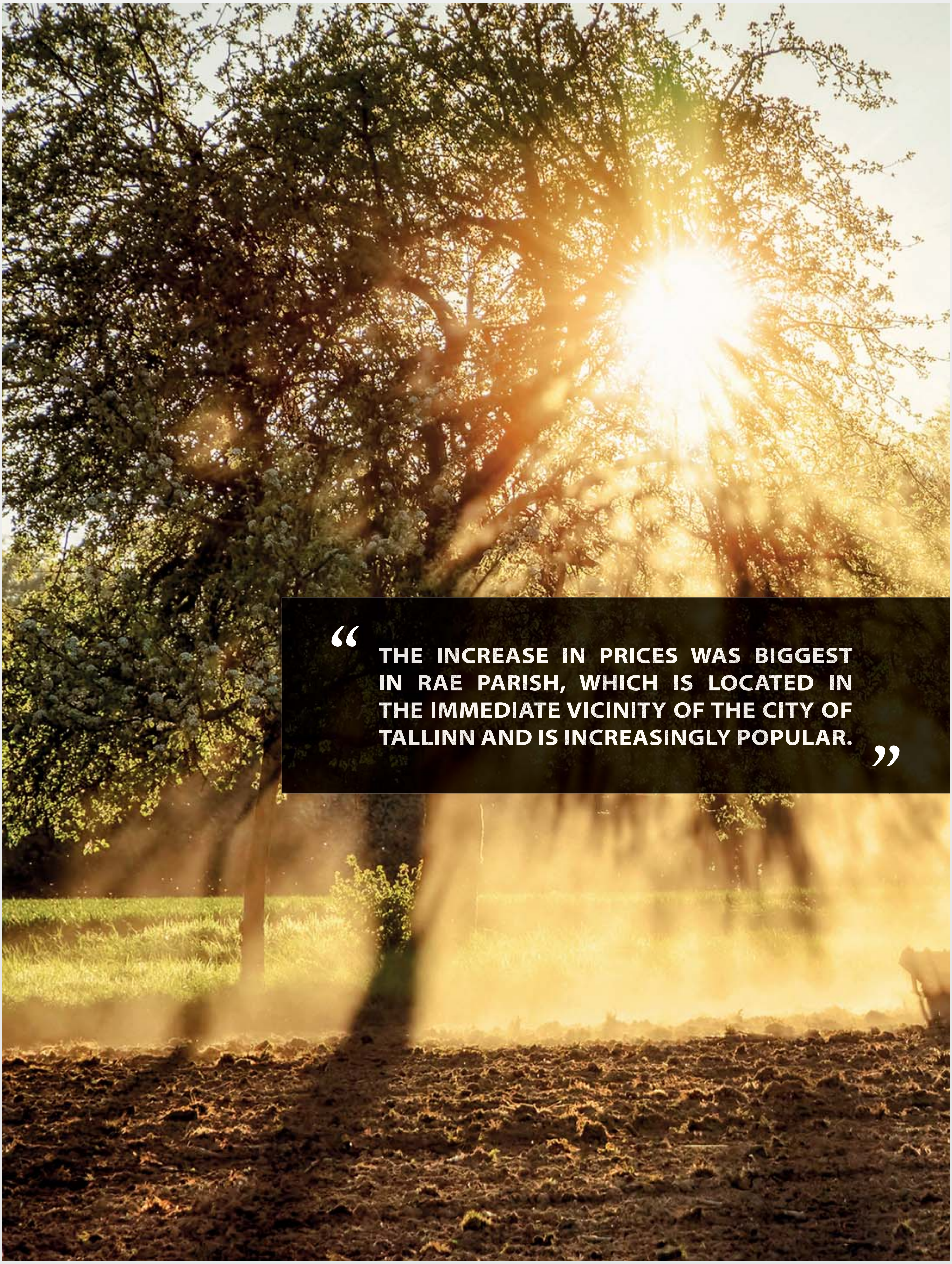
AVERAGE DEAL VALUE DECREASED

In 2016, the number of transactions involving residential land in Tallinn and Harju County decreased 10.3% and the financial volume decreased 11%. The average sqm price increased 3.5% and average transaction decreased 0.7%. The increase in prices was biggest in Rae Parish, which is located in the immediate vicinity of the city of Tallinn and is increasingly popular.

The prices of plots sized 1,000–1,500 sqm are €90,000–€170,000 in popular locations in Tallinn (Pirita, Kakumäe and Nõmme), €40,000–€90,000 near the city, and €20,000–€40,000 in other locations.

There is still little interest in residential lots without utility networks or with insufficient infrastructure, even for lower prices.

The most remarkable land transaction took place in the heart of Tallinn – one of the biggest construction companies and developer, Merko bought a 128,000 sqm plot located in the quiet city centre area, in close vicinity to CBD and Old Town at auction. The winning bid was €16.8 million plus VAT. According to the current detail plan, it will be the biggest residential development and construction site in Estonia during the next 10-15 years – there will be a total of 1,600 apartments, kindergarten, playing fields, commercial premises on the ground floors and 2,900 underground parking spaces. Merko is planning to start with projection works during the first half of 2017.



