REALIA GROUP

'18 REAL ESTATE MARKET REPORT

BALTIC STATES CAPITALS

VILNIUS, RIGA, TALLINN

OBER HAUS

OBER HAUS PART OF REALIA GROUP

Realia Group helps its customers to find the best services and solutions in all questions related to housing and building management. Our vision is to offer better living and real estate wealth to our customers.

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.

Our services include:

- Brokerage services for consumers
- Housing management
- Property management services for commercial properties
- Property management services for residential buildings
- Financial management services
- Energy management services
- Project management and construction services
- Commercial property brokerage
- Valuation services
- Residential leasing

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 and Hestia in Sweden and in Norway.

Our customers include apartment house companies and real estate companies, private and public owners and end users of apartments and properties, fund companies, banks and many other parties operating in the real estate sector as well as consumers. All of our companies share the significance of customer experiences in the development of products and services. We are building a better customer experience by investing in customer-oriented service production, an active service culture and strong and competent operations. We want to be a customer experience driven pioneer in our field.

The Realia Group's competitiveness is made up of strong brands, motivated and skillful personnel, and the ability and will to invest in working methods and processes of the future. Realia Group employs approximately 2,000 professionals, and its turnover is approximately EUR 114.5 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 280 real estate professionals in 22 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:

REALIA ISÄNNÖINTI · REALIA MANAGEMENT · Huoneistokeskus · SKV Kiinteistönvälitys

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FOREWORD

Over the past 25 years, the real estate market of the Baltic countries has seen huge changes – from the beginning of the professional market and rapid development all through to the recent qualitative transformation. We are proud that during all these years Ober-Haus Real Estate Advisors have become an integral part of this industry. We have already become accustomed to working under rapidly changing market conditions, and so we are ready to accept the next challenges.

The Baltic real estate market was resilient enough and managed to recover quickly after the recent global recession and has shown visible subsequent successful development. However, despite the overall similarity between the countries, Estonia, Latvia and Lithuania are at different stages of development both in terms of comparing all the countries and individual processes within each country. The capital cities of the Baltic countries remain the hot spots of the real estate map. If over the past five years impressive changes have been recorded in Tallinn and Vilnius, which are currently at new all-time highs, essential changes in Riga are still underway. Therefore, these cities can offer a wide range of liquidity risks to investors, developers and businesses. The markets of some capitals are becoming tight, which encourages market players to channel investments to other regions: suburbs of the capital cities, resort towns or other larger cities (e.g. to the second largest city in Lithuania – Kaunas).

The year 2017 was indeed successful for the Baltic countries. Further economic growth, growing income of the population and business development contributed to development of the real estate market. Despite various challenges faced by all the countries, the overall investment climate remains positive. This is particularly important to foreign investors, who see those positive changes and this is translated into real actions. Foreign direct investment development agencies whose task is to increase awareness of the countries globally and to attract new investment play an increasingly important role in the real estate market. For example, in 2017 foreign investment promotion agency Invest Lithuania achieved the best result in the history of its operations and attracted 39 foreign direct investment (FDI) projects; these new projects will lead to the creation of over 5,000 new jobs in Lithuania. And it is important to note that, in addition to Vilnius, a substantial part of this FDI will go to other regions of the country, which will give an impetus to various real estate sectors.

Investment in commercial property which generates stable income has remained high on the agenda. In 2017, the highest activity rate in the Baltic real estate market was recorded in Lithuania, where investment volumes in core commercial property reached €312 million and outpaced the previous record in 2008. Activity in the investment transactions market determined a further decrease in yields, which in individual cases is lower than 6%. This attests to the overall confidence of investors in the markets of the Baltic countries and in particular in prime property. For those seeking higher yields, the Baltic real estate market can offer a wide range of different options to guarantee 8% or even higher yields to investors.

Expanding services sector, IT and R&D companies have become the main players in the modern offices market and encourage a further quantitative and qualitative leap in this sector. In order to meet high demand, in recent years developers have significantly increased investment in the development of modern offices. In 2016–2018, a total of 450,000 sqm office space will be offered in the markets of the Baltic countries. Vilnius will have the largest share (46%) with Tallinn close behind (38%), while Riga will have the smallest increase in supply. Despite the modest supply indicators in Riga, positive trends can be seen in this largest city of the Baltic countries – every year developers are more courageous and propose more and larger new projects to the market. If the economic conditions remain favourable, Riga will have the greatest growth potential. However, developers invest not only in quantitative parameters, but also increase their focus on quality projects, which is becoming increasingly important for today's clients.

Ever better indicators are also recorded each year in the residential property sector. In 2017, buyers spent almost €3.7 billion on apartment purchases in the Baltic countries, 10% more than in 2016 (growth was recorded across all three countries). Estonia and Lithuania each account for 41% of this sum and Latvia accounts for the remaining portion (18%). In terms of investment per capita, Estonia remains the obvious leader. This is not surprising because Estonia and its capital Tallinn feature the highest average prices for residential property and largest activity in the housing market. Lithuania and its capital Vilnius are in second place and Latvia and its capital Riga are left furthest behind. The recent global crisis hit Latvia, whose capital city was previously labelled as the most expensive city of the Baltic countries, most severely.

Despite different activity trends in the housing market in the Baltic capitals in 2017, the total number of transactions remains high. After a record year in 2016, the number of apartment transactions in Vilnius in 2017 fell by 6%, while in Riga it remained stable. In the meantime, annual growth of 7% was recorded in Tallinn and this was a new high. The trend of rising apartment prices remains favourable in all Baltic capitals. In 2017, an annual increase in the price of apartments from 4% to 12% was recorded in the capital cities. The main factors of housing activity and increase in prices remain the same – increasing income of the population, positive expectations of households, attractive mortgage conditions and confidence in the real estate market. The housing affordability indicators over the past three years show that the situation remains stable in all Baltic capitals, i.e. housing prices are essentially moving at the same rate and in the same direction as the income of the population.

Ober-Haus Real Estate Advisors are optimistic about the overall economic and real estate industry prospects in the Baltic countries and promise to continue to provide wide-ranging and high-quality services to its customers in this region. We therefore present this annual report of the real estate market in the capitals of the Baltic countries. This detailed review has been prepared by our experts and covers all the main segments of the real estate sector. We are grateful to our long-term partners, PricewaterhouseCoopers and Sorainen, who have contributed to the preparation of the quality content by providing sections on taxes and legal information.

I wish you an informative and enjoyable read!

Tarmo Kase
Ober-Haus Real Estate Advisors
CEO

OUR PARTNERS:

pwc

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Ober-Haus has 10 offices in Lithuania (Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai, Panevėžys and Druskininkai) with over 140 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

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

2018 FORECAST

GDP growth, %:	2.8 - 3.5
GDP per capita, €	15,500
Private consumption growth, %:	3.6
Average annual inflation, %:	2.6 - 3.3
Unemployment rate, %:	6.8 - 7.0
Avg. monthly gross wage, €:	900
Avg. gross wage annual growth, %:	7.0

POPULATION	2012	2013	2014	2015	2016	2017
Lithuania	2,987,523	2,956,558	2,931,612	2,903,951	2,870,351	2,821,674
Vilnius	534,727	538,772	541,197	543,295	544,513	546,526
Kaunas	308,767	305,358	302,810	299,535	295,585	290,068
Klaipėda	159,437	157,860	156,890	155,096	153,030	149,701
Šiauliai	107,054	105,945	105,029	103,726	102,143	100,699
Panevėžys	98,019	96,830	95,911	94,421	92,494	89,661

ECONOMICS	2012	2013	2014	2015	2016	2017
GDP growth, %	3.6	3.4	2.9	1.7	2.3	3.8
GDP per capita, €	11,200	11,800	12,500	12,900	13,500	14,800
Private consumption growth, %	3.2	5.3	4.6	4.1	4.5	4.2
Average annual inflation, %	3.2	1.2	0.2	-0.7	0.7	3.7
Unemployment rate, %	11.7	10.9	9.5	8.7	8.1	7.9
Average monthly gross wage, €	615	646	677	714	774	848
Average gross wage annual growth, %	3.7	5.0	4.8	5.5	8.4	8.5
Retail sales growth, %	6.8	5.8	6.2	4.4	7.0	4.6
FDI stock per capita, €	4,072	4,321	4,363	4,673	4,890	5,100

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS

BIGGEST ECONOMIC GROWTH IN THE PAST SIX YEARS

In 2017, the highest economic growth since 2011 was recorded in the country. In 2017 GDP grew by 3.8%, after growing 2.3% in 2016. Analysts forecast 2.8-3.5% growth of GDP in 2018.

Obviously, the new investments attracted to the country have a positive impact on the country's current economic climate. Invest Lithuania achieved its best ever annual results by attracting 39 foreign direct investment projects in 2017 in Lithuania, which will create a total of over 5,000 new jobs. This represents an 18% increase on 2016 in terms of projects attracted by the investment promotion agency. Total investment in long-term assets by these investors exceeded €200 million in 2017, a 53% increase on 2016 figures.

However, inflation partially prevented the population from enjoying the statistical improvement of life in Lithuania. The largest increase in the prices of consumer goods and services in the EU reduced the real wage increase, the purchasing power and the savings of the population. In December 2017, the annual inflation rate was 3.8%. The increase in prices has mostly been due to the increase in the prices of some food products, transport and services, however, some areas showed decreased prices (household furnishing, equipment and daily maintenance). Forecasts are for CPI growth of 2.6-3.3% in 2018.

The minimum wage in Lithuania was increased to €400 starting January 1, 2018. The minimal wage has increased by over 33% since the beginning of 2015.

Gross wages increased by 7.5% in Lithuania in Q4 2017 (compared to Q4 2016), to €885 per month before taxes. The average net monthly after-tax wages in Q4 2017 was €691. Salary growth in 2018 is expected to be 7.0%.

Unemployment fell to 7.1% at the end of 2017. Analysts project average unemployment of 6.8-7.0% in 2018.

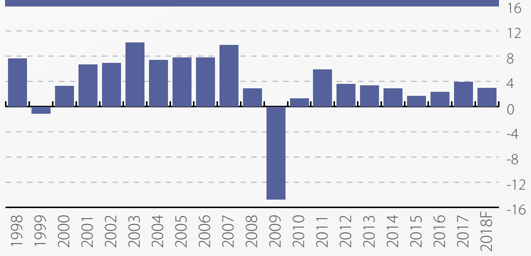
Confidence among Lithuanian consumers is decreasing lately. The consumer confidence indicator in December 2017 as compared with December 2016 decreased by three percentage points to negative 8. In December 2017, 25% of consumers believed that the country's economic situation would not improve significantly in the coming 12 months, 25% thought that the country's economy would deteriorate and 42% thought that the situation wouldn't change.

Exports increased by 17.3% in Lithuania in 2017, compared to 2016. This is the first year of increased export after a few successive years of decreasing export volumes.

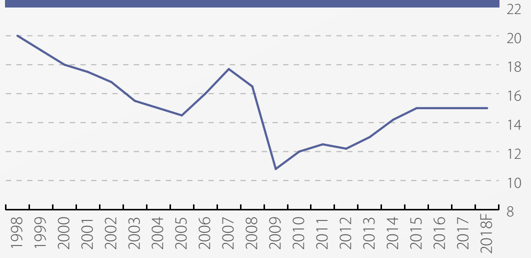
In December 2017, the annual increase of constructions costs was 3.7%. The overall change in prices was mainly influenced by an 8.3% increase in wages and salaries. In this period, the biggest increase was recorded for residential buildings (5.0%). Renovation costs of buildings increased by 5.3%.

As of September 2017, direct foreign investment totalled €14.7 bln (8.3% increase compared to September 2016), which is €5,217 per capita.

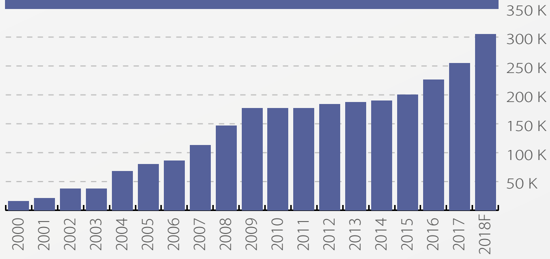
GDP GROWTH, %



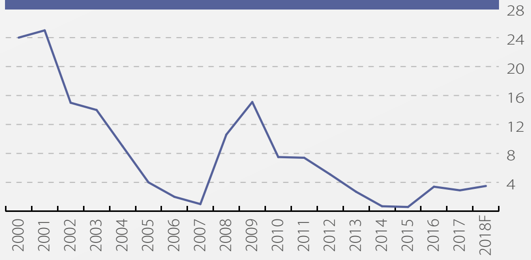
A CLASS OFFICE RENTS, €/SQM



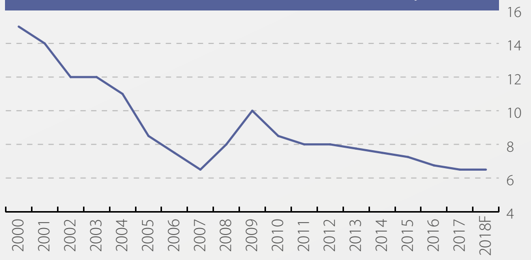
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2017)

TOTAL OFFICE SPACE	699,600 SQM
TOTAL OFFICE VACANCY RATE	5.4 %
VACANT OFFICE SPACE	37,600 SQM
A CLASS OFFICE VACANCY RATE	2.9 %
B CLASS OFFICE VACANCY RATE	6.8 %
TOP OFFICE RENTS (SQM / month)	€16.50
A CLASS OFFICE RENTS (SQM / month)	€13.50 - €16.50
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €13.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €4.00

FLEXIBLE OFFICE SHARE HAS DOUBLED IN THE LAST FEW YEARS

SUPPLY

After the significant new office supply increase in 2016, the Vilnius market for modern offices continued to grow rapidly in 2017. In total 13 new projects/stages were completed in 2017 bringing 72,200 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 12% to 699,600 sqm at the end of 2017 (see all projects on OHMAP). Currently Vilnius has 1.28 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%.

The past three years have been a period of intensive development and qualitative leap in the modern office space market in Vilnius. The qualitative leap in the buildings and facilities offered for lease accompanied by changes in building management practices (e.g. active introduction of flexible workplaces) will raise ever-greater concern for the owners of older buildings. Rent in many cases will no longer become a decisive factor regarding the lease of premises.

Increasing competition forces developers to follow sustainable development practices and to try to qualify for international certification of the environmental assessment of buildings (BREEAM and LEED). At the end of 2017 there were 17 completed office buildings/projects in Vilnius (30% from total modern office space stock) already certified or with preliminary assessment with one of the internationally recognised systems. 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 long-term lease model but also other trending solutions, landlords, serviced office operators and other investors continue to expand flexible and cost-effective working spaces. In the past five years there has been an over sixfold increase in stock and non-stock flexible office space in Vilnius, totalling almost 22,000 sqm by the end of 2017. This space covers different types of workplaces ranging from micro coworking spaces to a large scale start-up campus.

After the opening of three professionally managed serviced offices and coworking spaces in 2016 in Vilnius with a total area of 3,850 sqm, another larger three spaces were introduced to the market during 2017. UMA Ozas coworking space in the Delta office building in Technopolis Ozas campus, B Easy in the B Nordic 26 project and Regus serviced offices in the Park Town business centre. These spaces add another 3,500 sqm of flexible office space to the Vilnius market. The share of flexible office space located in modern buildings in total modern office stock in Vilnius has doubled in the last few years and at the end of 2017 reached 1.2%.

Office building owners or operators have plans for further expansion of such spaces in the near future in already opened or in projects under development (Green Hall 2, Business Stadium West, Live Square and others). After the further expansion of flexible office space, it is expected that the share will increase up to 1.5% at the end of 2018.

In total eight new projects or stages of earlier projects will be completed during 2018, as a result of which 62,600 sqm of new office space will be provided. Despite the significant increase of new office space in recent years in Vilnius, developers are not intending to reduce their development volumes and are planning to implement more interesting projects in 2019–2020.

Also, the development speed of new office space is increasing in Lithuania's second largest city, Kaunas. It is planned that total modern office space stock will double in 2017–2019 in Kaunas, increasing the competition not only in the city's office market but also challenging Vilnius itself.

DEMAND

The year 2017 could be considered a record year in the modern office market in Vilnius. Increase in supply, development of international and local enterprises, and attractive rents have been the key factors that have led to record take-up of modern office space in the capital city.

In 2017, 97,300 sqm of office premises was leased in Vilnius business centres, which is 28% more compared to 2016. As demand for modern offices was very high, developers of the latest projects could be satisfied with the lease pace – of the new office supply of 2017, 90% was already leased by the end of the year. At the same time, the 2017 office take-up was twice as high as the annual average in 2010–2015 (46,200 sqm). It must be taken into account that over the past 7 years the modern office space market in Vilnius has significantly expanded – the total useful area of modern offices has increased by a substantial 57% since 2010. This allows achieving ever higher modern office take-ups.

New projects are attractive to companies that wish to optimise their physical workspace costs and to attract (or retain) employees by offering them modern, technologically smart and attractive workspace. So, the trends are sufficiently clear – in order to compete in today's market, owners of new office buildings must offer an appropriate product and those of older office buildings must upgrade their property. Steady and significant increase in supply is useful both for potential tenants and the economic climate in Vilnius in general.

Due to continuing strong demand for modern office space the pessimistic forecast for faster increase of vacancy rates did not materialise. The vacancy rate of modern offices in Vilnius decreased from 6.4% to 5.4% in 2017, and the total vacant office space decreased from 40,100 sqm to 37,600 sqm. At the end of 2017, the vacancy rate for B class buildings was 6.8% (totalling 30,300 sqm), while the vacancy for A class buildings was 2.9%, totalling 7,300 sqm of vacant space.

It is obvious that the rapidly expanding services sector also gave further impetus to 2018–2019. Based on the preliminary lease agreements concluded in 2017 and further active development of business centres, impressive office take-up is also expected in 2018. If in 2009–2010 it was the arrival of international companies to the market that saved the market, so today it is the expansion of both the service centres and stronger companies that drives the quantitative and qualitative leap in the sector.

As some of the tenants currently occupying older buildings may be attracted by new projects, Ober-Haus forecasts that the vacancy rate could increase in older buildings or in projects, which are located in less attractive locations.

RENTS

Base rents of modern office spaces have remained substantially unchanged since late 2015. Landlords are far more flexible in negotiations with tenants, especially those who wish to attract larger and better-known tenants to their buildings. The situation is very attractive to the tenants not only because of rents (or total costs of the maintenance of the premises), but also because of the far broader and real opportunities for expansion in the future. Therefore, there is a win-win situation in the market – developers can develop projects profitably and at the same time offer attractive conditions to their tenants. In view of the situation in the labour market and labour costs, expenditure for the maintenance of office premises is notably decreasing.

In 2017, minor changes in the class B offices segment were recorded. In 2017 B class office rents decreased by 2% on average and now range between €8.00 and €13.00 per sqm. A class office rents stayed flat in 2017 and are €13.50–€16.50 per sqm in Vilnius.

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

The flat rents in 2016–2017 have demonstrated that developers feel the increasing competition even in such an active market. If demand for office premises remains strong, Ober-Haus expects that office rents will remain at the same level during 2018.

INVESTMENT

The year 2017, was the most active in the Lithuanian commercial property investment market with investment volumes outpacing the previous record in 2008. In total 33 core properties (modern office, retail and industrial property worth over €1.5 million) were sold in Lithuania, with a total value of €312 million. Compared to 2016, this represents an increase of almost 22%. In 2017 most investments were made in retail sector premises. This was led by the sale of a large portfolio in all Baltic countries, where retail properties dominated. The share of investment turnover by value in 2017 was as follows in Lithuania: 44% – retail, 41% – offices and 15% – industrial properties.

According to the value of purchased property, Lithuanian and US (with the single portfolio purchase) capital companies were the leading investors (53% from all investments). The remaining investments attracted buyers from Finnish, Estonian, Swedish, British, Danish and Norwegian capital companies. During 2017 office and retail yields declined by another 25 basis points in Vilnius to 5.75–7.75%. Warehousing premises are interested in no less than 7.5–8.5%.

Despite flat rents in 2017, slightly decreasing yields gradually increase the value of commercial property in Vilnius. In 2017 the A class office yields decreased on average by 25 basis points– from 6.75% to 6.50%. Thus, the capital value index for A class offices over 2017 increased by almost 4%. Currently prime property values are almost 12% lower than the levels recorded at the market peak in the second half of 2007 and the first half of 2008.

At the start of 2017 Baltic Horizon Fund acquired the Duetto office building close to the new western bypass and Pilaites Avenue in Vilnius. The B class office building, which has a total above ground area of over 8,300 sqm, was acquired from its developer YIT. The purchase price under the agreement is €14.6 million resulting in a 7.2% entry yield. The seller also provides a 2-year guarantee for starting net operating income.

The Finnish property investment and management company Technopolis purchased the almost completed Pentagon office building (was renamed Penta by the new owner) in Ozas Park in Vilnius from the ICOR Group. The transaction involved the purchase of both the office building and the parcel of land next to the building. The acquisition of the building was completed in April 2017. The total transaction value is about €32 million. According to the official notice of Technopolis, an initial yield of 6.5% is forecast on completion.

In June 2017, the Swedish investment company Eastnine (former East Capital Explorer) completed the acquisition of the Vertas office building in Vilnius. The company paid €29 million for the building, which, according to the buyer, at the time of the acquisition guaranteed a yield of about 6.5%.

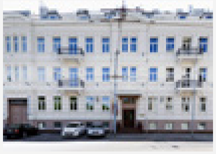
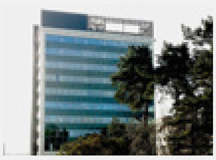
At the end of 2017 local investment management company Capitalica Asset Management signed an agreement to purchase the business centre 135 from its developer EIKA. The B class office building, which has a total above ground area of around 7,500 sqm, is located in Zalgirio Street in Vilnius. Investment management company Capitalica Asset Management, founded in May 2016, focuses on the management of commercial real estate assets in the Baltic countries and to date already manages three properties in Lithuania.

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 are a standard for "A" class offices. Double net leases are more common for other classes of property. As a rule, the owner (landlord) 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.

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**B NORDIC 26** – At the start of 2016, Asgaard Property, which is owned by Asgaard, a Danish investment company, acquired a historical building on J. Basanaviciaus Street, which was previously used as the DNB Bank headquarters. Asgaard Property has finished the reconstruction of this 6-storey building with a total area of around 5,600 sqm and offered around 4,100 sqm of usable office space to the market in Q1 2017. Part of the premises are used for the B Easy area – fully equipped workplaces with all the business-related services that tenants can lease for any term. Asking rents for the office premises for the long-term lease are from €12.50 per sqm.	4,100	Q1 2017
	**MAXIMA HQ** – MAXIMA LT, a leading retailer in Lithuania, finished the development of the office and retail complex in Naujamiestis district, on Naugarduko Street. The project comprises a 5-storey building with 4,600 sqm of office area and the shopping centre (MAXIMA XX) with a total area of 4,700 sqm. Almost 420 parking spaces are provided around the building and on the shopping centre roof. The shopping centre was opened in September 2016 and the office building was completed in early 2017. After completion MAXIMA LT moved its employees to the new office building.	4,600	Q1 2017
	**AUTOVISATA** – In Q1 2017, local car repair and parts supplier company Autovisata finished construction of a B class office building on Verkiu Street. The 6-storey building with 1,500 sqm of useful office space is occupied by the developer itself and the rest of the space was fully leased to other tenants.	1,500	Q1 2017
	**DUETTO I** – In Q1 2017 development and construction company YIT finished construction of the office building in the Virsuliskes district next to the new western bypass. The 10-storey B class office building with 7,800 sqm of usable office space was leased to Lindorff, Pernod Ricard Lietuva, logistics service company Blunitrans, the state owned water supply company Vilniaus vandenys, kindergarten and others. The building was sold to Baltic Horizon Fund.	7,800	Q1 2017
	**LIEPYNO VERSLO NAMAI** – This A class energy efficient building in Zverynas district, on Liepyno Street was completed in Q3 2017. The 5-storey office building with 1,600 sqm of usable office space is in close proximity to the city centre, in a quiet, prestigious location and is an alternative for tenants who appreciate smaller scale projects. At the end of 2017, almost 50% of the office space had been leased. Office space was leased to the law company ZETA LAW, Amadeus Lietuva and others. Asking rents for the remaining office premises are from €13.00 per sqm.	1,600	Q3 2017
	**SANTARISKES MEDICAL BUSINESS CENTER** – Local developer Realinija finished construction of a medical office building in Santariskes district in a medical campus in Q2 2017. The 5-storey building with 2,000 sqm of useful space was leased to private health care clinic InMedica. Total investments reached €3 million.	2,000	Q2 2017
	**NARBUTO 5** – Kapitel (previously known as E.L.L. Real Estate), one of the leading real estate development companies in the Baltics, completed the development of an A class office building in Zverynas district, on T. Narbuto Street. The 6-storey building with 4,600 sqm of usable office space and 115 parking spaces was completed in Q3 2017. The building with BREEAM certification was fully leased and has attracted many companies, like: Narbutas, If P&C Insurance AS, Inreal group, IPSEN Pharma SAS and others.	4,600	Q3 2017

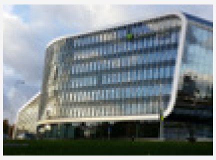
INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+370 5 210 97 00**

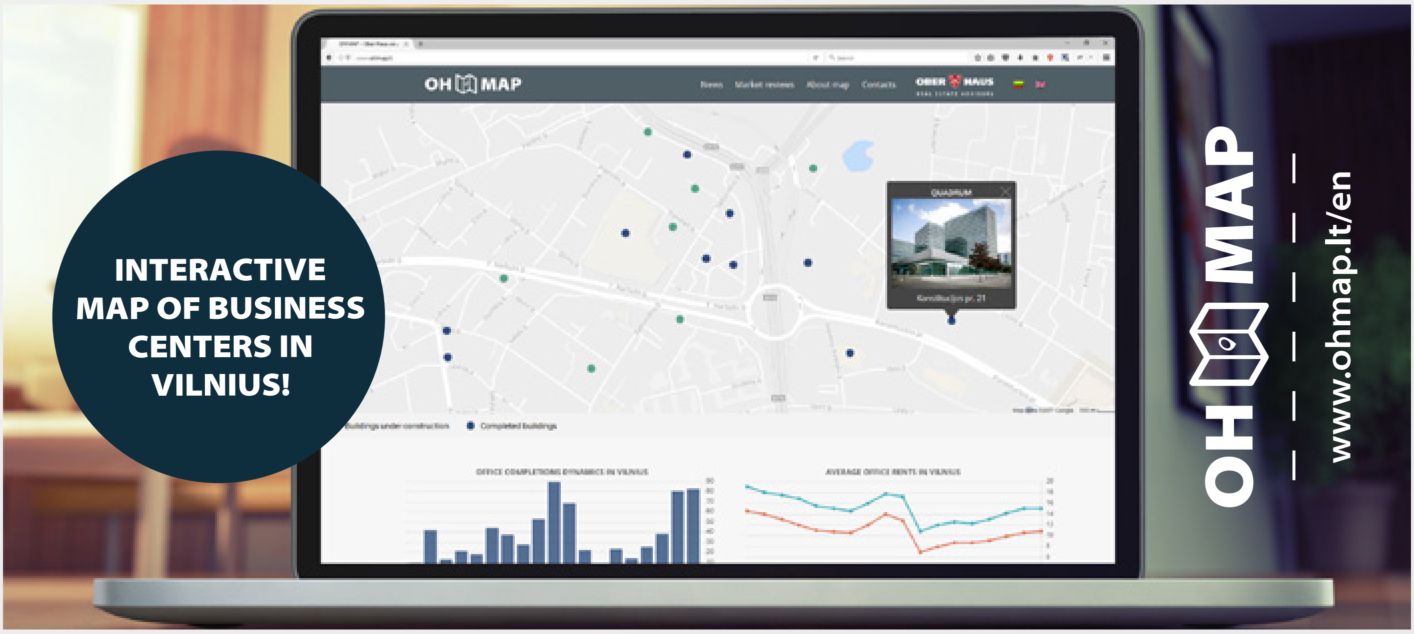
RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**PENTA** – In Q2 2017, local development company Realco, sold its developed and almost finished B class office building in the territory of Ozo Park, next to Siemens Arena, Ozas shopping centre and Vichy Aquapark. The new owner, Finland-based company Technopolis, at the end of 2017 finished the development of this 7–storey building with 12,900 sqm of useful office space and renamed it Penta (previously known as Pentagon). This office building becomes part of the Technopolis Ozas campus, which is the biggest office campus in Lithuania. The building has an A energy rating and meets the requirements for a LEED Gold certificate. The main tenant with around 6,000 sqm is Icor, one of the largest Lithuanian groups of companies. At the end of 2017, 95% of the total office space had been leased.	12,900	Q4 2017
	**ELEVEN** – Local development and management company Baltic Red finished construction of a B class business centre on Kareiviu Street in Q3 2017. The 8-storey building with a total area of 7,000 sqm has around 5,700 sqm of useful office space. At the end of 2017, over 65% of the office space had been leased. Office space is available at rents from €11.00 per sqm.	5,700	Q3 2017

