

REAL ESTATE MARKET REPORT

BALTIC STATES CAPITALS
VILNIUS, RIGA, TALLINN



'23



Ober-Haus provides all real estate services in Lithuania and the Baltic region. The company opened its first office in Tallinn in 1994. Today, Ober-Haus has 20 representative offices in the major cities of Lithuania, Latvia and Estonia and over 240 employees.

Ober-Haus provides services based on comprehensive knowledge of local markets and more than 20 years of experience in the real estate sector. We build long-term partnerships with our customers and seek that the professional principles would become the market standard. The professionalism of our team and nurturing of a culture of high business standards is our driving force that ensures smooth operations in creating the highest value for our clients.

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

- residential and commercial real estate services;
- property management;
- investments advisory;
- property valuation services;
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In 2021, Ober-Haus merged with Kiinteistömaailma, Finland's largest brokerage and real estate consulting company.

Kiinteistömaailma seeks to expand operations and grow internationally. Ober-Haus is the main player in the Baltic real estate market and this leader position is the result of the targeted approach taken by the previous owners. Ober-Haus successfully complement the Kiinteistömaailma Group with its high quality knowledge-based real estate brokerage and valuation services.

Set up in 1990 Kiinteistömaailma is the broadest network of Finnish real estate agencies with almost 100 offices. The company offers consultancy and brokerage services in the residential housing and commercial real estate segments. Presently Kiinteistömaailma has more than 600 real estate experts.

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FOREWORD

In summarizing the year 2022, the predictions that the war in Ukraine would affect both the economic development of various countries and their real estate markets, have come true. It is obvious that the Baltic countries, being in the neighbourhood of Russia and Belarus, would be more directly affected by the consequences of aggression against Ukraine instigated by those countries. The Baltic countries have been members of NATO since 2004 and can feel safe, but due to the events of 2022, various sectors of the economy in Estonia, Latvia and Lithuania faced challenges large and small, including the significant amount of bilateral aid provided to Ukraine and the substantial flow of people fleeing the war directly into the Baltics.

The rapid rise in the price of goods and services became one of the biggest challenges in the Baltic countries, when annual inflation reached record highs during 2022 and exceeded the 20% mark. The European Central Bank's excessive stimulus policy during the Covid-19 pandemic flooded a large amount of cheap money into the markets, and the war in Ukraine has led to Russian aggression against Europe through energy resource restriction measures. The rapidly increasing price of energy resources also spread to other sectors for goods and services, which means that after a very long break, the real income of the population in the Baltic countries began to decrease. At the same time, to combat high inflation in the Eurozone, in July 2022, the ECB increased the interest rates for the first time in 11 years, directly impacting the entire real estate sector in the process.

In 2022, the economies of Lithuania and Latvia maintained their growth, with Lithuania's GDP growing by 1.9%, and Latvia's, by 2.0%. Meanwhile, in Estonia, after rapid economic growth in 2021, a 1.3% drop in GDP was recorded in 2022. However, despite the slower economic growth or even its contraction, the labour markets of the Baltic countries remained strong with a relatively low unemployment rate and 8.5-12.0% wage growth. Simultaneously, the sudden flow of people from Ukraine, Belarus and Russia to the Baltic countries increased the population, managing to unbalance the rental housing markets, bringing the supply to record lows in the middle of 2022 with an accompanying jump of rents.

After the start of the war in Ukraine at the beginning of 2022, the mood of participants in the residential market changed dramatically and the record activity of 2021 was replaced by the decline of the entire housing market. However, despite a noticeable slowdown in housing sales in the Baltic countries during 2022, an increase in apartment prices was recorded in the capital cities. For example, the sale price for apartments in Vilnius and Tallinn increased by more than 20% in 2022. Meanwhile, in Riga, the growth in the sale prices of apartments during the full year was minor, as in Q4 2022, negative trends in price changes had already been recorded. And it was not unexpected, as rising mortgage rates, falling income in real terms due to high inflation and the more pessimistic expectations of the population, forced buyers to postpone the purchase of residential properties and sellers to review their over optimistic expectations for sales prices.

The development of modern workplaces continues to be an extremely important factor in attracting new international companies to the Baltic state capitals and to ensure the expansion of existing businesses. In 2022, Vilnius joined Tallinn, when the total area of modern offices in the Lithuanian capital exceeded one million square meters. Meanwhile, in Riga, the development of new offices is not going as quickly as we would like, because development projects are either delayed or postponed to a later date. It is expected that in terms of supply, the situation in this largest city of the Baltic states will improve in the period 2023-2024, when larger office projects will be completed.

Despite the low vacancy rate in the business centres of Vilnius and Tallinn, office developers feel that the recent expansion of companies is not as active as in previous years. The arrival of new international companies to the Baltic region has slowed down slightly, and the expansion of local businesses has reduced. With the popularity of the hybrid work model, companies continue to try to find the golden mean between the distribution of employees working remotely to some degree and the actual office space required. It is clear that some employees are used to working from home, so the need for office space is not as high as it was. In acknowledging this, developers are more reserved about the implementation of new projects. And although the latest projects in the market are attracting enough interest, the larger question remains: how will the managers of older buildings, who lose their competitive edge against the most modern office projects, respond? Since the most recent business centres attract some of their tenants from older projects, it will be interesting to observe what strategy the owners of such office buildings will take – whether they will simply try to compete with a lower rents without major investment or will they undertake essential improvements of their properties.

In 2022, it was important to observe how foreign investors reacted to military actions so close to the Baltic region. Some of the most active traditionally, are the commercial property markets in Estonia and Lithuania, where the geography of investment in this property segment is wide enough. It is clear that the current events did not contribute to investors' confidence in the real estate market of the Baltic States, but the sector did manage to keep sufficiently active. For example, in 2022, the volume of investments into core commercial properties in Lithuania fell by 12%, but it was still one of the best annual results in the country's history. However, a more detailed analysis of the investment, shows that the geography of investors changed very clearly – local capital completely dominated in Lithuania with a record share of 82% (the share of domestic investments had been 45% in 2021). In the last 10 years the average share of domestic investments in the commercial property market was 31%. This shows that a section of potential investors (especially from Northern and Western Europe) see much more risk in our region than before the war in Ukraine, and probably postponed their decision on larger investments.

It is clear that the worst forecasts for the development of the economy and the real estate market in 2022 did not materialise, but the geopolitical tension and challenges for the economies of the Baltic countries are still present. As a result, real estate market participants should be prepared for the fact that in 2023, we are unlikely to see a rapid recovery in the activity of the residential and commercial property market. It is likely that real estate market participants will remain cautious, try to avoid opportunistic investments and take longer to make decisions. Such prevailing sentiments may lead to a decline in construction volumes and a certain general sluggishness of market activity. Over the course of the year, this may also lead to negative changes in the prices for some property segments.

Still, the most important thing is that the real estate markets of the Baltic countries have survived more than one difficult period and are currently much more resilient and better prepared for possible difficulties. Considering the circumstances, we can assess the housing market quite positively. The labour market remains strong, with abundant amounts of money in people's accounts, a relatively low level of debt in households, and a growing population in certain cities, ensure the resilience of the housing market against larger negative consequences. The situation in the commercial property sector will greatly depend on the general economic situation in the Baltic region and especially on the overall consumption level. We can already see that developers and investors are seriously considering the impact of higher interest rates on their investments and the economic slowdown. Therefore, we have to accept that in 2023 we will not see any record breaking prices or exceptional activity in both the housing and commercial property markets. It seems that we have reached a period where the market will move forward, just at a slower pace.

Tarmo Kase

Ober-Haus Real Estate Advisors

CEO



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Ober-Haus has offices in Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai, Panevėžys and Druskininkai with over 130 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

An aerial photograph of a city in Lithuania during sunset. The sky is a mix of deep blue and warm orange, with wispy clouds. A river flows through the city, bordered by a green park area with a path. In the foreground, there are several large, classical-style buildings with red-tiled roofs. The city extends into the distance under the soft glow of the setting sun.


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 84.6%, Poles 6.5%, Russians 5.0%, other 3.9%

CURRENCY

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

2023 FORECAST

GDP growth, %	0 - 1.0
GDP per capita, €	25,000
Average annual inflation, %	9.0 - 9.5
Unemployment rate, %:	6.5 - 7.0
Average monthly net salary, €:	1.235
Average salary growth, %:	9.0 - 9.5

POPULATION ¹

	2017	2018	2019	2020	2021	2022
Lithuania	2,808,900	2,794,200	2,794,100	2,810,700	2,806,000	2,860,000
Vilnius	547,500	552,100	561.800	556.500	563.000	591.600
Kaunas	288,400	286,800	289.300	298.700	297.900	305.100
Klaipėda	148,900	147,900	149.100	152.000	152.200	158.400
Šiauliai	100,600	100,100	101.500	100.600	101.700	104.300
Panevėžys	88,700	87,100	85.900	89.100	87.600	87.900

ECONOMICS

	2017	2018	2019	2020	2021	2022
Real GDP growth, %	4.4	4.0	4.3	- 0.8	4.8	1.9
GDP per capita, €	14,900	16,200	17,500	17,800	20,000	23,800
Construction costs growth, %	3.0	2.9	4.3	1.4	6.2	18.4
Average annual inflation, %	3.7	2.5	2.2	1.1	4.6	18.9
Unemployment rate, %	7.1	6.1	6.3	8.5	7.1	5.9
Average monthly net salary, €	665	725	828	916	1.008	1.129
Average salary growth, %	9.2	9.0	14.2	10.6	10.0	12.0
Retail sales growth, %	4.7	6.5	5.4	2.5	16.4	17.8
FDI stock per capita, €	5,800	6,100	6,600	6,800	9,700	10,400

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS

¹ (AT THE END OF THE YEAR)



GEOPOLITICAL THREATS HAVE SLOWED ECONOMIC GROWTH AND IMPACTED THE REAL ESTATE MARKET

The start of the war in Ukraine in 2022 and the increased geopolitical tension in different regions of the world have all affected Lithuania's economy. However, the annual results overall, show that businesses and individuals have largely withstood these challenges, and achieved reasonably solid economic growth. Although the pessimistic forecasts for economic development did not materialise, it is clear that the country's economy did face a number of challenges during the year. Sanctions imposed on Russia and the response to them, caused a sharp increase in global commodity prices and price volatility, particularly in the energy and food sectors. In addition, record inflation reduced the purchasing power of households and the competitiveness of exporting companies. All this had a negative impact on the expectations of both businesses and individuals, who were simultaneously affected by the revised monetary policy of the European Central Bank.

To combat the increase in inflation in the Eurozone, the European Central Bank in July 2022 increased the interest rates for the first time in 11 years, directly impacting the entire real estate sector. On seeing the rapidly rising interest rates, residents have become much more cautious when making decisions about purchasing their own home. It has become more expensive for real estate developers to develop new projects, and some investors have postponed their decision to invest in both the commercial and residential property markets.

Lithuania's real GDP increased by 1.9% in 2022 in contrast to the 4.8% growth in 2021. The continuing uncertainty in the markets, darkens prospects for the country's economic development, and in general, relevant institutions do not expect notable economic growth in 2023. According to optimistic estimates, the Lithuanian economy could grow by around 1% in 2023, but there remains a high probability that a recession will be recorded during the course of the year, which would wipe out any growth in GDP.

Lithuania's major challenge in 2022 was record high inflation, which peaked in September 2022 with an annual rate of 22.5%. This began to soften at the end of 2022 and in December 2022,

the annual rate was 20.0%, while the average annual inflation had increased to 18.9%. The war in Ukraine provoked an energy crisis in Europe, significantly increasing the price of energy resources in Lithuania, and accordingly, for other goods and services. It is expected that inflation will drop to 9.0-9.5% during 2023 and to 2.0-3.0% in 2024.

In Q4 2022 net wages increased by 11.9% when compared with Q4 the previous year, to €1,184 per month (€1,348 in Vilnius). It is expected that salaries will grow about 9.0-9.5% in 2023. On 1 January 2023, the gross minimum wage in Lithuania was increased to €840 per month (€633 net).