"THE INCREASE IN PRICES WAS BIGGEST IN RAE PARISH, WHICH IS LOCATED IN THE IMMEDIATE VICINITY OF THE CITY OF TALLINN AND IS INCREASINGLY POPULAR."

OBER HAUS
REAL ESTATE ADVISORS

ESTONIAN REAL ESTATE TAXES AND LEGAL NOTES

REAL ESTATE TAXES

ACQUISITION

Estonian real estate can be acquired directly (asset deal) or indirectly by way of acquiring shares in a company holding real estate (share deal). Transfer of shares in a property holding company may be subject to state and notary fees (in case of private limited company OÜ) or proceeding and entry fees (which in case of a public limited company AS are to be paid to the Estonian Central Securities Depository).

The transfer of shares in a property holding company is not subject to VAT.

In case of an asset deal, the transfer of real estate is subject to state and notary fees in Estonia:

- The state fee is calculated as a percentage of the transaction value (ca 0.2%-0.4%). It is up to the seller and buyer to agree upon which party pays the applicable fees;
- The notary fee is calculated based on the transaction value but several other factors also influence the fee (e.g. whether the property is mortgaged, number of participants in the transaction etc.).

Transfer of real estate is generally exempt from VAT, but there are certain significant exceptions. Transfer of a new or significantly renovated apartment or building or a land plot without a building, is subject to 20% VAT. Parties can also opt to add VAT on a voluntary basis, provided that it is not a dwelling. In case of a VAT exempt supply of the real property, the adjustment period for input VAT is 10 years. Estonian has also implemented a domestic VAT reverse charge mechanism on certain sales of property between VAT liable companies.

In practice, share deals dominate over asset deals. Still, in case of acquisition of property securing a loan in default or acquisition of property from a seller in bankruptcy, asset deals are due to legal reasons often more attractive, if arranged through a public auction by bailiff or trustee in bankruptcy. In order to ensure recovery of input VAT, proper VAT invoice is required and the process should be managed carefully.

CORPORATE INCOME TAX (CIT):

Due to the specifics of the Estonian corporate tax system, rental income received by Estonian companies only becomes subject to 20% corporate tax upon distribution of profits (calculated as 20/80 on the net amount of profit distribution). Permanent establishments of non-residents are taxed similarly to Estonian companies, i.e. only upon making formal or deemed profit distributions.

WITHHOLDING TAX (WHT):

As a general rule, non-residents without a permanent establishment in Estonia are subject to 20% income tax on the gross rental income by way of withholding. Starting from 2016, however, 20% of deemed expenses on a dwelling can be deducted when submitting a tax return to reclaim part of the tax withheld.

PERSONAL INCOME TAX (PIT):

Estonian resident individuals pay 20% income tax on gross rental income. The taxpayer is allowed to deduct 20% of rental income received from a dwelling for covering the expenses related to the property. These expenses do not have to be documented. The deduction can first be utilized in the income tax return covering the year 2016.

Resident individuals registered as sole proprietors are allowed to deduct expenses directly related to the rental income and thus pay 20% income tax on the net income. Such expenses must be properly documented and most often relate to loan interests, costs of repair works and commission fees. However, sole proprietors must also pay social tax in addition to the income tax on the net rental income.

When investing into Estonian real estate, investor should therefore choose in advance the most advantageous tax regime. In practice, investing through a resident company (which allows for deduction of all expenses related to the real estate and also the indefinite deferral of corporate income tax), is generally the most preferred and best-suited alternative.

Rental agreements are not subject to any state or notary fees.

RENT

VALUE ADDED TAX (VAT):

As a general rule, rent of real estate is VAT exempt. Parties may opt to add VAT on rent, provided that the Estonian Tax Authorities are respectively notified in advance and in such case the notification is valid for 24 months. In practice the option is widely used by owners of commercial property since this grants the right to deduct input VAT incurred upon development of property. All residential property is rented without VAT since the option to tax is not available.

SALE

VALUE ADDED TAX (VAT):

Transfer of real estate is generally exempt from VAT, but certain exceptions are in place. Transfer of a new or significantly renovated apartment or building or a land plot without a building, is subject to 20% VAT. Parties can also opt to add VAT on a voluntary basis, provided that the real estate is not a dwelling. In case of a VAT exempt supply of the real property, the adjustment period for input VAT is 10 years. There is also a domestic VAT reverse charge mechanism implemented on certain property sales. Transfer of shares in a real estate company is also exempt from VAT.

CORPORATE INCOME TAX (CIT):

Capital gains received by resident companies upon sale of real estate or shares in real estate companies remain untaxed until distributed as profits. Non-resident companies pay 20% income tax on the capital gain from the sale of real estate or shares in real estate companies by way of self-assessment. A company is deemed to be a real estate company if at the time of sale or at any period during the 2 years preceding the sale more than 50% of the assets directly or indirectly consist of Estonian real estate. The capital gain is calculated as the difference between the sales price and acquisition cost. All documented expenses made in order to buy, improve or supplement the property, including all expenses directly related to the sales transaction may be deducted.