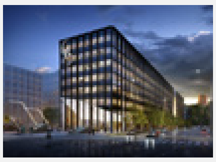
SALTIONISKIU ST. 7 (DC PIER)

RECENT DEVELOPMENTS

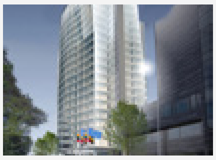
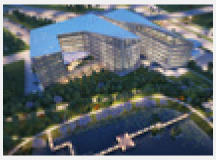
	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**GREEN HALL 2** – Following the successful completion of the Green Hall project in 2009, development company Urban Inventors, which belongs to SBA Concern, completed the construction of a second A class business centre on the right bank of the Neris River in Upes Street in Q3 2017. A 7-storey office building with 7,300 sqm of usable office space combines new technologies with the elements of nature, including geothermal heating, quiet ventilation, energy-saving double facade, etc. Next to the building, there is an electric vehicle charging station. The total investments reached over €18 million. At the end of 2017, almost 85% of the office space had been leased. The tenants are telecommunications operator Tele2, Invest Lithuania, Europe's first international blockchain centre, Blockchain Centre Vilnius, and others. In addition, the project developer established a high class coworking space Monday Office on the ground floor at the start of 2018.	7,300 (II building)	Q3 2017 (II building)
	**PARK TOWN (WEST HILL)** – At the end of 2017 real estate development company MG Valda finished construction of their first office building in Konstitucijos business district, on Lvovo Street. The A class office building (West Hill) with 6,800 sqm of usable office space was fully leased to Alna Group, Regus, Tieto Lietuva and other tenants. The aim of the developer is to earn the BREEAM New Construction Excellent certificate.	6,800 (I building)	Q4 2017 (I building)
	**DOMUS PRO** – At the end of 2017 real estate development company TK Development finished construction of a B class office building next to Ukmerges Street. The 6-storey building with 3,700 sqm of usable office space and with BREEAM certification is t part of the shopping centre Domus PRO. At the end of 2017, over 90% of the total office space had been leased. Tenants are: Narbutas, ALD Automotive, Baltic Consol Line, Kiwa Inspecta, Pristis, EVS Group and others.	3,700	Q4 2017
	**SALTONISKIU ST. 7 (DC PIER)** – At the end of 2017, investment company M.M.M. projektai, completed the construction of their first A class office building in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. The first 6-storey building with a total above ground area of almost 12,000 sqm and around 9,600 sqm of usable office space is fully leased to one tenant – Danske Bank Global Service Lithuania (GSL), which opened an office named Danske Campus Pier (DC Pier). The building achieved BREEAM New Construction Excellent certification.	9,600 (I building)	Q4 2017 (I building)



NEW PROJECTS

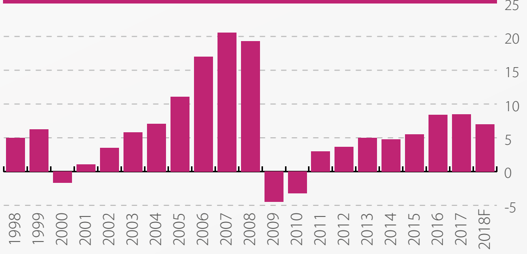
	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**VILNIUS BUSINESS PARK I** – Real estate development company MG Valda is developing a modern business park in the northern part of Vilnius next to the main transport arteries – the intersection of Ukmerges Street and the new western bypass. The first built-to-suit stage with total area of 15,300 sqm will be completed at the start of 2018. The first stage will comprise a warehouse and office building with around 3,100 sqm of usable office space, which is fully let to the leading apparel retailer Apranga Group. Further development of Vilnius Business Park is planned for companies that are looking for office or industrial premises with an area up to 50,000 sqm.	3,100 (I stage)	Q1 2018 (I stage)
	**LINK** – Local company Baltijos gildija is finishing the development of an A class office building in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. The 6-storey building with around 8,400 sqm of usable office space will be completed in Q1 2018. A total of 360 parking spaces will be provided in the underground and above ground car park. Some space has been already leased to international satellite monitoring hardware and software manufacturer Teltonika, BNS, 15min, Diginet LTU and others. Office space is available at rents from €14.50 per sqm.	8,400	Q1 2018
	**ASGAARD KEYS** – This A class office building is being developed in Zverynas district (Zverynas Circle CBD), next to Ukmerges Street. The 4-storey office building with around 3,500 sqm of usable office space is scheduled for completion by the first half of 2018. A total of around 100 parking spaces will be provided in the underground car park. The developer is Asgaard Property, which is owned by Asgaard, a Danish investment company. Office space is available at rents from €14.50 per sqm.	3,500	H1 2018
	**RADISSON BLU LIETUVA II** – The Norwegian real estate development company Linstow AS is expanding the hotel which it currently owns on Konstitucijos Avenue by developing a new building next to it. The new 8-storey building is scheduled for completion by mid-2018. The first floor will offer retail space, the second and third floors will have around 2,000 sqm of office space, and the hotel with 165 new rooms will take up the remaining five floors. After the completion of this building, Radisson Blu Hotel Lietuva with a total of 456 rooms will consolidate its position as the largest hotel in Vilnius. Asking rents for retail premises are €20.00 per sqm, office space – €16.00 per sqm.	2,000	MID-2018
	**BUSINESS STADIUM WEST** – Local developer Hanner is developing an A class business centre in the central part of the city on Rinktines Street. The 8-storey building with a total area of almost 16,000 sqm will be one of the first buildings in the abandoned territory of Zalgiris stadium, which was acquired by Hanner in mid-2015. The first floor is designed for an attractive array of shops, restaurants, conference hall, serviced offices and coworking spaces. The second to eighth floors will offer over 14,800 sqm of usable office space. Total investments will reach €25 million. The end of construction works is scheduled for Q3 2018. Office space is available at rents from €15.00 per sqm.	14,800	Q3 2018
	**DUETTO II** – At the end of 2015 the construction and development company YIT started construction of two identical 10-storey office buildings in the Virsuliskes district next to the new western bypass. Following the completion of the first building in 2017, construction of the second building has started. Completion of the second A class energy efficiency building with 7,800 sqm of usable office space is scheduled for Q3 2018. Office space is available at rents from €11.50 per sqm.	7,800 (II building)	Q3 2018 (II building)

NEW PROJECTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**3 BURES** – Eastnine, a Swedish investment company, is continuing the development of a third tower next to the existing A class office project on Lvovo Street, right next to Konstitucijos Avenue. The site with the existing business centre was acquired by the investment company in 2014. The new 23-storey, A class office building with around 12,000 sqm of usable office space is scheduled for completion in the second half of 2018. The developer is aiming to earn the LEED Platinum certificate. The total investments will reach €25 million. Almost all the office space is leased and the main tenants will be Swedbank and Visma Lietuva.	12,000	H2 2018
	**SALTONISKIU ST. 7 (TELIA LIETUVA)** – The investment company M.M.M. projektai, is continuing the development of an A class office campus in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. After successful completion of the first building, the company is now developing the second one. The second building with a total above ground area of 15,500 sqm and around 11,000 sqm of usable office space has been fully leased to the technological solutions company Telia Lietuva and construction should be completed by the end of 2018. The aim of the developer is to earn the BREEAM New Construction Excellent certificate. Telia Lietuva plans to move its 1,200 employees into the new building at the start of 2019. The full development of this 2-ha site should be completed after the construction of a further two office buildings, which means that in total four office buildings will form one of the biggest office campus in Vilnius.	11,000 (II building)	Q4 2018 (II building)
	**PARK TOWN (EAST HILL)** – MG Valda, real estate development company, is continuing the development of an A class office project in Konstitucijos business district, on Lvovo Street. The second building (East Hill) with a total area of 14,800 sqm will offer over 12,000 sqm of usable office space and should be completed in the second half of 2019. The developer is aiming to earn the BREEAM New Construction Excellent certificate. Office space is available at rents from €14.50 per sqm.	12,000 (II building)	H2 2019 (II building)

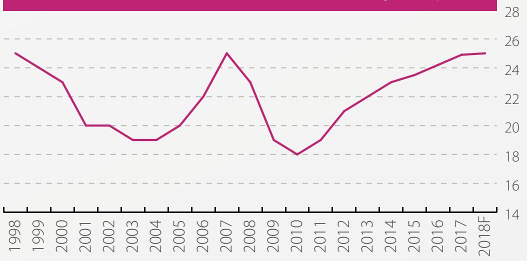
PARK TOWN (WEST HILL)

AVERAGE SALARY GROWTH, %

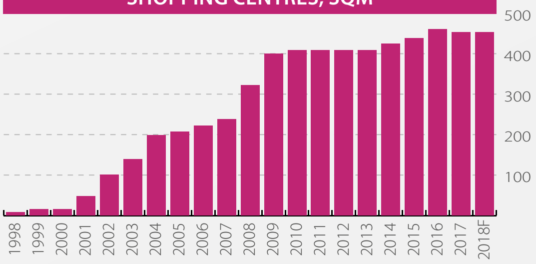


AVERAGE SALARY PER MONTH (BRUTTO), €

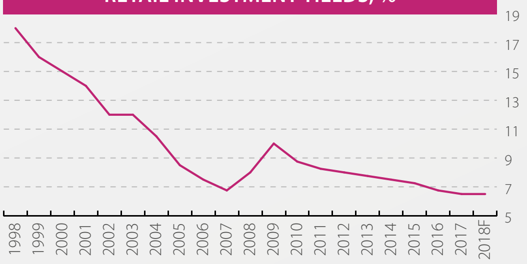
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2017)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	453,000 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	0.83 SQM
SHOPPING CENTRE VACANCY RATE	0.8 %
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €13.50
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€14.50 - €38.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€50.00 - €75.00
HIGH STREETS RENTS (SQM / month)	€18.00 - €45.00

LARGER NEW TRADITIONAL SHOPPING CENTRES EXPECTED NO EARLIER THAN 2019-2020

SUPPLY

In 2017, no large traditional shopping centres were opened in Vilnius; the capital has not seen any new projects since the second stage of the NORDIKA shopping centre was opened in May 2016. At the end of 2017 there were 25 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable retail area of 453,000 sqm. Currently Vilnius has 0.83 sqm of shopping area per capita.

At was expected, owners of traditional shopping centres and supermarkets directed investments to the upgrade of already operating retail properties and focused improving their tenant structure to increase the efficiency of owned space.

For example, a sports club (People Fitness Club) was opened in Panorama, the third largest shopping and entertainment centre in Vilnius in mid-2017. The 1,500 sqm sports club was fitted out in the former office area of the shopping centre and was integrated into the shopping zone. Furthermore, at the end of 2017, the shopping centre came to a relocation agreement with the clothing retailer Apranga, which operated a 1,000 sqm store on the first floor of the shopping centre. In its place, Panorama plans to offer a so-called gourmet zone with more than 10 specialised gourmet food and beverage shops in 2018.

The largest retailers continued to invest actively in the modernisation and development of shopping centres. In August 2017, the MAXIMA chain opened the renovated shopping centre on Mindaugo Street in Vilnius. The shopping centre with a total area of almost 10,000 sqm was opened in 1999 and was the first larger typical shopping centre in Vilnius. A total of €6.7 million was invested in the reconstruction and now this shopping centre accommodates the Maxima store and 20 other retailers offering various goods and services. Capital Mill, Estonian capital real estate management company, has invested €3.5 million in the renewal and expansion of the Rimi Jeruzale shopping centre under its management in Jeruzales district in the northern part of the city. As before, the largest area of the reconstructed shopping centre is occupied by a Rimi supermaket with its first new concept Rimi Hyper store. The total area of the shopping centre was expanded by 1,800 sqm and is now over 5,200 sqm in total with more than 20 tenants.

The German supermarket chain Lidl has continued its active expansion in Lithuania. During 2017, this low-priced retail chain opened another 9 stores in Lithuania and has ended the year with 31 stores in total (10 stores in Vilnius and 21 stores in other Lithuanian cities). Lidl seeks to attract the broadest range of buyers not only with its low-priced goods, but also by introducing a modern and sustainable shopping spot in its new concept stores.

In 2017, not all retailers were successful in their operations. In mid-2017, it was announced that Prisma, a Finnish retailer, was leaving Lithuania and Latvia. Prisma operated 4 large stores in Lithuania (two in the capital city and two in Kaunas). At the end of 2017, two Prisma stores were leased to other tenants – Maxima at the Ozas shopping and entertainment centre in Vilnius and, following reconstruction, River Mall in Kaunas with some 20 different tenants. Mid-2017 also saw the closing of the Marks & Spencer store in Vilnius (the only such store in Lithuania) located in the prestigious location of Gedimino Avenue. Marks & Spencer occupied two storeys of a historical building and had a retail area of over 3,000 sqm. It is planned that the sports and leisure goods retailer, Sportland, will open here instead.

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 and the second was opened in Panevezys city in September 2017. The third shopping centre with a retail area of over 17,000 sqm will open in Vilnius in spring 2018. The chain plans to open more shopping centres in Vilnius and other cities.

In 2018, no major changes in supply will be recorded in the traditional shopping centres segment. A large-scale project is planned in Pilaites district, with completion scheduled for the end of 2019. Vilnius Outlet shopping centre with a total area of 60,000 sqm will be developed by the Ogmios group; this will be the largest outlet zone in Lithuania and will also offer other retail and entertainment space totalling around 35,000 sqm.

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. The Akropolis group is planning to develop a second Akropolis shopping centre next to Vingis park (14 ha former site of Velga manufactoring company), which could be opened in 2021.

DEMAND

In 2017 retail turnover grew by 4.6%, after growing by 7.0% in 2016. 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. Still, finding any vacant premises in the popular shopping centres remains a big challenge. Shopping centres in Vilnius are fully leased and a minor vacancy rate is observed only due to a few less successful shopping centres. The vacancy rate of shopping centres in Vilnius decreased from 0.9% to 0.8% in 2017. In general, the vacancy rate has remained below 1% since 2013.

As there are almost no available retail premises in the main shopping streets (Gedimino Avenue, Pilies Street, Didzioji Street, Vokieciu Street) in the last few years, small businesses keep expanding in the other zones of the Old Town or central part of the city. For example, there are obvious changes in the environs of Vilnius Railway Station, near Hales Market or in Uzupis district, where new eateries, small shops or market-type outlets have opened recently.

The overall assessment of the situation of the past five years in the shopping streets in Vilnius shows that the situation has essentially changed. The retail outlets selling clothing and other products have been replaced with gourmet shops, cafes, pubs and other places for leisure – that is popular streets are effectively becoming places for leisure rather than for trade.

Internet retailing has not yet surpassed traditional shopping at shopping centres, but the rapidly increasing sales volumes of internet retailing signal possible noticeable changes in the retail premises sector. According to forecasts of the market research company Euromonitor International, in 2017, internet retailing in Lithuania will have a turnover of €488 million, which is a 24% increase compared to 2016 and a 53% increase compared to 2014. It is expected that, similar to previous years, consumer electronics and appliances (32% from total sales in 2017) and apparel and footwear (27% from total sales in 2017) will account for the greatest share of sales. The turnover from the sale of these goods in 2017 is expected to increase, respectively, by 24% and 26%.

RENTS

The fully leased shopping centres and the growing sales volumes continued to result in the income growth of shopping centres and in the growth of tenants' costs connected with lease of premises. In 2017, rents increased by another 2-4% in most Vilnius shopping centres. There were no increases in rents in less successful shopping centres (shopping centres with poor concepts or in less attractive locations).

Rents for medium sized (150-300 sqm) units in major shopping centres run from €14.50 to €38.00 per sqm and up to €50.00–€75.00 for small-sized units. Rents for anchor tenants are €9.00–€13.50 per sqm.

Due to high demand and low vacancy rate rents for retail premises in the Vilnius high streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) went up by another 2% in 2017 (after an 8% increase in 2016). At the end of 2017, rents for medium-sized retail premises (100–300 sqm) in such streets were €18.00 – €45.00 per sqm.

In the past seven years, a sufficiently fast and consistent recovery has been observed in the retail sector and retail property market. This was particularly noticeable in the individual retail premises sector. In 2010, the retail property market saw all-time low rents and the highest vacancy rates. Since then, rents for retail premises in the most popular streets of Vilnius have increased by a staggering 75% and reached the 2008 level. It is likely that the decrease of the growth of retail turnover and the achieved price level will slow down further rent increases. Ober-Haus believes that retail rents will remain stable in 2018.

INVESTMENT

The year 2017, was the most active in the Lithuanian commercial property investment market with investment volumes outpacing previous records in 2008. In total 33 core properties (modern office, retail and industrial property worth over €1.5 million) were sold in Lithuania, with a total value of €312 million. Compared to 2016, this represents an increase of almost 22%. In 2017 most investments were made in the premises of the retail sector. This was led by the sale of a large portfolio in all Baltic countries, where retail properties were dominating. The share of investment turnover by value in 2017 was as follows in Lithuania: 44% – retail, 41% – offices and 15% – industrial properties.

According to the value of purchased property, Lithuanian and US (with the single portfolio purchase) capital companies were the leading investors (53% of all investments). The remaining investments attracted buyers from Finnish, Estonian, Swedish, British, Danish and Norwegian capital companies. During 2017, office and retail yields declined by another 25 basis points in Vilnius to 5.75-7.75%. Warehousing premises are interested in no less than 7.5-8.5%.

There were a few transactions concluded in mid-2017 which had a major impact on this year's investment indicators. One such transaction involved the acquisition of 80% ownership interest in the property investment company, Baltic Retail Properties, by CPA®:17-Global, an arm of US investment company W. P. Carey, and the Finnish Kesko Corporation. The property portfolio of Baltic Retail Properties comprises 18 retail stores in Lithuania, Estonia and Latvia, and a logistics centre in Lithuania. Following the acquisition, CPA®:17-Global, became the main shareholder of Baltic Retail Properties, paying €127 million (including acquisition-related charges and costs) for its 70% share. Meanwhile Kesko acquired 10% of the shares of Baltic Retail Properties following Kesko's sale of its 7 retail stores in Latvia and Estonia to Baltic Retail Properties for €64 million.

On August 2017, Lords LB Baltic Fund IV, the real estate investment fund managed by the investment management company Lords LB Asset Management, signed a purchase agreement for the shopping centre GO9. The building of more than 12,000 sqm of leasable area is located on Gedimino Avenue in Vilnius and accommodates around 50 tenants. The fund has acquired the object from the East Capital Baltic Property Fund II of the investment management company East Capital. Details of the current transaction have not been disclosed. The property was acquired by East Capital in December 2012 from Ektornet (a Swedbank subsidiary), and an extensive re-development was executed in 2013, during which the tenant mix and the internal layout of the shopping centre were transformed.

LEGAL NOTES BY SORAINEN

Typically, 3-5 year lease agreements are common. Triple net leases are not universally used, except in the largest and professionally managed shopping centres. 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 become more common. 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.

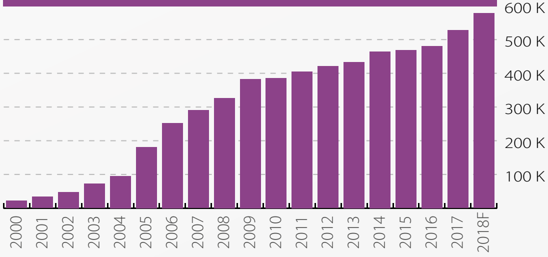
RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Mindaugo Maxima** – In August 2017, the MAXIMA chain opened the renovated shopping centre on Mindaugo Street in Vilnius. The shopping centre with a total area of almost 10,000 sqm was opened in 1999 and was the first larger typical shopping centre in Vilnius. A total of €6.7 million was invested in the reconstruction and now this shopping centre as previously accommodates the Maxima store (which is open 24/7) and other 20 retailers offering various goods and services.	10,000 (reconstruction)	Q3 2017 (reconstruction)
	**Jeruzales Rimi** – In September 2017 Capital Mill, Estonian capital real estate management company, completed and opened the Rimi Jeruzale shopping centre after its renewal and expansion. This shopping centre is located in Jeruzales district in the northern part of the city. As before, the largest area of the reconstructed shopping centre is occupied by Rimi supermaket with its first new concept Rimi Hyper store. The total area of the shopping centre was expanded by 1,800 sqm and is now over 5,200 sqm in total with more than 20 tenants. The total investment amounts to €3.5 million.	+1,800 (expansion)	Q3 2017 (expansion)

NEW PROJECTS

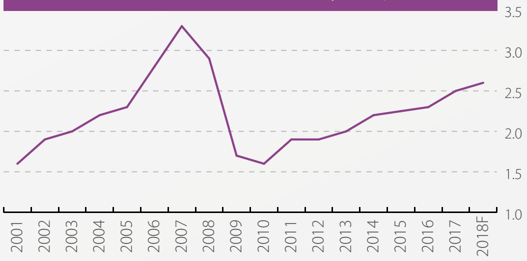
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
DEPO	**Depo DIY** – The Latvian-based building materials and household goods chain Depo opened its first Lithuanian store in Klaipeda city at the end of 2016. The first DIY store in Vilnius should be opened in Q2 2018. The building with a total retail and office area of over 19,000 sqm will be opened in the western part of the city, on Maksimiskiu Street. The second store in Vilnius is planned next to Ukmerges Street, in the northern part of the city.	19,000	Q2 2018
	**DECATHLON** – The French sports and leisure goods manufacturer and retailer, plans to start operations in Vilnius at the end of 2018. Decathlon will be located in the VNO Business & Retail Park, near IKEA and the NORDIKA shopping centre. The project developer, VPH, plans to construct a building of 5,000 sqm on its 7.5 ha site for Decathlon. The retailer attracts buyers not only with its wide range of sports goods, but also with the opportunity to try the products out in the store.	5,000	Q4 2018
	**VILNIUS OUTLET** – Ogmios group is planning to develop a shopping centre in Pilaites district, on V. Pociuno Street next to the new western bypass. The 4-storey building with a total area of 60,000 sqm will host above ground parking on the first two floors. Shops and entertainment will be on the first, third and fourth floors and will offer around 35,000 sqm of retail space in total. The third floor is planned for the outlet zone with around 17,000 sqm becoming the biggest outlet store in Lithuania. The fourth floor is planned for entertainment with a cinema, trampoline centre, sport club, restaurants, leisure zones and etc. Total investments could reach up to €80 million. The end of construction works is scheduled for the end of 2019.	35,000	Q4 2019

TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM

OLD WAREHOUSE RENTS, €/SQM



VILNIUS SNAPSHOT
(END-2017)

TOTAL NEW WAREHOUSE SPACE	527,900 SQM
WAREHOUSE VACANCY RATE	< 2 %
ANNUAL WAREHOUSE RENTS CHANGE	+ 4 %
NEW WAREHOUSE RENTS (SQM / month)	€3.90 - €5.20
OLD WAREHOUSE RENTS (SQM / month)	€1.60 - €3.40
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

WAREHOUSING PREMISES SECTOR FINALLY WAKES UP

SUPPLY

Improving financial performance of companies directly related to the warehousing premises sector, and increasing demand for modern warehousing premises in recent years have determined faster development of this real estate sector. In particular, financially stronger companies continue to implement projects themselves that meet their needs.

Five new projects with total warehousing area of 46,500 sqm were completed in Vilnius region in 2017. The new projects implemented by Ad Rem, Baltic Sea Properties, Arvydo Paslaugos, Woodline and SIRIN Development. The recent projects increased the total leasable area of modern warehousing premises in Vilnius and its surroundings by almost 10% to 527,900 sqm.

At the end of 2017 79% 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 55% of the current supply. Warehouses with an area from 5,000 to 10,000 sqm make up 27% of the supply, and the remaining 18% are warehouses with less than 5,000 sqm.

In 2018, eight new industrial projects with a total warehousing area of around 65,000 sqm could be implemented in Vilnius. These projects are being developed by MG Valda, Avisma, Libra Vitalis, SIRIN Development and others.

DEMAND

Noticeable positive changes can be observed in revenues of companies engaged in warehousing and storage services in 2017. According to Statistics Lithuania, in 2017 revenues of warehousing and storage companies amounted to €167 million (excluding VAT) or over 18% more compared to 2016.

In spite of the upwards trend in supply in 2017, developers of new projects essentially had no major problems in leasing their premises. Some of the new projects already had tenants, other projects were built-to-suit for own needs and projects offered to the market attracted considerable success. So, new supply did not essentially affect the overall market occupancy indicators. The vacancy rate of modern warehouses in Vilnius region at the end of 2017 was at the same level as a year ago, i. e. below 2%.

It is likely that no major changes in the supply and demand ratio will be recorded during 2018. A significant number of the projects planned for 2018 already have tenants or are developed for own-use. As only a few smaller-scale projects will offer some modern warehouse space to the market, it is unlikely that there will be any major increase in the quantity of vacant premises.

RENTS

High financial performance indicators of the logistics and warehousing premises sector encourage the development of new sites and investment in the renovation of older buildings. Increasing construction costs also contribute to the moderate increase in the rental and sales prices of warehousing premises.

Rents for old and new warehouses and industrial premises increased by 4% in 2017. At the end of 2017, rents for new modern warehouses closer to the central part of the city were from €4.70 to €5.20 per sqm, depending on the size. Near or outside the city limits, rents range from €3.90 to €4.50 per sqm. Renovated premises are being offered at prices from €2.60 to €3.40 per sqm. Average and lower quality premises are offered 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 another slight increase of rents in 2018.

INVESTMENT

The year 2017, was the most active in the Lithuanian commercial property investment market with investment volumes outpacing previous records in 2008. In total 33 core properties (modern office, retail and industrial property worth over €1.5 million) were sold in Lithuania, with a total value of €312 million. Compared to 2016, this represents an increase of almost 22%. In 2017 most investments were made in the premises of the retail sector. This was led by the sale of a large portfolio in all Baltic countries, where retail properties were dominating. The share of investment turnover by value in 2017 was as follows in Lithuania: 44% – retail, 41% - offices and 15% - industrial properties.

According to the value of purchased property, Lithuanian and US (with the single portfolio purchase) capital companies were the leading investors (53% from all investments). The remaining investments attracted buyers from Finnish, Estonian, Swedish, British, Danish and Norwegian capital companies. During 2017 office and retail yields declined by another 25 basis points in Vilnius to 5.75-7.75%. Warehousing premises are interested in no less than 7.5-8.5%.

In 2017 United Partners Property managed by Estonian investment company United Partners Group acquired a logistics centre in Vievis (city between Vilnius and Kaunas). In 2007 a previously built logistics centre with total area of 21,200 sqm was acquired from development company SIRIN Development. The anchor tenant of this logistics centre is the Rimi retail chain. Details of the transaction have not been disclosed.