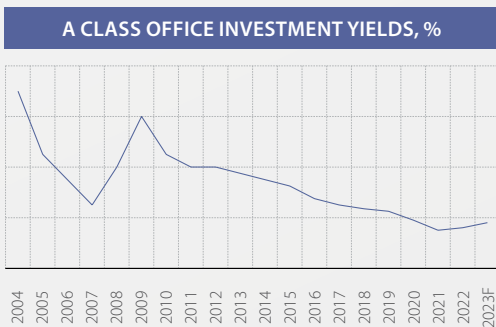
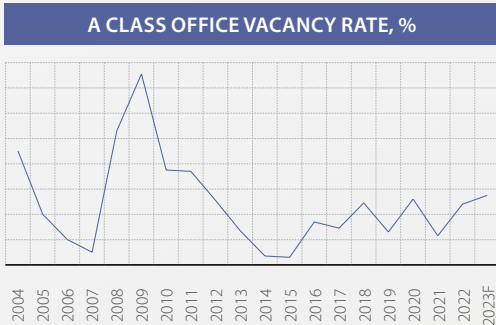
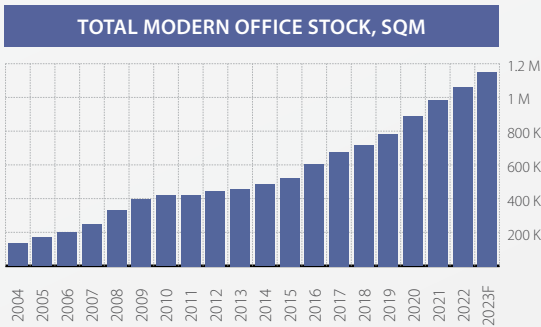
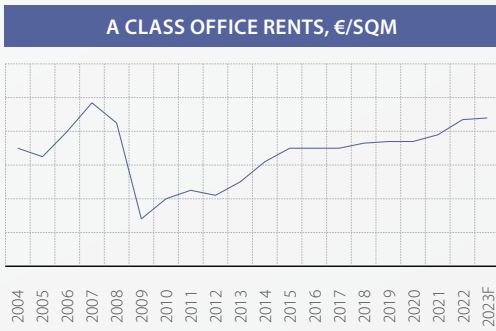
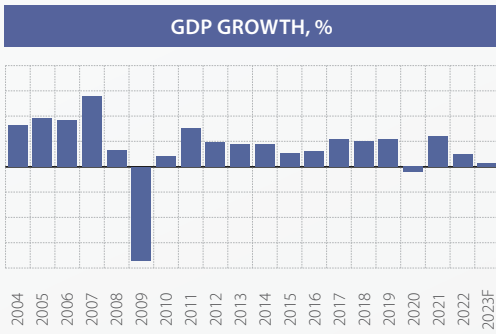
Unemployment decreased to 6.4% in Q4 2022, compared with 7.0% in Q4 2021. Analysts predict an unemployment figure of 6.5-7.0% in 2023.

In September 2022, the consumer confidence indicator in Lithuania dropped to the lowest point since the start of the pandemic in 2020. It reached minus 16 percentage points, but did improve to minus 8 percentage points by the end of 2022. In December 2022, 17% of consumers believed that the country's economic situation would improve in the coming 12 months, conversely, 43% felt that it would deteriorate.

A 20.3% increase in the amount of Lithuanian goods exported was recorded in 2021. This increased by 28.1% in 2022, totalling €44.2 billion.

In December 2022, the annual increase in construction costs was 17.5%. The biggest increase in this period was recorded for civil engineering structures (18.4%). Construction costs for residential buildings increased by 17.4%, and for non-residential buildings the increase was 16.9%.

By the end of 2022 direct foreign investment totalled €29.7 billion (€10,397 per capita), a 9.7% increase when compared with the end of 2021.



VILNIUS SNAPSHOT (END-2022)

TOTAL OFFICE SPACE	1,059,700 sqm
TOTAL OFFICE VACANCY RATE	5.9 %
VACANT OFFICE SPACE	62,400 sqm
A CLASS OFFICE VACANCY RATE	4.8 %
B CLASS OFFICE VACANCY RATE	6.6 %
TOP OFFICE RENTS (sqm / month)	€18.00
A CLASS OFFICE RENTS (sqm / month)	€15.00 - €18.50
B CLASS OFFICE RENTS (sqm / month)	€9.50 - €14.50
ADDITIONAL OFFICE COSTS (sqm / month)	€3.00 - €5.00

OFFICE SECTOR REACHED ONE MILLION SQUARE METRES, REMAINING VERY STRONG IN 2022

SUPPLY

As in previous years, there was a sufficient supply of new office space in Vilnius during 2022. And in the course of the year, the total usable area of modern office space in Vilnius exceeded one million square metres. The capital's office market has accumulated significant space in the more than 20 years since 1998–2000, when new business centres were more actively built or older buildings were modernised and repurposed into present-day offices.

In total, ten new projects/stages were completed in 2022 bringing 75,000 sqm of office space to the market or for own use. On completion of these projects, the total area of usable modern office space (A and B class) grew by almost 8% to 1,059,700 sqm (all projects can be viewed on [OHMAP](#)). Currently, Vilnius has 1.79 sqm of usable office space per capita, 2.2 times more than 10 years ago. In the period 2020–2022, the Vilnius market in total added 275,000 sqm of office space.

In terms of floor space, A class accounts for 41% of the total modern office premises in Vilnius, and B class, 59%. Developers continue to follow sustainable development practices and aim

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not only for international certification of the environmental assessment of their buildings (BREEAM and LEED schemes), but also to implement health and well-being systems like WELL and Fitwel. At the end of 2022, over 40 completed office buildings in Vilnius (42% of the total modern office space stock), were either already certified or had a preliminary assessment status with one of the internationally recognised systems.

Once again, in 2023, a sufficient amount of office space will be completed in Vilnius. In view of the progress of projects currently under construction, it can be predicted that during 2023, eight or nine new office projects with more than 90,000 sqm of usable office space will be completed in the capital. During the period 2021–2022, the record high take-up of Vilnius offices, was enough to produce a positive mood among office developers – particularly when it comes to the most recent projects, that attract the greatest interest, as they offer tenants the most modern workplaces and a wide range of space options. However, considering the current geopolitical situation and challenges facing the global economy, any further development of the office segment will to a major degree be dependent on demand. It is likely that during the year, overall activity in the office market may decrease, and developers will be much more cautious when it comes to starting new projects.

Landlords, serviced office operators and other investors see potential for the development of flexible and cost-effective workspaces, although the development pace of such office space (coworking, serviced offices etc), has not been exceptional during recent years. In 2022, local real estate developer, Baltic Asset Management, opened a residential project for rent in Youston, in the Naujamiestis district, which also had around 1,200 sqm of coworking space. In 2022, Workland opened its fifth space in Vilnius (2,300 sqm), in the 3 Bures office complex adjacent to Konstitucijos Avenue (CBD).

The most active development period of flexible office space was seen during the period 2016–2020. In 2022, the total stock and non-stock flexible office space increased by 8% to over 47,000 sqm. This space covers any type of flexible workplaces ranging from traditional serviced offices, coworking spaces, start-up campuses, FinTech hubs and so on.

The share of flexible office space located in modern buildings across the total modern office stock in Vilnius has increased marginally during 2022. At the end of that year, it reached 1.6% or 0.1 percentage points higher than the previous year. In Vilnius, dedicated or hot desk rents in general, using flexible workplace schemes, cost from €100 to €250 per month (depending on the space provider, location, building class, fit-out and services), and up to €250–€450 for a workplace in a private office. In the face of the pandemic and the economic uncertainty due to the war in Ukraine, flexible workspaces have actually demonstrated their essential advantage and attractiveness over the traditional long-term rental model, specifically with regard to their flexibility.

DEMAND

Interestingly, 2022 was one of the most active years in the

history of modern offices in terms of demand indicators. A total of, 131,700 sqm of office premises were leased in Vilnius business centres, which is only 2% less than the record in 2021. The significant uptake was mainly determined by the record high supply and companies' need to consolidate employees in the most modern business centres. From the deals negotiated, it can be seen that companies are boldly setting up large service centres or corporate headquarters in the new business centres that have an option for increasing space.

The vacancy rate in modern offices in Vilnius dropped from 6.7% to 5.9% in 2022, and the overall total of available office space decreased from 66,300 sqm to 62,400 sqm. At the end of the year, the vacancy rate for B class buildings was 6.6%, while for A class buildings, it was 4.8%.

Regarding office lease transactions in 2022, the largest transaction of the year, was the expansion of the former Belarusian online game developer and publisher Wargaming, that took over 7,000 sqm of office space in the newly opened business centre, Core, alongside the main CBD in Vilnius.

The public sector is becoming an important player in the office rental market. This is a natural process prompted by economic logic. Public sector entities, like those in the private sector, are looking for operational efficiency, which is becoming increasingly more difficult to achieve in older buildings/premises. Renting premises from a private business is a very attractive alternative, and allows entities to quickly settle into new premises that meet today's needs. For example, in 2022, the Lithuanian postal service leased over 3,000 sqm in the Beta business centre and Vilnius city municipality leased a 4,800 sqm office building for a school in the city centre.

Notably, companies not only look for office space offers on the market, but also create supply for themselves by investing into the construction of new projects. One of the most prominent examples in recent years is the hub for tech talents and companies, Cyber City, which is being built on the territory of the previous Sparta factory, where the main tenant will be the Tesonet group, and whose shareholders are investing in the development of this project. Also, the office building being built by the Teltonika company next to Konstitucijos CBD, on Saltoniskiu Street, where about 500 company employees will move in 2023. Inevitably, such companies will free up a lot of office space in the buildings currently occupied, so it will be important what strategy the owners of older office buildings will adopt – whether they will try to fill the vacated premises with new tenants without major investment, or undertake essential renovation. Examples of successful revivals of office buildings in 2022 include the reconstruction of the Beta business centre built more than 10 years ago.

In 2023, the overall state of the Vilnius's office market will depend exclusively on further business development and business opportunities in an environment of enormous geopolitical and economic change. It is likely that the consequences of the ongoing war in Ukraine, could erode business confidence, and result in some cases, in delaying development plans. Given that

there will be a plentiful supply of new offices in 2023, the overall vacancy rate may increase by up to 10%.

RENTS

After a longer break, office rents increased at a faster rate in Vilnius in 2022. During the year, B class office rents increased by 4% on average, and by the end of 2022, rents for B class offices were €9.50–€14.50 per sqm. At the same time A class office rents increased by 7% to €15.00–€18.50 per sqm. At the top end, rents achieved €19.00–€20.00 per sqm on the top floors of exclusive projects or smaller-sized premises.

Depending on the building, additional costs to tenants – single, double and triple net costs – are from €3.00 to €5.00 per sqm. Newly developed business centres no longer provide free parking spaces for their tenants and charge €35–€100 per space extra (can reach up to €150 per space in the most prestigious areas of the city).

The sharp rise in annual inflation to 20% by the end of 2022, means that rent indexation became more relevant than ever. It is clear that a large proportion of tenants felt the effects, particularly when a no ceiling (cap) was set into the agreements and landlords failed to agree on a compromise with existing tenants. However, the majority of landlords chose a compromise option and adjusted the rents to below the official inflation rate.

Rising direct and indirect costs for office tenants and considerable competition among office developers, may freeze base office rents to some degree in 2023. This is especially relevant for older construction projects, that have less competitive advantage in the market, often no longer meeting the needs of today's businesses.

INVESTMENT

Despite the reduced investment flow into the commercial property market in 2022, the overall amount of investment in Lithuania remained solid. A downturn was expected given the sudden change in the geopolitical situation due to the war in Ukraine. According to Ober-Haus data, for core property (modern office, retail and industrial objects worth over €1.5 million), investment totalled €400 million, 12% less compared to 2021. The total volume of investments in 2022 was the same as the annual average for the period 2017–2021. In 2022, 54% of all investments were made in the capital, the same share as in 2021.

Investment distribution by property type in Lithuania, shows that for two successive years the retail property sector has continued to be the most attractive to investors. The share of investments in the retail property sector increased to 58% of total investments in 2022 (compared to 39% in 2021). This satisfactory increase was assisted by the sale of a large portfolio of supermarkets in a number of Lithuanian cities. The office sector took a 29% share of the investments, with the industrial sector occupying the lowest share at 13%.