SPECIAL RULES FOR DOMESTI INVESTMENT FUNDS

According to the Estonian Income Tax Act domestic contractual investment funds are taxpayers in respect of their Estonian real estate related income and gains (including gains derived from Estonian real estate companies in which the fund held more than 10% shareholding). Income tax is charged on gains derived from the transfer of property and the income which is received from the hire or lease of property that is located in Estonia. In addition, interest which is received in connection with holding in another Estonian real estate contractual investment fund or pool of assets is subject to 20% income tax.

PERSONAL INCOME TAX (PIT):

As a general rule, private individuals are liable to pay 20% income tax on the capital gain upon sale of real estate. Exemption is provided for sale of property, which was used by the taxpayer as his or her place of residence. Whereas, only one such property can be sold tax exempt in every 2 years. If an immovable, structure or apartment was used simultaneously with its use as place of residence also for other purposes, then the tax exemption is applied according to the proportion of the area of the rooms used as residence and the area of the rooms used for other purposes.

REAL ESTATE TAX (BUILDINGS/PREMISES)

There is no real estate tax in Estonia.

LAND TAX

As a general rule, land tax is applicable on the taxable value of land in Estonia.

The tax rate varies between 0.1% and 2.5% of the taxable value of land annually, which depends on the location of land and is determined by the local municipality. The taxable value should not be confused with the market value. In Tallinn, the highest rate is imposed and thus levied at 2.5% annually.

Private individual homeowners are entitled to exemption from land tax on land under their home. More specifically, land plots in cities and towns with the size of up to 1 500 m2 and in other areas land plots with the size of up to 2 ha per person are exempted from land tax provided that person's home is registered to that address in the Population Register.

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LEGAL NOTES

INTRODUCTION

Experienced market participants plan transactions cautiously and transactions take longer to close than during times when transaction volumes were higher.

The vast majority of land has been privatised and title to land is entered in the Land Register, with a few limited exceptions.

TITLE TO REAL ESTATE, LAND REGISTER

Ownership of real estate is registered with the Land Register. This is a national register, which includes information about ownership, details of real estate and related encumbrances. Entries in the Land Register are assumed correct and valid vis-à-vis third persons acting in good faith.

The Land Register is a public register and everyone may access registered information. The register is maintained and can be accessed electronically.

Title to real estate is considered transferred on registration of ownership with the Land Register, not on signing the agreement. In the case of a simple transaction, ownership is often registered within one week from filing an application with the Land Register, along with the signed and notarised agreement. In the case of a complex transaction, the Land Register has up to one month to process the application. Entries in the Land Register are made in the order of submission and therefore parties to a transaction often agree to act as though the ownership has already transferred as of submitting the application to register the change to the Land Register.

ACQUISITION OF REAL ESTATE

GENERAL

Most commercial properties held for investment purposes are held in single-asset special purpose companies. Commercial property can therefore be sold either by selling the real estate (asset transaction) or by selling 100% of the shares in the property holding company (share transaction). Both options are used, although recently sale of shares has become more rare.

An asset transfer may constitute a transfer of enterprise in which case it will be similar to a share deal since the obligations of the seller will transfer to the buyer along with the asset. This may also mean that the transaction is subject to merger clearance.

Real estate consists of land and things permanently attached to it, such as buildings and standing timber. In general, transfer of a building separately from the underlying land is not permissible, except if building title is established and so transferred. In that case, the building forms an essential part of the building title, not of land.

LETTER OF INTENT AND HEADS OF TERMS

In practice, letters of intent (LOIs) and heads of terms (HOTs) are used to regulate the process of negotiating the contemplated real estate transaction. However, in Estonia all transactions related to a binding obligation to buy or sell real estate (including preliminary agreements, LOIs and HOTs, if binding) require notarisation in order to be legally binding. Without notarisation, a buyer cannot require the seller to conclude a sale contract and transfer ownership, or to pay contractual penalties for failing to transfer. Failure to comply with the format set by law makes a transaction void unless the law or the objective of the formal requirements states otherwise.

If an LOI or HOT sets out the parties' obligation not to negotiate with third parties (so-called exclusivity), this is considered valid and binding without notarisation. Breach of the exclusivity obligation entitles the aggrieved party to compensation by way of damages, including payment of specific contractual penalties.

In order for the LOI or HOT to be effective in practice, it is vital to ensure that the exclusivity period is long enough: preferably for the intended negotiating period plus some further period.

ASSET TRANSFER

Asset transactions must be notarised and therefore must often be concluded in Estonian.

Asset transactions require registration with the Land Register, which can be done in a week, but sometimes takes four weeks or longer.

Due diligence is limited to researching the property and related obligations, as asset transfer does not require research into the legal or financial background of a company to the same extent as would a share transaction. Nevertheless, as the asset transaction may be deemed a transfer of enterprise resulting in obligations related to the enterprise being transferred to the buyer automatically, the obligations of the seller with respect to the assets cannot be ignored.

Existing lease contracts remain valid after the transaction.

An asset transaction may be considered a transfer of enterprise, in which case all obligations associated with the enterprise will be transferred from the seller to the buyer. The transaction is therefore similar to a share deal and should be structured in the same manner with all appropriate warranties and indemnities included to cover the transferred enterprise.