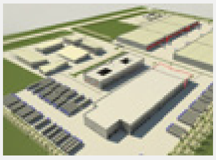
LEGAL NOTES BY SORAINEN

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.

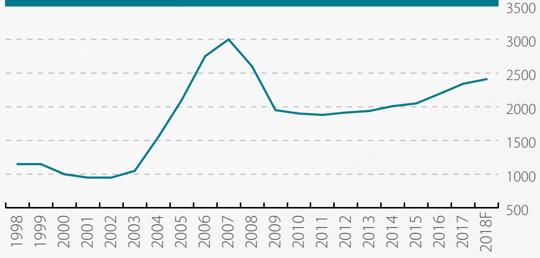
RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**BSP LOGISTICS CENTRE** – In Q2 2017 the Norwegian investment company Baltic Sea Properties (BSP) completed construction of a built-to-suit logistics centre in the vicinity of Vilnius next to the Vilnius-Druskininkai highway. The logistics centre which has 12,100 sqm of warehouse premises and 1,300 sqm of office premises was leased to the logistics company Rhenus Svoris.	12,100	Q2 2017
	**WOODLINE LOGISTICS CENTRE II** – After the development of the first warehousing building in 2016, the company, which sells raw materials for the furniture and interior industry, has completed construction of the second building in Aukstieji Paneriai on Jankiskiu Street. The second stage with 6,000 sqm warehouse premises and 800 sqm office premises was completed in the second half of 2017.	6,000 (II stage)	H2 2017 (II stage)
	**LIEPKALNIS INDUSTRIAL PARK I** – At the end of 2017 local developer SIRIN Development, one of the leading industrial property developers and owners in Lithuania, has completed the construction of the first stage of the new industrial park. The first building with 14,600 sqm warehouse premises and around 1,600 sqm office premises was fully leased.	14,600 (I stage)	Q4 2017 (I stage)

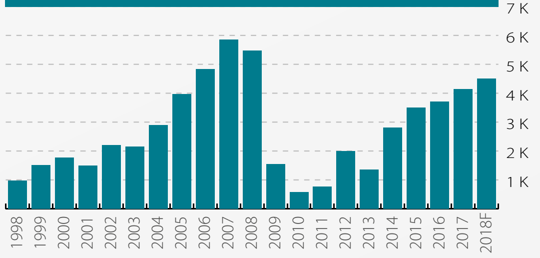
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**VILNIUS BUSINESS PARK I** – Real estate development company MG Valda is developing a modern business park in the northern part of Vilnius next to the main transport arteries – the intersection of Ukmerges Street and the new western bypass. The first built-to-suit stage with total area of 15,400 sqm will be completed at the beginning of 2018. The first stage will comprise 11,800 sqm of warehouse premises and 3,500 sqm of office premises and is fully let to the leading apparel retailer Apranga Group. Further development of Vilnius Business Park is planned for companies, which are looking for office or industrial premises with an area up to 50,000 sqm.	11,800 (I stage)	Q1 2018 (I stage)
	**M7** – Supplier and manufacturer of advertising materials, Avisma, is finishing the development of an A class energy efficiency project in Kuprioniskes district, next to the Vilnius-Minsk Road. The project with 6,400 sqm of warehousing premises and 2,300 sqm of offices will be completed in Q1 2018. Avisma will occupy around 25% of the premises and the rest of the space is offered to other tenants. Asking warehouse and office rents are from €5.00 per sqm.	6,400	Q1 2018
	**LIBRA VITALIS** – The supplier of press, advertising materials and office supplies, Libra Vitalis, is developing an A class energy efficiency project for own needs on Vakarine Street, next to the new western bypass. The project with 6,900 sqm of warehousing premises and 5,800 sqm of retail and office premises will be completed in Q4 2018.	6,900	Q4 2018
	**LIEPKALNIS INDUSTRIAL PARK II** – After succesfull completion of the first stage, local developer SIRIN Development is continuing the development of an industrial park in the southern part of Vilnius on Liepkalnio Street. The second stage with 16,000 sqm warehouse and office premises is scheduled to be completed in Q4 2018. The total investments will reach €9.0 million. Asking warehouse rents are from €4.50 per sqm, offices – from €5.00 per sqm. After the completion of the second stage it is planned to start the development of the third stage.	16,000 (II stage)	Q4 2018 (II 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 of warehouse premises and 850 sqm of office premises could be completed in the end of 2018. Asking warehouse rents are €5.00 per sqm, offices – €7.00 per sqm.	3,650	Q4 2018
	**ZARIJU 4B** – Estonian capital real estate management company Capital Mill is preparing to develop a 6,200 sqm warehouse in Aukstieji Paneriai district, on Zariju Street. The warehouse with 5,700 sqm of warehouse premises and 500 sqm of office premises could be completed in the second half of 2018. Asking warehouse rents are from €4.70 per sqm.	5,700	H2 2018

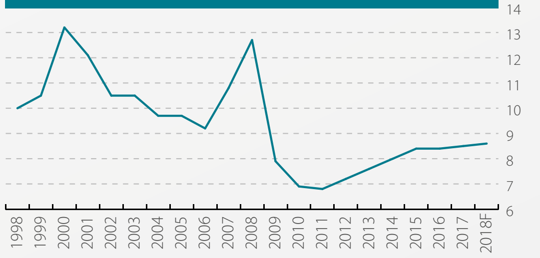
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



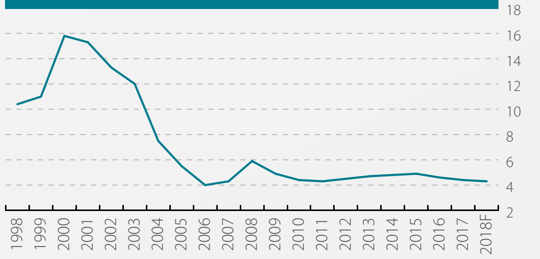
COMPLETED UNITS



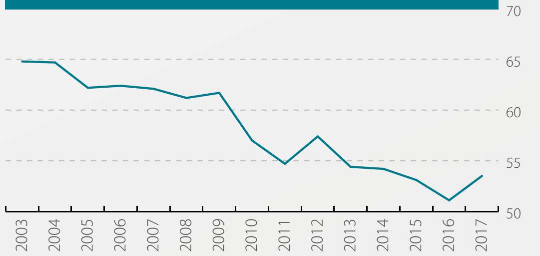
RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



NEW APARTMENT FLOOR AREA, SQM



VILNIUS SNAPSHOT
(END-2017)

ANNUAL APARTMENT PRICE CHANGE	+ 3.6 %
NEW APARTMENTS BUILT	4,144
AVERAGE NEW APARTMENT FLOOR AREA	53.5 SQM
ECONOMY CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	€1,000 - €1,450
MIDDLE CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	€1,500 - €1,900
UPPER CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	FROM €2,000
FINAL APARTMENT FIT-OUT	€250 - €400
RESIDENTIAL INVESTMENT YIELD (city centre)	4.4 %

CONSTRUCTION OF 12% MORE NEW APARTMENTS AND 54% MORE HOUSES

PRICES

The year 2017 saw moderate growth in apartment prices in all five largest cities of Lithuania (Vilnius, Kaunas, Klaipėda, Siauliai, and Panevezys). However, the assessment of the results in individual cities shows changing trends. If in 2010–2016 Vilnius was the leader in terms of apartment price growth in Lithuania, so in 2017 the biggest percentage rise in prices was recorded in Kaunas. In 2017, apartment prices increased by 4.8% on average in the second largest city in Lithuania and this was the biggest percentage rise in the major cities in Lithuania. It can be said that Vilnius has already experienced its momentum of the fast rise in apartment prices and is now giving way to Kaunas, which has a significant economic growth potential and lower price levels (compared with Vilnius or Klaipėda).

Apartment prices in Vilnius increased by 3.6% in 2017, after an increase of 6.8% in 2016, according to the Ober-Haus Lithuanian apartment price index. As a result, the average price at the end of 2017 rose to €1,468 per sqm. Since the last lowest price level in May 2010 till December 2017, apartment prices increased by 27.1% (by €313 per sqm). In 2017 prices for new construction apartments increased by 2.6% and old construction apartments increased by 4.5%.

The main reasons for current market activity and continuing price growth remain the same as in previous years: growing income of the population, record low loan interest rates and sufficient interest in housing as an investment.

Prices for new construction apartments in residential districts in the end of 2017 ranged from €1,000 to €1,700 per sqm without final fit-out. In Lithuania, new apartments are still generally sold as shells, i.e. without any fit-out at all. Apartments sold as shell require an average of €250–€400 per sqm to fit-out with floors, painting, lights, bathrooms and kitchen (economy-middle class).

By the end of 2017, a standard two-room apartment (45–50 sqm) in a Soviet-era concrete block building located in a residential district cost from €48,000 to €60,000. 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 €830 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €1,150 to €2,000 per sqm for unrenovated and from €1,600 to €4,000 per sqm for renovated apartments. New construction apartments are now offered for €1,750 to €4,000 per sqm without final fit-out. Prices of new apartments in exceptional projects can reach €4,500–€5,000 per sqm.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas), old apartment prices range from €1,000 to €2,800 per sqm. Prices of newly built apartments range from €1,500 to €3,200 per sqm without final fit-out.

In 2017, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate surroundings of Vilnius have increased by 2–3%.

Detached houses (150–200 sqm with land plots of 600–1,000 sqm) located in 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 €115,000 to €165,000. Prices for semi-detached houses (100–125 sqm with land plots of 250–400 sqm) range from €100,000 to €125,000. Full final fit-out generally costs €200–€250 per sqm or more.

The price for a fully finished 150–200 sqm detached house within the city limits (city residential districts) averages between €170,000 and €390,000, and from €250,000 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.

Population surveys show that in the biggest regions of the country it is widely expected that housing prices will keep showing positive trends in the nearest future. The survey commissioned by SEB Bank at the end of 2017 showed that 64% of the respondents (compared to 69% in 2016) thought that housing prices would increase in Vilnius in 2018 and 18% of the respondents (compared to 10% in 2016) thought that housing prices would remain unchanged.

Future housing market prospects continue to be essentially tied to a few fundamental factors. Among the key factors are: the level of income, borrowing conditions, and expectations regarding prices in the future; these factors have supported particularly high activity in the housing market of the capital city up to now. Slight, but steady growth of the population in the capital city also essentially prevents the market from cooling down and contributes to rising prices. However, the change in apartment prices recorded in 2017 showed that the housing market in Vilnius is moving from the stage of faster development to the stage of more moderate growth. If the country's economy develops as projected, Ober-Haus believes that in 2018 housing prices in Vilnius will increase by around 2–4%.

SUPPLY

According to Ober-Haus data, 4,144 apartments (in 48 different projects/stages) were constructed in Vilnius in 2017, which is 12% more than the number of apartments constructed in 2016. The number of apartments built in 2017 in Vilnius is the highest since 2008. The steadily growing volumes of housing construction shows that developers in general trust the market. 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. For example, a third of the supply of new apartments in 2017 was by unknown developers or developers with little experience.

Still, 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 2017, the major portion of the supply of apartments are middle class apartments that sell at €1,500 to €1,900 per sqm without fit-out and account for up to 52% 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 €1,450 per sqm accounts for 30% of the total supply.

The supply of higher class housing shows noticeable growth for the third year in a row in the capital city. Developers have become more daring in providing higher class apartments costing in excess of €2,000 per sqm (without fit-out) to the

OBER HAUS

market. Traditionally, these projects are developed in the centre of the city, the Old Town or in prestigious areas. In 2014 only 6% of newly built apartments in Vilnius were higher-value apartments, in 2017 this indicator jumped to 18%.

The average floor area of newly built apartments hit the lowest point in 2016 with 51.1 sqm. The average apartment floor area of projects implemented in 2017 was 53.5 sqm, which is 2.4 sqm bigger than those built in 2016. From 2003 to 2017, the average floor area of newly constructed apartments was reduced by 11.3 sqm, i. e. by over 17%. 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 2018 will certainly satisfy the needs of the market. According to Ober-Haus data, around 4,500 new apartments should be built in Vilnius in 2018.

Big changes in the supply of new housing are observed in the market for detached and semi-detached houses in Vilnius region. The increasing income of the population and the growing need for a larger living area have recently encouraged developers to direct some of their investment to the development of houses. According to Ober-Haus data, 489 detached and semi-detached houses were built by developers in and around Vilnius in 2017, which is a 54% increase compared to 2016. This is the best annual supply indicator of all times, as the previously record result of 2007 was overtaken by a few units.

If we compare 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 2017 the average area was 110 sqm, which is the lowest indicator for the past 15 years and is unlikely to change in the foreseeable future.

Developers currently invest in house projects of various size; the projects are dominated by row houses, i.e. attached houses with relatively small areas. While a typical project previously 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. The total area of houses is decreasing not only because of the lack 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. Some row house projects offer even smaller sized units – up to 60 sqm, which definitely competes with apartment projects.

DEMAND

Although activities in the housing market in Vilnius began to slow down slightly in 2017, the overall annual performance indicates that the market activity still remains elevated. In 2017 Vilnius saw a 6% decrease in apartment sales and a 2% decrease in house transactions. In 2017, on average 865 sales of apartments and 61 sales of homes were made in Vilnius each month.

Sales results of new apartments are noticeably more moderate compared to those in 2016. According to Ober-Haus data, 3,851 apartments in newly built buildings or buildings under construction were purchased or reserved directly from developers in 2017 in Vilnius. This is 12% less than in 2016, but 19% more than 2015. In 2017, on average 320 new apartments were sold or reserved each month in the primary market in Vilnius.

Fast growth in the supply of new housing and a decrease in the sales of apartments determined a growing number of unsold apartments in the country's capital. According to Ober-Haus data, the number of unsold new apartments on the Vilnius primary market increased by 34% during 2017. At the end of 2017 there were almost 1,360 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. The number of unsold apartments in the current active market does not cause any major threat. For example, at the end of 2015 the number of unsold newly constructed apartments in the market in Vilnius was even higher – almost 1,440, yet the activity of buyers in that year allowed to reduce the number to slightly over 1,000 unsold apartments.

It is obvious that increasing competition among developers and growing volumes of new housing supplied to the market do not allow market participants to relax. It is likely that in 2018 developers wishing to obtain the desired price for a property will have to be far more active. Demand for housing is essentially not decreasing, conditions for purchasing property remain highly favourable, new and well-paid jobs are created, and the population increase in the capital city remains positive, however, buyers now have now many opportunities to choose from. Developers will therefore be challenged to distinguish their project from the many other new projects.

THE MORTGAGE MARKET

The situation in the mortgage loan market continued to stimulate the entire Lithuanian housing market in 2017. People who received mortgage loans prior to 2015 could continue to benefit from the negative interbank interest rates which reduce the loan burden. Interest rates on new loans have increased somewhat during 2017, but essentially remained at their historical lows. According to data from the Bank of Lithuania, the average annual interest rate on new mortgage loans in 2017 was 2.01% (this figure was 1.95% in 2016). In December 2017, the average mortgage annual interest rate was 2.05%.

The volumes of new mortgage loans and the total mortgage loan portfolio in Lithuania have reached new heights. According to data from the Bank of Lithuania, at the end of 2017 the total value of outstanding residential loans stood at €7.1 billion, the highest point historically. Currently in Lithuania, the value of household loans is around 17% of GDP. This rate is one of the lowest compared to other EU countries (EU-28 average in 2016 – 47.1%).

Lithuanians increasingly take out mortgage loans, and loan volumes continued to grow in 2017. According to data from the Bank of Lithuania, new mortgage loans worth €1,178 million were provided in Lithuania in 2017, an increase of almost 12% compared to 2016. In 2016–2017, new mortgage loans for an average of over €93 million were provided per month, which is 60% more than in 2015.

As residential price growth slowed down in 2017 and people's income increased at a higher pace, housing affordability has reached a record level. In 2017 an inhabitant of Vilnius can purchase 6.1 sqm in a medium-class apartment for his average (net) annual salary (0.2 sqm increase compared to 2016). The current price to income ratio is the highest since 1998.

RENTS

2017 saw an average 1% increase in apartment rents, after rising 4% in 2016 in Vilnius. Changes in rents in the capital city in previous years show that the phase of faster development is already in the past. While the average annual percentage increase in rents in 2012–2014 was 6%, in 2015–2016 it was 3–4%. Favourable conditions for the purchase of housing and still attractive profitability indicators in recent years have encouraged buyers to purchase property both for living in and investing. This determined the situation in the market where the demand for rental housing is already satisfied and there is very little space for faster growth in rents. Indicators of 2017 attest to this trend. Ober-Haus expects overall residential rents to remain stable in 2018.

A typical two-room, old construction apartment in Vilnius residential districts rents for €200 to €300 per month at the end of 2017. The same size new construction apartment rents start from €300 up to €400 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 €260 to €600 per month, and for three-room apartments from €320 to €800 per month. Rents for bigger and well-equipped apartments in the Old Town can range from €800 to €1,200 per month. Maintenance costs are additional.

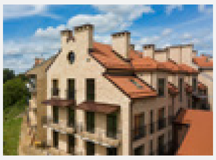
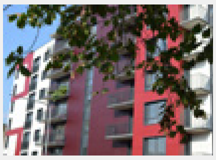
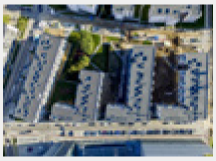
Fully equipped houses of 100–200 sqm on the outskirts of Vilnius are usually offered for rent at €600 to €1,100 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and city centre or Old Town are higher and vary from €900 to €2,200 per month. Maintenance costs are additional.

Buy-to-rent is a very attractive investment option among non-professionals in the market, because the interest rates offered by credit institutions still are very low and other investments are not so popular as they need more knowledge and management skills. Generally, buyers choose a sufficiently profitable form of investment by purchasing one- or two-room apartments in various areas of Vilnius. In 2017, the overall gross rental yield for such property in the city centre was around 4.5–5.0% and in residential districts – 5.0–5.5%. However, since 2014–2015, there has been a decline in housing rental yields, i.e. in recent years house prices have increased at a faster rate than rents. In 2017, the average gross rental yield in Vilnius for two-room apartments was 5.1% and was 30–40 basis points lower than in 2015–2016.

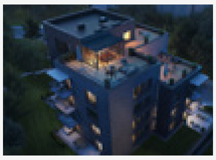
LEGAL NOTES BY ***SORAINEN***

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 a 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.

RECENT DEVELOPMENTS

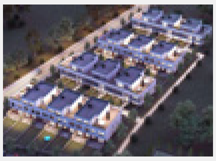
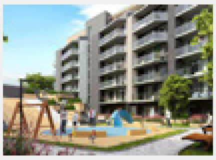
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**MAGNUS RESIDENCE** – At the end of 2017, local company Apex group, finished construction of the luxury residential project in the very centre of Vilnius on Gedimino Avenue. The 6-storey building comprises 29 apartments and 7 commercial premises on the ground floor. The apartments range in size from 38 to 175 sqm. At the end of 2017 around 50% of the apartments had been sold. The prices of the available apartments without fit-out are from €3,500 to €4,700 per sqm.	€3,500 - €4,700	Q4 2017
	**GRIGALAUKIO DOMINIJA** – In Q3 2017, development company Omberg Group, finished construction of two 4-storey residential buildings in Pasilaiciai district on Grigalaukio Street. The A class energy efficiency buildings comprise 68 apartments ranging in size from 31 to 64 sqm. At the end of 2017 around 85% of the apartments had been sold. The prices of the available apartments without fit-out are from €1,350 to €1,450 per sqm.	€1,350 - €1,450	Q3 2017
	**UZUPIO KRANTINES** – At the end of 2017, real estate development company MG Valda, finished the development of a residential project in Uzupis district on Polocko Street. On the right side of the Vilnele river, the completed project has 15 blocks of 3-storey residential buildings with mansards and comprises more than 180 apartments. Apartments of 1–5 rooms range in size from 36 to 163 sqm. At the end of 2017 over 85% of the apartments had been sold. The prices of the available apartments without fit-out are from €1,700 to €2,600 per sqm.	€1,700 - €2,600	Q4 2017
	**CIURLIONIO 3** – In the second half of 2017 development and construction company YIT finished construction of a residential building in the city centre on M. K. Ciurlionio Street. The 7-storey building comprises 51 apartments ranging in size from 46 to 132 sqm with commercial premises on the ground floor. At the end of 2017 over 70% of the apartments had been sold. The prices of the available apartments without fit-out are from €2,200 to €3,000 per sqm.	€2,200 - €3,000	H2 2017
	**KAUNO-ALGIRDO QUARTER** – At the beginning of 2015 real estate development company Prodo started a large-scale residential project in Naujamiestis district on Kauno and Algirdo streets. The project was fully completed in Q3 2017 and became one of the biggest residential projects in that year. The 4–11-storey residential buildings comprises 298 apartments ranging in size from 26 to 136 sqm with commercial premises on the ground floor. At the end of 2017 almost 65% of the apartments had been sold. The prices of the available apartments without fit-out are from €1,600 to €2,200 per sqm. Underground parking costs €7,200 per space.	€1,600 - €2,200	Q3 2017
	**OZO PARK (5TH STAGE)** – By completing the last fifth stage in Q4 2017 local developer Realco has finished the development of its residential project in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark. Since 2008 Realco has constructed almost 1,630 apartments in total in this territory developing one of the biggest residential projects in Vilnius. Total investments reached €110 million. The last fifth stage of four 5-storey buildings comprises 350 apartments. The prices of the available apartments without fit-out are from €1,400 to €1,700 per sqm.	€1,400 - €1,700 (V stage)	Q4 2017 (V stage)
	**KARALIAUCIAUS QUARTER (N1)** – At the end of 2016 local developer EIKA started the construction of a large-scale residential project in a 2.6 ha territory in Pilaites district, on Karaliauciaus Street. The project will consist of ten residential buildings with over 600 apartments. The first 9-storey residential building (N1) with 72 apartments ranging in size from 30 to 66 sqm was completed at the end of 2017. At the end of 2017 almost 75% of the apartments in the first building had been sold. The prices of the available apartments without fit-out are from €1,250 to €1,400 per sqm.	€1,250 - €1,400	Q4 2017

NEW PROJECTS

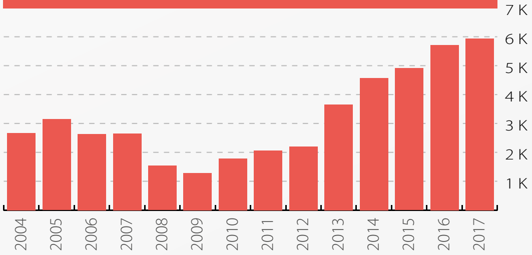
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**LABDARIU 8A** – A 4-storey residential building, in the Old Town on Labdariu Street. The project comprises 31 apartments ranging in size from 35 to 150 sqm. A total of 35 parking spaces will be provided in the underground car park. The project will be completed in mid-2018. At the end of 2017 around 35% of the apartments had been sold. Sales prices of the apartments without fit-out are from €3,200 per sqm.	from €3,200	MID-2018
	**CENTRO DUETAS** – Local company Spaineta is developing the 6- and 9-storey residential project in Konstitucijos business district, on Lvovo Street. The project with 90 apartments will be completed in Q3 2018. Apartments of 1–3 rooms range in size from 39 to 74 sqm; buyers will be able to connect apartments to obtain the larger size units. At the end of 2017 around 55% of the apartments had been sold. Asking prices of the available apartments without fit-out are from €1,700 to €2,100 per sqm. Buyers can choose a full fit-out option for an extra €250–400 per sqm.	€1,700 - €2,100	Q3 2018
	**FILARETU NAMAI** – Local company Promo Vision is developing a small scale residential project close to Uzupis district, on Peteliskiu Street. The 5-storey buildings comprise 16 apartments ranging in size from 56 to 99 sqm. All apartments will have balconies or spacious terraces. A total of 16 parking spaces will be provided in the car park. The project is scheduled for completion in the second half of 2018. Asking prices of the available apartments without fit-out are from €2,100 per sqm.	from €2,100	H2 2018
	**OZO KVARTETAS** – Local development management company Novalex together with development company Re World is developing residential project (formally – recreational purpose) with small units in the territory of Ozo Park. Four 5-storey A class energy efficiency buildings will offer over 400 units ranging in size from 23 to 46 sqm. The first two buildings with over 200 units will be completed in Q2 2018. At the end of 2017 over 40% of the apartments had been sold. Asking prices of the available units without fit-out are from €1,600 to €1,800 per sqm.	€1,600 - €1,800	Q2 2018
	**BASANAVICIAUS NAMAI** – Local developer Realinija is finishing the construction of a 6-storey apartment building in Naujamiestis on J. Basanaviciaus Street. The building with 70 apartments and commercial premises on the ground floor will be completed in Q2 2018. All apartments ranging in size from 47 to 69 sqm will have glazed balconies and loggias. There will be a large two-level underground car park. At the end of 2017 almost 75% of the apartments had been sold. Asking prices of the available apartments without fit-out are from €1,800 to €2,100 per sqm.	€1,800 - €2,100	Q2 2018
	**B23** – An eight-building A class energy efficiency residential project developed by Hanner in Naujamiestis district, on Smolensko and Birzelio 23-osios streets. First stage with two buildings and 115 apartments was completed in 2017 and was fully sold. The second stage of three 7–8-storey buildings with 190 apartments will be completed in the first half of 2018. Apartments of 1–4 rooms range in size from 25 to 86 sqm. At the end of 2017 over 60% of the apartments from the second stage had been sold. Asking prices of the available apartments without fit-out are from €1,600 and fully fitted apartments from €2,000.	from €1,600 (II stage)	H1 2018 (II stage)

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

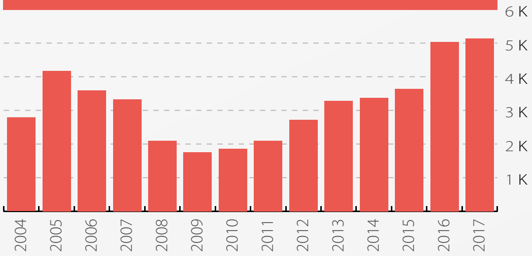
NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**P9** – In 2017 the real estate development company Prodo started a residential project in Markuciai district, next to Uzupis district on Paplaujos Street. Four 6–7-storey residential blocks will offer over 236 units ranging in size from 26 to 297 sqm. All apartments will have balconies and top floor apartments will have spacious terraces. A total of 251 parking spaces will be provided in the underground car park. The project is scheduled for completion in Q2 2020. Asking prices of apartments without fit-out are from €1,550 to €2,000 per sqm and price for exclusive apartments on the top floors could reach €3,000 per sqm. Underground parking costs from €7,800 to €13,000 per space.	€1,550 - €2,000	Q2 2020
	**EITMINU NAMAI** – A subsidiary real estate development company of Siauliu Bankas is finishing the development of a residential project in Pasilaiciai district on Eitminu Street. The last 9-storey residential building with 99 apartments will be completed in Q3 2018. Apartments of 1–3 rooms range in size from 37 to 70 sqm. Asking prices of the available apartments without fit-out are from €1,050 to €1,250 per sqm.	€1,050 - €1,250	Q3 2018
	**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 of 30 houses was completed in 2017 and the final 52 houses should be completed during 2018. The sale prices of houses without fit-out are from €130,000 to €170,000.	€130,000 - €170,000 (for a house)	2018
	**BENDORELIAI** – After successful completion of 133 row houses and 98 apartments in Bendoreliai in 2011–2016, next to the Old Ukmerges Road, local developer Markeris is finishing the development of this housing settlement in the 8-ha territory. The last stage will consist of four low-rise apartment buildings with 68 apartments in total. Apartments of 3–4 rooms range in size from 63 to 79 sqm. All apartments will have private land, balconies or spacious terraces. The first two 3-storey buildings with 34 apartments will be fully completed in mid-2018 and another two buildings are scheduled for completion at the end of 2018. Asking prices of the available apartments without fit-out are from €1,050 to €1,150 per sqm.	€1,050 - €1,150	Q4 2018
	**RAITININKU SODAS** – In 2017 development and construction company YIT in cooperation with YCE Housing I Fund, which was established by YIT together with a group of Finnish investors in 2016, started the development of a residential project close to the city centre and Neris river, on Raitininku Street. The project consists of two 7-storey A class energy efficiency residential blocks. The project with 212 apartments and commercial premises on the ground floor with offer 2–4 room apartments, ranging in size from 41 to 102 sqm. The first block with 106 apartments will be completed in Q2 2019. Asking prices of the available apartments without fit-out are from €1,800 to €3,200 per sqm.	€1,800 - €3,200 (Ist block)	Q2 2019 (Ist block)
	**PAUPYS (RIVERSIDE)** – At the end of 2017 real estate development company MG Valda has started a large-scale multi-functional project in Uzupis district. The 5-ha territory of the former Skaiteks factory was acquired by MG Valda in 2016. The developer plans to establish an exceptional residential area with well-arranged infrastructure, modern business complex, spaces for creative and public purposes, a kindergarten and an Old Town market. The unique concept of the multifunctional area was designed by six Lithuanian architect teams. Total investments will reach €150 million. It is planned to complete over 600 apartments by the end of 2019, which will range in size and concept. After completion of the first announced stage further development of this territory is planned.	N/A	Q4 2019

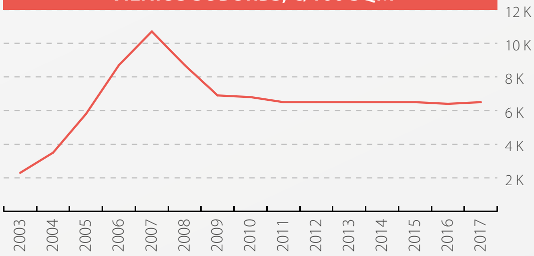
LAND TRANSACTIONS IN VILNIUS CITY



LAND TRANSACTIONS IN VILNIUS DISTRICT



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



VILNIUS SNAPSHOT (END-2017)

TOTAL LAND TRANSACTIONS CHANGE (Vilnius city)	+ 4 %
TOTAL LAND TRANSACTIONS CHANGE (Vilnius district)	+ 2 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL 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

LAND MARKET ACTIVITY INCREASES BY OVER 6% IN LITHUANIA IN 2017

PRICES

In 2017, the activity in the market of larger parcels of land for development was quite weak. There were far fewer publicly announced transactions than there were, for example, in 2016. Parcels of land located in strategically attractive places of the city continue to attract developers, but acquisitions occur only after taking into account all risk factors (general outlook of the commercial and residential property market, location characteristics of the parcel, legal conditions for acquisition of a land plot, etc.). Stable commercial property rents or a slowdown in house price growth force developers to take a more conservative approach for asking sales prices of the parcels of land. Yet the shortage of larger parcels of land, especially in the central part of the city, essentially helps to keep the current price levels of land.