In 2022, the origin of investors changed very clearly – local capital completely dominated, with a record share of 82%. This shows that a significant number of potential investors (from Northern and Western Europe in particular), perceive much more risk in our region than before the war in Ukraine, and have probably postponed their decisions on larger investments.

Despite global geopolitical and economic challenges, investment yields for commercial properties remained stable throughout 2022. Of course, the rapid rise in interest rates, fuelled market participants' expectations of rising yields. Indeed, the latest transactions concluded in the second half of 2022 showed that buyers were still paying record high prices for the properties. At the end of 2022, yields in Vilnius ranged from 5.0% to 6.0% for higher class offices and retail properties, and 6.5–7.5% for secondary properties. Yields for warehousing premises ranged from 6.5% to 8.0%.

It can be expected that slowing economic growth, further increases in interest rates and still cautious investors could raise commercial property yields by 25–50 bps in 2023.

During 2022, the increased rents raised the value of high-class offices to new heights in Vilnius. The capital value index for A class offices over the year increased by 6.3%. This means that the selling prices of prime properties can be as high as €4,000 per sqm.

In Q2 2022, a fund managed by investment management company, Groa Capital, acquired a 14,000 sqm office building, Freedom 36 (renamed to Girteka Park), in the Karoliniskes district from its developer, the Galio Group. The office building is fully leased to logistic company Girteka Logistics and was sold for almost €40 million.

The Lvivo business centre on Lvivo Street, which was developed and managed by Lords LB Special Fund I Subfund B of the investment management company Lords LB Asset Management, was sold in Q3 2022 to the newly established fund, Lords LB European Property Fund. It is expected, that the over 15,000 sqm building could be sold for more than €50 million.

LEGAL NOTES BY **SORAINEN**

Rent is usually paid in advance, generally monthly. Rent is typically indexed based on local or European Union inflation (HICP) rates. Recent practice shows that rent is sometimes 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 and management. Payment of a security deposit or guarantee is usually agreed. Triple net leases are 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 for larger multi-tenant properties.

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



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BUSINESS STADIUM NORTH EAST

RECENT DEVELOPMENTS



CORE – Baltijos Gildija, a development and management company, completed the construction of one of the largest A class office projects in the second half of 2022. The project is located next to Konstitucijos CBD, on Ukmerges Street. The two 6-7-storey buildings, with a total above-ground area of 35,000 sqm, offering almost 32,000 sqm of usable office space. Additionally, there are 750 parking spaces available in the underground car park. The total investment in the project amounted to around €60 million, and the developer aims to earn the Fitwel certificate. The largest office lease transaction in 2022 was by Wargaming, a former Belarusian online game developer and publisher, which expanded into 7,000 sqm of office space in this business center. Asking rents for office space are from €15.50 per sqm.



PAUPIO DARBOTEKA – In the first half of 2022, the real estate development company Darnu Group completed construction of an office building in its large-scale multifunctional project Paupys, located on Paupio Street. The company invested €12 million in developing this 5,600 sqm building, which houses major tenants such as Boozt and Dokobit. The asking rents for available office spaces start from €17.00 per sqm.



BUSINESS STADIUM NORTH EAST – Following completion of the first and second office building in the abandoned territory of Zalgiris Stadium, local developer Hanner completed the construction of a third A class business center in the central part of the city on Rinktinės Street in mid-2022. The 8-storey office building with a total above ground area of almost 15,000 sqm has around 13,000 sqm of usable office space. In Q1 2021, the US-based medical device manufacturer Dexcom signed a lease agreement for 6,000 sqm. Office space is available at rents from €15.50 per sqm.



OFFICE BOUTIQUE – Local investment company Dataworld finished the construction of small-scale office project in the city centre, on Dainavos Street in mid-2022. The 5-storey office building with a total above ground area of almost 1,500 sqm has been fully leased to TMV Capital, the controlling company of Juodeliai, one of the largest wood processing companies in the Baltics.



MERAKI – In Q3 2022, a company managed by the investment fund Baltic Horizon Fund completed the first stage of a B class office project in Pasilaiciai district, next to Ukmerges Street. The 7-storey office building has around almost 8,000 sqm of usable office space. The development of the second building will depend on market needs. Office space is available at rents of €12.50 per sqm.



JOGAILA – In Q3 2022, an asset management company Orion Asset Management completed the reconstruction of a former Hermis bank (later SEB bank) building built in 1996. The building with a total area of 1,600 sqm is located in the city centre, on Jogailos Street. Office space is available at rents from €18.50 per sqm.



KINTU 11 – At the end of 2022, the investment and development company Galio Group finished the construction of a 4-storey office building with total above ground area of 2,550 sqm in Snipiskes district, on Kintu Street. An above and underground car park has almost 70 parking spaces. Office space is available at rents from €15.30 per sqm.

NEW PROJECTS



CYBER CITY – In 2020, the cybersecurity solutions company Tesonet started the development of large-scale project in Naujamiestis district in the former territory of the factory Sparta. Tesonet is the main investor and tenant of the project and will develop over 36,000 sqm with office and other commercial space on Svitrigailos Street. The first building, with a total area of almost 4,500 sqm, was completed at the end of 2022 and now houses Oxylabs, a market-leading provider of proxy and web scraping solutions. The construction of the second and third buildings, with a total above-ground area of 27,800 sqm, will be completed in Q2 2023. The fourth and final building, with a total area of around 4,000 sqm, may be completed in 2024 or later. Total investments in the project will reach over €50 million.



S28 – In Q1 2023, the real estate developer LJB Property completed the development of a 10-storey office building in the Naujamiestis district, on Savanoriu Avenue. The company also owns another office building adjacent to it. The project offers approximately 10,000 sqm of office space, with rents starting from €14.50 per sqm.



K22 – Local company Eigesa is finishing the construction of a 6-9-storey B class office building with total above ground area of 4,300 sqm in Naujamiestis district, on Kauno Street. The ground floor of the building is suitable for all types of commercial activity and the remaining floors will offer around 3,600 sqm of usable office space. The project should be completed in Q2 2023. Office space is available at rents from €14.00 per sqm.



SKY OFFICE – At the start of 2022, the construction and development company YIT Lietuva started the construction of an 18-storey office building with total above ground area of around 8,800 sqm in Virsuliskes district, on Spaudos Street. The project should be completed at the end of 2023 and total investments will reach €21 million. Office space is available at rents from €13.75 per sqm.



ARTERY – The investment management company Lords LB Asset Management is developing an A class office project in Vilnius central business district, on Konstitucijos Avenue. The building was designed by Studio Libeskind and Archinova and construction started in mid-2019. The main tower will be 20-storey tall, while another part of the project will be a 7-storey podium, connected by a luminous glass-covered galleria. The project will provide over 20,000 sqm of office space at the end of 2023. Total investments will reach more than €70 million. At the start of 2023, around 70% of the office space had been leased, with asking rents for remaining office premises starting at €19.00 per sqm. Around 4,000 sqm office space was leased to payments fintech company Kevin., which will move its 300 employees to the top floors. Other tenants are: BMI Executive Institute, Visma Tech, People Link, Medicinos bankas and others.



FLOW – In Q4 2021, the local development and construction company Eika started construction of an A class office project in Vilnius central business district, next to Konstitucijos Avenue. The 15- and 20-storey project with total above ground area of around 15,000 sqm should be completed at the end of 2023. Underground parking is planned on 3 levels. The developer is aiming to earn the BREEAM Outstanding certificate and total investments will reach almost €50 million. At the end of 2022, over 30% of the office space had been leased, with asking rents for remaining office premises starting at €19.00 per sqm.



YELLOWSTONE – A Baltic private multi-asset alternative investment firm Equite is developing an A class office project in the city centre, on J. Jasinskio Street. A 9-storey office building with total above ground area of 9,300 sqm should be completed in mid-2024. Underground parking is planned on two levels. The developer is aiming to earn the BREEAM certificate and total investments will reach more than €25 million.

NEW PROJECTS



SPORTO STREET – Evolis, a Lithuanian developer and investment project management company, is developing an office building in the Zirmunai district, located on Sporto Street. The 6-storey building will offer 3,400 sqm of office space and will serve as the new home for the transport and logistics services company, Integre Trans. It is expected that the tenant will move into their new office at the beginning of 2024.



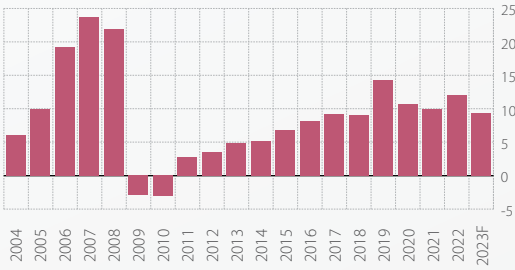
HERO – A local real estate development company Realco, is developing an A-class office project in the central business district of Vilnius, located on Kalvariju and Lvivo Street. The project will consist of two 14-15 storey towers with a total above-ground area of over 30,000 sqm. The project is expected to be completed by 2025, and the developer aims to obtain BREEAM and WELL certifications.

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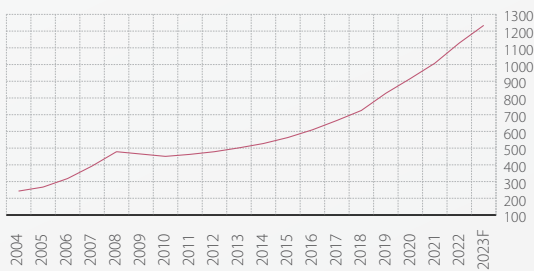


YELLOWSTONE

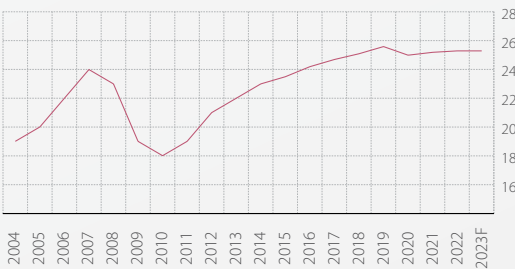
AVERAGE SALARY GROWTH, %



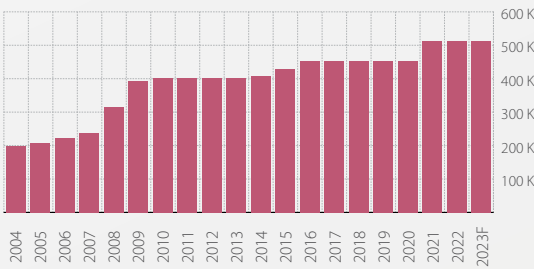
AVERAGE NET SALARY PER MONTH, €



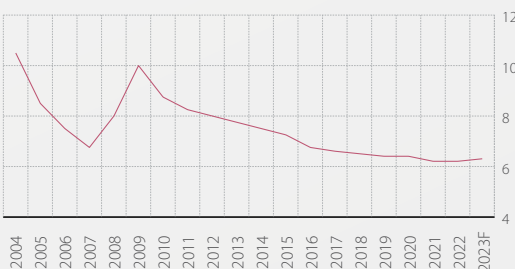
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



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VILNIUS SNAPSHOT (END-2022)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	512,700 sqm
TOTAL SHOPPING CENTRE SPACE PER CAPITA	0.89 sqm
RETAIL RENTS FOR ANCHOR TENANTS (sqm / month)	€9.00 - €14.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (sqm / month)	€15.00 - €40.00
RETAIL RENTS FOR SMALL SIZED UNITS (sqm / month)	€50.00 - €75.00
HIGH STREETS RENTS (sqm / month)	€15.00 - €40.00

OWNERS OF THE RETAIL SCHEMES FOCUSED ON WORKING WITH EXISTING TENANTS

SUPPLY

In 2022, no new, large, traditional shopping centres were opened in Vilnius. At the end of 2022 there were 27 shopping centres in the city (those over 5,000 sqm GLA with over 10 tenants), with a total leasable retail area of 512,700 sqm. As the city's population increased in 2022 by around 5%, the shopping area per capita decreased to 0.89 per sqm.