SHARE TRANSFER

A share transaction can be made instantaneously, through electronic sale of shares in the Estonian Central Register of

Securities (ECRS), accessed via the buyer's and seller's internet bank accounts. No state duties apply, and no notary fees apply if the transaction is done electronically. If the shares are not registered with the ECRS, the share transfer must be notarised.

Generally, buyers require sellers to represent and warrant that the seller's claims about the property holding company at the time of the share transaction were all accurate. Penalties for false representations about the company being sold should be large enough to cover any damage the buyer may incur under this head.

Buyers should be aware of deferred tax issues. In Estonia, all corporate income tax is deferred indefinitely until the time of dividend payments. Many years of deferred income tax liability may be "hidden" in a property holding company at the time of sale.

PORTFOLIO DEALS

Considering a portfolio deal requires bearing in mind the following:

- Portfolios may include flawed or unwanted properties. Here, due diligence is of utmost importance in order to ensure marketability and resale after closing.
- A number of non-real estate assets are often acquired or need to be acquired together with the portfolio. These might include eg employment contracts, property-related rights, access arrangements and management operations.
- In a multiple jurisdiction portfolio deal, simultaneous closing of the transaction in all countries involved may be difficult to achieve due to differences in local laws and regulations.

SALE-LEASEBACK

Sale-leaseback is sometimes used as an alternative to traditional debt in funding costs of expansion, acquisition and construction of new facilities.

This arrangement requires the following checks:

- Existence of a solid tenant/guarantor with a strong business track record to ensure stable cash-flow during the lease.
- The lease agreement should be tied to the asset purchase agreement as this is the main reason for the deal.
- The long-term nature of the arrangement requires the lease to be "waterproof". Adequate security on both sides that the other party will duly perform is also required (eg guarantee, surety).
- Closing under the asset purchase agreement should coincide with lease commencement date (book-keeping issues, reconciliation of costs) irrespective of the actual title transfer date.

FORM OF AGREEMENTS

Transfer of title to real estate requires a sale agreement (setting the terms and conditions of sale) and a real right agreement (agreement to transfer title). These are usually contained in one document, but may be separated to facilitate separate closing or to facilitate English language sale agreement. The real right agreement must be in Estonian as it is filed with the Land Register.

All transactions related to the obligation to sell and purchase real estate require notarisation in order to create legally binding obligations. The notary verifies authorisation of signatories to the agreement, the content of the agreement and the will of the parties, who must appear before the notary to conclude the agreement.

LANGUAGE REQUIREMENTS

The sale agreement and real right agreement are drafted and verified by a notary in Estonian. It is possible to separate the sale agreement from the real right agreement allowing the sale agreement to be concluded in English. However, only a few notaries are comfortable with attesting English language agreements.

As the Land Register is maintained in Estonian, any documents in foreign languages must be filed with the Land Register with a notarised translation into Estonian.

DUE DILIGENCE

Regardless of the form of acquisition, all buyers are advised to carry out thorough due diligence on the property or holding company to be purchased. Due diligence involves checking eg title, encumbrances, planning issues, third party rights, public restrictions, permits, environmental permits and impact assessments, disputes and many other issues. This gives more security or bargaining power to the purchaser. It is also part of the legal duty of care of a management board member of a company.

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LEGAL NOTES

PRE-EMPTION RIGHTS

Pre-emption rights may be entered in the Land Register on the basis of a transaction, or may be created by law. For example, a co-owner of real estate has a pre-emptive right on sale to third persons of a legal share in real estate. Further, the state or local government has a pre-emption right on transfer of real estate located within the boundaries of a shore or shore bank building exclusion zone or if real estate is located in certain nature protection zones, or if a heritage protection object is located on real estate.

Pre-emption right should not be confused with rights of first refusal which must be resolved before a transaction takes place. Pre-emption rights may be exercised within two months after receiving notification of a sale agreement. For larger transactions this often means that either the seller obtains a waiver from the person with the right of pre-emption or the closing is postponed until after the two month period has passed.

As to pre-emption rights, preliminary notation plays an essential role. A preliminary notation is a notation which may be entered in the Land Register to secure a claim for acquisition or deletion of a real right, for change of content or ranking of a right, including a future or conditional claim. If a preliminary notation is registered with the Land Register regarding pre-emption right encumbering an immovable, then disposal of the real right after entry of a preliminary notation in the land register is void to the extent that this prejudices or restricts a claim secured by the preliminary notation.

TYPICAL PURCHASE PRICE ARRANGEMENTS

Most real estate transactions include both equity and debt financing components. The buyer may be required to pay a deposit on the purchase price to a broker's or the seller's account before the real estate purchase agreement is signed, but this is rare in larger transactions. Typically, the purchase price is transferred to a notary's deposit account before concluding the sale agreement. The notary releases the purchase price to the seller after the agreement is made and filed with the Land Register. In case of debt financing, the financing bank will transfer the funds directly to the seller within a couple of days as agreed in the purchase agreement.