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

Plots in residential suburbs for residential apartment developments (with detail plans 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.

Only minor positive changes were recorded in the market of land parcels for individual houses in Vilnius region in 2017. In principle, there were no big changes in the last 5 years due to the 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. At the end of 2017, 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.

Prices for agricultural land depending on location, land productivity and size, range from €1,000 to €5,000 per hectare.

DEMAND

Total land transactions in Lithuania increased by over 6% in 2017, according to the data of the Central Registry. Activity in the land market in Lithuania in 2017, was very high and surpassed the 2014-2016 activity on average by 12%.

Growth in the number of transactions involving land parcels was not so rapid in Vilnius region in 2017, but the indicators are noticeably in excess of the indicators for the 2013-2015 period. Total land transactions increased by 4% in 2017 in Vilnius city, to 495 transactions per month. Total land transactions increased by 2% in 2017 in Vilnius district, to almost 430 transactions per month.

In March 2017, the construction and development company Eika purchased a land plot of 1.26 ha (former site of Kartonas company) in Naujamiestis district, next to the Old Town. It is planned to develop a residential project with over 300 apartments including some commercial space by 2022.

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, some other limitations apply.

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.

LITHUANIAN REAL ESTATE TAXES AND LEGAL NOTES

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 1,448.1).

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:

- ≥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 2.90). Other registration fees do not apply as the direct legal owner of real estate remains the same. The transfer of shares of a real estate holding company is generally exempt from VAT, however, if the value of shares is similar to the value of real estate the transaction from VAT perspective may be considered as sale of immovable property.

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% (0% rate for the first year of operation) if certain conditions are met. All income of Real Estate collective investment funds (e.g. rent, capital gains) are exempt from CIT if certain conditions are met.

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 rent 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 generaly ranges from 0% to 15% and 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 straight-forward. 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). 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% (0% rate for the first year of operation) if certain conditions are met. All income of Real Estate collective investment funds are exempt from CIT if certain conditions are met.

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 2018 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 owned by individuals are exempt from tax where the total value of EUR 220,000 is not exceeded, whereas the excess value is subject to progressive taxation:

- 0.5% RET rate is applied on taxable value exceeding EUR 220,000 but not exceeding EUR 300,000;
- 1% RET rate is applied on taxable value exceeding EUR 300,000 but not exceeding EUR 500,000;
- 2% RET rate is applied on taxable value exceeding EUR 500,000.

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%.

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 2018 are:

- 0.08% - standard tax rate for individuals;
- 0.12% - standard tax rate for companies;
- 4% - increased tax rate for the land that is not used and for the land with buildings recognized as unauthorised construction.

Exemption from land tax is available in some cases.

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%.

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.

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 are usually filed by a notary. An application should be accompanied by documents evidencing transfer of title to real estate (eg, notarised sale–purchase agreement, donation agreement).

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, i.e. 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 landowner.

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 the 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.

Note that a share sale-purchase agreement needs to be notarised when more than 25% of shares is transferred or the price of the 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 need not 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 has no impact on ownership rights to shares.

Issues usually to be tackled while structuring a REI transaction as a share deal include, e.g.: 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, e.g. for sale of buildings situated on land owned by a third party, consent from the landowner 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 to an asset deal over commercial property is the statutory right of a tenant to terminate the tenancy agreement on change of ownership of leased property. In practice this issue is tackled by collecting waivers of such rights from tenants.

Asset deals may involve recharacterisation risk, i.e. 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 liability, 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) 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, e.g. 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.

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 is 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). Note 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, e.g. ownership title, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for supply of utility services, environmental and zoning compliance issues – 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, legal 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).

As of 1 January 2018, 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 20 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 2 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 may apply.

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, e.g. 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 a 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 for an indefinite term by giving three months' prior notice, unless the parties agree on another notification period. A residential lease for 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 incurred by 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

A mortgage is established by a contractual agreement between the parties, which may be executed as a separate agreement or be part of the other (main) agreement. A contractual mortgage requires only the approval of a notary and subsequent registration with the Mortgage Register. Mortgage registration with the Mortgage Register is 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 done by applying to a notary for an enforcement record. The possibility to foreclose on a mortgage by transferring the title to a 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, i.e. 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 regulation of territorial planning, the right to build in urbanised territory and territory under urbanisation may be exercised without preparing a detailed plan, if construction complies with the master plan. As a result, construction on a land plot may be carried out according to a master plan.

Other 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 correcting the territorial planning document has been introduced that allows a change (not material and without deviation from 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 are carried out prior to technical design (impact assessment of solutions during territorial planning has been abandoned).
- An information system (TPDRIS) for preparation of territorial planning documents in Lithuania and for state supervision of the territorial planning process has been implemented in Lithuania.
- A territorial planning document enters into force from registration with the register of territorial planning documents.

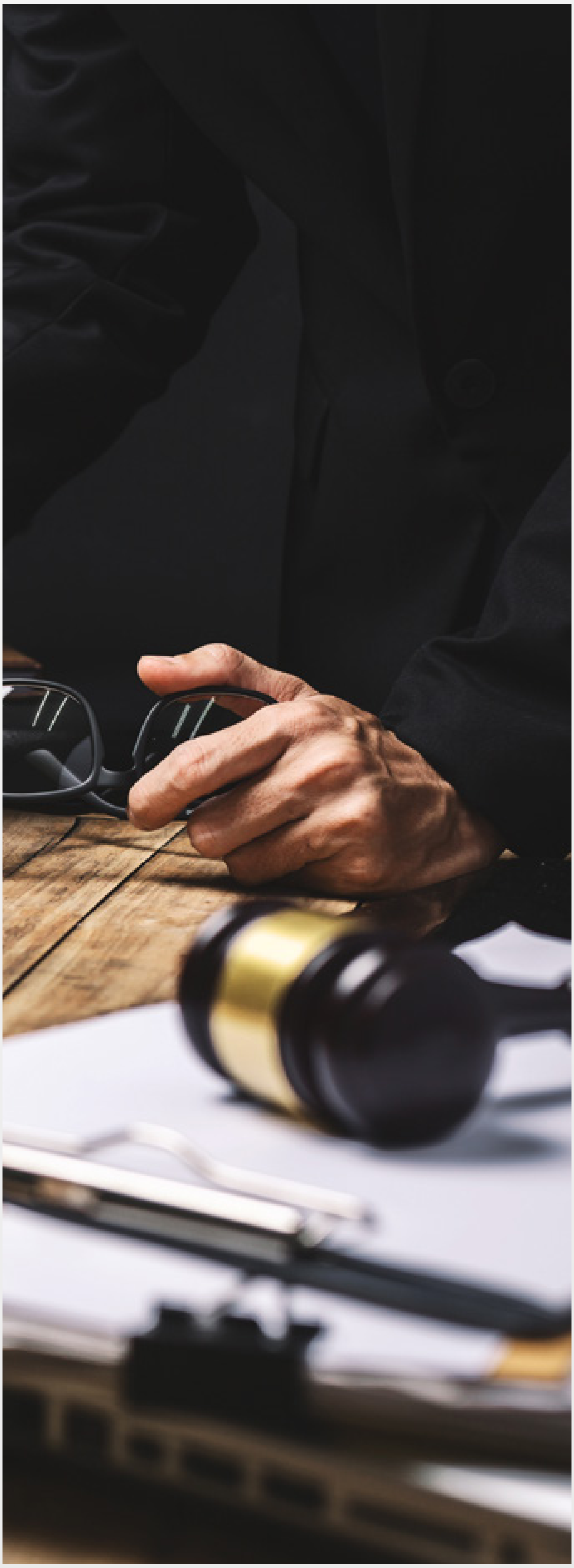
CONSTRUCTION

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 established time limits and does not indicate 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 amendments to the Construction Law are as follows:

- Special requirements for building design (ie special architectural, heritage or protected areas requirements) need no longer be obtained (to be issued only upon the request of the client).
- Conditions for connection and special requirements for 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 mandatory insurance of the contractor's civil liability) and mandatory third party civil liability insurance of the contractor for expert examination of the building project.



- The contractor is now required to provide security for the performance of its obligations to the client, the amount of which cannot be less than 5 (five) per cent of the construction value, valid for at least three years.
- A developer must also provide security to the buyer of real estate against improper performance or non-performance of the contractor's obligations during the construction warranty period (eg due to the contractor's insolvency or bankruptcy), which must comply with the same terms and conditions as prescribed for the contractor as noted above.

After completion of construction, reconstruction, modernisation or other construction operations (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 the building and rights in rem to it being registered with the Real Estate Register. As of 1 January 2017, this requirement also applies to residential buildings.

After completion of construction, 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, service, catering, transport, cultural, educational, sports, medical treatment and recreational buildings (when the area used is more than 500 m2). A certificate of energy efficiency of a class 'A+' building has become a requirement for newly constructed buildings from 1 January 2018, provided that the construction permit is obtained after this date.

The contractor, the architect and the technical supervisor of 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 applies 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 a company may realistically overcome its temporary financial problems. Restructuring 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, when, in addition, 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 by 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 at random, using a special e-system.

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 70 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

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

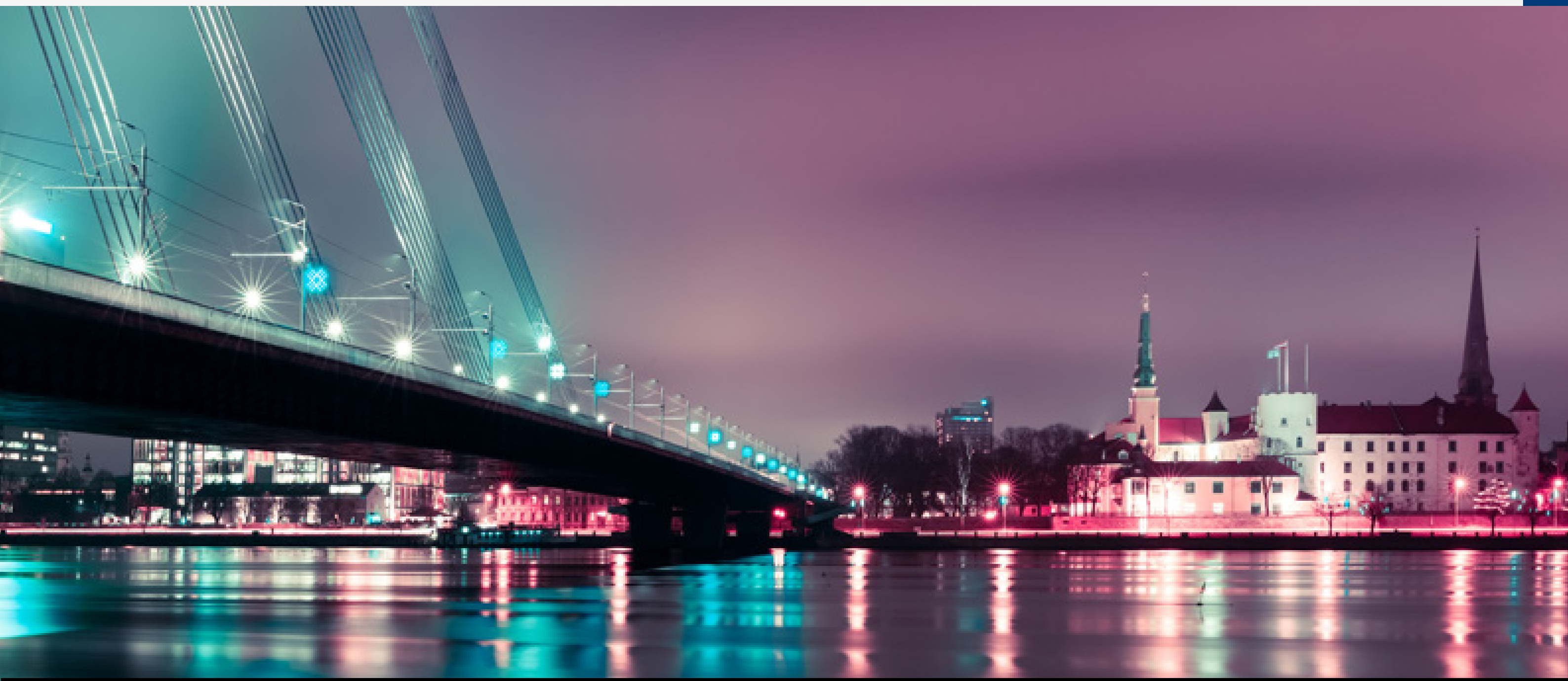
2018 FORECAST

GDP annual growth, %	3.9
GDP per capita, €	13,846
Private consumption annual growth, %	2.2
Average annual inflation, %:	2.9
Unemployment rate, %:	6.7
Avg. monthly gross wage, €:	970
Average monthly gross wage annual growth, %	4.4
Retail sales growth, %	4.5
FDI stock per capita, €	6,853

POPULATION	2012	2013	2014	2015	2016	2017
Latvia	2,044,800	2,023,800	2,001,500	1,986,100	1,968,900	1,960,000
Riga	649,900	643,600	643,400	641,000	639,600	640,319
Daugavpils	90,900	89,200	87,400	86,400	85,900	86,147
Liepaja	74,800	73,500	71,900	71,100	70,600	69,400

ECONOMICS	2012	2013	2014	2015	2016	2017
GDP growth, %	5.6	4.2	2.4	2.7	2.0	3.7
GDP per capita, €	10,800	11,480	12,020	12,314	12,595	12,595
Private consumption growth, %	5.7	6.2	4.8	3.5	3.5	3.1
Average annual inflation, %	2.3	0.0	0.6	0.2	0.0	2.9
Unemployment rate, %	13.9	11.3	10.8	9.9	9.5	6.8
Average monthly gross wage, €	685	716	765	818	858	929
Average gross wage annual growth, %	3.8	4.5	6.8	6.8	5.1	8.3
Retail sales growth, %	7.3	3.8	3.6	4.9	4.0	4.9
FDI stock per capita, €	5,017	5,716	5,995	6,268	6,425	6,672

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



SALARIES INCREASE PUSHING RESIDENTIAL MARKET UP

In 2017, GDP grew by 3.7%, after growing 2.0% in 2016 and by 2.7% in 2015.

After four years of low inflation, the 2017 rate increased to 2.9%, an indicator of strong economic growth. In 2016 inflation was at 0% while in 2015 it was 0.2%. Forecasts for further inflation are for growth of 1.6% in 2018.

The minimum wage will increase by €50 to €430 on 1 January 2018 and it is expected to remain at this level for the next three years. This is the fourth successive increase in the minimum wage over the last four years. At the end of 2017, average gross salary had risen to an historic high of €929, and the Ministry of Finance forecast is for an average gross salary of €970, and to rise to €1,021 in 2019.

Unemployment had fallen to 6.8% by the end of 2017. Analysts project average unemployment of 6.7% for 2018.

Construction industry costs increased by 2.6% in 2017. This overall change in prices was mainly as a result of a 6.5% increase in wages and salaries. In this period, the biggest cost increase (4.0%) was recorded in the residential and industrial buildings sector.

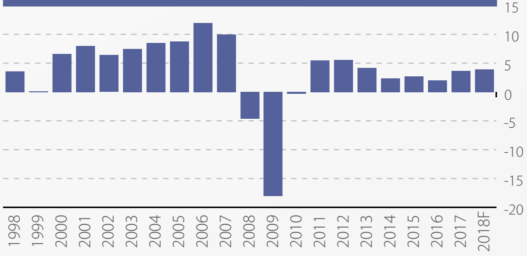
Starting in 2018, despite various critical reactions from the general public, new regulations came into force on the labour tax system and one of the hottest topics is the concept of progressive income tax. Common in Western and Southern Europe, up to now, Latvia has not had different tax bands on earned income.

However, starting in 2018, the Latvian Tax authorities have decided to apply its three categories and three different tax rates. For incomes under €20,000 a tax rate of 20% will apply, for the €20,000–€55,000 band, the tax rate will be 23%, the same as in 2017 and for salaries over €55,000 the tax rate will be 31.4%, higher than in 2017.

The Ministry of Finance has also made changes to Corporate Income Tax (CIT). Up to 2018, companies were obliged to pay tax on all earned income. Starting this year, earned income which is reinvested will not be liable to tax. Companies will only be obliged to pay CIT on distributed profit, a significant change which is designed to encourage companies to develop their business. The new corporate income tax rate will be 20%.

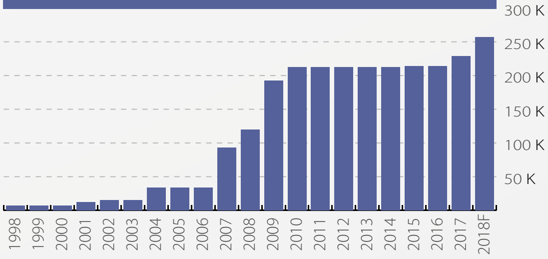
An updated housing guarantee programme will be available in 2018 including restrictions on professionals leaving Latvia after graduation and additional help for families with children. Starting from 2018 the amount of the guarantee will not just depend on the number of children, as it was up to then; additionally, it will be for professionals without kids and with professional or higher education at age 35 and under. As expected, it will attract around 1,000 local professionals in 2018. Until 2018 it was possible to apply for the government guarantee if the family had a child under 18 years old; since the start of 2018 it is possible to apply if a family has a child under 24 years of age. Both changes to the regulation are considered significant and will attract around 5,000 families and professionals in Latvia to buy apartments in 2018. In the past two years the guarantee programme has helped around 6,200 families to acquire their own apartments.

GDP GROWTH, %

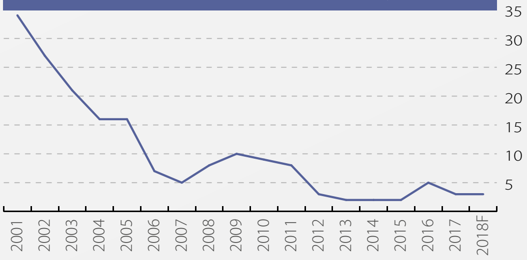


A CLASS OFFICE RENTS, €/SQM

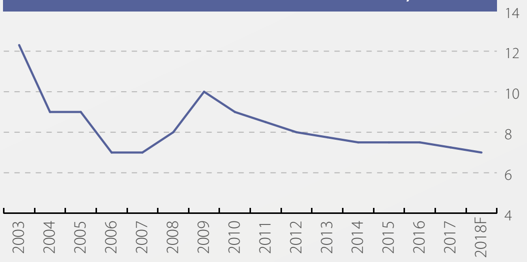
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



RIGA SNAPSHOT
(END-2017)

TOTAL OFFICE SPACE	768,500 SQM
TOTAL OFFICE VACANCY RATE	5.5 %
A CLASS OFFICE VACANCY RATE	3.0 %
B CLASS OFFICE VACANCY RATE	7.0 %
TOP OFFICE RENTS (SQM / month)	€16.00 - €18.00
A CLASS OFFICE RENTS (SQM / month)	€12.00 - €16.00
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €12.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €5.00

GROWING DEMAND PUSHED VACANCY RATE DOWN IN 2017

SUPPLY

The completion of four new office projects in 2017 added 22,200 sqm of office space to the market. Total office area at the end of 2017 stood at 768,500 sqm.

The Skanste neighbourhood is continuing to develop as the city's CBD with a big office project, PLACE ELEVEN, completed there by Lithuanian developer Hanner in 2017. Currently Hanner is continuing to develop in the Jauna Teika district; an office block development, TEODORS, with 17,000 sqm of office space, will be completed in 2018.

Proximity to the city centre and to Riga International Airport has put the left bank of the Daugava River in a great position for a few years now. In 2016, developer Mukusalas Biznesa Centrs finished construction of a built-to-suit office building with 1,700 sqm of office space for Tele2 Shared Service Center. In 2017, Mukusalas Biznesa Centrs finished construction of a B class office building with GLA of 2,000 sqm. Less than a kilometre from Mukusalas Biznesa Centrs, at the end of 2017 the LOFToffice company completed an office building, with GLA 4,000 sqm.

In the course of 2018-2019, five new office buildings are scheduled to come to market in Riga, with a total office space of more than 83,000 sqm.

DEMAND

The vacancy rate of modern offices in Riga decreased from 7.0% to 5.5% in 2017. The vacancy rate in 2017 for B class offices decreased to 7.0% and decreased to 3.0% for A class offices. Ober-Haus forecasts that vacancy rates will keep falling and could even reach around 4.0-4.5% at some point of 2018.

As it has been for the past few years, the most dynamic sector of the office market in Latvia remains business services. For example, in the middle of 2017 Arvato Systems, a global IT company, opened its 784 sqm office in the building located at Zala Street. Telemarketing and BPO agency, opened their office and call centre in Riga as a result of business expansion in the Baltic region. Currently they occupy one floor in the Valdemara Centre and employ more than 200 specialists.

At the end of 2017 DNB Bank ASA announced that they will re-locate their shared service centre from the Luminor building to the Teodors office building and will occupy three floors. IT company Accenture will also relocate some of their offices to the same building.

RENTS

In 2017 office rents in Riga increased by 6%. At the end of 2017 rents for A class offices range from €12.00 to €16.00 per sqm and from €8.00 to €12.00 per sqm for B class offices. Several exclusive office buildings are even asking top rents of €16.00–€18.00 per sqm with additional charges for utilities and service.

Utilities and service charges in A class buildings range from €2.50 to €5.50 per sqm per month and in B class buildings from €1.50 to €3.50 per sqm per month.

Ober-Haus forecasts that if the total vacancy rate decreases to 4–5% during 2018, annual rents could increase by another 6-7%.

INVESTMENT

One of the largest deals involving offices was announced at the end of 2017, when Northern Horizon Capital AS signed an agreement to acquire the Vainodes 1 office building and the neighbouring land plot located at Telts 1 in Riga. The total purchase price for the properties under the agreement is around €21.3 million.

In the middle of 2017, an old building, Preses Nams, was acquired by a Lithuanian investment company, Lords LB Asset Management, for future development. Preses Nams was bought for €16.8 million, and the company is planning to invest more than €200 million in reconstruction and expansion in the surrounding area.

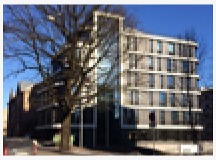
In 2017, AB LV subsidiary, New Hanza Capital, bought two partly renovated office buildings of nearly 25,000 sqm in the VEF district of Riga from DNB subsidiary Salvus 6. These properties are near the city centre and across the street from Jaunā Teika. This deal amounted to €8.46 million.

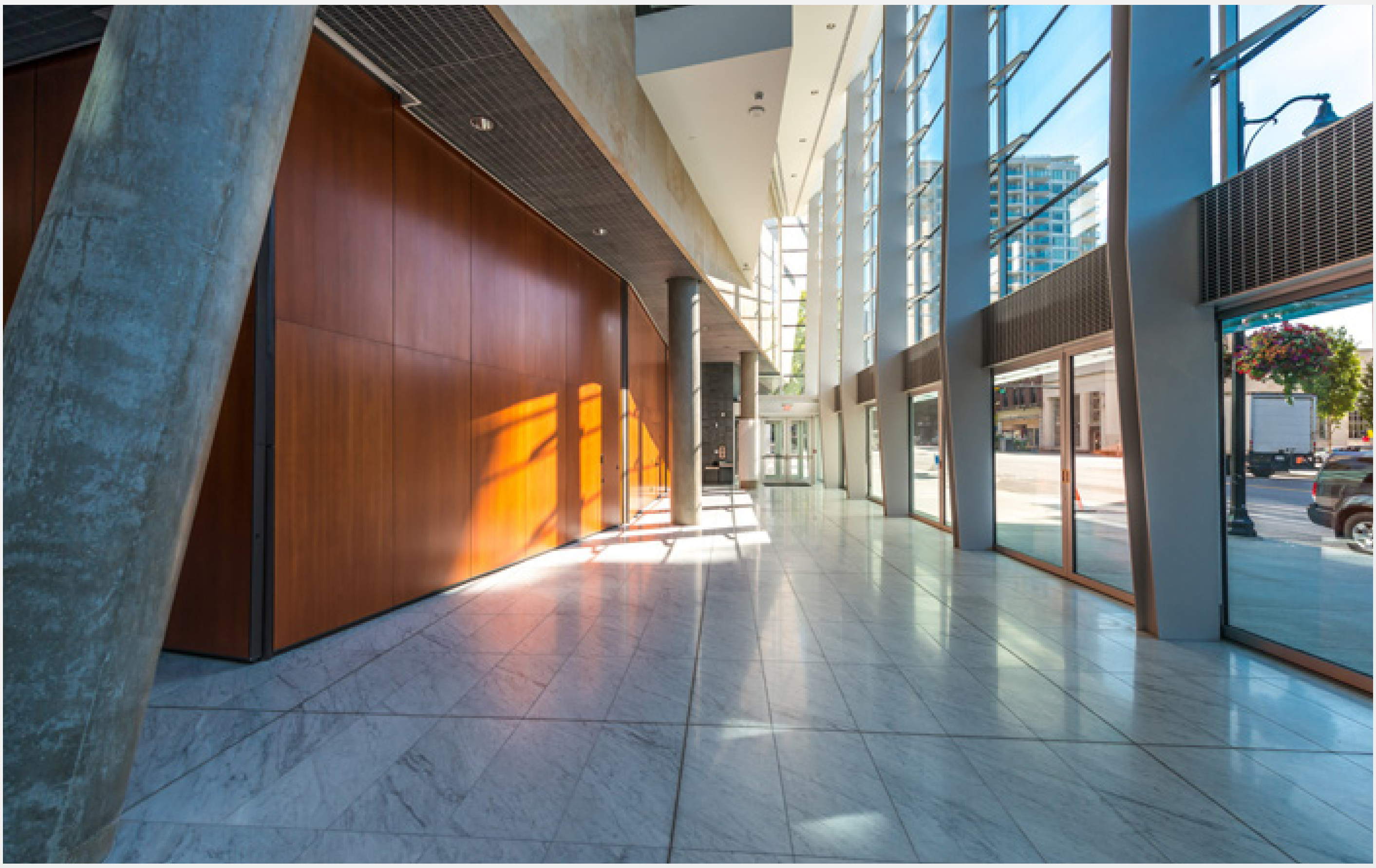
LEGAL NOTES BY SORAINEN

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 that favours 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, if the lease agreement is not registered with the Land Register.