By the end of 2022, across Lithuania, the total retail space in these larger traditional shopping centres amounted to just 1.18 million sqm or 0.41 sqm of shopping area per capita. Altogether 43% of the shopping space available in traditional shopping centres, is in Vilnius.

Major retail chains have actively continued investing, not only in opening new supermarkets, but also in renewing/ refurbishing existing ones. The German supermarket chain, Lidl, which opened its first stores in Lithuania in 2016, continues to strengthen its position in Lithuania. During 2022, the retail chain opened another five stores and ended the year with 65 stores in total, across 26 cities. The other big supermarket chains (Maxima, Rimi, Iki and Norfa), opened 17 new stores in 2022.

RETAIL MARKET

Commercial property developer and manager, VPH, is completing the construction of a retail park in the northern part of the city. The 16,000 sqm retail park Una, located next to Moletu Road on Dangerucio Street, will host around 30 different tenants and is scheduled for completion by mid-2023.

A local company plans to develop a multifunctional project in the fast developing residential district of Kalnenai in the south-eastern part of the city. There are plans to develop over 9,000 sqm that will host traditional retailers, a gym, healthcare, and education options, a swimming pool and so on. Total investment could reach €14 million. However, it is not yet known when construction will begin.

A large project is planned by the Akropolis Group. A second Akropolis shopping, entertainment and business centre in Vilnius is planned next to the Vingis Park. The new concept for the project was introduced at the end of 2021 and approved by Vilnius city municipality in 2022. It is expected that construction will begin at the earliest, in the second half of 2023.

DEMAND

Assisted by record inflation in 2022, total retail trade in Lithuania jumped by 17.8%, after growing by 16.4% in 2021. If one compares the volume of retail trade at comparable prices, then from Q2 2022, an annual decline in recorded turnover began (the volume of retail trade at comparable prices increased just by 0.8% in 2022). The rapid growth of interest rates that arrived in the second half of 2022, record high inflation and declining consumer confidence, began to signal a slowdown in consumption across the country.

However, in 2022, the general situation was favourable for the owners of retail premises, when the overall consumption volumes – recovered after the Covid-19 pandemic – remained at a record high. Despite the rapidly growing heating and electricity prices, retail tenants were able to ensure stable operations and the demand for retail premises remained adequate. In other words, if the lease agreement for premises in a shopping centre or main shopping street expired, finding a new tenant was generally not very difficult.

Of course, the economic challenges caused by geopolitical tensions did not give confidence to small businesses, being sensitive to any negative changes. Still, some businesses saw the long-term prospects of the shopping streets of Vilnius, and the current market situation has opened up greater opportunities for them. If it was generally difficult to find suitable premises before the start of the pandemic in 2020, even those offering historically record rents, then during 2021–2022, the choice was greater and the rents more attractive. Therefore, the braver businesses were eager to seize the opportunity afforded by such a situation and were interested in developing their business in the prestigious locations of the city. In other words, the vacated retail premises attracted business interest, and in the course of 2022, one could see how one company's fortunes can benefit another.

In 2022, a similar situation was seen in the largest shopping centres, where the occupancy rate continued to remain at a record high. Basically, in the course of the year, the managers of the shopping centres were focused on the renovation of the premises and any changes in the profile of the tenants. Weaker tenants, generating less value for the shopping centre, were replaced by others, some were moved to other premises, space planning was revised or renovation was carried out. For example, in 2022, the one-and-a-half-year renovation of the Europa shopping centre costing €6 million was completed, during which common spaces were renovated, and new tenants or new spaces appeared – such as, a new 800 sqm sized food hall.

Year-on-year, the rapidly increasing sales volumes of internet retailing were boosted by the pandemic and changes in the retail premises sector. According to official statistics, in Lithuania in 2022, retail sales via post and internet experienced a total turnover of €1.27 billion, which is a 6% increase compared to 2021. However, internet retail sales decreased for the first time in 2022, accounting for 7.0% of total retail sales (8.1% in 2021). This may also be related to the eventual recovery of physical trade after the downturn during the pandemic.

RENTS

In 2022, the significantly increased maintenance costs of premises became an additional challenge for both owners and their tenants. Although post-pandemic recovery in consumption was able to offset these costs, landlords were largely unable to raise rents for new contracts. Rents increases were only recorded in valid contracts, as they were indexed, taking into account European or Lithuanian inflation indicators. Since record inflation was recorded in Lithuania in 2022, a compromise has often been accepted where there was no indexation ceiling – rents were indexed by a smaller amount than official local inflation figures.

Following the noticeable decline in rents for retail premises in shopping streets during 2020, the level of rents remained stable in 2022. At the end of 2022, rents for medium-sized retail premises on high streets such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street, (100–300 sqm), were €15.00–€40.00 per sqm. Nevertheless, when compared with the pre-pandemic level, rents are on average 10% lower than those at the end of 2019. Despite the recovering economy and growing consumption in 2022, tenants were concerned about further economic development, being under threat from the war in Ukraine and significant geopolitical changes.

During 2022, shopping centre managers were focused on working with existing tenants and the stability of their operations, so rents for new premises with new rental agreements remained stable in this segment. Rents for medium-sized units (150–300 sqm), in major shopping centres were €15.00–€40.00 per sqm and €50.00–€75.00 for small-sized units. Rents for anchor tenants were €9.00–€14.00 per sqm.

It is likely that the biggest challenges for the owners of retail premises in 2023 will be a slowdown in uptake, which will be

determined by the ongoing high inflation and a stagnant economy. Consequently, the owners of retail premises will continue to focus on working with existing tenants, aiming to guarantee at least a stable flow of rental income in their properties. It is, therefore, almost in conceivable under these conditions, to expect an increase in rents in 2023.

INVESTMENT

Despite the reduced investment flow into the commercial property market in 2022, the overall amount of investment in Lithuania remained solid. A downturn was expected given the sudden change in the geopolitical situation due to the war in Ukraine. According to Ober-Haus data, for core property (modern office, retail and industrial objects worth over €1.5 million), investment totalled €400 million, 12% less compared to 2021. The total volume of investments in 2022 was the same as the annual average for the period 2017–2021. In 2022, 54% of all investments were made in the capital, the same share as in 2021.

Investment distribution by property type in Lithuania, shows that for two successive years the retail property sector has continued to be the most attractive to investors. The share of investments in the retail property sector increased to 58% of total investments in 2022 (compared to 39% in 2021). This satisfactory increase was assisted by the sale of a large portfolio of supermarkets in a number of Lithuanian cities. The office sector took a 29% share of the investments, with the industrial sector occupying the lowest share at 13%.

In 2022, the origin of investors changed very clearly – local capital completely dominated, with a record share of 82%. This shows that a significant number of potential investors (from Northern and Western Europe in particular), perceive much more risk in our region than before the war in Ukraine, and have probably postponed their decisions on larger investments.

Despite global geopolitical and economic challenges, investment yields for commercial properties remained stable throughout 2022. Of course, the rapid rise in interest rates, fuelled market participants' expectations of rising yields. Indeed, the latest transactions concluded in the second half of 2022 showed that buyers were still paying record high prices for the properties. At the end of 2022, yields in Vilnius ranged from 5.0% to 6.0% for higher class offices and retail properties, and 6.5–7.5% for secondary properties. Yields for warehousing premises ranged from 6.5% to 8.0%.

It can be expected that slowing economic growth, further increases in interest rates and still cautious investors could raise commercial property yields by 25–50 bps in 2023.

The largest investment deal in the retail property sector during 2022, was the acquisition of a portfolio with 17 supermarkets in 12 different Lithuanian cities. The company, managed by the NDX Group and Galio Group, acquired a 50,000 sqm portfolio from Norwegian investment company EECF at the end of 2022. The main tenants of the properties are Maxima and Ermitazas. Details

of the transaction have not been disclosed, still it is expected that the acquisition price could reach over €90 million.

At the start of 2022, the Lithuanian investment company, Prosperus, managing the real estate fund Prosperus Real Estate Fund III, acquired the Mandarinas shopping centre in Vilnius. The vendor was the fund managed by local investment company, Lords LB Asset Management, which had previously acquired this shopping centre in 2014, with a total area of over 9,000 sqm. Details of the transactions have not been disclosed.

In Q2 2022 Titanium Baltic Real Estate Fund, managed by the Finnish asset management company, Titanium Fund Management Company, acquired a DIY store next to the Western Bypass, on V. Pociuno Street in Vilnius. The property, with a total area of almost 10,000 sqm was developed by real estate development company KS Holding, which is jointly owned by the Finnish company Kesko, Arturas Rakauskas, and the investment group Zabolis Partners. The Kesko Senukai store had opened in 2021.

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 a 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.



RETAIL PARK UNA

NEW PROJECTS



RETAIL PARK UNA – Commercial property developer and manager VPH, with other investors, is finishing the development of a retail park in the northern part of the city next to Moletu Road. An over 16,000 sqm sized retail park will host around 30 different tenants and is scheduled for completion by mid-2023.

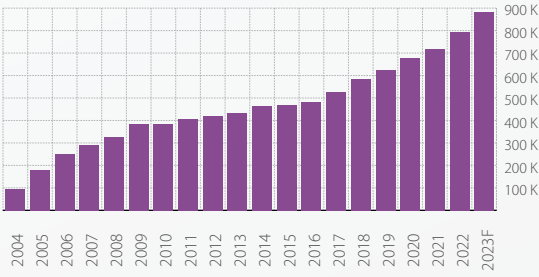


VILNIUS AKROPOLIS VINGIS – A large project is planned by Akropolis Group, which plans to develop a second Akropolis shopping, entertainment and business centre in Vilnius next to the Vingis Park. The new concept for the project was introduced at the end of 2021 and approved by Vilnius city municipality in 2022. It is expected that construction will begin at the earliest, in the second half of 2023.

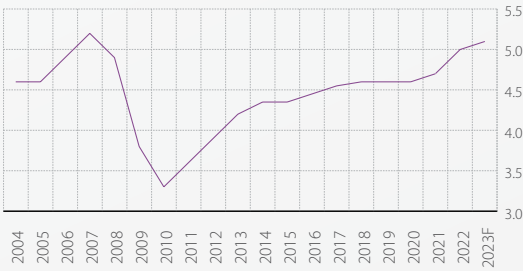


KALNENAI SC – A local company plans to develop a multifunctional project in the fast developing residential district of Kalnenai in the south-eastern part of the city, on Estu Street. There are plans to develop over 9,000 sqm that will host traditional retailers, a gym, healthcare, and education options, a swimming pool and so on. Total investment could reach €14 million. It is not yet known when construction will begin.

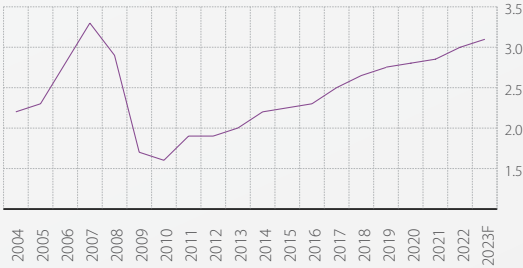
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



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VILNIUS SNAPSHOT (END-2022)

TOTAL NEW WAREHOUSE SPACE	791,400 SQM
WAREHOUSE VACANCY RATE	1.0 %
NEW WAREHOUSE RENTS (SQM / month)	€4.40 - €5.60
OLD WAREHOUSE RENTS (SQM / month)	€2.00 - €4.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.20 - €1.50

LESS SPECULATIVE PROJECTS, WITH GREATER FOCUS ON MULTIFUNCTIONAL SCHEMES

SUPPLY

After moderate expansion of the warehousing property sector in the Vilnius region in 2021, development was more rapid in 2022. Seven new projects with a total warehousing area of 74,000 sqm were completed in Vilnius and its surroundings during 2022 – 76% more than in 2021. These new projects increased the total leasable area of modern warehousing premises by over 10% to 791,400 sqm.

At the end of 2022, 78% of the modern warehouse supply was located within city limits. Most of the new warehouses are located 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 make up 59% of the current supply. Those with areas from 5,000 to 10,000 sqm account for 24% of the supply, and the remaining 17% are warehouses of less than 5,000 sqm.