RELATED COSTS

Asset transactions incur notary fees and state duties. However, as the percentage fee decreases with the size of the transaction, on large transactions (EUR 500,000 or more) these fees add up to less than 0.5% of the total cost. In addition to notary fees and state duties, the following costs may occur depending on services used: brokerage fees, valuation of real estate (usually carried out by real estate firms), bank fees, fees for financial, tax, legal, environmental, technical and commercial due diligence and reviewing the sale and security agreements.

CONCENTRATION CONTROL

Transfer of real estate (both asset and share transfers) with a cash flow may be subject to concentration control, i.e. merger clearance, by the competition authorities if:

- turnover in Estonia of participants to the concentration (target undertaking and buyer) exceeds EUR 6,000,000; and
- turnover in Estonia of at least two participants to the concentration exceeds EUR 2,000,000 each.

The turnover considered in deciding if concentration control applies is the turnover of sales in or to Estonia in the last financial year. If the buyer has no business in Estonia (on first purchase), the merger clearance does not apply.

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

In general, no restrictions are imposed on foreigners acquiring real estate in Estonia. Exceptions include forestry and agricultural land, plus some island and sea coast and state border areas.

Acquiring real estate the intended purpose of which is profit-yielding land consisting of ten or more hectares of agricultural or forestry land is unrestricted only for:

- citizens of Estonia or another country which is a contracting party to the EEA Agreement or a member state of the Organisation for Economic Cooperation and Development (OECD Contracting State),
- a legal person from an OECD Contracting State if engaged for three years immediately preceding the year of acquiring the immovable in producing agricultural products or in forest management.

Other persons may own such land but on limited grounds and on approval of the county governor.

Transfer of land on smaller islands and certain border areas is only allowed to non-citizens or legal persons of states not contracting parties to the EEA agreement on permission of the Estonian Government.

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

It is important to be aware of restrictions on certain types of real estate use. For example, use may be restricted in sea coastal areas, heritage protection zones, protected zones of power and other utility lines, roads and railways. Restrictions may mean that part of real estate may not be used for buildings or the owner has to avoid activity in protected zones.

ENCUMBRANCES

The following rights, which are entered in the Estonian Land Register, may encumber real estate: usufruct, encumbrances, building title, pre-emptive rights and mortgages. In general, these rights may be used in real estate transactions and are entered in the Land Register on notarised agreement to secure the interest of the purchaser, seller, third persons, or neighbouring real estate.

The Land Register may register notation of a lease agreement, which ensures that on change of ownership the new owner may not terminate the lease agreement on that ground.

MORTGAGE

Real estate is commonly used to secure a loan. A mortgage may be established on real estate by a notarised agreement as security in favour of a bank financing the purchase or for other purposes. The mortgage agreement can be concluded at the same time and in the same document as the sales agreement. However, in order to be valid the mortgage agreement must be sufficiently specific as to the claims secured.

If a mortgage already encumbers real estate before sale and the purchaser needs a mortgage for its own financing purposes, the existing mortgage is typically transferred to the bank financing payment of the sale price. This transaction structure is more cost-efficient compared to deleting the existing mortgage and establishing a new one, since it saves on both notary fees and state duty.

PROPERTY MANAGEMENT

Maintenance of real estate is usually carried out by the owner or by a professional management company.

Maintenance and management of a residential building is an obligation on the owners of the building, that is, apartment owners. In small buildings, this is usually carried out by the owners themselves. In larger buildings, maintenance and management tasks are usually outsourced.

Under the recent Building Act and regulations established thereunder by a minister responsible for a respective area, owner supervision over real estate is the obligation to control the compatibility of construction with the regulations set by law and contract. Those responsible for owner supervision are under quite a wide notice obligation.

LEASE AGREEMENTS

Landlords and tenants of commercial property are generally free to contract their lease agreements as desired. Residential leases are subject to heavy mandatory regulation.

Leases may be either for a specified or unspecified (open-ended) period. In the case of an unspecified period, the statutory notice period for termination is three months. For business leases, the parties can specify a different notice period in the lease agreement.

Renewal options may be included in the lease. These give the tenant the first right to renew for a specified period at the end of the lease's original term. Generally lease agreements allow renewal once or a limited number of times.

Break options, giving the tenant the right to break the lease early, are sometimes agreed on, but are relatively rare.

Service charges generally cover most of the costs. The more tenant friendly double-net lease is more common today as the market has shifted to a tenant's market.

Add-on factors, requiring the tenant to pay rent on the pro-rata share of common space is common practice.

In common market practice, rent increases are generally allowed each year and are generally set at Estonian CPI, or a fixed rate (such as 3% yearly).

The right to assign or sublet the lease is not often given.

If a tenant abandons the premises, then the landlord may claim losses equal to rent until the end of the original lease term, less benefits from alternative use. A landlord who leases the property out prior to expiry of the original lease term at a lower rental rate may claim the difference in rent until the end of the original lease term. The landlord is required to mitigate the losses by actively seeking a new tenant and therefore the courts would often limit the period for which the full rent could be claimed.

LANDLORD'S LIEN

In addition to whatever security may have been agreed in the lease agreement, by law the landlord has a lien over tenant's movable property located in the leased premises. The landlord even has the right to intercept and prevent removal of such movables from the premises if the tenant is in the process of abandoning the premises or is otherwise removing the movables without securing the landlord's claim. The landlord may waive this right in the lease agreement.