RECENT DEVELOPMENTS

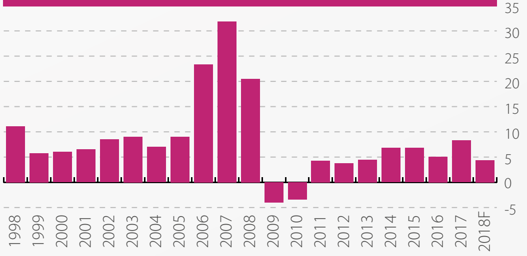
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**PLACE ELEVEN** – In the middle of 2017, Hanner, one of the biggest Lithuanian developers in Latvia completed a new A class office building with GLA 14,500 sqm., located in the now popular Skanste neighbourhood. The project is fully let.	14,500	MID-2017
	**KATRINAS OSTA** – This office building with 1,700 sqm of office space was completed in the middle of 2017. The advantage of this building is its close proximity to the Port of Riga; this favourable location makes it attractive for companies working in the maritime transport sector. The development is being carried out by SIA Catri, a local developer. Rents stand at €12.00 per sqm. At the end of 2017 the vacancy rate was over 60%.	1,700	MID-2017
	**MUKSUSALAS BIZNESA CENTRS** – At the beginning of 2017 MUKUSALAS BIZNESA CENTRS had finished construction of a B class office building with total office space of 2,000 sqm, which was fully leased to many smaller tenants.	2,000	Q1 2017
	**LOFToffice** – At the end of 2017 a 6-storey office building with GLA 4,000 sqm was finished on the left bank of the River Daugava. This building is located near the National Library of Latvia and the Academic Center for Natural Sciences of the University of Latvia. Rents stand at €13.00 per sqm. At the end of 2017 the vacancy rate was over 50%.	4,000	Q4 2017



NEW PROJECTS

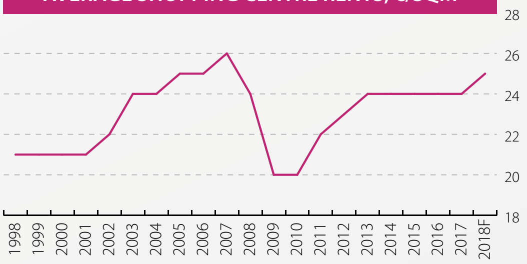
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Z-TOWERS** – Construction of the Z–Towers project continued in 2017; it has been ongoing with some interruptions since 2006. The South tower will have 22,500 sqm of office space. The project is due to be completed by the end of 2018. The developer is AS Towers Construction Management.	22,500 (South tower)	Q4 2018
	**TEODORS** – At the end of 2016 Lithuanian developer 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 in the first half of 2018.	17,000	H1 2018
	**BUSINESS GARDEN RIGA** – The developer, Vastint, is working on this office complex in Pardaugava, on the left bank of the Daugava River. The first stage will consist of two 5-storey buildings with a total office area of 14,200 sqm. Construction started at the end of 2017 and should be completed in the first half of 2019. The total project will consist of five buildings providing more than 42,000 sqm of office space.	14,200 (I stage)	H1 2019 (I stage)
	**ORIGO** – In the middle of 2017 the Linstow Center Management began construction of Origo business centre. The first three storeys of a 6-storey building will be occupied by retailers and the top three storeys will be 11,500 sqm of office space. It is planned to finish construction works in 2019.	11,500	2019
	**NEW HANZA** – A real estate development company, Pillar, which is owned by the biggest Latvian bank, AS ABLV, is developing a significant territory of 24.5 ha in the Skanste neighbourhood, which will include ABLV bank's headquarters, office and residential buildings, culture and leisure centre Hanzas Perons, a kindergarten and a school, as well as a museum of contemporary art and a park. In total, there will be more than 60,000 sqm new offices with 3,370 workplaces; the first stage of an A class office building with 17,300 sqm space will be completed in 2020. Afterwards, an A class office building will follow with 27,000 sqm and the ABLV headquarters with 18,400 sqm in 2021. Hanzas Perons, culture and leisure centre, with 4,400 sqm space and a 1,100 guest capacity is planned to be finished at the end of 2018.	17,300 (I stage)	2020 (I stage)

AVERAGE SALARY GROWTH, %

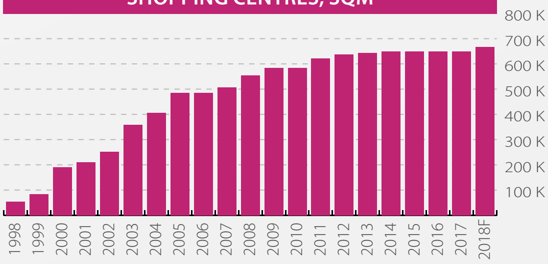


AVERAGE SALARY PER MONTH (BRUTTO), €

AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %

RIGA SNAPSHOT
(END-2017)

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 - €55.00

NEW INTERNATIONAL BRANDS IN LATVIA: IKEA, LIDL, PEPCO

SUPPLY

For the second year in a row 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 2017. At the end of 2017, Riga had 649,000 sqm of total leasable space in shopping centres or 1.01 sqm of shopping area per capita. The vacancy rate of shopping centres in Riga at the end of 2017 was around 6%.

At the beginning of 2017 grocery chain, Prisma, announced their exit from Latvia's retail market. This exit opened up around 18,000 sqm of retail space across Riga. At the beginning of 2018 two Prisma retail premises were leased by Maxima: in Domina and Riga Plaza shopping centres. The other premises remain on the market, with a total area of 10,000 sqm.

German supermarket chain, Lidl, commenced their expansion into the Baltic States with their first 22 stores opening in Lithuania in 2016. At the end of 2017 Lidl has finalized a deal to purchase a plot of land in the area between Biķernieku and Ulbrokas Streets in Riga. The total plot size is 24 ha to be used as a logistic centre, comprising 47,000 sqm. Lidl is also planning additional investment in surrounding infrastructure and access roads.

IKEA the leading Swedish furniture and home goods manufacturer, is to open their first store in Latvia next to Riga city. Construction of the store began in early 2017 and is scheduled to open at the end of 2018.

In 2017 the owners of two major shopping centres in Riga also undertook expansion plans. Alfa shopping centre will expand by an additional 19,000 sqm of retail space in 2018. Similarly, Origo will bring an additional 16,500 sqm of retail space to the market in 2019.

Depo DIY has two more projects in the development stage with planned openings in 2018–2019. The first one is in Jelgava city where the developer, Eften Capital, is negotiating with the municipality and is currently organising public discussions on the project. The other development project is in Riga, in the Imanta neighbourhood, located near the Damme shopping centre and Imanta Retail Park. Demolition of the existing building began at the end of 2017 and is expected to be completed in early 2018.

In December, the first DECCO Center for Interior and Design in the Baltics was opened in Riga on Katlakana Street; it will provide 13,500 sqm of space, including more than twenty leading salon shop spaces for industry professionals.

International retail chain, PEPCO, currently operating in several Central European countries, will launch in Latvia in 2018. It is planning to open 12 stores initially and to increase that number by 30 over the coming years.

DEMAND

Overall economic growth, salary and consumption increases influenced higher activity in the retail market during 2017. Retail trade turnovers in Latvia increased by 4.7% over the year. However, online shopping activity continues to have a negative impact on high street retail market turnover. Every year more and more people turn to online shopping.

Consumers continue to source their grocery and related retail product requirements from the traditional market place. Thus, retailers in these areas are continuing to explore new opportunities for physical locations.

Rimi has established a new "mini store" concept; such stores already exist in Brivibas Street, Dzelzavas Street, Sigulda city. Other grocery chains (Elvi, Maxima) are similarly interested in opening new stores in populated areas in Riga.

Alcohol retailers were active during 2017 in opening new shops in Riga and in the largest towns in the country, paying particular attention to areas bordering Estonia and Lithuania, in order to maximise excise tax differences.

Forecasts of future high economic growth in 2018 and 2019, underpin arguments in favour of further retail sector expansion. On the other hand, it can be anticipated that as more stores adopt an online presence, fewer retailers will continue to need expensive retail space on high streets and some will move to cheaper facilities with more storage space away from shopping centres.

Imanta Retail Park, which has a total retail area of 18,000 sqm, continues to develop with the opening of a fitness club on the ground floor. The People fitness centre covers an area of 2,000 sqm. Further expansion of the shopping centre is planned for the coming years. The developer is now planning to renovate and rent the ground floor with GLA 8,000 sqm area after the Prisma grocery chain has left the Latvian market.

RENTS

In 2017 rents for retail premises in the centre of the city increased slightly. Rent level varies from €10.00 to €33.00 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 €55.00 per sqm for exclusive premises. In small cross streets in the city centre and the Old Town rents are between €12.00 and €20.00 per sqm per month.

In 2017 there was no significant change in rents in shopping centres: starting from €8.00 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

There were a few transactions concluded in mid-2017 which had a major impact on this year's investment indicators. One such transaction involved the acquisition of 80% ownership interest in the property investment company, Baltic Retail Properties, by CPA®:17-Global, an arm of US investment company W. P. Carey, and the Finnish Kesko Corporation. The property portfolio of Baltic Retail Properties comprises 18 retail stores in Lithuania, Estonia and Latvia, and a logistics centre in Lithuania. Following the acquisition, CPA®:17-Global, became the main shareholder of Baltic Retail Properties, paying €127 million (including acquisition-related charges and costs) for its 70% share. Meanwhile Kesko acquired 10% of the shares of Baltic Retail Properties following Kesko's sale of its 7 retail stores in Latvia and Estonia to Baltic Retail Properties for €64 million.

NEW PROJECTS

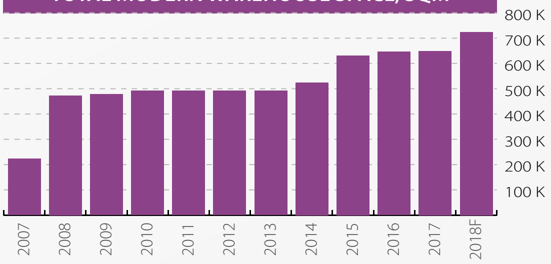
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**ALFA** – The Alfa shopping centre next to the Cinnamon cinema will be expanded. The centre's total area will be expanded from 93,000 sqm to 117,000 sqm. The area available for rent will, therefore, increase from 47,800 sqm to 65,600 sqm. The new building will 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 2018.	+17,800	2018
	**IKEA** – leading Swedish furniture and home goods manufacturer is to open a first store in Latvia. Construction of the IKEA store began in early 2017 and is scheduled to open at the end of 2018. The 210,000 sqm land plot is in the region of Stopini, just over the Riga city border. Planned investment in the project is €60 million. The shopping centre will provide more than 1,000 parking spaces and around 34,500 sqm of retail area.	34,500	Q4 2018
	**ORIGO** – At the end of 2017, Linstow started an expansion of the Origo shopping centre. Origo shopping centre is in the heart of Riga, adjacent to the central train station. A new 5-storey multifunctional complex, next to the current building, will include office space on the two upper floors and a shopping centre on the first three floors. The present retail area of 18,300 sqm will be expanded by an additional 16,500 sqm and in total there will be 34,800 sqm of retail space. There will also be underground parking for 144 cars. Planned investment in the project is €55 million. The project is scheduled to be finished in 2019.	+16,500	2019
	**AKROPOLE** – A subsidiary of the Lithuanian Akropolis Group is developing a multifunctional Akropole centre in Riga. Currently, Akropole is the largest development project underway, located 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. The construction phase is scheduled to be completed in 2019.	62,000	2019

LEGAL NOTES BY SORAINEN

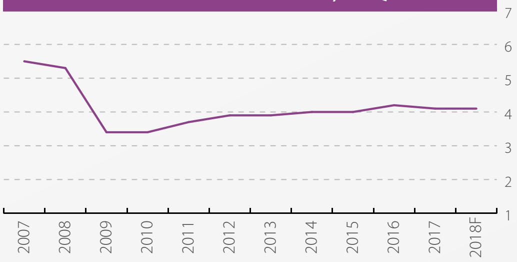
Typically, one anchor tenant or a few medium-size tenants lease each property. As a rule, tenants are charged for use of common areas and management of the building, as well as common marketing activities. The owner usually pays taxes applicable to the rent and the property, as well as sometimes insurance 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 retail properties are of rather good quality, but usually prepared in favour of the owner. When deciding on entering into a retail 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.

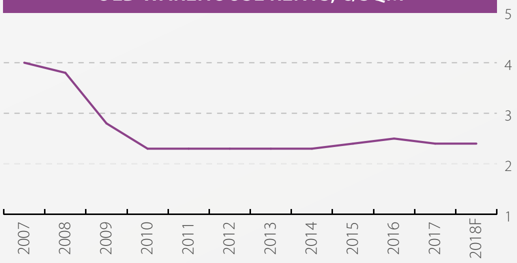
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



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.

RIGA SNAPSHOT
(END-2017)

TOTAL NEW WAREHOUSE SPACE	649,000 SQM
WAREHOUSE VACANCY RATE	4.0 %
NEW WAREHOUSE RENTS (SQM / month)	€3.20 - €5.00
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.20
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€0.50 - €1.00

MOST PROJECTS WERE POSTPONED TO 2018

SUPPLY

Two projects, with a total warehousing area of 3,000 sqm, were completed in Riga in 2017. The total amount of modern warehousing space in Riga and its immediate surroundings reached 649,000 sqm by the end of 2017.

In 2018, at least five projects in Riga, (including expansion stages) with a total warehousing area of around 75,000 sqm, are scheduled to be implemented. These projects are being developed by Balt Cargo Solutions, VGP, UA Investor, Elipse BLC and Piche.

DEMAND

Currently, the largest supply source consists of reconstructed Soviet-era warehouses or production facilities, and according to the owners, demand for such premises has remained high in 2017. Ober-Haus expects that the supply of such premises will decrease in the forthcoming years due to newer developments coming on stream. In 2017 the vacancy rate in the industrial sector decreased from 4.2% to 4.0%.

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

Most of the major supply source is outside Riga city on the left bank of the Daugava, near Olaine and Jelgava cities, but the biggest demand is for warehousing and production facilities in Riga city itself.

RENTS

Rents for warehouses have dropped by 3% on average in 2017. At the end of 2017, rents for new warehouses in Riga city and its surroundings ranged from €3.20 to €5.00 per sqm. Rents for old construction warehouses (from poor quality to fully renovated) range from €1.50 to €3.20 per sqm.

INVESTMENT

In Q4 2017, an Estonian investment company, United Partners Property OU, bought Olaine logistic park previously owned by a Lithuanian company, ME Holding NT. The deal was co-funded by a newly merged Luminor bank with a total loan of €21.28 million. The logistics park has a total area of over 37,000 sqm.

RECENT DEVELOPMENTS

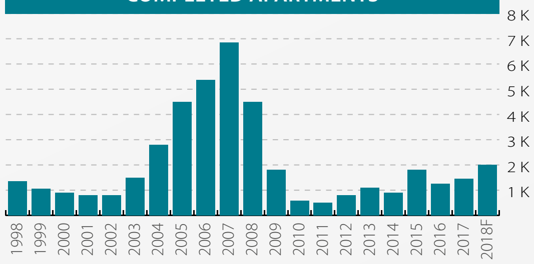
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**BALTIJAS INDUSTRIĀLAIS PARKS III** – In the middle of 2017, LNK Industries finished a third expansion stage with around 3,000 sqm of warehousing premises in the Baltijas Industrialais Parks project. Currently this project is one of the biggest in Riga with GLA 28,000 sqm on a 50,000 sqm land plot.	3,000 (III stage)	MID-2017 (III stage)

NEW PROJECTS

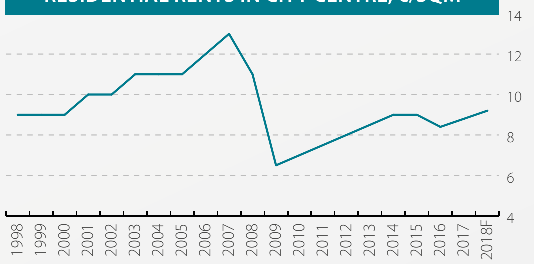
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**DAUGAVGRIVAS STREET** – UA Investor has started the development of a second warehouse on Daugavgrivas Street. The second stage with a 3,700 sqm warehouse premises will be completed in Q1 2018. Asking warehouse rents are €4.50 per sqm.	3,700 (II stage)	Q1 2018 (II stage)
	**VGP PARK ĶEKAVA** – The first stage with 20,000 sqm of warehousing premises will be completed early in 2018 and premises has already been leased. Due to needs specified by the tenant, final adjustment work in the first building will go on until the middle of 2018. In the meantime, VGP has prepared a construction site for the second building with total of GLA 25,000 sqm.	20,000 (I stage)	H1 2018 (I stage)
	**ELIPSE BLC** – A modern business and logistics centre built in 2009 in Riga International Airport Business Park is expanding. The second stage with 8,600 sqm warehouse premises and around 1,000 sqm office premises construction will be completed at the end of 2018. Asking warehouse rents including maintenance costs are €5.50 per sqm.	8,600 (II stage)	Q4 2018 (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. The first stage (7,000 sqm) should be delivered at the beginning of 2018. The project is being developed by Piche.	7,000 (I stage)	Q1 2018 (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 construction is still in progress and will be complete in Q1 2018, with GLA 4,400 sqm. The fourth stage with total warehousing area of 6,600 sqm has been started already and will be completed in Q2 2018.	4,400 (III stage) 6,600 (IV stage)	Q1 2018 (III stage) Q2 2018 (IV stage)

RESIDENTIAL PRICES IN CITY CENTRE, €/SQM

COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

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

RIGA SNAPSHOT
(END-2017)

NEW APARTMENTS BUILT	1,458
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€600 - €850
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)	€2,100 - €4,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.5 %

WEAK SUPPLY PUSHING PRICES UP

PRICES

In 2017 prices increased both in old construction buildings as well as in new construction apartments located in residential districts and city centre of Riga.

Apartment prices in Riga increased by 6.1% in 2017. Prices for apartments in Soviet-era buildings increased by 6.6% and stood at an average of €744 per sqm at the end of 2017. Prices per sqm in old Soviet–era buildings are usually 30-50% cheaper than prices in new projects in the same locations and mostly range from €600 to €850 per sqm.

Prices for new construction apartments in the city centre increased by 4.0%, and prices for new projects in residential districts rose by 8.5%.

Prices of new apartments in the city centre and the Old Town ranged from €2,100 to €4,000 per sqm at the end of 2017, and prices for luxury newly developed projects reached as high as €6,000 per sqm.

New apartments in the suburbs were selling from €1,200 to €1,800 per sqm at the end of 2017. New apartments are usually sold with everything included apart from the kitchen.

SUPPLY

In total, 1,458 apartments were constructed in Riga in 2017, which is a 16% increase, year-on-year over 2016. Ober–Haus expects almost 2,000 new apartments to be completed in 2018.

At the end of 2017 residential district developers sold apartments at an average price of €1,200 up to €1,800 per sqm, apartments sold at this price point are normally fully finished. As a rule, experienced developers offer their apartments at the beginning of the construction phase and can obtain a level of around 60% of reservations before the completion of the construction works. And in some less expensive apartment buildings, developers can sell all the apartments before final construction works have been completed.

As demand for new construction apartments rises, new building permits have been growing. In 2017 there were 15 residential multi-storey building permits issued (6 of them where issued for buildings in the city centre, the remainder were issued for suburban neighbourhoods). Compared to 2016, the number of permits issued in 2017 is almost twice as many. At the end of 2017 there were almost 1,060 unsold apartments available in the primary market in completed projects. The number of unsold apartments is 11% less than it was at the end of 2016.

DEMAND

Most demand for new construction apartments in 2017 came from local buyers; the demand from foreigners has decreased rapidly since 2014. Foreigners who buy new construction apartments prefer apartments in the city centre or in neighbourhoods close to the city centre like Skanste, Agenskalns and Teika.

As global trends show nowadays, buyers tend to choose apartments with higher efficiency ratings in terms of space and energy efficiency, in close proximity to their work or to educational institutions. Since the economic crisis period, clients have tended towards the purchase of smaller two room apartments with a total area of 50 sqm or of three room apartments with a total area of 60-70 sqm.

Although average apartment sales prices have risen, local buyers still look for apartments in the €80,000 price range. However, as construction costs rise it becomes even harder for them to find apartments in the new construction residential building category at this price.

In 2017, the main prerequisite for making a decision on buying an apartment in Riga remained the same as in 2016, i.e. a reasonable price in relation to quality; at the same time buyers are looking for good locations, they are interested in what types of material are used during construction and the quality of finishing materials. In contrast to previous years, however, buyers are willing to consider buying, for a reasonable price, an apartment in a district that they would not have considered before, such as Kengarags, Mezciems or on the left bank of the Daugava River.

Due to government guarantee programme changes, it is expected that more new buyers under 35 years of age will be active in the market.

Individual house market demand from buyers changed during 2017; more and more people looked for smaller, even single storey properties, on the outskirts of Riga and with a price similar to that for new construction, three-room apartments, starting from €60,000 up to €100,000.

In the post-crisis period, a large share of the residential and commercial market portfolio was owned by local or Scandinavian banks. In 2016, Swedbank subsidiary, Ektornet, sold their portfolio. At the end of 2017, other banks also reduced their property portfolios and it is forecast that in 2018 they will be trying to exit the market completely.

THE MORTGAGE MARKET

At the beginning of 2018, the average mortgage interest rate for new borrowers was 3.0-4.5%, depending on a client's financial standing. Clients can borrow up to 85% of a property's value with a standard mortgage, and up to 95% if they qualify for the government's housing guarantee programme.

Outstanding mortgage loans in Latvia total 32% of annual GDP. The mortgage market slowed during the crisis years, but banks resumed active lending in the second half of 2010. Since 2010 the total portfolio of mortgage loans has decreased by almost 15% in Latvia. In 2017 the value of new mortgage loans in Latvia increased by 4.4%..

RENT

Riga saw an average 5% increase in apartment rents in 2017, after an 8% decrease in 2016.

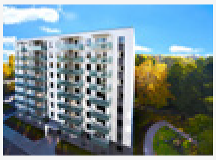
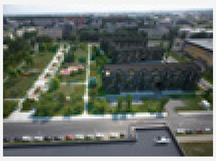
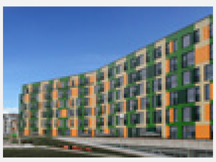
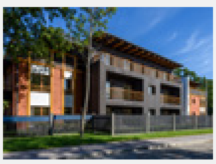
The Ministry of Economics tackled the topic of termination of rent agreements, including termless soviet-era rental agreements. Landlords and potential landlords hoping to invest in property, are looking forward to a new regulation in this sector, hoping to get into the business. If and when this law comes in force, it is expected that rental market supply will increase roughly by 10–20%.

The Ministry of Economics announced that any new draft law, unlike current rental rules, will oblige the owner and his potential tenant to register their rental agreement in a Land Register, thus providing publicly available and reliable information on completed transactions which will protect both tenants and new owners of property. Also, new lease regulations will do away with termless rental agreements. And probably the most important part is that owners and tenants who have old rental agreements will have to replace existing rental agreements with a new one which will also have to be registered in the Land Register.

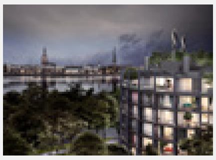
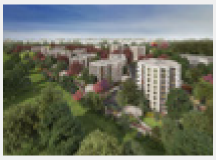
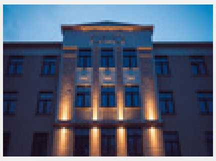
The highest rents for apartments are in the city centre, Old Town and other prestigious districts and new construction building across the Riga. Two-room upper-storey apartments are available for €650–€800 per month. A three-room apartment costs €700–€1,500 per month, four-five-room apartments for €1,500-€2,100. During the second half of the year there has been a great demand for unfurnished four to five room apartments. Currently the highest rise in demand in the city centre is for well renovated two and three-room apartments, with the possibility for short-term rental. Much of this demand comes from international students and foreigners who are relocating on a short term basis.

Rents for basic one-room apartments in popular residential districts range from €200 to €300; two-room apartments rent for between €250 and €400 and three-room apartments for €350–€550 per month. Demand is constant throughout the year. Rents in new construction residential buildings in residential neighbourhoods is usually 30-40% higher and usually two-room apartment monthly rents range between €350 and €550 and for three-room apartments, €500 and €750.