Unlike the other Baltic countries, Lithuania’s warehousing sector is concentrated in three cities (including their surroundings), rather than in just one city or region. At the end of 2022, the distribution between these cities and their environs, was as follows: Vilnius (48%), Kaunas (32%) and Klaipeda (20%).

In 2022, the first sizeable multifunctional object (stock-offices) opened in Vilnius. Here, businesses had the opportunity to ensure all their operational functions were in one place: storage, exposition of goods and a modern workplace for employees. Although the first larger projects of this type in Vilnius were

planned a decade ago, the sudden interest of real estate developers and the implementation of such projects have only been in evidence in recent years.

Such projects are particularly attractive to small and medium-sized businesses, for whom storage of products is particularly relevant. Since owners of traditional warehouses prefer to rent larger premises, smaller tenants have to look for alternatives. New objects which are clearly split by function open up opportunities for businesses wishing to work in a modern environment. It is, therefore, not surprising that investors are attracted to this niche and actively planning further investments not only in Vilnius but also in other cities. It is important that such projects are able to adapt to the specific needs of companies, so that they can combine units of smaller area to form a larger space. Due to their functionality, such spaces are most attractive to companies engaged in the wholesale or even retail trade, ultimately creating a shared retail opportunity in one place.

In terms of the development of traditional warehousing projects, the leading supplier is the commercial property developer Sirin Development, who continue to focus on the development of large speculative projects. This company focuses not only on quantity, but also on quality. In 2022, it certified all 8 of its warehouses in Lithuania and 3 in Latvia under the BREEAM standard.

An estimated five projects with a total warehousing area of over 90,000 sqm are planned for completion in Vilnius and its surroundings during 2023. This includes not only the typical warehouses, but also stock-office projects where a major part of the space is planned for production storage. The Vilnius market is set to witness the completion of the largest logistics center in the region in 2023. Lidl, the German supermarket chain, is investing over €100 million to develop an almost 64,000 sqm logistics center in the Paneriai district in the western part of the city (next to Lentvaris). The logistics center is expected to officially open at the beginning of 2024. Additionally, another supermarket chain, Maxima, received a building permit for construction of a large logistics center in the same location to meet its own needs.

DEMAND

During 2022, transport-related activities, warehousing and storage services, once again reached record highs. According to Statistics Lithuania, 2022 saw revenues in this sector amount to €7.4 billion. After the significant increase in 2021, 2022 represented another notable increase of 20.7%. Taking into account that the economy rebounded during record inflation from 2021 to 2022 following the shock generated by the pandemic, this increase was to be expected. The revenues of warehousing and storage companies increased by 54.8% in 2022, totalling €279 million.

The overall vacancy rate dropped during the year when the fresh annual supply was almost fully occupied. By the end of 2022, the vacancy rate of modern warehousing in the Vilnius region had dropped to 1%.

This record high occupancy rate confirms that interest in

modern warehousing space has remained very strong during recent years. The rapid growth of e-commerce, brings with it the demand for efficient and rapid delivery of goods to end users, which may well lead to the more active development of compact, multifunctional projects located closer to consumers (stock-office projects). According to Statistics Lithuania, during the period 2015–2021, retail sales via mail order houses or the internet grew, on average, 34% annually. In 2022, an increase of 6% was recorded. This means that since 2019 sales via mail order houses or the internet have more than doubled.

It would seem that a reliable need for modern warehouse space could lead to even more active development, however, increased construction costs remains the biggest challenge for developers. A moderate increase in rents cannot fully offset rising development costs. Nevertheless, the development of the warehousing sector in the Vilnius region in recent years has been relatively well-balanced, since businesses looking for modern premises to rent have a variety of options. They can look for vacant premises on the open market, access build-to-suit projects, or develop such projects for themselves.

The biggest threat to the warehousing premises sector in 2023, remains the slowing economic growth. This could lead to lower consumption of goods, causing businesses to plan any expansion carefully, and warehouse developers, in turn, to focus on the development of projects for which they already have pre-lease agreements.

RENTS

Last year, rents for new warehouses on average increased by 6%, while older premises increased by 5%. By the end of 2022, rents for a standard, modern warehouse closer to the central part of the city, ranged from €4.80 to €5.60 per sqm, depending on size. Close to, or outside the city limits, rents ranged from €4.40 to €5.00 per sqm. Renovated premises were being offered from €2.80 to €4.00 per sqm. Average and lower quality premises were being offered from €2.00 to €3.00 per sqm. Additional costs for tenants averaged from €1.20 to €1.50 per sqm

With record high inflation and soaring construction costs, developers of new warehouses are being forced to raise rents, otherwise, the implementation of new projects would not be financially justified. An opportunity to increase rents also arises when there is sufficient demand from the business side. Meanwhile, tenants looking for new and modern storage facilities, do not have a greater choice, since the occupancy of storage facilities in the Vilnius region is at a record high.

In 2023, rent increases may be slightly suppressed by much more moderate company development plans, since the prevailing uncertainty in the market (due to high geopolitical tension and the resulting consequences), does not encourage businesses to undertake unmeasured expansion.

INVESTMENT

Despite the reduced investment flow into the commercial

property market in 2022, the overall amount of investment in Lithuania remained solid. A downturn was expected given the sudden change in the geopolitical situation due to the war in Ukraine. According to Ober-Haus data, for core property (modern office, retail and industrial objects worth over €1.5 million), investment totalled €400 million, 12% less compared to 2021. The total volume of investments in 2022 was the same as the annual average for the period 2017–2021. In 2022, 54% of all investments were made in the capital, the same share as in 2021.

Investment distribution by property type in Lithuania, shows that for two successive years the retail property sector has continued to be the most attractive to investors. The share of investments in the retail property sector increased to 58% of total investments in 2022 (compared to 39% in 2021). This satisfactory increase was assisted by the sale of a large portfolio of supermarkets in a number of Lithuanian cities. The office sector took a 29% share of the investments, with the industrial sector occupying the lowest share at 13%.

In 2022, the origin of investors changed very clearly – local capital completely dominated, with a record share of 82%. This shows that a significant number of potential investors (from Northern and Western Europe in particular), perceive much more risk in our region than before the war in Ukraine, and have probably postponed their decisions on larger investments.

Despite global geopolitical and economic challenges, investment yields for commercial properties remained stable throughout 2022. Of course, the rapid rise in interest rates, fuelled market participants' expectations of rising yields. Indeed, the latest transactions concluded in the second half of 2022 showed that buyers were still paying record high prices for the properties. At the end of 2022, yields in Vilnius ranged from 5.0% to 6.0% for higher class offices and retail properties, and 6.5–7.5% for secondary properties. Yields for warehousing premises ranged from 6.5% to 8.0%.

It can be expected that slowing economic growth, further increases in interest rates and still cautious investors could raise commercial property yields by 25–50 bps in 2023.

LEGAL NOTES BY SORAINEN

Over the past few years, lease agreements of industrial real estate have become 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.

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

RECENT DEVELOPMENTS



MYKOLO LIETUVIO STREET – In Q1 2022, the local development management company Bolds Property Partners finished construction of a stock-office project in the northern part of Vilnius next to the intersection of the major transport arteries Ukmerges Street and the new Western Bypass, on Mykolo Lietuvio Street. The total area of the building is 4,300 sqm, which suits retail, warehousing and office space. One of the biggest tenants is a leading service company providing equipment rentals for construction and many other industries Ramirent Baltic, which leased a 1,500 sqm space.



VILNIUS BUSINESS PARK – In 2018, the real estate development company Darnu Group completed development of the first stage of a modern business park in the northern part of Vilnius next to two main transport arteries, the intersection of Ukmerges Street and the new Western Bypass. In Q2 2022, next to the first stage, the company finished construction of a multifunctional stock-office complex with warehouse, retail and office space. At over 23,000 sqm, the complex was separated into 42 blocks (450–700 sqm in size) and major part of the units were sold. Asking rents for multifunctional block are €8.00–€10.00 per sqm.



DELAMODE – After completion of build-to-suit warehouse for the logistics company Delamode Baltics in 2020, Baltic Sea Properties, a Norwegian real estate company, has completed an expansion for this client in the second half of 2022. The additional warehouse with a total area of 4,800 sqm and 28 ramps is close to Vilnius city, next to the Vilnius–Kaunas highway.

RECENT DEVELOPMENTS



VILPRA – After finishing the first stage of the logistic centre at the end of 2021, engineering company Vilpra has completed the second stage in mid-2022. The logistics centre is located in the northern part of the city, next to the Old Ukmerges Road, and the total area reached almost 14,000 sqm.



DHL – In 2022, the fund management company Eika Asset Management finished the construction of a build-to-suit parcel terminal in the territory of Vilnius Airport for logistics company DHL Lietuva. A 4,800 sqm terminal was opened at the end of 2022 with a total investment of €12 million.



J55 – Commercial property developer Sirin Development is developing a 100,000 sqm in a commercial project (with a focus on logistics) on a 18.5 ha territory in the western part of the city, on Jocioniu Street. The first building with a total area of 19,500 sqm was completed in Q1 2022 and the second building with a total area of 15,800 sqm was completed at the end of 2022. Total investments have reached almost €24 million. The first stage was occupied by supermarket chain Iki, online furniture seller Baldai1, chain of veterinary pharmacies VET1, shipping supply and decorative packaging retail company PaperSeal, Tobidan-Bremsomat, Spectrum Logistika, Marcopol Baltija, Baltic Production Service.



VILNIUS BUSINESS PARK



NEW PROJECTS



E-MARKET CITY – In 2022, a local investment company started the development of the project, which will be focused on the wholesale and ecommerce activity. The project is located in industrial zone close to Vilnius Airport, next to Eisiskiu Road. The total area of the project will reach 20,000 sqm, which suits warehousing, retail and office space. Project will be developed in stages till 2027. The first stage with 6,400 sqm should be completed in Q3 2023. The majority of the space has already been leased to various companies: Assa Abloy, Dextera, YE International, Skuba, Sildymas plius, Pharma Nord, Gararant ProTech, Modeliukai.lt and others. The complex is separated into different sized multifunctional blocks with the rents of €8.50-€9.20 per sqm.



VAKARINE STREET – In Q3 2022, the local real estate development company Homa Group started the construction of a stock-office project located in the northern part of Vilnius. The project is situated near the intersection of two major transport arteries, Pavilnioniu Street and the new Western Bypass, on Vakarine Street. The building has a total area of almost 6,200 sqm, suitable for retail, warehousing, and office space. The project is scheduled to be completed in Q2 2023. The building is divided into 12 blocks, ranging in size from 300 to 420 sqm, with asking rents ranging from €10.00 to €12.00 per sqm.



LIDL – The German supermarket chain, is investing over €100 million to develop an almost 64,000 sqm logistics center in the Paneriai district in the western part of the city. The logistics center will be completed in Q4 2023 and is expected to officially open at the beginning of 2024. It will be the largest logistics center in Vilnius region.



VILNIUS BUSINESS PARK (GARIUNU STREET) – Darnu Group, a real estate development company, is developing a multifunctional stock-office project located on Gariunu Street in the western part of the city. The building with total area of 8,200 sqm, will be divided into 28 blocks of varying sizes (ranging from 190 to 370 sqm), all of which will be available for both rent and sale. Asking rents range from €9.00 to €12.00 per sqm. Construction is expected to be completed by Q1 2024, with a total investment of €13 million.



J55 – After the completion of the first stage, commercial property developer Sirin Development is developing the second stage on a 18.5 ha territory in the western part of the city, on Jocioniu Street. The second warehouse with a total area of 31,000 sqm should be completed in mid-2023. Asking warehouse rents starts from €5.50 per sqm.



LIEPKALNIS INDUSTRIAL PARK V – Sirin Development, a commercial property developer, has completed four stages of development in an industrial park located on Liepkalnio Street in the southern part of Vilnius between 2017 and 2021. The company is now planning to develop a fifth stage, which will include a warehouse of over 21,000 sqm. The completion date for this stage is estimated to be in 2024. Currently, Liepkalnis Industrial Park is one of the largest industrial parks in Lithuania, with a total area of almost 90,000 sqm.