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LEGAL NOTES

PPP & INFRASTRUCTURE

GENERAL

There is no specific law regulating PPP structures. PPP structures have been used to renovate public schools and hospitals. The public sector has taken more interest in PPP as an alternative to immediate direct investment, especially in projects concerning new highways and prisons.

CONCESSIONS

Estonian law provides regulation for construction work concessions and services concessions. These concessions may be granted in compliance with the Public Procurement Act. A construction work concession means the exclusive right to exploit a structure, granted either for a charge or without charge for carrying out construction work. On granting a construction work concession, the contracting authority may use a negotiated tendering procedure with prior publication of a tender notice.

In Estonian practice, SPVs holding concessions have not been used as an investment object.

SALE-LEASEBACKS

Sale-leaseback agreements have been used in Estonia for structuring PPPs. For sale-leaseback agreements, the parties usually first establish a building title, which separates the title of the building sold to and leased back from the private partner. Thereafter, the building title is transferred to the private partner and leased back to the tenant (public partner). These properties may be of investment quality, depending on the quality of the agreements.

REGULATED REAL ESTATE FUNDS

Laws and regulations have been adopted concerning real estate investment funds.

A real estate fund is a fund whose units or shares are redeemed or repurchased not less than six months from a claim being filed by the unit-holder or shareholder and, under the fund rules or articles of association, at least 60% of whose assets are invested in real estate or at least 80% is invested in real estate and real estate-related securities.

Both foreign and domestic investments may be administered through a real estate investment fund. The fund may be formed either as a public limited company or as a contractual investment fund. Fund units may be offered publicly or privately. The fund must be managed by a professional fund manager.

This investment structure offers opportunities for investors for exiting real estate investment or receiving financing without losing control over the investment. Fund management fees may be structured as success fees depending on the performance of the investment portfolio.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Local governments have the authority to approve detailed plans. Detailed plans are established for city areas and some rural municipality areas to regulate zoning and to set building rights for land plots as well as to set limits on construction activities in a particular area. Detailed plan proceedings involve public hearings and discussions. The whole process of approving a detailed plan may take from nine months to a few years depending on the area and on the complexity of the project.

CONSTRUCTION

As a new Building Act is in force, the legal definition of 'construction' is broadened. 'Construction' now means the erection, construction, installation and demolition of a construction and any other operations in relation to construction that lead to the creation of that construction or to a change in the physical properties of the construction. Building work also means shifting soil or paving layers to a degree that has a significant and permanent impact on the surrounding environment and is functionally related to construction work.

Building, modifying and demolishing buildings and other structures, as well as their subsequent use, requires a building permit and a permit for use. These permits are issued by local government bodies.

Construction work has to be carried out in line with building design documentation and building norms. The building design should be drafted by a professional architect or engineer. The intended purpose of the building cannot differ from the intended purpose of the land plot (eg it is not possible to erect residential buildings on commercial land and vice versa). If no detailed plan is in place or no detailed plan is required, construction works must be performed in line with design criteria issued by the local government.

The local government issues building permits based on building design if this complies with the detailed plan or design criteria. Construction without a valid building permit is not allowed. A building permit becomes invalid if construction works do not begin within five years of issue of the building permit.

Construction subject to a compulsory building permit requirement is a new term in the Estonian Building Act. This means that if a construction is subject to a compulsory building permit requirement, then only a person registered with the register of economic activities can prepare building design documentation, exercise owner supervision and build.

After completion of construction works, the municipality issues a permit for use of the building, if it has been constructed under a valid building permit and in accordance with design documentation. Use of a building is generally not allowed without a permit for use.

Once construction works are finished, the construction company may give a guarantee for construction faults. However, it is not mandatory under the Estonian law. It is therefore essential for the client to carefully review and negotiate construction agreements prepared by the contractor. Regarding the construction works where the other contracting party is a consumer, it is presumed that any construction fault that becomes evident within two years as of the day of delivery of the work to the consumer existed at the time of delivery of the work. The liability for such construction faults lies on the construction companies.

In the case of a contract of sale where the object is all or part of an immovable property, apartment ownership or restricted real right, part of which is a building, or membership of a building association, and which has been entered into by a seller engaged in economic and professional activities and a buyer who is a consumer, the presumption is that any non-conformity with the terms and conditions of the contract which becomes evident within two years as of the day of delivery of the building to the consumer existed already at the time of delivery of the building. Agreements which derogate from this subsection to the detriment of the consumer are void.

As of 1 April 2016, a new register entitled the Building Register began operation. The purpose of the Building Register is to store, provide and disseminate information regarding planned construction, buildings under construction, existing construction works, and related proceedings.

The information stored in the Building Register has informational and statistical significance. Applications, design specifications, notices, building permits, use and occupancy permits and enforcement orders have legal significance.

DISTRESSED ASSETS

Distressed assets are sold either through formal enforcement proceedings or on the market controlled by lenders (usually local commercial banks who have financed the owner). Apart from enforcement proceedings, the sale is subject to customary regulation described above.

During enforcement proceedings the asset is sold by the bailiff, usually at public auction. Auctions may be verbal or written. Submission of written bids is usually also allowed in verbal auctions.