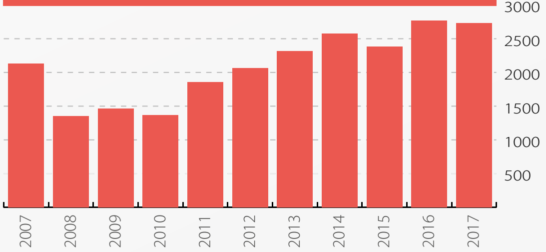
RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**IMANTAS OZOLI** – This project comprises of two 10-storey buildings, located at Jūrmalas Avenue in Imanta and being developed by SIA KBO. The first building was finished in 2016. The second building, with 108 apartments, was finished in 2017. Apartments range from 30 to 71 sqm, and prices starting at €1,260 per sqm for a fully finished apartment.	from €1,260	2017 (II building)
	**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 finished in the middle of 2017. The first building is already sold out, and there is only one apartment left in the second building.	€1,300 - €1,400	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 consists of three apartment buildings with 202 apartments. The first building with 52 apartments is built on Grostonas Street. Two to five-room apartments will range from 50 up to 140 sqm. Prices begin at €2,200 per sqm. The first building was finished in the middle of 2017. The company expects construction to last until the beginning of 2018.	from €2,200	2017
	**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 was finished in Q2 2017 and all the apartments were already sold in 2016.	€1,200 - €1,280	Q2 2017
	**LIEPZIEDI** – This project is located in a green neighbourhood, just 15 minutes' drive from the city centre and within walking distance of one of the most desirable residential neighbourhoods is developed by Estera Development. The 160 apartments range from 23 to 71 sqm, with prices starting at €1,250 per sqm for a fully finished apartment. Construction works finished in the middle of 2017 and at the end of 2017 all apartments had been sold.	from €1,250	2017
	**RIVERSTONE RESIDENCE** – This project comprises a 3-storey building with 10 apartments, located in the upmarket neighbourhood of Kipsala, just across the River Daugava in front of Old Riga and is being developed by YIT. Apartments range from 56 to 143 sqm, with prices starting at €3,100 per sqm for a fully finished apartment. Construction works were finished in the middle of 2017.	from €3,100	2017

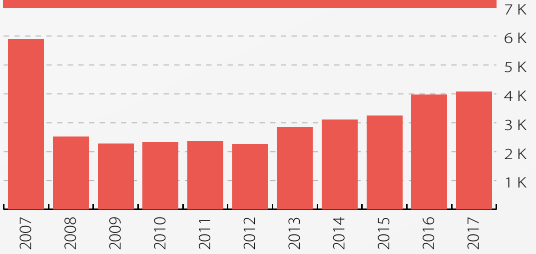
NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**LACPLESA STREET 11** – This elegant and modern apartment building with bright and expansive apartments is located in the prestigious and sought after Baznicas and Lacplesa Street intersection – in the heart of Riga. Apartments are offered with a full interior finish – sustainable wood flooring, Italian tile flooring and high-quality fixtures. 2, 3 and 4 room apartments are available. Underground parking and storage spaces. There are 27 apartments, ranging in size from 47 to 212 sqm for sale. Prices start at €3,500 per sqm and go up to €5,000 per sqm. Construction will be completed in 2018/2019.	€3,500 - €5,000	2018/2019
	**PHILOSOPHERS RESIDENCE** – Located just 900 meters from Z-Tower project on the left bank of the Daugava River, two 22- and 23-storey luxury buildings with 120 apartments should be completed in fall of 2018. Apartments range from 33 to 255 sqm; prices are from €1,900 for a fully finished apartment.	from €1,900	Q4 2018
	**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 started in 2016 and the development will be finished at the beginning of 2018. At the end of 2017 around 60% of apartments were reserved.	from €1,600	Q1 2018
	**RIVER BREEZE RESIDENCE** – Located on Kugu Street in Kliversala, this project is 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 2018.	€3,300 - €6,000	2018
	**TREBU HOME** – At the beginning of 2017, real estate developer, AFI Europe, began construction on one of the biggest apartment projects in Riga. On a plot more than 10 ha in size, in Plavnieki neighbourhood, the developer plans to build twenty-five 5-storey buildings with 1,500 apartments in total. At the end of 2017, construction works has been started on two 5-storey buildings with a total of 54 apartments and the development will be finished in 2018. Asking prices are from €1,320 per sqm.	from €1,320	2018
	**MIERA REZIDENCES** – Located on Miera Street, this fully renovated apartment building offers 67 apartments for sale. Apartment sizes range from 30 to 100 sqm and selling prices are from €1,400 - €1,650 per sqm. Construction is expected to be completed in early 2018.	€1,400 - €1,650	Q1 2018
	**Ezerparka Nami 2** – The second stage of the multifunctional Ezerparks project located on Rusova Street in Ciekurkalns is being developed by New Europe Real Estate. The second stage 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 the middle of 2018.	€1,400 - €1,800	2018

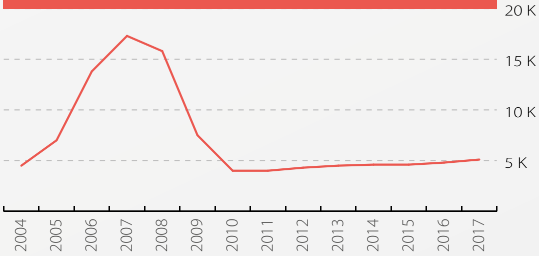
LAND TRANSACTIONS IN RIGA CITY



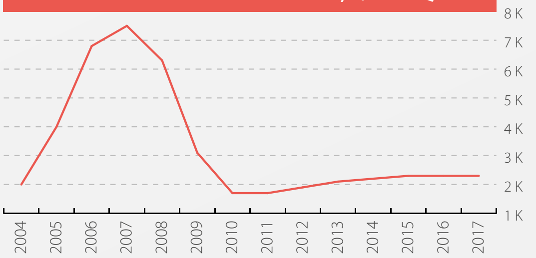
LAND TRANSACTIONS IN RIGA DISTRICT



LAND PRICES IN RIGA CITY, €/100 SQM



LAND PRICES IN RIGA DISTRICT, €/100 SQM



RIGA SNAPSHOT (END-2017)

TOTAL LAND TRANSACTIONS CHANGE (RIGA CITY)	0 %
TOTAL LAND TRANSACTIONS CHANGE (RIGA DISTRICT)	-8 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€320 - €3,000
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€35 - €210
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€35 - €95

INCREASING INTEREST FROM LITHUANIAN AND ESTONIAN DEVELOPERS FOR LAND PLOTS

SUPPLY

In both the residential and commercial land market, most of the large existing developers like Bonava, YIT, Merks, NCH, Vastint and others do have sufficient stocks of land, which were acquired during pre-crisis times and in the past few years. As the real estate market goes up, many new foreign or smaller local developers are looking for opportunities to buy land for development purposes.

The property portfolios of the banks have decreased rapidly and it is expected that by the end of 2018, only 5-10% of total bank starting portfolios will remain in the market. On the other hand, there are still a number of plots and mixed properties suitable for development. Land plots are estimated to represent almost 20% of bank portfolios.

PRICES

Residential land prices in Riga increased by 5-10% depending on the neighbourhood and are between €35 and €95 per sqm in the suburbs both for multi-apartment and for private developments.

Private plots in some cases (in Teika, Mežaparks and Ķīpsala districts) may even reach €100 to €240 per sqm.

Land for commercial property developments with construction possibilities did not experience significant price changes in 2017. Prices for land in the city centre range from €320 to €3,000 per sqm. In residential districts, prices are between €35 and €210 per sqm.

DEMAND

Demand for commercial development land, as well as for unfinished multi-apartment properties in 2017 remained almost the same as in 2016.

The number of land transactions was stable in 2017 in Riga city, but decreased by 8% in Riga district.

High demand is seen from foreign developers and residents, who are looking to the future with optimism. They are looking for commercial and residential land plots in Riga city and its surroundings. Currently in several districts around Riga, for example in Marupe, residential land prices have risen by 10-15%.

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

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; currently one of the most active examples is the German supermarket chain, Lidl. The plots of land being bought 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 of 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 more than €30 per sqm. Still, clients would be ready to pay in the range of €15–€25 per sqm.

INVESTMENT

Investment deals in 2017 still indicate a positive trend in multi-apartment residential and mixed-use development.

The Lithuanian Akropolis Group has sold its subsidiary company SIA DG31, which owns a 7.9 ha land plot in Daugavgrivas Street on the left bank of the River Daugava, right next to Kipsala, to Lithuanian real estate developer M.M.M. Projektai. A multiuse project will be developed on this plot. The new owner is planning to invest more than €150 million into this development over time.

In the Q1 2017, IKEA finalised a book purchase of 36 ha of land in Stopini parish, near Riga. It also started construction of a shopping centre in Stopini parish and Riga outskirts.

A Swedish residential real estate developer, Bonava, acquired a 1.5 ha brown-field land plot for residential development in VEF district, Riga, for €800,000 (€53 per sqm).

On the left bank of the River Daugava, on Kometas Street, a land plot of 1.2 ha was bought for €58 per sqm.

In Q4 2017 SIA Center A7 bought 1.75 ha land plot for €1.3 million on Mežmalas Street, in Krustkalni (Kekava parish). The acquired land is suitable for an extension of the existing A7 shopping centre.

2.5 ha purchase has been registered for €1.85 million on Mūkupurva Street, Riga, near the Riga-Jurmala motorway. This land plot is located in a popular and developing business district and it is planned to develop a car dealership centre. Bought by Moller auto, the Audi and VW importer in the Baltics.

A private investor bought a 2.47 ha land plot from C.M.R. Nami; the purchase was registered for €2.0 million on Dzelzavas Street, in Riga, in the middle of the popular residential neighbourhood of Purvciems.

KOWACO J. Hanns Kowalewski, bought a 1.69 ha land plot from Skandi-Wannag for €1.05 million or €52 per sqm.

NM 2, bought a 3,508 sqm two adjacent land plots from Reverta for €1.35 million (€384 per sqm).

LEGAL NOTES BY SORAINEN

Investments by foreigners from the EU and states that have 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.

LATVIAN REAL ESTATE TAXES AND LEGAL NOTES

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 tax exempt until company's profits are distributed in dividends or deemed dividends. When profits are distributed the effective CIT rate is 25% (the statutory rate of 20% is applied to a tax base that is calculated as distributed dividends divided by coefficient of 0.8). Expenses for purchase of RE can be considered as business expenses.

PERSONAL INCOME TAX (PIT):

Rental profit is taxed at a progressive rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 55,000), 31.4% (annual income above EUR 55,000). 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. Expenses can be deducted for up to 80% of the rental income (certain exceptions apply). Thus, PIT would be paid for at least 20% of the rental income.

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 progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 55,000), 31.4% (annual income above EUR 55,000)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.

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 tax exempt until company's profits are distributed in dividends or deemed dividends. In such case the profits are taxed at an effective rate of 25%. Generally, the 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.

Sale of RE by non-residents would be subject to 3% CIT on gross proceeds. This tax must be either withheld by the Latvia purchaser or, in case the transaction is between two non-residents, declared and paid by the non-resident seller.

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 20% on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence.

Re-evaluation of RE

In the situation where one company invests RE into the share capital of another company and performs revaluation for this purpose, the 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.

Nevertheless, this income is tax exempt until company's profits are distributed in dividends or deemed dividends.

PERSONAL INCOME TAX (PIT):

If an individual sells a RE for non-commercial purposes[1], a 20% PIT is charged on the difference between the acquisition cost and the selling price.

The capital gains tax return must be submitted once per quarter (if the gain exceeds EUR 1,000.00) or once per year (if the gain is below EUR 1,000.00). Capital gain is taxable at 20% PIT rate.

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 exemption 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 progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 55,000), 31.4% (annual income above EUR 55,000).

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.

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.

[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.

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 2017, 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 difficulties have arisen with investments in the agricultural (and consequently the forestry) sector.

TITLE TO REAL ESTATE, LAND BOOK

Title to real estate is transferable and must be registered 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 on it may belong to different owners. As of 2017, the Building Right has come into force. This entails a prohibition on constructing a residential building on someone else's land plot. In other words, so-called "split property" is not allowed for residential buildings, although this does not affect split properties established before 1 January 2017). The building right is a transferable right with a minimum term of ten years and must be registered with the Land Register in the name of the person entitled to build a non-residential building or an engineering structure on a land plot encumbered by a building right.

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

The Land Register keeps information on 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 changes in the folio. Please, however, keep in mind to ensure that both Land Register data and State Land Service data in respect of the same real estate are updated and match, as sometimes differences in the data kept by both registers might burden further action with real estate, including transfer of title.

ACQUISITION OF REAL ESTATE

GENERAL

Real estate may be acquired as a building with a 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.

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

LETTER OF INTENT AND HEADS OF TERMS

In practice, a letter of intent (LOI) or preliminary agreement may be 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, a LOI sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) and states other obligations to be followed during a certain period. Breach of the exclusivity obligation under a LOI or preliminary agreement entitles the aggrieved party to claim compensation for damage, including specific contractual penalties.

CHANGE OF OWNERSHIP

Each transaction with real estate and registration of ownership rights with the Land Register involves several 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 must 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 this may be prolonged for up to thirty 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 contemplating a share transfer involving a company holding target real estate, note that:

- notary fees and state duty on 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 a share transfer, the buyer becomes responsible for the whole company including matters arising 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 involves notary fees and state duty, so in this respect costs more 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 for 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 seller to buyer.

PORTFOLIO DEALS

Foreign investors enter into portfolio deals because they enable 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.

In order to register ownership rights with the Land Register, a corroboration request signed by both seller and buyer in the presence of a notary public is necessary.

In addition to the purchase agreement and corroboration request, other documents must 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 filed with 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 with a notary.

DUE DILIGENCE

Before carrying out a real estate transaction, it is advisable to research the status of the real estate, e.g. encumbrances (as the Land Register may not contain all actual data), permitted use as set by the local authority, and lease agreements affecting the real estate. For this purpose, the information available in the cadastral information system should also be checked. 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 can a purchase agreement be registered with the Land Register and ownership transferred to the buyer. In addition, specific regulation covers execution of rights of first refusal to agricultural land, whereby for example the Latvian Land Fund and the lessee of a particular land plot have rights of first refusal. Rights of first refusal may be also agreed upon between the parties or established by law in other cases.

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 to the land plot, and vice versa. Additionally, co-owners of real estate have rights of first refusal 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 must decide on exercising their right of first refusal within five to twenty business days (depending on the type of real estate) after receiving the purchase agreement.

A person with a right of first refusal, such as a co-owner of real estate, who is not given the chance to exercise its right, then acquires buy-out rights. These 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 at a bank. During registration of 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 real estate 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% (with no ceiling) on either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. However, if an apartment property (including non-residential premises in apartment buildings) is purchased by a legal person engaged in commercial activities, state duty is 6%. State duty is capped at EUR 42,686.15 for properties comprising only non-residential buildings and engineering structures.

In addition, an index of 1.5 applies in calculating state duty if registration of title is delayed by over 6 months. Stamp duty for registration of title and issue of a Land Register folio is approx EUR 22.

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

MERGER CONTROL

Transfer of real estate may require 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 a merger if it increases the market share of the buyer of the assets and usage rights in any relevant market.

The intended merger must be notified for approval by 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, then notification is not required.

The Competition Council may review mergers falling below these thresholds within twelve months after implementation if the parties' combined market share exceeds 40% of the relevant market and a significant impediment to effective competition is likely to be created. In case of uncertainty, the parties can file a voluntary notification or 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 two-year period that result in one party obtaining some or all – or the right to use – the assets of two or more other undertakings are treated a single merger occurring on the day the last merger takes place.

The filing fee for examining 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 plots. Foreigners from non-EU states should be aware of restrictions on acquiring land in Latvia. Buyers should also check restrictions on use of real estate. Acquisition is restricted in e.g. coastal areas and heritage protection zones.

ACQUISITION OF AGRICULTURAL LAND

Limitations apply to acquisition of agricultural land in Latvia. With no limitations, an EU or Latvian citizen or a citizen of the EEA or Switzerland can possess no more than 10 ha of agricultural land in total. A natural person who wishes to acquire more agricultural land must satisfy the following:

- register as performing commercial activities;
- have no tax debts over EUR 150 in their country of domicile;
- confirm in writing that after purchase of the land it will start agricultural work on the land within one or three years 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;

- obtain an EU citizen registration certificate and a certificate of Latvian language skills of at least level B2 for a natural person who is a citizen of the EU, the EEA or Switzerland.

Stricter limitations are set for legal entities. Consequently, without strict limitations a legal entity may possess a total of no more than 5 ha of agricultural land. A legal entity that wishes to acquire more must comply with all the following rules:

- it is registered as a taxpayer in Latvia and has tax debts totalling no more than EUR 150 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, all of whom must be EU, EEA or Swiss citizens;
- confirm in writing that after purchase the entity will start agricultural work on the land within one or three years depending on whether the particular land has in the previous or current year been the subject of single area payments or direct payments under EU Regulations;
- the owner of the share capital or owners of at least 50% of the share capital with voting rights and all those entitled to represent the legal person, being citizens of EU countries, the EEA or Switzerland, hold an EU citizen registration certificate and a certificate of Latvian language skills of at least level B2.

These restrictions do not apply to acquisition of agricultural land where the permitted use is established as construction land by the territorial plan of the relevant municipality. Land – including forest land – established as construction land can also be acquired by non-EU citizens and legal entities without these restrictions.

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 who wish to acquire land plots in cities in Latvia.

ACQUISITION OF A LAND IN URBAN AREAS

Citizens of – and companies registered in – the European Economic Area or Swiss Confederation may acquire land plots in urban areas. They must comply with the requirements imposed on citizens of the EU or companies registered in the EU (companies must likewise be registered as taxpayers in Latvia). However, this only applies to acquisition of land. This means that apartments or buildings may be acquired without further restrictions and limitations unless the land beneath them is included in the deal. In most cases, apartment ownership also comprises an ideal part of a land plot co-owned by all apartment owners in the building.

Likewise, restrictions apply to foreigners for land in state border areas and special protection zones.

ENCUMBRANCES

Real estate may be encumbered with servitudes, rights of first refusal, lease rights registered with the Land Register, mortgages, protection zones, and other encumbrances that should be considered prior to acquiring real estate and planning for construction. This means that legal, technical and environmental due diligence is advisable before buying a land plot for construction purposes.

MORTGAGE

Purchase of real estate is often financed by third party (eg bank) loans, with the lender requiring 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 a 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 a building, that is, apartment owners. In small buildings, this is usually done 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 those involved in management of residential buildings, such as managers, owners of residential buildings, and others.

The management structure of residential buildings depends on the ownership structure.

LEASE AGREEMENTS

GENERAL

General terms for lease and tenancy agreements are laid down in the Civil Law and the Law on Residential Tenancy. The contents of lease and tenancy agreements are agreed upon by the parties. Lease agreements involving non-residential real estate remain binding on new owners only if registered with the Land Register. Otherwise, a buyer of real estate has the option to terminate an unregistered agreement. 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 Residential Tenancy protects the rights of tenants. Residential tenancy agreements are binding on new apartment owners under the Law on Residential Tenancy without registration in the Land Register. However, only permanent residents of Latvia and individuals who reside in Latvia based on a temporary residence permit may claim protection under this rule. Note: this arrangement may soon change because a new draft law on residential leases, announced in late 2017, may mean that residential lease agreements not registered with the Land Register will not be binding on a new owner. Although this law is set to come into effect on 1 January 2019, due to the legislative process the final wording of the law is currently unclear.

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 Residential Tenancy, which aims to protect the interests of tenants. Unilateral termination by the owner of a residential tenancy agreement is more limited. Termination is allowed only in cases explicitly stated by law, for example, where the tenant is damaging the apartment or the building, the tenant owes rent or payments for basic services, or the tenant sub-leases residential space without the owner's consent. In addition, termination is allowed 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 for payment of deposits or for paying rent.

Accessory expenses include payments for maintenance and utilities, such as water, gas, electricity and heating. The tenant usually pays these in addition to rent. In practice, a security deposit 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. A security deposit that is not used due to breach of the agreement is applied to the rental payment for the last months of the tenancy or returned to the tenant after expiry of the tenancy agreement.

PPP & INFRASTRUCTURE

In Latvia, a PPP project may be arranged under the Law on Public and Private Partnership (PPP Law), which sets the procedure for awarding contractual PPPs – public contracts and concessions – and setting up institutional partnerships. Under the PPP Law, a partnership procurement 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 partnership procurement 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 might, for example, be payment for the object or service by end-users, or payments by a public partner that are linked to end-user demand for the object or service, such as a shadow-toll for a road. The PPP law also sets the framework for institutional partnership where the public and private sector establish a joint venture through a competitive process, 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 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 elsewhere as set in the prospectus once the real estate has been valued and valuation is approved by an independent expert panel appointed by the management company. Real estate owned by an investment fund may not be managed by the investment management company itself and so will probably be managed by a professional real estate management company.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Municipalities (local authorities) may set the permitted use of real estate in their territory as well as setting limits on construction and issuing building permits. A specific territory with a general territorial plan may still need a detailed plan, which may take from up to six months to over a year.

CONSTRUCTION

Under the Construction law, a construction permit is received at the initial stage but does not allow construction to begin at once. To obtain a construction permit, the applicant must develop a building design meeting minimum requirements and file it with the local construction board. If construction of the proposed building is feasible, the construction board issues requirements and conditions to ensure design works. Construction itself can start only when all the requirements and conditions 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, during proceedings for compulsory enforcement or during insolvency proceedings concerning the owner of the real estate. In any case, acquisition of distressed real estate is more complex, which means that thorough due diligence is necessary as the possibility of problems is much higher. For example, where an owner is in financial difficulties, their real estate may be managed and maintained poorly or the validity of construction documentation might have expired.

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

Acquisition of real estate during insolvency proceedings is also usually by auction organised by the insolvency administrator. During insolvency, the operations of the company's administrative institutions are suspended and management is by the insolvency administrator. The insolvency process, including 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 up to five years if a third-country national acquires one real estate object with a value of at least EUR 250,000 in Riga, Jurmala, and surrounding regions, or acquires a maximum of two pieces of real estate outside these territories with a total value of at least EUR 250,000 (assuming that the total cadastral value is not less than EUR 80,000 or not less than EUR 40,000 for each real estate object if two real estate objects are purchased outside Riga, Jurmala and their surrounding regions). If the cadastral value is lower, then a certified real estate appraiser must confirm that the market value of the real estate is at least EUR 250,000. On issue of a residence permit, a third-country national pays a state fee of 5% of the real estate purchase value.

An application for a temporary residence permit is only available for transactions involving purchase of real estate functionally related with buildings. Transactions with agricultural or forest land do not qualify for the grant of a temporary residence permit.

A third-country national with a valid Latvian temporary residence permit may enter and reside in Latvia at any time while the permit is valid. Moreover, a Latvian temporary residence permit enables a third-country national – without obtaining additional documents or undergoing registration – to travel and reside in other Schengen Area countries for a period not exceeding the term set by national regulations of each such country.

EXECUTIVE OFFICER IN ESTONIA

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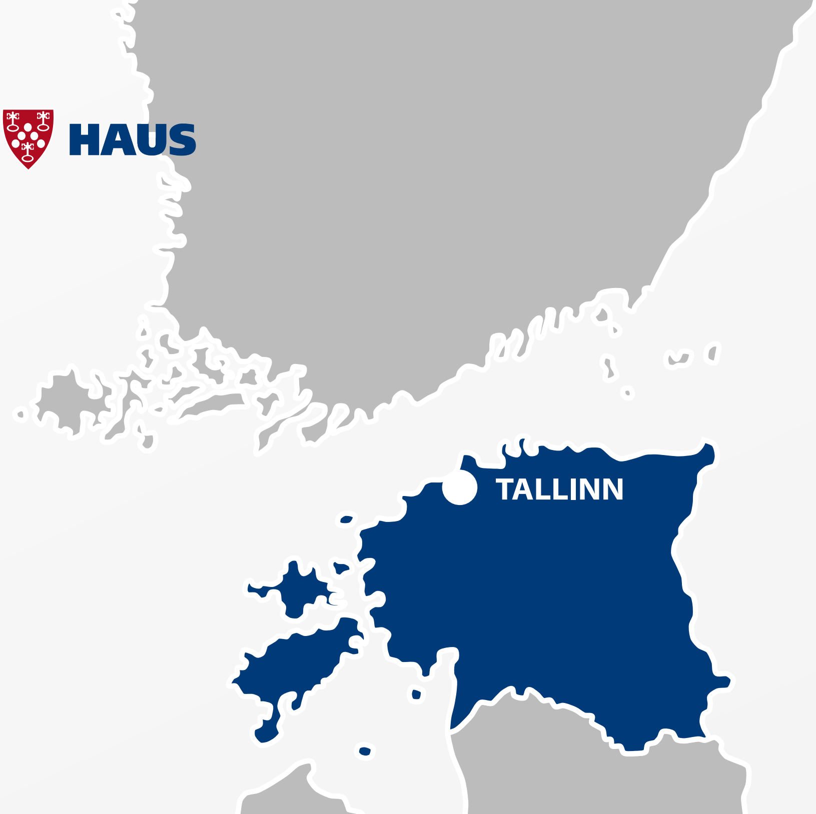
Ober-Haus was established in 1994 and has now four offices in Estonia (two in capital Tallinn and one in Tartu and Jõhvi) with over 70 real estate experts working there. Our professional team of experts provide wide range of real estate services such as residential and commercial real estate selling,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

ESTONIA

COUNTRY OVERVIEW

OBER HAUS



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

2018 FORECAST

GDP annual growth, %	3.9
GDP per capita, €	18,000
Private consumption annual growth, %	5.1
Average annual inflation, %	3.2
Unemployment rate, %	7.3
Average montly gross wage, €	1,292
Average montly gross wage annual growth, %	6.2
Retail sales growth, %	1.5
Exports annual growth, %	8.0
Imports annual growth, %	9.0
FDI stock per capita, €	15,037

POPULATION	2012	2013	2014	2015	2016	2017
Estonia	1,322,700	1,318,000	1,314,500	1,315,000	1,315,800	1,315,600
Tallinn	404,000	406,000	411,000	414,000	425,500	426,500
Tartu	100,000	99,500	98,500	97,500	94,000	93,200
Narva	60,500	60,000	59,000	58,600	58,200	57,130

ECONOMICS	2012	2013	2014	2015	2016	2017
GDP growth, %	3.9	1.7	2.9	1.5	2.1	4.9
GDP per capita, €	13,560	14,300	15,030	15,400	15,500	17,475
Private consumption growth, %	4.9	3.8	4.8	4.7	4.4	2.7
Average annual inflation, %	3.9	2.8	-0.1	-0.4	0.1	3.4
Unemployment rate, %	10.2	8.6	7.4	6.6	6.9	5.3
Average monthly gross wage, €	887	949	1,005	1,065	1,139	1,221
Average gross wage annual growth, %	5.7	7.0	5.9	6.0	6.9	6.5
Retail sales growth, %	11.6	6.2	6.5	7.0	5.0	1.5
Exports annual growth, %	4.3	2.6	3.1	-0.6	4.1	2.8
Imports annual growth, %	8.8	3.1	2.1	-1.4	5.3	3.8
FDI stock per capita, €	10,830	12,126	12,916	13,269	13,537	14,604

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

THE ESTONIAN ECONOMY STRENGTHENED IN 2017

Estonia's economy grew by 4.9% in 2017, the fastest rate of growth in the past six years. The economy is forecast to grow more than 3.9% again in 2018. This 2018 prediction is supported by a number of positive fiscal indicators: public investment is growing with the support of EU aid, and changes in the income tax system will increase household incomes and boost private consumption.

Although long-term sustainable growth and the corresponding size of the economy cannot be measured directly, low unemployment, rising vacancies, growing labour shortages, robust wage growth and accelerated consumer price growth are proof that the economic cycle has reached a point where growth is driven mainly by demand, rather than by the capacity of enterprises and labour productivity growth. Productivity growth has picked up slightly over the last year but is modest compared to the previous decade.

As financing terms remain fairly favourable in the coming years and companies come under pressure to raise wages in order to remain competitive as employers, this will generate increasing levels of investment in enterprise. Exporters, and other companies open to external competition, are in a better position than in previous years, as price growth in international markets has accelerated, which has made it easier to establish transfer pricing, generating increased profit margins and larger returns on investment.

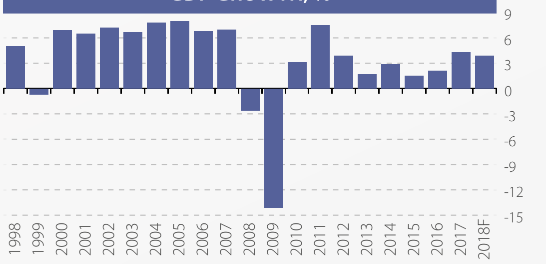
The average salary in 2017 increased by 6.5%. In the short term, the pressure on salary growth has weakened, but this is temporary. Thus, while 2018 tax reform measures will have the effect of relieving the immediate pressure on wage growth, in future years companies will come under renewed pressure to increase wage levels. Although labour costs have been rising steadily over a long period, Estonian wage levels are still about half the average of other European Union countries, and for as long as this income levels gap remains significant, wage pressures will remain. Lower wage jobs are gradually disappearing as they become uncompetitive in the labour market.

The economy does not yet show any signs of overheating, but the risk remains. In contrast with ten years ago, the rapid growth in the debt burden has not been distorted by the structural economic imbalances. At the same time, the construction sector is in a high growth phase of the cycle, with both private and public sector orders increasing. The construction sector stands out from other sectors by having the biggest labour shortage which, if orders continue to pour in at the present rate, will result in even higher labour costs through market distortion, attracting workers from other sectors. The frequency of job turnover has already reached the level of the previous boom, and it is important to avoid the situation whereby the build-up of short-term projects and the resulting excessive volatility in the construction sector will once again have a detrimental knock-on effect in the overall economy.