URBAN HUB VILNIUS – In Q2 2022, real estate development and management company, SBA Urban, acquired a 4.3 ha territory close to the northern part of Vilnius, in the Vilnius district next to the Ukmerges Highway. Company will invest €30 million into the development of a 22,000 sqm stock-office project and construction should begin in the first half of 2023. The building is separated into 39 multifunctional blocks with the rents of €9.00-€14.00 per sqm. Project should be completed in 2024.

The same year, saw an increase not only in the sales prices of residential property, but also simultaneously an increase in the prices of consumer goods and services. According to Statistics Lithuania, the annual inflation rate calculated in December 2022 based on government data was at 20%, while apartment prices increased by 19.1%. Following adjustments for inflation, apartment prices in the major cities fell by 0.5% in 2022. But in general residential property in the major cities largely retained its value despite record inflation rates.

According to the Ober-Haus Lithuanian Apartment Price Index, apartment prices in Vilnius increased by 22.0% in 2022, reaching an all-time. The average price at the end of 2022 rose to €2,546 per sqm, with prices for newly constructed apartments increasing by 25.3% and for older apartments, by 19.0%. Despite the extremely significant decline in the activity of the primary apartment market at the beginning of 2022, the low level of unsold apartments on the market maintained the rapid price growth trend in this segment throughout the year.

Prices for new build apartments in residential districts at the end of 2022 ranged from €1,800 to €3,100 per sqm, excluding final fit-out. In Lithuania, new apartments are still generally sold as shells, i. e., without any fit-out at all. Apartments sold in a shell state on average require an additional spend of €500–€700 per sqm for flooring, painting, lighting, and bathroom and kitchen installation (economy and middle range).

By the end of 2022, a standard two-room apartment (45–50 sqm) in a soviet-era apartment block located in a residential district, cost from €85,000 to €105,000. Prices for apartments in period brick buildings were 10–20% higher. The lowest price for unrenovated period apartments in a typical Vilnius residential district was €1,400–€1,500 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €2,100 to €3,700 per sqm for unrenovated and from €2,700 to €6,500 per sqm for renovated ones. New build apartments are offered for €3,600–€7,000 per sqm without final fit-out. Prices for the best apartments in new, exceptional projects and without final fit-out, can reach €8,000–€10,000 per sqm.

In prestigious districts (Antakalnis, Snipiskes, Naujamiestis, and Zvėrynas), old construction apartment prices range from €1,800 to €5,200 per sqm. Prices for newly built apartments range from €2,900 to €5,800 per sqm, without final fit-out. In exceptional projects, the prices for new apartments can achieve €6,000–€7,000 per sqm.

House prices in Vilnius and its environs also showed a significant increase in 2022. This was particularly true of newly built houses, where prices increased by an additional 15–20%. Rising construction costs and high demand for smaller to medium-sized houses have led to a rapid price increase in the number of such properties.

In the detached housing sector (100–200 sqm with land plots

of 500–1,000 sqm), located in new housing areas with full infrastructure in the Vilnius district or near city limits (typically 10–20 km from the city centre), houses are sold as shells at prices ranging from €150,000 to €240,000. Prices for semi-detached houses (100–125 sqm with land plots of 250–400 sqm) range from €140,000 to €185,000. Full final fit-out typically costs €400–€550 per sqm or even more.

The price for a fully finished 100–200 sqm detached house within the city limits (city residential districts), ranges between €200,000 and €450,000, and from €350,000 to €900,000 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. Prices for houses with a large area and in the most prestigious locations of the city can be as high as €1,500,000–€2,500,000.

The significantly reduced market activity continues to limit the opportunities for sellers to increase property prices and those who want to sell their homes quickly have to accommodate the growing pressure from buyers to lower their prices. However, there are not many sellers currently in the market who are under pressure to sell their properties as soon as possible. As a result, only small fluctuations in sales prices had been recorded by the end of 2022 and the beginning of 2023. Those who wish to sell their homes faster must seek a compromise with potential buyers, and in most cases, reduce the price. But time is not on the vendors' side, as potential home buyers are concerned about still rising interest rates, which not only increases the cost of servicing the existing mortgages, but also reduces the affordability of the home they plan to purchase.

When Russia invaded Ukraine in 2022, provoking the ongoing war, geopolitical tensions increased to record heights, creating a negative impact on the prospects for global economic development. The drawn-out military and economic confrontation between various countries, directly affects the real estate market of Lithuania, so the period of stagnation may be protracted during 2023. Potential home buyers are quite sensitive to significant changes in the financial market and the country's economy, and it is likely that in 2023 they will continue to be extremely cautious when making decisions about the purchase of residential property. If the market activity does not recover and remains at the level of the second half of 2022, it might be expected that apartment prices will decrease up to 5% on average this year. If the market activity somehow recovers in the course of the year, a slight increase in apartment prices can be expected.

SUPPLY

According to Ober-Haus data, developers built 4,165 apartments for sale (in 51 different projects), in Vilnius in 2022, which is 1% more than the number of apartments constructed the previous year. At the start of 2022, it was projected that developers would complete 4,800 apartments, but ultimately, the final result was smaller. This is not surprising, as construction often takes longer than planned, especially for larger projects or development

**GARDINO 22**

phases. There are also cases where construction is halted due to legal disputes or project adjustments. Over the last five years, construction volumes in Vilnius have remained broadly stable, with between 4,100 and 4,400 apartments actually being built for purchase each year. The only exceptional year was 2020, when developers built 5,359 apartments.

Throughout 2022, developers built new multi-apartment buildings in 17 out of the 21 districts of Vilnius city. Most of the investment was attracted by three districts, accounting for 46% of all apartments: Verkiiai (15.8%), Lazdynai (15.4%) and Snipiskes (15.3%). The Snipiskes district can be singled out as the fastest growing district in Vilnius. Since 2016, it has been ranked in the top four of the city's districts in terms of the volume of apartment construction, and over the last 7 years almost 4,000 apartments have been built for purchase in this area. In 2022, the districts that usually have high construction volumes (Pilaite and Naujamiestis), did not record as many construction projects. The high construction volume in the central part of Naujamiestis district over the last decade has largely exhausted its development potential (due to the lack of suitable sites for conversion and undeveloped plots), and developers have now shifted their investment to the southern part of this area. Meanwhile, the planned redevelopment of the Vilnius railway station area will provide an additional impetus to the revival of the southern part of Naujamiestis and the Old Town district.

Despite the fact that the requirement to comply with the A++ energy class for new buildings when applying for a building permit came into force on 1 January 2021, very few of these projects have been built. The data collected by Ober-Haus show that of the apartments built for sale in Vilnius during 2022, A+ energy class apartments accounted for the largest share at 77.8% (in 2021 the share of A+ energy class was 55.1%). A class were at 12.4% (in 2021 – 33.2%), while the relative share of A++ energy class, even declined to 4.4% (in 2021 – 6.2%). The remaining

share of apartments (5.4%) was in energy class B or lower (5.5% in 2021). Evidently, developers were reluctant to voluntarily invest in the construction of the highest energy class apartment blocks and had been trying to prepare projects and obtain permits for them before the A++ energy class requirements came into force. For the period 2019–2022, only somewhere between two and four apartment projects in Vilnius were issued with the highest energy class certificates each year. In 2023, the number of highest energy efficiency class apartment buildings should increase significantly, with the A++ energy class only starting to dominate from 2024-2025.

Over the last ten years, the average size of flats for sale in apartment buildings in the capital, has remained stable and around 51-54 sqm. According to Ober-Haus data, in 2022, the average floor area of an apartment in a multi-apartment building built in Vilnius, was 52.0 sqm. Analysing the projects that are currently under construction, or those in the planning stage, it is evident that the average floor area of apartments in the new build market will not increase in the near future. In fact, more spacious apartments are only being designed in higher class projects, which are usually built in the central part of the city or in prestigious areas.

Based on the current multi-apartment projects and their progress, Ober-Haus forecasts that about 5,200 apartments, or 25% more than in 2022, will be built in Vilnius during 2023. The projects that will be completed in 2023, were initiated between 2021 and 2022, when the housing market was experiencing its fastest growth period of the last decade. If the projects currently under construction are completed on time, the annual supply in the country's capital will be among the highest in history.

Despite the intensive development of the individual house segment in Lithuania, in 2022, the activity of developers in the Vilnius region was noticeably lower than in previous years.

According to Ober-Haus data, around 330 detached and semi-detached houses being sold, were built by developers (in projects with more than six units) in and around Vilnius in 2022, which is 57% less compared to 2021. The development of housing estates is mainly carried out by lesser-known and smaller investors, while larger developers focus on the development of apartment buildings. It is likely that for smaller and financially weaker developers, the year 2022 brought many challenges – rising interest rates, record high construction costs, energy class requirements and reduced market activity. As a result, they slowed down the development of these housing estates, or ongoing construction projects took longer than planned.

In terms of the total area of houses, the average size of private houses for sale in 2022 remained almost unchanged at 100 sqm (102 sqm in 2021). In the 2016–2020 period, the average total area of houses built for sale in the Vilnius region was 106 sqm.

DEMAND

The demand for residential property, during 2022 was totally different in the Lithuanian market when compared to 2021. After the start of the war in Ukraine at the beginning of 2022, the mood of the market participants changed dramatically and the record activity of 2021 was replaced by a decline in the entire housing market, returning the country's housing market to the activity levels of 2019. A particularly significant decrease in market activity was recorded in the primary apartment market.

In 2022, Vilnius saw a 17% decrease in apartment sales and a 25% decrease in house sales. On average, 970 apartments and over 90 houses were sold each month in the capital. The total number of housing transactions (apartments and houses) across Lithuania decreased by 14%.

A much larger reduction in sales was recorded in Vilnius' primary apartment market (new build) in 2022. According to Ober-Haus data, 2,460 apartments in newly completed residential buildings or those under construction were purchased directly from developers (incl. presales). This is 65% less than in 2021 when record activity in the primary market was recorded. The primary apartment market in Vilnius in 2022 returned to 2013/2014 activity levels. In 2022, a rapid downturn in activity was recorded in the primary apartment market not only in Vilnius, but also in other big cities. The prevailing uncertainty in the market creates various risks and the potential buyer has become much more concerned with the construction deadlines of ongoing projects, financing options at the time of purchase, and their personal financial situation. Therefore, in 2022, buyers were more interested in housing available in the secondary market, which is already built, equipped and ready for immediate use.

The reduced number of purchases in the primary market during the year has increased the number of unsold apartments in completed projects at the end of 2022. According to Ober-Haus data, this figure was at a historical low during Q2 2021 – Q3 2022, with 250-350 unsold apartments and by the end of 2022 the figure had increased to 590. Due to the observed weak

demand, that also continued at the start of 2023, the total number of unsold apartments is projected to increase during 2023. However, the overall rate of increase and the total number of unsold apartments should not be unduly high or alarming.

Looking specifically at the newest projects, almost 87% of all apartments built in 2022 were sold or reserved by the end of the year. The figure is slightly lower than that recorded in 2021, when it was at a record high of 95%. In Vilnius, at the close of 2022, almost 60% of the apartments due to be completed in 2023, were already sold or reserved.

The Lithuanian housing market results for the second half of 2022 and the beginning of 2023 show that the market still lacks optimism. Considering the general direction of the housing market, it is highly likely that the overall activity will remain sluggish and relatively low throughout the year across the housing sectors. Potential home buyers are faced with various challenges simultaneously, which does not encourage them to make hasty decisions regarding the purchase of a home, but rather to wait until the general economic, and real estate market situation becomes clearer. Despite the projected decrease in the inflation rate, it will remain relatively high in 2023, which means that people's purchasing power will struggle to grow faster. At the same time, the increase in interest rates that began in 2022 will continue in 2023, continuing to increase the cost of housing loan services. And, of course, the general mood of real estate market participants, that has deteriorated in the current environment of the housing market with its negative indicators, may remain quite gloomy.

Optimism will only return to the market when a more stable situation develops and a more secure scenario appears. For example, when interbank interest rates no longer increase, and economic growth returns, market activity will start to increase and so on – then buyers will feel more confident. It is likely that the country's housing market in 2023 will try to recover from the recession experienced in 2022, but due to the various threats that remain, it is difficult to predict a faster market recovery scenario.