A distressed asset is usually sold "as is", which makes thorough due diligence very important. The seller is typically insolvent or close to insolvency, which in effect means that upon default the buyer will usually have no recourse.

If the asset is sold in enforcement proceedings, then all rights ranking below the right of the creditor who has initiated the proceedings will be deleted from the Land Register. Exceptions to this rule are servitudes which serve public interests (such as public utility lines and rights of way).

A common problem for a purchaser of distressed assets is that the distressed seller has signed lease contract(s) on unfavourable terms to the asset owner. Such agreements transfer to the purchaser, even if the bailiff and the purchaser were unaware of the lease agreement. The purchaser must thereafter seek to terminate the lease and evict the tenant. Depending on the circumstances, this process may be complicated, time-consuming and costly.

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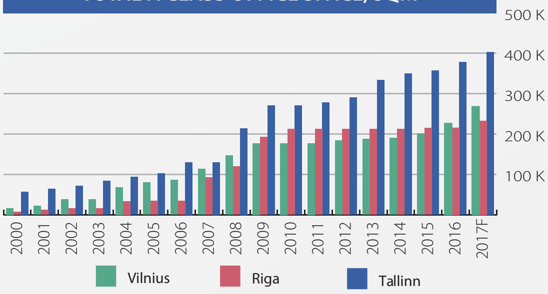
REAL ESTATE ADVISORS

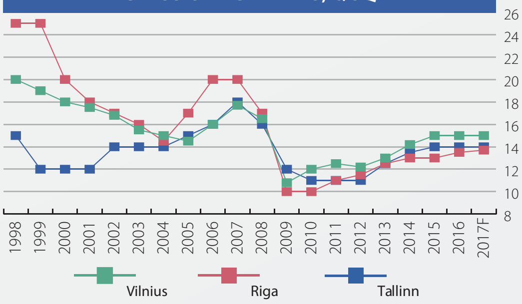
DATA CHARTS

OFFICE

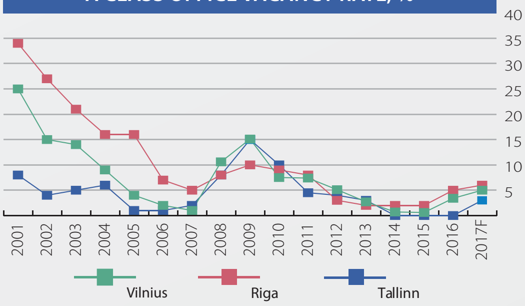
TOTAL A CLASS OFFICE SPACE, SQM



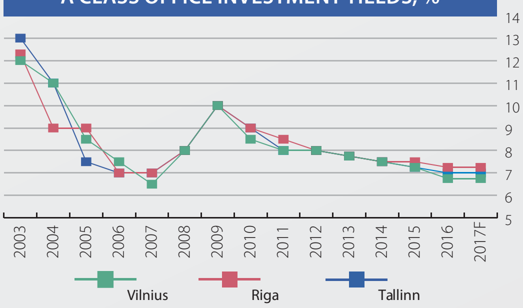
A CLASS OFFICE RENTS, €/SQM



A CLASS OFFICE VACANCY RATE, %

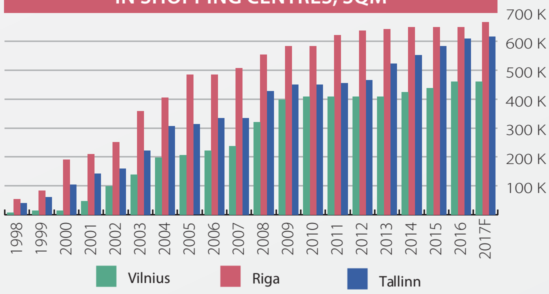


A CLASS OFFICE INVESTMENT YIELDS, %

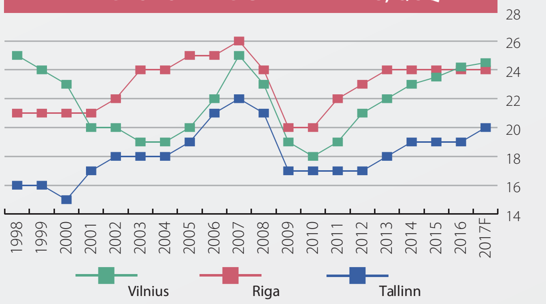


RETAIL

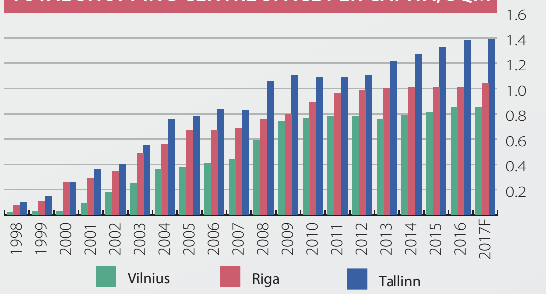
TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