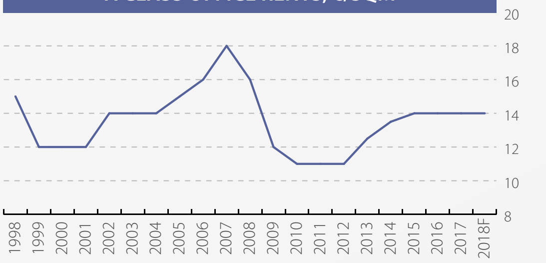
Unemployment was at 5.3% in Q4 2017 and it is expected to increase to 7.3% by the end of 2018.

The consumer price index increased by 3.5% in 2017, after near-zero growth for several years, but is expected to fall again, to around 2%, over the coming years. Inflation is decreasing due to a decline in the growth of commodity prices and also a relative fall in the share of indirect taxes to the consumer basket which will increase the cost by 0.7% in 2018, but only by about 0.4% in the next few years.

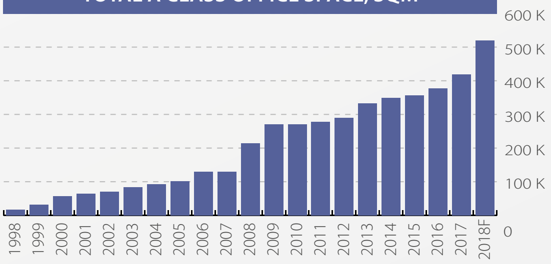
GDP GROWTH, %



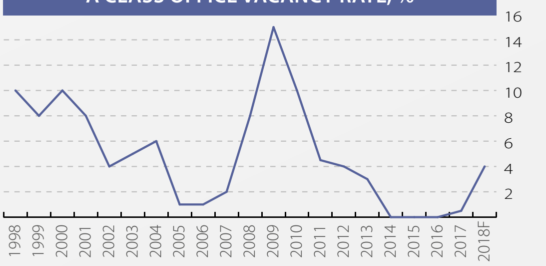
A CLASS OFFICE RENTS, €/SQM



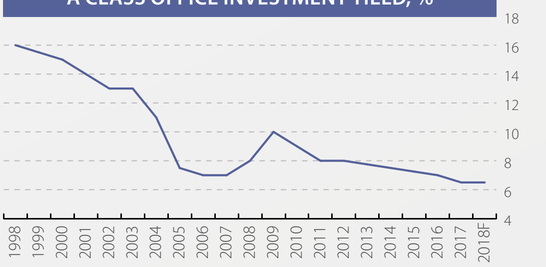
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2017)

TOTAL OFFICE SPACE	948,000 SQM
A CLASS OFFICE VACANCY RATE	0.5 %
B CLASS OFFICE VACANCY RATE	5.0 %
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

WITH STABLE RENTS AND VACANCY RATES IN 2017, TALLINN IS PREPARING FOR A DEVELOPMENT BOOM

SUPPLY

The most active post-crisis office space developments are taking place in Tallinn due to the demand for higher quality and well-located premises. In total eight new projects were completed in 2017 bringing 41,500 sqm of office space to the market. After completion of these projects, the total area of modern office premises grew by almost 5% to 948,000 sqm of office space at the end of 2017.

It is expected that in 2018-2019, at least 10 new office projects should be completed in Tallinn; this will add up to 120,000 sqm of new office space to the market.

DEMAND

High demand and sufficient new office supply kept vacancies stable during 2017. The vacancy of A class spaces is close to zero, and for the B class spaces it is about 5%. Most of the potential customers for A class office spaces are linked to foreign companies and their representative firms and local IT companies. The vacancy rate in lower quality and less desirable locations is rising, and owners are being obliged to invest in their properties in order to retain their tenants or to amend the functionality of their buildings.

The sale and purchase market in office space is more fluid in the centre of the city, as in secondary locations companies prefer to rent. 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 €2,200 and €3,700 per sqm.

RENTS

The growing supply of modern offices has kept A class rents steady in Tallinn in 2017. At the end of 2017 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 desirable locations and in older buildings are €5.00–€7.00 per sqm per month. Ober-Haus expects that the large amount of office space about to come on stream will put pressure on rents in 2018-2019.

INVESTMENTS

In 2017, investors in general were interested in properties located in Tallinn with a good location, a solid tenant structure and a stable flow of money. In general investors are looking for prime properties with a yields of at least 6.5-7.0%.

In Q2 2017 Colonna Real Estate bought an A class office building of which the office space is 7,000 sqm, in Hobujaama 4, an increasingly attractive location, whose anchor tenants are Luminor Bank, Viking Line, Kredex, NG Invest. Building occupancy rate is 100%. The transaction price was €15.0 million.

In Q3 2017, Colonna Real Estate acquired a 3,000 sqm office building in Narva Road, one of the most active areas for pedestrians in the city, whose anchor tenant is Coop Bank (formerly Eesti Krediidipank). The transaction price was €5.5 million.

In Q4 2017, Colonna Real Estate acquired an office building with leasable space of 2,600 sqm at Mustamäe Street in the fast-growing business district near the city centre. The transaction price was €3.3 million.

In Q3 2017, an international real estate investor, represented by Zenith Capital Management, bought the Veerenni Tervisekeskuse office building at Töökoja 2 with a leasable area of 6,500 sqm. The building's anchor tenant is Synlab Eesti. The transaction cost is estimated to have been around €15 million with a yield of 6.3%.

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, e.g. 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.

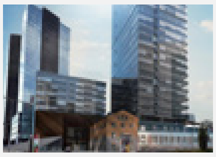
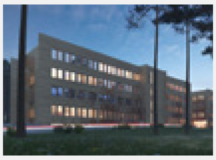
OBER HAUS

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Tehnopol2KV** – In the Tehnopol technology park, which is a fast-developing business and commercial campus on the edge of Tallinn, an 8-storey A class office project with two buildings and an underground parking facility was built to such high construction and project specifications that it allows for high-tech research and development centres to be established on campus. Thus, Tallinn Technological University, Tehnopol's Startup Incubator and the IT College are all near neighbours. The total area of the building is 11,500 sqm of which 7,340 sqm is office space. The building was completed in Q3 2017. Developed by Technopol.	7,340	Q3 2017
	**Superministeerium** – State Real Estate Ltd. initiated a tender for the construction of a modern and energy efficient common building on Suur-Ameerika Street, which is now 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 is €14.00 per sqm, the size of the building is 16,000 sqm, 11,400 sqm of which is rentable office space. The building was completed in Q3 2017. The winner of the tender process and developer was Fund Ehitus.	11,400	Q3 2017
	**Töökoja Street** – A 7-storey office building has been constructed in a fast-developing area near the city centre of Tallinn. The ground floor is for retail areas, the 1st and the 2nd floor is for parking and the 3rd to 6th floors are office spaces. The total area of the building is 10,500 sqm, of which 6,500 sqm is office space. The main tenant is Synlab Eesti. The building was completed in 2017.	6,500	2017
	**The Luther Business Building** – An old, renovated and reconstructed building, located in the city centre. Office spaces are planned for two storeys. The spaces on the first and second floor are split into two different intermediate levels. Parking is in a multi-storey car park located within the same area, in part in the immediate vicinity of the building. There is direct access to the building from the car park. The rentable area of the office space is 7,000 sqm and the anchor tenant is business newspaper Äripäev. The building was completed in Q2 2017. Developed by Lutheri Ärimaja.	7,000	Q2 2017

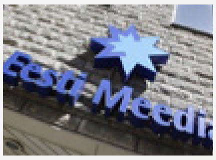
INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+372 665 9700**

NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**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. This impressive new office building is named after the internationally recognised academic and founder of the Estonian astronomy school, Ernst Öpik. The building has a B energy rating 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 Centre. The first stage with 14,750 of GLA was completed in Q4 2016; most of the premises have been rented and work on the second phase began immediately thereafter. The second stage should be finished by 2018. Developed by Mainor Ülemiste.	14,750 (II stage)	2018 (II stage)
	**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 sqm is office GLA, is under development. The complex consists of a 30-storey, a 10-storey and a 4-storey building. 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; developed by Taali Grupp.	14,000	H1 2018
	**Järvevana 7B** – Hepsor is building an innovative A class, 5-storey office building with a total 6,000 sqm of office space, close to the park and to the recently reconstructed main motorway. It is planned to use geothermal heating. The office rents range from €10.50 to €12.50 per sqm, sale prices are €1,800 per sqm. The building will be completed in Q2 2018. It is developed by Hepsor Kinnisvara.	6,000	Q2 2018
	**Kohtumaja** – A 7-storey office building will be built as per tender from State Real Estate Ltd. next to Tartu Road 83 at Lubja Street, 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.	20,000	H1 2018
	**Alexandre Liwentaal** – Technopolis Ülemiste the developer of Ülemiste city – a business campus located in the vicinity of the airport and of Tallinn city centre – is investing €13.6 million in a new 13-storey A class office building in this area. 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
	**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 outlets, cafés and restaurants are planned for the centre. There will also be an underground parking facility for 1,250 cars. The rents range from €14.00 to €18.00 per sqm. Total cost of the project is €160 million. The office complex should be completed by the end of 2019. Developed by Porto Franco.	30,000	Q4 2019

OBER HAUS

NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Woho** – A 14-storey, multifunctional, A class office building located next to Telia's office building near the centre of Tallinn The total area of the building is 12,600 sqm of which 5,500 sqm is office space and floors 10 to 14 are apartments with spacious views. The anchor tenant will be Pipedrive. The total investments will reach €11.7 million. Developed by Ekerepol. The building will be completed in Q4 2018.	5,500	Q4 2018
	**European IT Agency** – A 4-storey office building with 4,400 sqm of office space will be built for the European Agency for the Operational Management of large-scale IT Systems (eu-LISA) in the rapidly developing waterfront area near Tallinn city centre. The building will be completed in Q3 2018 and the project will cost €8.8 million. The contracting authority is the State Real Estate Company, Riigi Kinnisvara AS.	4,400	Q3 2018
	**Zenith Business Building** – An A class office building with 8 floors consisting of two buildings, is being built on in the central business district in Tallinn, with terraces offering a view of the Old Town and of the sea form top floors. Parking is available in the courtyard for an extra charge. The building size is 6,400 sqm, of which the office space is 3,600 sqm. Prices for ground floor retail premises are €20.0-€25.0 per sqm and €14.0-€17.9 per sqm in office premises. The building will be completed in 2018. Developed by NG Eesti.	3,600	2018
	**Tartu Road 80A/80B** – An A class office building with total leasable area of 13,000 sqm of which 8,000 sqm will be offered as offices, will be built close to one of the largest traffic junctions in the city centre of Tallinn and the emerging multifunctional Zellulose Quarter, whose anchor tenant will be Eesti Meedia. The building will be completed in the summer of 2019; developed by Fausto Grupp.	8,000	H2 2019

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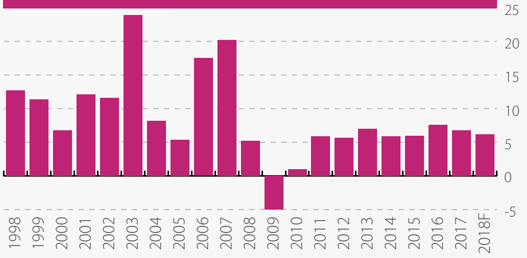
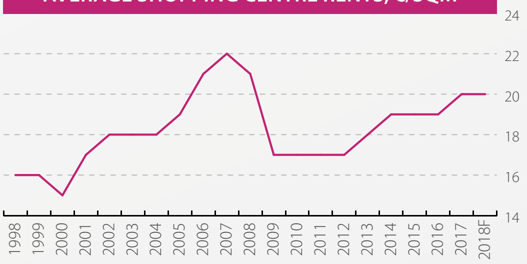
AVERAGE SALARY GROWTH, %

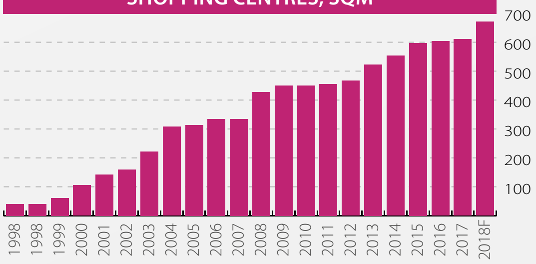


AVERAGE SALARY PER MONTH (BRUTTO), €

AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELD, %

TALLINN SNAPSHOT (END-2017)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	610,300 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.43 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

COMPETITION AMONG SHOPPING CENTRES KEEPS INCREASING

SUPPLY

In 2017, three larger retail projects were opened in Tallinn. In Q2 2017, Bauhaus, a well-known construction and gardening department store, opened a store in a suburb of Tallinn. At the end of 2017, the expansion of the Nautica shopping centre was completed in the city centre and in the suburb of Õismäe, supermarket chain, Maxima XXX, opened a hypermarket.

At the end of 2017, there were 41 shopping centres (counting those having over 5,000 sqm of GLA and over 10 tenants) with a total leasable area of 610,300 sqm. Tallinn currently has 1.43 sqm of shopping centre per capita.

Construction of one of the largest T1 Mall of Tallinn shopping center continued and preparatory work on Porto Franco began. A construction permit is being sought for an entertainment and shopping centre called Tallink City; when these construction works will start has still not been published. In addition, existing centres elsewhere, in particular those owned by the Tallinna Kaubamaja Group, are planning expansions.

Once these shopping centres are completed, approximately

160,000 sqm of new retail space could be added in Tallinn by the end of 2019. However, such high volumes of retail space are considered unsustainable and it is thought likely that some projects may be postponed to a later date.

An already well-developed retail property market in Tallinn, with a high ratio of existing retail space per capita, is the main reason behind delays in the development of new projects. In reality, rapid growth can only be achieved by higher purchasing power levels and an increasing population.

Selver, Maxima and Rimi have continued the development of their supermarkets in populated areas.

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

Marks & Spencer left the Estonian market in 2017 due to lack of market potential, small market size and intense competition.

International grocery chain, Lidl, which has bought plots in Tallinn and elsewhere in Estonia, is coming to the market next year. Construction is planned to begin in 2018/2019.

DEMAND

Private consumption continued to grow in 2017. The yearly growth rate was 2.7% and the effect on this 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 2017, the shopping centre sector continued 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 2017. 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 has significantly affected consumption habits and there is a growing trend to buy convenience goods from shops nearer home rather than in a large centre.

RENTS

In 2017 no significant rents changes have been recorded in the shopping centre sector overall. However, in shopping centres located at less desirable locations, pressure to reduce prices has been noted. At the end of 2017 rents for a medium-sized premises (150-300 sqm) in shopping 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.

There were no significant changes in high street rents during 2017. On streets next to popular pedestrian zones the rents for retail premises were from €20.00 to €40.00 per sqm.

INVESTMENTS

In 2017, there was growing interest in investing in retail 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 which are located in a desirable area where they can expect yields of at least 6.5%.

There were a few transactions concluded in mid-2017 which had a major impact on this year's investment indicators. One such transaction involved the acquisition of an 80% stake in property investment company, Baltic Retail Properties, by CPA®:17-Global, an arm of US investment company W. P. Carey, and the Finnish Kesko Corporation. The property portfolio of Baltic Retail Properties comprises 18 retail stores in Lithuania, Estonia and Latvia, and a logistics centre in Lithuania. Following the acquisition, CPA®:17-Global, became the main shareholder of Baltic Retail Properties, paying €127 million (including acquisition-related charges and costs) for its 70% share. Meanwhile Kesko acquired 10% of the shares of Baltic Retail Properties following Kesko's sale of its 7 retail stores in Latvia and Estonia to Baltic Retail Properties for €64 million.

In Q2 2017, EfTEN Real Estate Fund III AS acquired Hortes, a horticultural centre in Laagri, in a sale-and-leaseback deal. Hortes AS belongs to the portfolio of Livonia Partners. The total area of the building is 3,470 sqm. The property has an outdoor sales area and a parking lot for 146 cars. The transaction price was €3.1 million.

In Q2 2017, EfTEN Real Estate Fund sold the Prisma property in Narva, Kangelaste 29, to a French property management company Corum, which invests in commercial real estate in Europe. For Corum it was their first investment in the Baltics. The total area of the building is 13,300 sqm and the transaction price was €16.7 million.

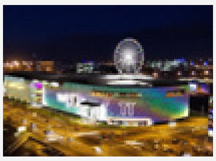
Swedish real estate investor, CA Fastigheter AB, signed an agreement with Baltic Horizon Fund to sell Postimaja Shopping Centre. Postimaja is a modern shopping centre located in the heart of Tallinn, at the Narva Road. The total current leasable area of Postimaja is over 9,100 sqm. The anchor tenants are Rimi, H&M, New Yorker, Eesti Post and MyFitness. The total purchase price paid upon completion of the transaction is approximately €34.4 million (plus VAT). The expected acquisition yield from existing cash flow is approximately 6% and the expected acquisition yield from the total purchase price is approximately 5.4%. Sale closing is dependent on merger approval from the Estonian Competition Authority.

OBER HAUS

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Nautica** – The shopping centre, which is located between the city centre and the attractive, harbour tourist area, has expanded. The plan was to 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 has expanded to 18,500 sqm and in total there are 60 tenants. Rimi has remained as the main tenant in a hypermarket format; other shops were expanded and new catering establishments were added. The expanded Nautica shopping centre was opened in Q4 2017. The developer is Capfield – the owner of several shopping centres – which has invested about €11 million in this expansion.	+6,500	Q4 2017
MAXIMA	**Maxima XXX** – In Q4 2017, one of the largest retail chains, Maxima, opened a 6,900 sqm hypermarket next to the motorway connecting the two districts of Tallinn – Haabersti and Mustamäe. The Maxima store will occupy 4,000 sqm and the rest of the tenants, 600 sqm. The total investment amounted to €9 million.	4,600	Q4 2017
	**Bauhaus Rocca al Mare** – Bauhaus, a well-known construction and gardening department store, opened a second centre in a suburb of Tallinn, complete with a Drive-In Arena, a parking lot, technical facilities and access roads. The usable retail space of the multi-storey centre is over 14,000 sqm. The investment is €23 million and the centre was opened in the Q2 2017.	14,000	Q2 2017

NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**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 2019

NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Lasnamäe Prisma** – Prisma, the Finnish grocery chain, has started extension works on its Hypermarket in Tallinn's largest suburb. A total area of 5,600 sqm will be added, with the Lemon Gym chain of fitness centres and the pet store chain, Pet City, among the tenants. Together with the extension, the retail area of the shopping centre will be 12,600 sqm. The extension should be completed in Q2 2018. The developer is Capfield, which owns several shopping centres in Tallinn.	+5,600	Q2 2018
	**Ülemiste Centre** – Located in the vicinity of the new shopping mall T1, is planning an expansion of about 13,000 sqm, with the main objective being the provision of entertainment. New tenants will be Apollo Cinema, People Fitness fitness centre, three restaurants and cafes, and several new stores. Upon completion of the extension, Ülemiste Centre will become Estonia's largest and most modern shopping and entertainment centre with 73,000 sqm of leasable retail area. The extension will be completed in Q2 2019 and total investments will reach €35 million.	+13,000	Q2 2019

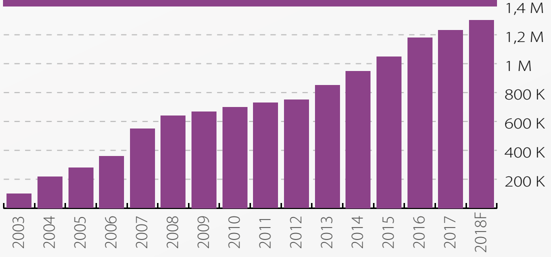
LEGAL NOTES BY SORAINEN

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.

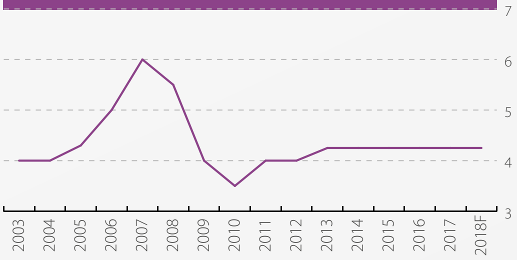
NAUTICA

OBER HAUS

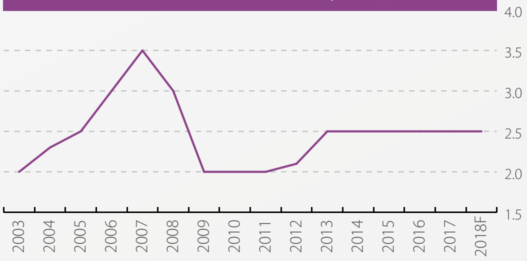
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



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.

TALLINN SNAPSHOT
(END-2017)

TOTAL NEW WAREHOUSE SPACE	1,232,300 SQM
WAREHOUSE VACANCY RATE	5 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €5.00
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

OVER 1.2 MILLION SQM OF WAREHOUSING PREMISES IN TALLINN AND IT'S SURROUNDINGS

SUPPLY

Six new warehouse projects, with a total warehousing area of 52,300 sqm, were completed in Tallinn and its surroundings in 2017. Most of these projects were developed for own use. These projects increased the total leasable area of modern warehousing premises in Tallinn and Harju County to 1,232,300 sqm.

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

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

In 2018, at least six new projects or stages with a total warehousing area of over 70,000 sqm should be implemented in Tallinn and its vicinity.

DEMAND

In 2017, customers showed growing interest in spaces located near Tallinn in Rae parish next to Tartu Road and Tallinn Ring Road. So-called stock-office type spaces available at various locations in Tallinn were also popular.

With the development of storage and manufacturing spaces being closely linked to external demand and directly tied to economic expansion supported by exports, the vacancy rate was around 5% at the end of 2017.

Finding a tenant for B class spaces in secondary locations is still problematic, despite attractive prices. Owners of older storage and manufacturing spaces are increasingly obliged to invest in their properties in order to retain clients. Taking into account today's rental levels, it may be said that building new storage and manufacturing spaces without a definite tenant is not viable in view of disparate client requirements.

RENTS

During 2017 rents for warehousing premises were stable in the Tallinn region. At the end of 2017, rents for new modern warehouses at the most attractive locations ranged 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.

Rents in A class stock-office type smaller premises of up to 300 sqm in size vary between €5.5 and €11.0 per sqm depending on the proportion of office and warehouse space.

The country's economic growth and improving company performance indicators are predicted to underpin the vitality of the industrial sector. Ober-Haus forecasts an increase in warehousing rents of 2-4% in 2018.

INVESTMENTS

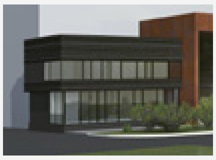
Over the past several years, local investors have been actively looking for suitable properties to purchase but the continuing expectations of owners to achieve high sale prices have served to constrain the market during 2017. In the current market situation, investors are expecting a yield of at least 7.5% from storage and production facilities in and near Tallinn.

In Q2 2017, the largest transaction which took place in the commercial real estate sector concerned warehouses, when East Capital Baltic Property Fund III acquired VGP Park Nehatu, a logistics park in a desirable location in the proximity of Tallinn. Altogether, the logistics park has five warehouse buildings with a leasable area of 77,000 sqm. The best-known tenants include CF & S Estonia, Aston Synthetics and Lemoine Estonia. The transaction price was €54 million.

RECENT DEVELOPMENTS

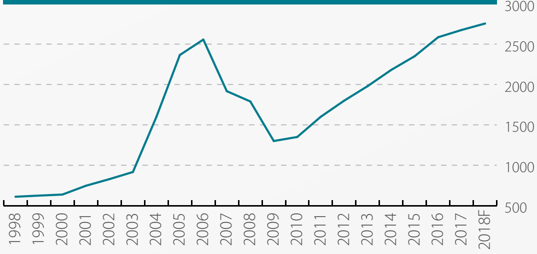
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Transiidikeskus** – A 12,000 sqm warehouse complex built at Muuga Harbour for Transiidikeskus AS, one of the largest container and freight terminal operators, was completed in Q3 2017.	12,000	Q3 2017
	**VGP Park Nehatu** – A logistics park with A class facilities in the vicinity of Muuga Harbour in the outskirts of Tallinn in a logistically favourable location has been developed in several stages. There are premises of different size on offer with options to install any necessary equipment (overhead crane, overhead travelling crane). A warehouse with a total area of 10,900 sqm was completed in 2017 and a building of 11,700 sqm will be completed in 2018. Asking warehouse rents are €4.20-€4.50 per sqm.	10,900	2017
	**Smarten Logistics** – The well-known logistics company has completed development of a second stage logistics centre in Rae parish, near the Tallinn–Tartu Road and Tallinn Ring road, in Rukki Technical Park. The second stage with 13,000 sqm of space, was completed in Q2 2017. After completion of all planned stages the project will reach around 42,500 sqm of warehousing space.	13,000 (II stage)	Q2 2017 (II stage)
	**Priisle business park** – A logistics and industry park of 26,800 sqm is being built in the Lasnamäe borough of Tallinn, in the vicinity of Muuga harbour and Peterburi Road, at Priisle 10. A total of 22,000 sqm of multifunctional, energy efficient so-called stock-office type spaces with flexible space solutions is being built. The area of the park is 3 ha and it will be built in 4 phases. The second building, 3,900 sqm in size, was completed in 2017. Rents for storage areas are around €6.30 per sqm, office spaces €8.8 per sqm. Developed by Hammerhead.	3,900 (II building)	2017 (II building)
	**Baltic Agro** – A wholesale enterprise, Baltic Agro, along with Baltic Agro Machinery, has built a 5,000 sqm agricultural centre in Rukki Technical Park at a cost of €4 million. The new centre is designed for gardening and plant protection goods along with a maintenance and spare part storage facility for John Deere products. The complex includes salesrooms and offices for Baltic Agro. The building was completed in Q2 2017.	5,000	Q2 2017
	**Kõrtsi Street 7** – Custom-built storage facilities are being constructed next to Tartu Road in Rae parish near Tallinn. Rentable spaces range from 600 sqm, to be outfitted according to customers' requirements, for either office or leisure use. The building is being constructed according to modern European standards, ensuring high energy efficiency and significant savings on running costs when compared to older buildings of the same class. This modern building is heated by gas, includes a sprinkler system, drive-in ramps, a smoke removal system and electronic loading bays. The rents for storage areas are €4.50 per sqm plus additional costs. The first building of 7,500 sqm was completed in Q4 2017.	7,500 (I building)	Q4 2017 (I building)

NEW PROJECTS

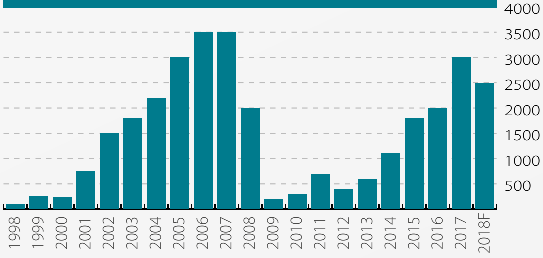
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**Estonian Wire** – A 12,500 sqm production and warehouse building, commissioned by Eesti Traat, a manufacturer of various metal products, will be built in Loo, a small town in the vicinity of Tallinn. In addition to the building, 23,000 sqm of hard-cover warehousing areas with utility networks will be constructed. The building will be completed in Q4 2018.	23,000	Q4 2018
	**Omniva** – Omniva, a national mail and logistics enterprise, is building the largest modern logistics centre in the Baltics near Jüri. Total investment is around €10 million and the centre will create 300 jobs. Omniva is planning to open their network of automated package machines across the Baltics in 2018. The building, of 13,000 sqm, will be completed in Q4 2018.	13,000	Q4 2018
	**Läike Road 21/23** – A multifunctional, stock-office type commercial building with almost 5,700 sqm of floor space will be built in Mõigu Business Park, a development in the proximity of Tallinn. The building will have gas heating with heat-recovery ventilation; offices will have a balcony; storage areas will be up to 8.4 m high. Asking rents are from €5.80 per sqm. The building will be developed by Bee capital and will be completed in 2018.	5,700	2018
	**Mobec** – The wholesaler Mobec is expanding its existing warehouse in Rae Industrial Park near Tallinn. The extension of 9,400 sqm, including a cold storage facility of 1,300 sqm, will be completed in early 2018.	+9,400	H1 2018
	**Peterburi Road 47/49B** – Two multifunctional buildings with 14,000 sqm of leasable space (including 4,400 sqm office space), and 12,000 sqm (including 3,000 sqm office space), will be built near Tallinn city centre in the direction of Peterburi maantee. Rents for warehouses range between €5.25 and €6.00 per sqm and rents of office premises are between €9.50-€10.00 per sqm. Tenants have been found for most spaces. Buildings will be completed in Q3 2018 and the developer is Capital Mill.	18,600	Q3 2018
	**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. The third stage with 12,500 sqm of warehousing space will be completed in Q3 2018.	12,500 (III stage)	Q3 2018 (III stage)

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

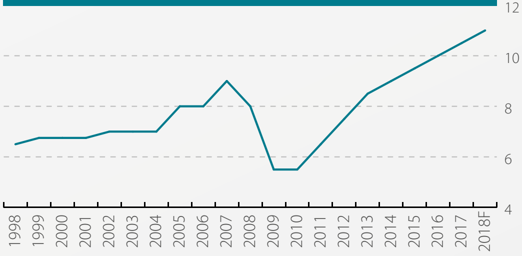
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



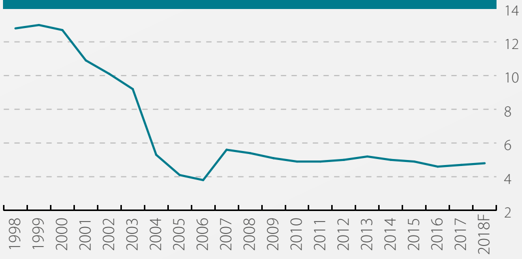
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2017)

NEW APARTMENTS BUILT	3,000
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€1,000 - €1,700
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,600 - €2,200
OLD CONSTRUCTION APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM)	€2,200 - €4,500
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€2,300 - €5,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.7 %

NEW APARTMENTS SUPPLY INCREASED BY 50% IN 2017

PRICES

The average sqm price for an apartment in Tallinn grew 12.4% in 2017 reaching €1,962 per sqm in December 2017.