THE MORTGAGE MARKET

Despite reduced residential market activity, mortgage loan volumes increased and nationally, reached new heights in 2022. According to data from the Bank of Lithuania, new mortgage loans worth €2.16 billion were provided in 2022 and increased by almost 9% compared to 2021. In 2022, new mortgage loans averaging €180 million were provided each month, which is 38% more than during the period 2019–2021.

The total national mortgage loan portfolio has excelled. According to data from the Bank of Lithuania, at the end of 2022 the total value of outstanding housing loans stood at €11.5 billion, a historic high. As nominal Lithuanian GDP increased by 19.5% and the value of total outstanding housing loans increased by 12.7%, the debt to GDP ratio decreased by 1.1 percentage point to 17.1%. This rate is one of the lowest in the EU (EU-27 average in 2021 – 45.0%).

In July 2022, the European Central Bank raised interest rates for first time in 11 years. With an increased EURIBOR rate, the annual average interest rate for new mortgage loans in Lithuania doubled in the second half of 2022. According to data from the Bank of Lithuania, the average annual interest rate on new mortgage loans was 2.81% (previously 2.15% in 2021). In June 2022, the average mortgage annual interest rate was 2.18% and during the second half of 2022 it jumped to 4.42%. As the European Central Bank increased interest rates further during the year, the average mortgage annual interest rate has continued to increase further in 2023.

Since the average annual growth in apartment prices in Vilnius (23.8%), in 2022 was faster than the average annual growth of wages (12.5%), the affordability of apartments decreased for the second consecutive year. In 2022 an inhabitant of Vilnius could purchase 6.6 sqm in a medium-class apartment for their average (net) annual salary (a 0.6 sqm decrease compared to 2021). The income to price ratio in 2022 returned to the 2018 level.

RENTS

In 2022, the entire country's residential rental market was characterised by huge fluctuations. As a result of the war started by Russia, people and companies fleeing from Ukraine, Belarus and Russia, created additional tension in the Lithuanian real estate market and significantly destabilised this sector. Due to the sudden increase in the number of people looking to rent property, the number of offers for rental apartments in Vilnius decreased by 65% during March and April. During Q2 and Q3 of 2022, the rents of apartments in Vilnius jumped by 30%.

From the middle of 2022, the opposite trend was already observable – the number of rental offers on the market began to grow, while rents slightly decreased by the end of the year. However, despite the number of apartment rental offers returning to previous levels, rents did not react as strongly and the overall annual increase in rental prices was a record. In 2022, apartment rents increased by 26.7%, after rising 9.5% in 2021.

A rapidly growing, professionally managed rental market sector in Vilnius, was timely in 2022. Investors kept investing in housing projects for the long-term rent via renovations of old buildings or new multi-apartment building projects. It is important to note that not only co-living projects with small-size units, but also standard-size apartments in typical apartment buildings were being built. In 2022, three projects (Youston, Shed and Lumi Namai), were completed and opened in Vilnius, offering 580 apartments for long-term rent. Indeed, during the year, the number of similar dwellings in professionally managed projects in Vilnius, increased by 80% to almost 1,300 units in total.

Since home buyers are much more cautious about purchasing a home, renting a home remains an affordable housing alternative. Therefore, the outlook for the housing rental sector in 2023 remains positive, especially considering that Vilnius continues to be a rapidly growing city (in 2022 its population increased by around 5%). Ober-Haus expects that overall, residential rents in

Vilnius will increase slightly in 2023.

Rent for a typical two-room, old construction apartment in Vilnius residential districts was €360 to €520 per month at the end of 2022. Rents for new build apartments of the same size, are from €500 to €680 per month. Maintenance costs are additional.

Rents for fully equipped two-room apartments (old or new) in the city centre and surrounding areas (inc. prestigious districts), range from €450 to €950 per month, and for three-room apartments from €620 to €1,600. Rents for larger and well-equipped apartments in the Old Town can cost €1,800-€3,000 per month, excluding maintenance costs.

Fully equipped houses sized 100–200 sqm on the outskirts of Vilnius are usually offered for rent at €900–€2,000 per month. Rents in prestigious districts like Valakampiai, Antakalnis, and Zverynas, and the city centre or Old Town, are higher, and range from €1,500 to €4,000 per month. For bigger houses in the best locations, rent could be as high as €5,000–€6,000 per month. Maintenance costs are additional.

Since sale prices increased slightly less when compared to the rents for apartments in 2022, the overall gross rental yield increased by ten basis points. In 2022, the average gross rental yield in Vilnius for two-room apartments was 4.9%.

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 is possible only by court order). However, rent may be agreed freely.

Institutional investors who offer residential property on lease are still rare, however, most of the largest Baltic real estate funds and developers have added residential property to rent to their list of investments. The same can be said about co-living projects, which have recently become more visible on the residential real estate market. Projects of this kind consist of complexes of small residential premises (apartments) and, together with various other additional services (e.g., sports clubs, workspaces), are offered to the tenant for a fixed rent.

SKYLUM



RECENT DEVELOPMENTS



GO LIFE – At the end of 2022, local real estate development company Realco completed a project in the Ozo Park territory, on V. Gerulaicio Street. The project offered around 280 apartments with sizes ranging from 28 to 89 sqm. By the end of 2022, about 85% of the apartments had been sold. Asking prices of the available apartments with final fit-out range from €3,300 to €4,000 per sqm.



VILNELES SKVERAI – In 2022, real estate developer Merko completed the first buildings in residential project in Markuciai district, on Manufakturu Street. Eight 5- and 6-storey buildings comprise over 300 apartments ranging in size from 28 to 100 sqm. By the end of 2022, almost all of the apartments were sold. Currently, the company is developing the further stages of the project and in total plans to build around 1,000 apartments.



NAUJASIS SKANSENAS – In Q4 2022, real estate development company YIT Lietuva completed three residential buildings in Snipiskes district, on Satrijos Street. The 6-storey buildings offered about 200 apartments and commercial premises on the ground floor. By the end of 2022, about 75% of the apartments had been sold. Asking prices of the available apartments without fit-out range from €3,300 to €4,200 per sqm. YIT Lietuva is planning to finish another two buildings in this project in 2023, with around 120 more apartments.



VAKARU LENAS – In the first half of 2022, the real estate development company Bonava completed its first investment in Vilnius by finishing the construction of a residential project in Pasilaiciai district, on Giruliu Street. The project consists of 140 apartments ranging in size from 33 to 72 sqm. All apartments were sold by Q2 2022.



DIDLAIKIO 3 – At the end of 2022, the real estate development company Lithome completed the construction of a residential project in Baltupiai district, on Didlaukio Street. The 5-storey building has 57 apartments ranging in size from 30 to 78 sqm. By the end of 2022, over 95% of the apartments had been sold.



MELYNI VILKAI – At the end of 2022, real estate developer Eika completed the first stage of a residential project in Vilkipedes district, on Skroblu Street. This stage consists of two buildings with over 120 apartments ranging in size from 26 to 77 sqm. By the end of 2022, almost all of the apartments were sold. Prices of the available apartments range around €3,800 to €4,200 per sqm. Eika is planning to finish the second stage of this project in 2023 with around 140 more apartments.



VYTENIO 4 – In Q3 2022, real estate developer Homa completed construction of a residential project in Naujamiestis district, on Vytenio Street. The 5-storey building offered almost 50 apartments and commercial premises. Apartments of 2-4 rooms range in size from 38 to 127 sqm. By the end of 2022, over 95% of the apartments had been sold.



PAJUSTIS – At the end of 2022, local real estate development company Citus completed two A+ class energy efficiency residential buildings in Justiniskes district, on Mozuriskiu Street. The 3-storey buildings has 40 apartments ranging in size from 32 to 65 sqm. By the end of 2022, all of the apartments had been sold. The company is planning to finish another three apartment buildings with around 60 more apartments and almost 60 row houses in this project at the start of 2023.



NAUJOSIOS SANTARISKES – In 2022, local developer A plius linija continued the development of residential project in the northern part of the city next to Moletu Road, on Daujoto and Dangerucio Streets. After completion of eleven buildings with 165 apartments in 2021, the company completed another four buildings with 60 apartments. The A++ class energy-efficient 4-storey buildings offered 2-3 rooms apartments range in size from 57 to 74 sqm. Further development of this project will continue in 2023 and later.

RECENT DEVELOPMENTS



GALLERY 4A – At the end of 2022, real estate developer Releven completed the construction of an upper-class residential project in the Old Town, on J. Basanavicius Street. The project consists of only 11 apartments ranging in size from 60 to 250 sqm. By the end of 2022, over 80% of the apartments had been sold. Asking prices of the best apartments exceed €6,000 per sqm.

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GALLERY 4A

NEW PROJECTS



VILNIUS DZIAZAS – In the first half of 2023, the local real estate development company Unique Properties will start the construction of a residential project in Senamiestis district, on K. Vanagelio Street. The two A++ class energy efficiency 3-4 storey buildings with over 60 apartments are planned for completion in 2025. Apartments range in size from 20 to 110 sqm, and top-floor apartments will have terraces and the first-floor owners will have yards. The prices of apartments without fit-out are from €4,500 per sqm.



GARDINO 22 – At the beginning of 2023, a local real estate developer has started the construction of a residential project in Rasu district, on Gardino Street. The 3-storey building comprises 15 apartments ranging in size from 70 to 150 sqm. The top-floor apartments will have terraces and the first-floor owners will have yards. The prices of the available apartments start from €3,800 per sqm.



ALGIRO 3 – In Q1 2022, local real estate development company Realco started construction of a residential project in Naujamiestis district, on Algirdo Street. The 5-storey building offers almost 100 apartments and commercial premises. Apartments of 2-4 rooms range in size from 50 to 130 sqm. The project should be completed by the end of 2023.



SKYLUM – In Q3 2021, real estate development company Omberg began the construction of a high-rise residential project in Virsuliskes district, on Virsilu Street. The project consists of two buildings and will comprise more than 400 apartments. The first 20-storey building with over 200 apartments will be completed in Q2 2023 and completion of another building is scheduled for the end of 2023. As of the end of 2022, almost 60% apartments in both buildings had been sold. The prices of the available apartments start from €2,600 per sqm.



HAIVO – At the end of 2022, real estate developer Baltic Asset Management started the development of a residential project in Naujamiestis district, on Smolensko Street. The A+ class energy efficiency project consists of two residential blocks with almost 100 apartments. Apartments of 1-4 rooms range in size from 22 to 86 sqm. The end of the construction is expected in the first half of 2024. By the end of 2022, over 60% of the apartments had been sold. The prices of the available apartments start from €3,100 per sqm.



VILEISIO 27 – At the end of 2022, local real estate development company Realco started the construction of a residential project in Antakalnis district, on P. Vileisio Street. The 5-storey building comprises more than 60 apartments ranging in size from 33 to 90 sqm. The residential project will be completed in the first half of 2024. Asking prices of the available apartments without fit-out range from €3,300 per sqm.



KERNAVES AVENIU – In 2021 and 2022, developer Infra Group started the development of a second and third stage of residential project in Snipiskes district, on Kernaves Street. The A++ class energy efficiency residential project with over 90 apartments consists of two residential blocks. Apartments of 1-4 rooms range in size from 29 to 79 sqm. The second stage will be completed in Q2 2023 and completion of the third stage is scheduled for the mid-2024. By the end of 2022, over 80% of apartments in the second stage and around 40% of apartments in the third stage were booked or sold. Asking prices of the available apartments without fit-out range from €3,500 per sqm.