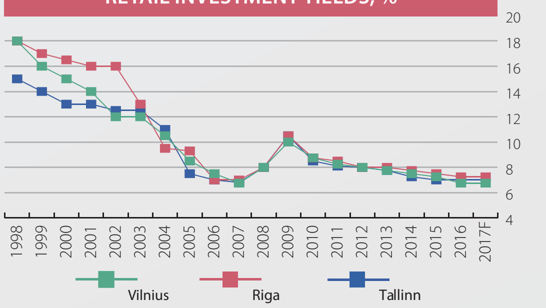
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL SHOPPING CENTRE SPACE PER CAPITA, SQM

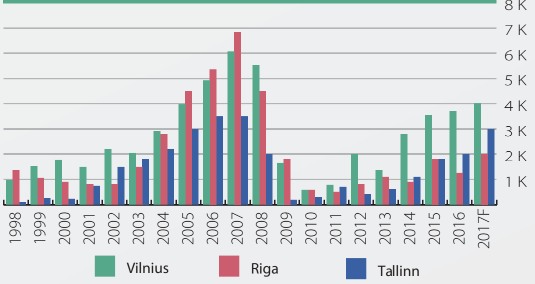


RETAIL INVESTMENT YIELDS, %

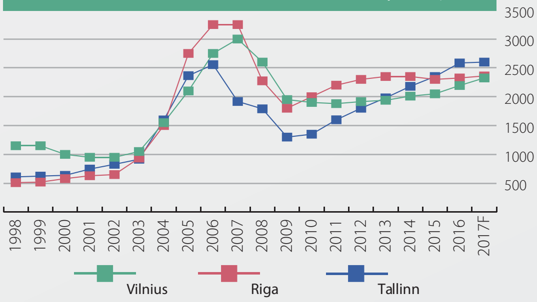


RESIDENTIAL

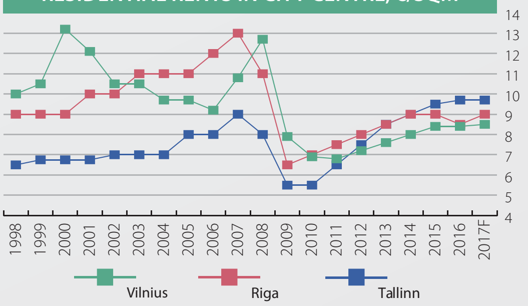
COMPLETED APARTMENTS



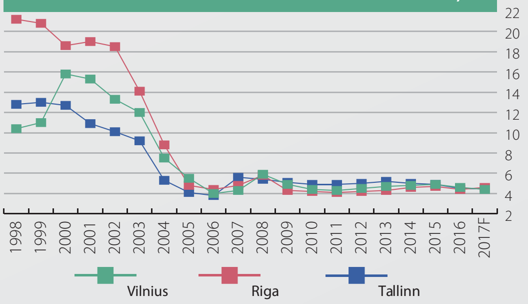
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM

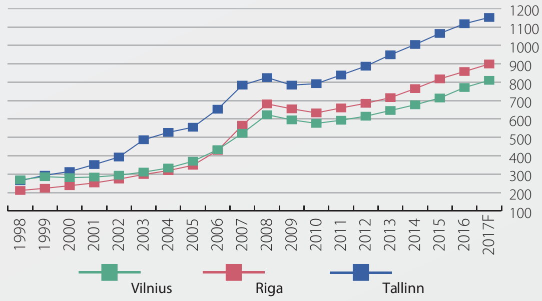


CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

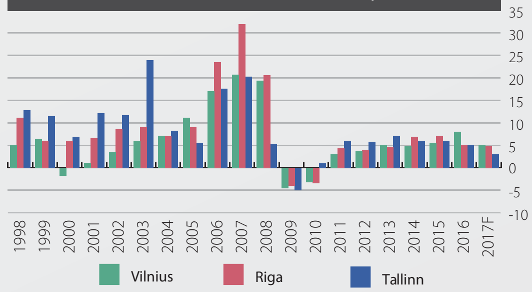


ECONOMICS

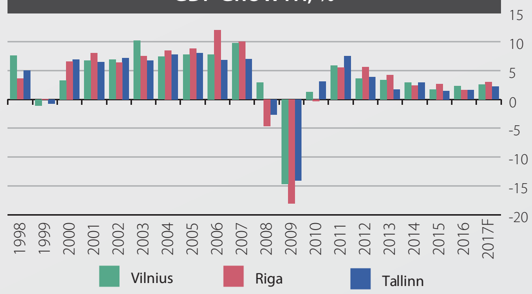
AVERAGE SALARY PER MONTH (BRUTTO), €



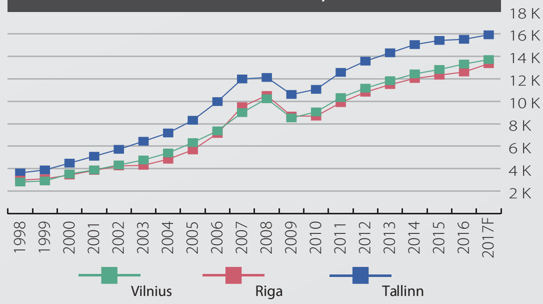
AVERAGE SALARY GROWTH, %



GDP GROWTH, %



GDP PER CAPITA, €



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