Reasons behind the increased prices for apartments include: low interest rates, rising income levels, and the purchase of apartments for investment purposes. Another of the reasons behind such purchases 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 €1,600–€2,200 per sqm in the residential districts.

Prices for apartments vary mainly according to location. Most transactions were in the city centre and involved apartments in good condition in modern or fully renovated buildings, with prices from €2,200 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 €2,800 to €4,500 per sqm.

In residential districts, most of the sales were for cheaper one or two room Soviet-era apartments in need of renovation. These flats cost from €1,000 to €1,400 per sqm. Apartments in excellent condition situated in popular locations in residential districts cost €1,300 to €1,700 per sqm. Apartments in less sought-after locations are much less marketable, even if they are in good condition. In popular suburban locations like Pirita, Nõmme and Kakumäe, prices for modern apartments range from €1,800 to €3,000 per sqm.

RENTS

In 2017, rents for apartments in Tallinn increased by around 5% on average. Compared to sales prices, rental increases were lower due to an increased supply of new apartments on the market.

At the end of 2017, the average asking price was €8.00-€9.00 per sqm for rental apartments in the suburbs of Tallinn and €10.00-€12.00 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 €450 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 2017 was ca. 5.0-5.5% depending on the location and the property. Owners generally negotiate rental agreements of short duration and check tenant backgrounds very carefully.

SUPPLY

In 2017, 3,000 new apartments were completed in Tallinn, compared to 2,000 new apartments in 2016. Although up to now, development has mostly taken place in and around the city centre, increasingly, development is also occurring in residential districts and in areas near Tallinn.

At the start of 2018, there are apartments for sale in around 150 newly developed projects in Tallinn and another 50 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. 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, Bonava and YIT).

DEMAND

In 2017, the number of apartment deals in Tallinn rose by 7% and the total volume rose by almost 16%.

In 2017, on average 200 new apartments were sold each month, which is 27% of all apartment transactions in Tallinn. Demand and supply are balanced; most apartments were booked and sold during the course of construction. However, apartments in some projects have been for sale for 3-5 years and developers have been obliged to lower prices to attract buyers.

PRIVATE RESIDENCES

In 2017, the average price of private houses in Tallinn and Harjumaa rose 4.4%, the number of transactions increased by 9.8% and the transaction volume increased by 14.4%.

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. Prices range between €170,000 and €250,000. The increase in the price of such houses, depending on their exact location, has been 5-10% in 2017.

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 location, especially in the highly-priced and well-established private residence boroughs of Tallinn (Nõmme, Kakumäe and Pirita) and in the parishes bordering Tallinn.

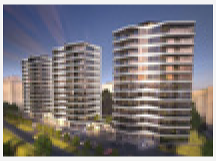
THE MORTGAGE MARKET

Loans are offered in euros and have maturities up to 30 years. The average mortgage interest rate for new borrowers at the end 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 a standard contract structure and up to 90%, if they qualify for the housing guarantee programme.

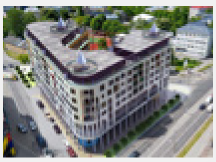
LEGAL NOTES BY SORAINEN

Residential leases are generally not subject to rent control. There are some residential properties owned by local government with subsidised rent. This will expand somewhat due to a new government program funding construction of such buildings by municipalities. However, when buying a property with tenants, problems might arise in evicting them upon termination of the lease. 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.

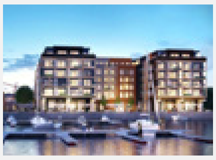
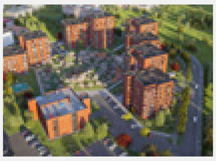
RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Jakobsoni Street 7** – A development project in the modern style, of this 1930s-built property next to quiet alleys in the heart of Tallinn, which consists of three buildings and underground parking facilities. Most of the apartments will include a spacious balcony or a terrace. There are a total of 75 apartments with one to four rooms, priced between €2,500 to €3,400 per sqm. Altogether 36 apartments have already been booked and sold. The project was completed in Q2 2017. Developed by YIT.	€2,500 - €3,400	Q2 2017
	**Kiikri Residences** – At the end of 2017 a residential complex consisting of 3 buildings (2A/B/C) near the sea and the popular Kadriorg Park was completed by Metro Capital. A total of 76 apartments with balconies, terraces and sea views were built. The price range for apartments is €2,500-€3,750 per sqm; the price of a storage room is €5,000, and the price of a parking space is €17,000. At the end of 2017 almost 35% of the apartments had been sold or reserved.	€2,500 - €3,750	Q4 2017
	**Meerhof 2.0** – An exclusive residential project located in Pirita Street in the vicinity of the city centre, the sea and Kadrioru Park, consisting of two dwellings. Most of the apartments include a view of the sea, open balconies and terraces, parking spots in the basement garage and so-called smart home solutions. There are a total of 142 apartments in the complex, with prices ranging from €2,050 to €7,500 per sqm. The building was completed in 2017 and already over 60% of the apartments have been sold. Developed by Metro Capitaland.	€2,050 - €7,500	2017
	**Skyline Residence** – A residential project consisting of three 13-storey buildings located between midtown and the popular Kadrioru Park, on Lasnamäe Street. The first building with 47 apartments with spacious balconies was completed in Q3 2017. The selling prices range from €2,300 to €3,300 per sqm and the parking spots in the garage are priced at €16,000 each. The second and the third buildings will be completed in 2018 and 2019. This project is developed by U.S. Invest.	€2,300 - €3,300 (I building)	Q3 2017 (I building)
	**Linda and Kalev houses** – A project consisting of two 6-storey energy efficient residential buildings located in the quiet alleyways of mid-town, on Staadioni Street. A total of 73 apartments with prices ranging from €2,200 to €3,600 per sqm have been constructed and parking spots in the garage are €12,900. At the end of 2017 around 90% of the apartments were sold or booked. The buildings were completed at the end of 2017. Developed by Stadium Real Estate.	€2,200 - €3,600	Q4 2017

NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Kadrioru Plaza** – This development project is a multifunctional development consisting both of commercial and residential areas making it the largest and the best-located complex in the centre of Tallinn. Located on the crossroad of Vilmsi and Gonsiori Streets, the Kadrioru Plaza is within easy reach of every part of the city. It has four floors of commercial space and 97 apartments on five floors. Apartments on top floors offer views to the city centre and the sea. There are 2 underground parking floors with 133 parking spaces and storage rooms. Price for the apartments range from €2,300 to €2,700 per sqm. The price of a parking space in underground parking is €15,000; the price of a storage room is €3,000. This project will be completed in the middle of 2019 and is being developed by Bariot Group. The project seller is Ober-Haus.	€2,300 - €3,350	H2 2019

NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**Merevärava** – A residential project in a Scandinavian style, consisting of 4 houses with underground parking facilities. The Merevärava homes will be built in the seaside borough of Kalamaja on Vibu Street. In between the houses there will be leisure areas, a playground and private yards. The whole project with 106 apartments will be completed in 2018. The prices range from €2,100 to €3,800 per sqm, including a parking place. Developed by YIT.	€2,100 - €3,800	2018
	**Joa Street 9** – A residential complex with 30 apartments to be built near Tallinn's most popular park, adjacent to the sea and the Presidential Palace. Each apartment will have a terrace or balcony with views of the greenery. The apartment price range is €2,500-€3,200 per sqm and storage space is included in the apartment price; parking space in the garage costs €17,000. The building will be completed by the end of summer 2018. At the end of 2017 around 35% of the apartments had been sold or reserved. The selling agent is Ober-Haus.	€2,500 - €3,200	Q3 2018
	**Noblessner Home Port** – An exclusive, centrally-located, seafront multifunctional project where all motorised traffic in the estate is underground. A marina, beach promenades, playgrounds, and light traffic routes will be built. There will be a total of 187 apartments and commercial premises. The price range for apartments is €1,700-€4,900 per sqm, and €16,000-€20,000 for parking space in a garage. The complex will be completed in 2018/2019. The developers are Merko and BLRT Grupp.	€1,700 - €4,900	2018/2019
	**Manufaktuuri 14** – A complex of 269 apartments to be built in the northern part of Tallinn, near the sea and Stroomi beach. Apartments on top floors offer views looking onto the sea and the Old Town. The price for apartments range from €1,750 to €2,700 per sqm. 168 apartments have been booked or sold, of which 127 apartments were purchased by LHV Pension Funds for investment purposes. The entire complex will be completed in 2019. Developers are Hepsor Construction and Tolaram Group.	€1,750 - €2,700	2019
	**Natura Park** – An economy class residential project, built near Lake Harku in the suburbs of Tallinn. Rocca al Mare Shopping Centre and Tallinn Zoo are in the vicinity. In total, more than 20 apartment buildings and about 1,000 units of living space are planned. The first stage was started with the construction of two buildings with 64 apartments. The price range for apartments is €1,600-€2,150 per sqm. The price for a storage space is €2,000 and the price of a parking space in the yard is €2,500. Developer is MIXTO.	€1,600 - €2,150 (I stage)	Q4 2018 (I stage)
	**Das Haus** – A 7-storey building complex with 140 apartments and guest apartments (hotel) to be built in Tallinn city centre. Apartments on the top floors offer views of the Old Town and of the sea. The price range of apartments is €1,800-€5,300 per sqm. The price of a parking space in the basement is €21,000; the price of a storage room is €4,200. The complex is being developed by Novira Capital and will be completed in 2019/2020.	€1,800 - €5,300	2019/2020
	**Vega Residents** – The renovation project of a former dormitory next to Tähesaju City business park in Tallinn's largest suburb, on Mustakivi Street. The 12-storey building will have 297 apartments, prices range from €1,200 to €2,500 per sqm. Price of a storage space and outdoor parking space is €1,900. In addition, there is a playground, balconies, terraces that offer views to the city and the sea. The building will be completed in Q2 2018. At the end of 2017 around 160 apartments had been sold or reserved. Developed by Endover.	€1,200 - €2,500	Q2 2018

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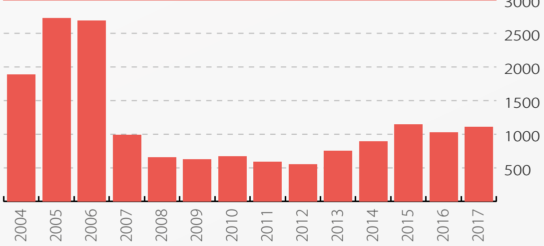
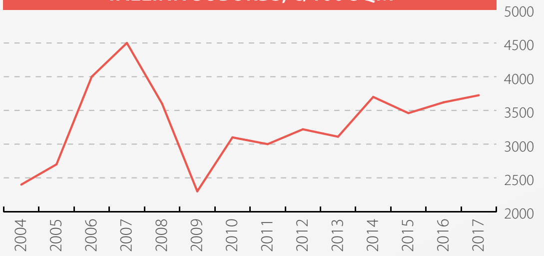
LAND TRANSACTIONS IN TALLINN CITY & DISTRICT



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 detail plans. In dense population areas a detail plan is usually required. Local municipalities often require developers to undertake to construct infrastructure as a condition for adopting a detail plan. Some municipalities also require payments to social funds. When buying land for construction, the existing detailed plan must be thoroughly investigated to ensure its applicability.

TALLINN SNAPSHOT
(END-2017)

ANNUAL LAND PRICE CHANGE (TALLINN AND HARJUMAA)	+ 2 %
TOTAL LAND TRANSACTIONS CHANGE (TALLINN AND HARJUMAA)	+ 6 %
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

LAND MARKET ACTIVITY INCREASED 6% IN HARJU COUNTY

In 2017, the number of transactions involving residential land in Tallinn and Harju County increased by 6%. The average price per sqm increased by almost 2%.

In the most popular residential areas in Tallinn the average price of land was €95 per sqm and, near the city, €26 per sqm.

The increase in prices was biggest in Viimsi, Jõelähtme, Saku and Saue Parish, which are located in the immediate vicinity of the city of Tallinn and are increasingly popular.

The prices of plots of 1,000–1,500 sqm are €90,000–€170,000 in popular locations in Tallinn (Pirita, Haabersti 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 at lower prices.

One the biggest land deals in 2017 was Merko´s purchase of the Peakalda project from Nordecon. The land plot acquired is located at the beginning of Lasnamäe, a very promising development area for residential development. The development will be long-term with a potential to build up to 1,500 apartments. The total purchase price is around €4.5 million.

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ESTONIAN REAL ESTATE TAXES AND LEGAL NOTES

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 generally subject to VAT (unless the property is a plot with an approved zoning plan or a new or significantly improved construction works).

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.

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.

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). As of 2018, corporate income tax rate of 14% is applied to regularly distributed profit. The year 2018 is the first calendar year which will be taken into account for the calculation of the average taxable distributed profit of the three preceding years. 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.

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.

INTRODUCTION

Estonia employs a constitutive property registration system where the registration itself confers the title. This makes verifying title simple and transactions secure. At the same time the notarisation and documentation requirements can make other aspects of the transactions cumbersome and time-consuming.

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 sales agreement 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 take four weeks or longer.

Due diligence can be 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 agreements 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 Register of Securities, 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 Register of Securities, the share transfer must be notarised. Increasingly stringent Know Your Client and Anti-Money Laundering rules have forced banks to limit opening bank accounts to foreign investors which can sometimes make the use of the Register of Securities and the benefits it incurs impossible.

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 e.g. 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 sales 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 sales 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 sales agreement and real right agreement are drafted and verified by a notary in Estonian. It is possible to separate the sales agreement from the real right agreement allowing the sales 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 e.g. 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.

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 sales 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 regarding pre-emption right encumbering an immovable is registered with the Land Register, then the disposal of the pre-emption right 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 an escrow account maintained by a notary before concluding the sales 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 sales 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), 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 local government.

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 the real estate before sale and the proceeds from the sale are to be used for repaying the debt secured by the mortgage, it is typically agreed that the existing mortgage is released immediately on signing the relevant sale or real right agreement against an unconditional obligation to pay, or release from the notary's escrow, the amount equalling the debt to the creditor. Theoretically this does leave open a risk that another application is submitted to the Land Register in time to spoil the transaction, but with the part of the purchase price covering the release of the mortgage already paid.

PROPERTY MANAGEMENT

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 to a professional management company.

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. Tenants are usually required to pay the pro-rata share of utilities for common space. Requiring the tenant to also pay pro-rata share of rent for common space is rare.

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 a 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.

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 within 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 more dense population 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

Under the Construction Act, construction means the erection, construction, installation and demolition of a building and any other operations in relation to the building that lead to the creation of that building or to a change in the physical properties of the building. Construction 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 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.

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 sales agreement 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 agreement 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.

Information regarding the construction related permits and the buildings is registered in the Building Register. The information stored in the Building Register has informational and statistical significance. The Building Register is often incomplete and can falsely indicate that there are no buildings on a particular land plot or the buildings are lacking certain permits. Such errors have no legal effect. Only the actual applications, design specifications, notices, building permits, use and occupancy permits and enforcement orders that may have been registered 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 are usually conducted through an online portal created for this purpose.

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).

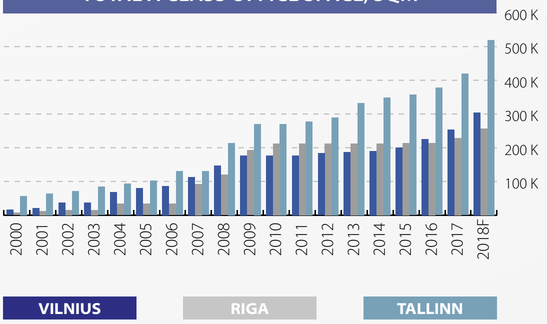
A common problem for a purchaser of distressed assets is that the distressed seller has signed lease agreements(s) on unfavourable terms to the asset owner. Such agreements transfer to the purchaser, even if the bailiff and the purchaser were unaware of the lease agreement. The purchaser must thereafter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

OBER HAUS

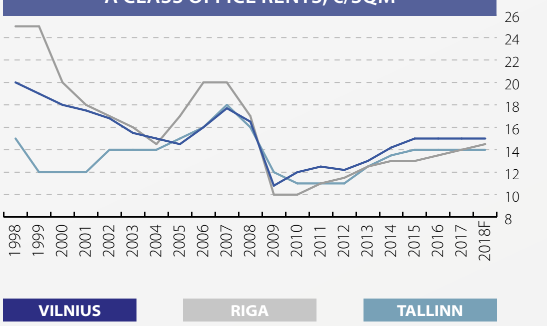
DATA CHARTS

OFFICE

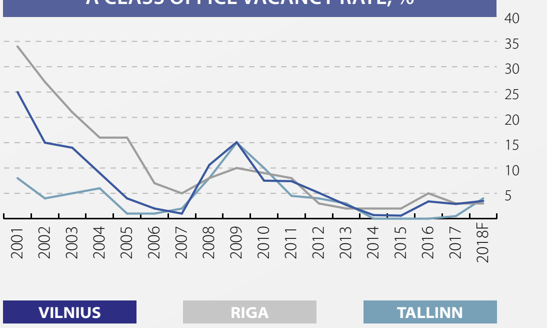
TOTAL A CLASS OFFICE SPACE, SQM



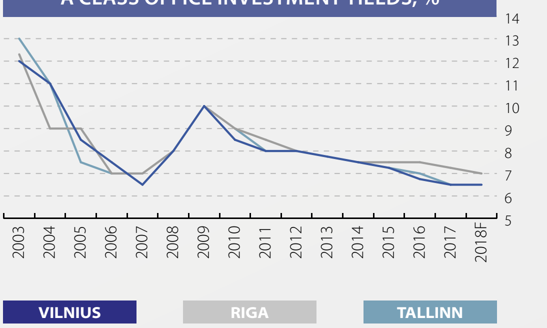
A CLASS OFFICE RENTS, €/SQM



A CLASS OFFICE VACANCY RATE, %

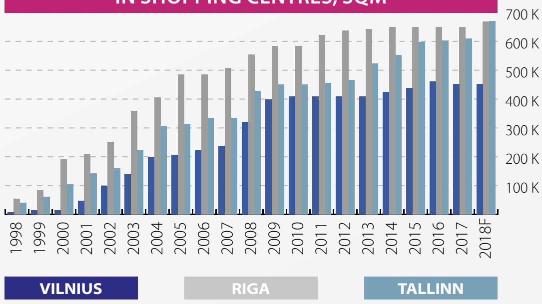


A CLASS OFFICE INVESTMENT YIELDS, %

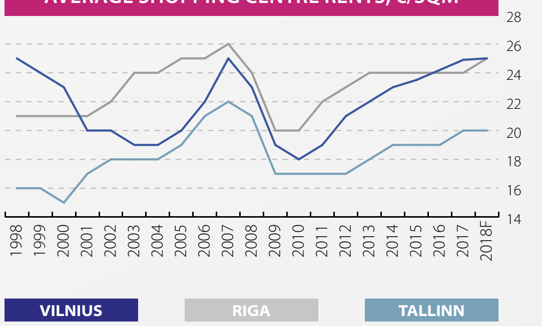


RETAIL

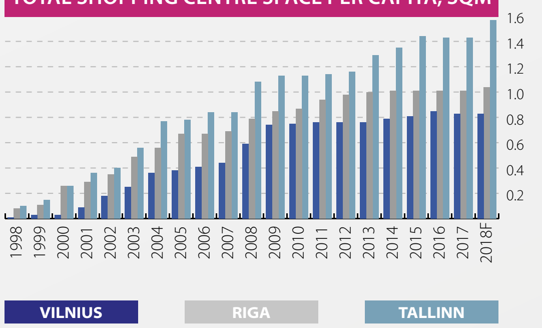
TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



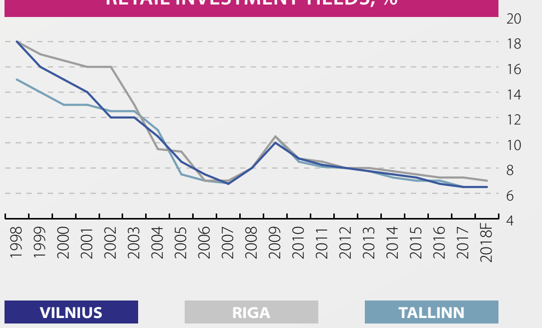
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL SHOPPING CENTRE SPACE PER CAPITA, SQM

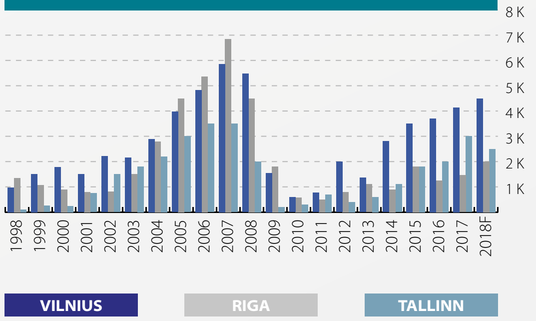


RETAIL INVESTMENT YIELDS, %

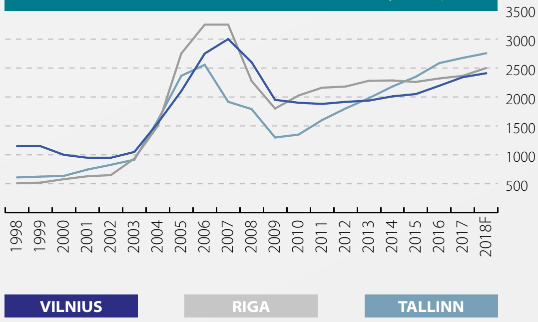


RESIDENTIAL

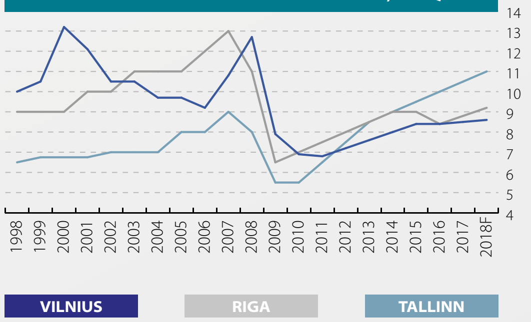
COMPLETED APARTMENTS



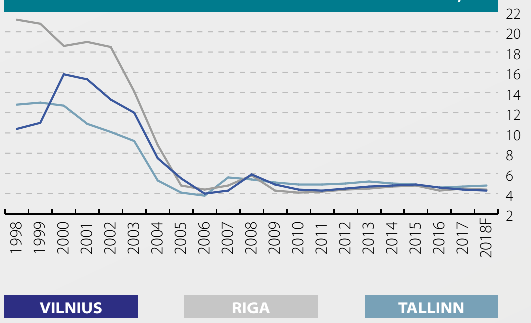
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM

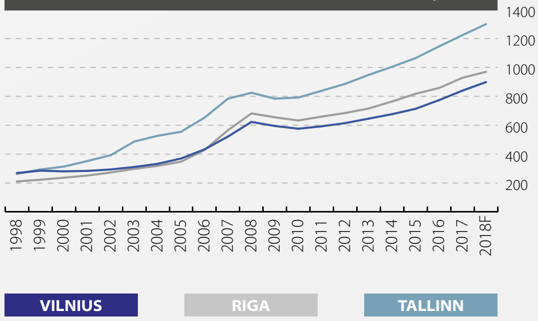


CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

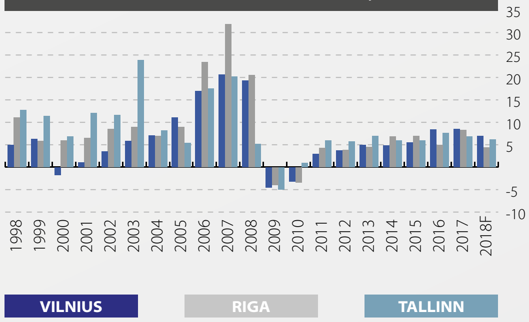


ECONOMICS

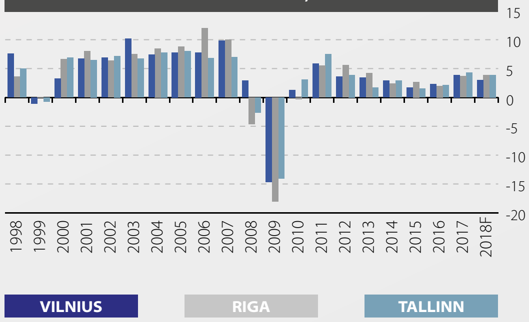
AVERAGE SALARY PER MONTH (BRUTTO), €



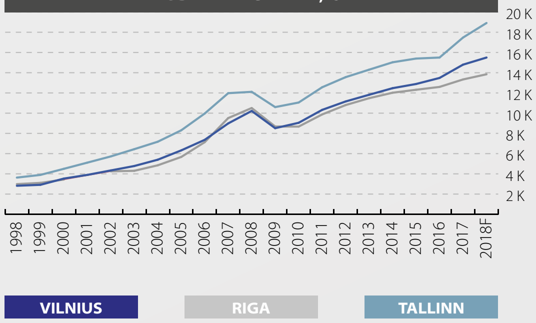
AVERAGE SALARY GROWTH, %



GDP GROWTH, %



GDP PER CAPITA, €



Real estate services company Ober-Haus presents an interactive map of business centers OHMAP (www.ohmap.lt). This is the first such virtual tool in Lithuania that helps find all office and mixed-use buildings with a minimum of 1,000 sqm useful office area in Vilnius built since 1999 or currently under construction.

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