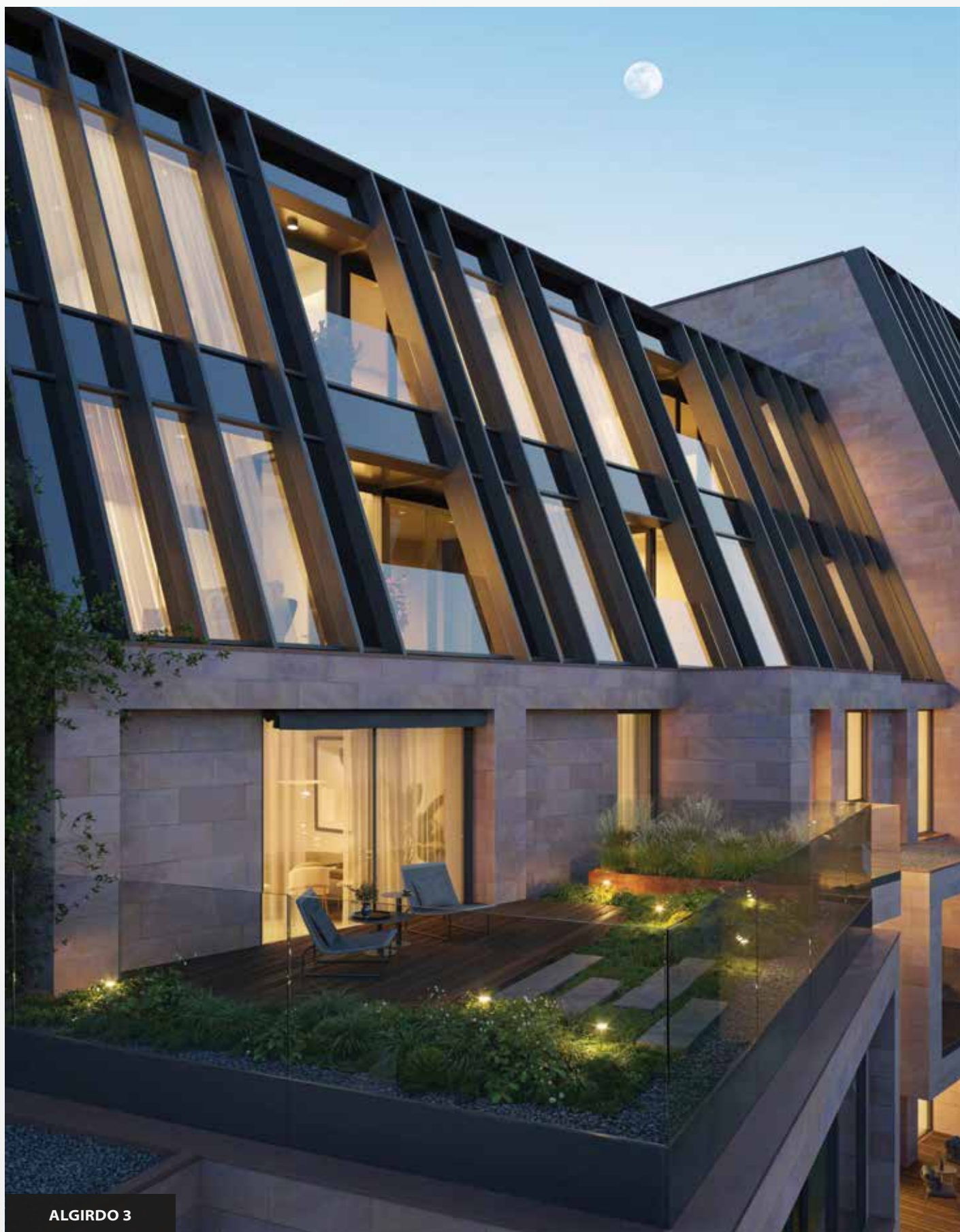


SNIPISKIU SOLO – At the beginning of 2023, real estate development company Hanner started the construction of a residential project in Snipiskes district, on Vepriu Street. The 5-storey building offers almost 100 apartments and commercial premises on the ground floor. Apartments of 1-3 rooms range in size from 27 to 55 sqm. The prices of apartments without fit-out are from €4,000 per sqm. The end of the construction is expected in 2024.



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NEW PROJECTS



LUCKY HOMES 2 – In the second half of 2022, real estate development company Savo investicija started the construction of its second residential project in Zirmunai district, on Kalvariju Street. Two 5-storey and 7-storey buildings with almost 70 apartments will be completed at the end of 2023. The project offers 1-3 room apartments ranging from 25 to 75 sqm.



LEICIU KIEMAS – The local real estate development company Anreka is continuing the development economy-class residential project in Pasilaiciai district, on Leiciu Street. Another two 9-storey buildings contains around 240 apartments and planned for completion in 2023. Apartments of 1-3 rooms range in size from 39 to 86 sqm. The prices of the available apartments without fit-out start from €1,900 per sqm.



LAKE TOWN – In Q2 2022, developer Bonava started the development of a residential project in Pasilaiciai district, on Duisburgo Street. Two 7-storey buildings of the first stage contains over 100 apartments ranging in size from 29 to 72 sqm. The end of the construction is expected at the start of 2024. By the end of 2022, around 45% of apartments were booked or sold. The prices of the available apartments with final fit-out start from €2,600 per sqm.



VYSNIOS – In Q3 2022, real estate development company Omberg started the construction of a residential project in Pilaites district, on Karaliaucius Street. Apartments of 1-3 rooms range in size from 25 to 65 sqm. The first stage, with around 180 apartments, will be completed in the second half of 2023. At the end of 2022, over 75% apartments had been sold. Asking prices of the available apartments without fit-out start at €2,500 per sqm. Omberg is planning to start the second stage of this project in 2023 with another 180 apartments.



JOMANTO PARKAS – In 2021, the investment and development company Galio Group started the development of a residential project in Baltupiai district next to Jomanto Park, on Didlaukio Street. The project consists of five buildings and will comprise almost 240 apartments. Apartments of 1-4 rooms range in size from 26 to 87 sqm. The end of the construction is expected in the first half of 2023. As of the end of 2022, over 80% of units had been sold. The prices of the available apartments without fit-out range from €2,800 to €3,800 per sqm.



METU LAIKAI – In the second half of 2022, local development and construction company Eika started construction of a residential project in Verkiai district, on Visoriu Street. The first stage consists of three residential buildings, which will be completed in the second half of 2023. The project with almost 120 apartments offers 1-4 room apartments ranging from 26 to 91 sqm. The prices of apartments without fit-out are from €2,600 per sqm.



VISI SAVI – At the beginning of 2022, local real estate development company Citus started construction of a residential project in Verkiai district, on Visoriu Street. The project consists of three 5-storey residential buildings, which will be completed in the first half of 2023. The project with almost 130 apartments offers 1-4 room apartments ranging from 26 to 102 sqm. As of the end of 2022, almost 65% of units had been sold. Asking prices of the available apartments without fit-out start at €2,500 per sqm.



KERU KERAI - In Q2 2022, real estate development company Inreal started construction of a residential project in Naujininkai district, on Bartu Street. The low-rise multi-apartment project consists of 16 buildings and will comprise about 230 apartments. The first stage, Pauksciu Takas, with 46 apartments, should be completed at the start of 2024. Apartments range in size from 37 to 74 sqm, and top-floor apartments will have terraces and the first-floor owners will have yards. Asking prices of the available apartments without fit-out start at €2,700 per sqm.



REVINGIS – At the end of 2021, the investment and development company Galio Group started the development of its large-scale residential project next to the Vingis Park and the Neris River, on Gelezinio Vilko Street. The company has planned separate stages of development, comprising 14 residential buildings with almost 600 apartments and a business centre. The first stage, River Space, with almost 150 apartments, will be completed in Q1 2024. The second stage, Park Space, with over 150 more apartments was started at the end of 2022. The prices of the available apartments without fit-out start from €3,500 per sqm.



on the outskirts of Vilnius city continued during the year. The price of land plots in the most popular and desirable locations in areas surrounding Vilnius increased by 5% in 2022. Land parcels suitable for the construction of individual houses are offered both privately and by developers who prepare entire packages of land parcels for sale (communications are installed, access roads are built and any other infrastructure is included). At the end of 2022, the price of plots for private homes with partial or full infrastructure was €30–€40 per sqm in the cheaper suburbs, and as high as €50–€95 per sqm in Visoriai, Riese, Bajorai, Kalnenai, or Gulbinai.

In Lithuania prices for agricultural land depending on location, land productivity and size, are €1,500–€2,500 per hectare for poor quality and smaller-sized land plots in less desirable locations, and €6,000–€8,000 per hectare for highest productivity, mid and large-sized plots.

The Law of the Republic of Lithuania on Infrastructure Development that came into effect at the beginning of 2021 defines four infrastructure tax rates for newly planned buildings in Vilnius: €50 per sqm for buildings built in non-priority zones, €30 per sqm for buildings built in priority zones, €18 per sqm for conversion projects, and €15 per sqm for single-family homes. The municipality will use the funds generated solely for the development of infrastructure. This legislation is particularly relevant for developers who plan to build new buildings in non-priority zones where infrastructure is not fully developed. In such zones, the tax burden on developers may represent a significant part of the development costs (e.g. warehousing buildings in the suburbs).

In 2021 Vilnius city municipality collected around €6.6 million in infrastructure tax and in 2022 it reached €9.8 million. The taxes collected will go to the Vilnius Infrastructure Support Programme and will be used to build pavements, bicycle paths, public transport infrastructure, streets, and the necessary social infrastructure (e.g. a nursery or school) and will replace, in certain cases, the priority municipal infrastructure developed at the developer's expense.

DEMAND

According to data from the Central Registry, the total number of land transactions in Lithuania dropped by almost 17% in 2022, returning to the 2020 level. The same downturn trend was registered in the Vilnius region in 2022. Total land transactions decreased by 14% in Vilnius City and decreased by 29% in the Vilnius district.

Despite the overall reduction in activity in the land market, the number of acquisitions of smaller plots of land for the construction of private houses was notable in 2022. The main reason, is the continued expansion of the single-family home sector across the country. In 2022, record volumes of house construction were recorded nationally and specifically in the Vilnius region. Notably, buyers not only buy such plots to build houses on, but also as a medium or long-term investment. Buyer activity may also have

been driven by the need for more spacious or secluded housing during the post-pandemic period.

Unlike in 2021, the activity of large investors in purchasing land plots for the development of real estate projects in Vilnius was noticeably lower. This was especially visible in the second half of 2022. For example, during 2021, the ten biggest developers in Vilnius, between them, purchased land plots totalling over 50 hectares, and these were mainly allocated for the development of residential projects. In 2022, there were more than two times fewer acquisitions of such land plots. In particular, the biggest decrease of interest was for land plots where real estate development would be more complicated. For example, land plots with cultural heritage buildings, or where time consuming procedures for re-purposing a plot are required, and so on. Understandably, larger and longer-term investments become less attractive in the face of rapid interest rate growth.

At the start of 2022, real estate developer, Realco, acquired a 2.4 ha plot on Parodu Street, in the Lazdynai district, close to the exhibition and congress centre, Litexpo. The developer plans to develop a residential project with around 700 apartments.

Also at the start of 2022, Realco acquired a 0.43 ha plot on P. Vileisio Street, in the Antakalnis district. By the end of 2022, the developer had begun construction of a residential project with over 60 apartments

In Q1 2022, real estate developer, Merko, acquired a 0.84 ha plot with disused buildings on Daugeliskio Street, in the Snipiskes district. The company plans to develop a residential project with around 220 apartments.

In Q2 2022, Merko then acquired disused buildings on a 1.95 ha plot on Zalgirio Street, in the Snipiskes district. The company plans to develop a residential project with around 340 apartments.

In the first half of 2022, investment management company Eika Asset Management acquired a 0.78 ha plot on Pilkalnio Street, in the Pilaite district, and another 0.55 ha plot on Kaminkelio Street, in the Naujininkai district. The real estate developer, Eika will develop residential projects on both sites.

In Q2 2022, real estate development and management company, SBA Urban, acquired a 4.3 ha territory close to the northern part of Vilnius, in the Vilnius district next to the Ukmerges Highway. They plan to develop a 22,000 sqm stock-office project and construction should begin in the first half of 2023.

In mid-2022, Realco acquired disused buildings on a 2.1 ha territory on Justiniskiu Street in the Pasilaiciai district. The company plans to develop a 40,000 sqm residential project with around 500 apartments.

In mid-2022, investment company Equite Real Estate acquired warehouses on a 0.9 ha plot also on Justiniskiu Street, in the Pasilaiciai district. They plan to lease back the warehouses to the

object vendor and later, will likely develop a residential project on this plot.

In mid-2022, real estate development company the Darnu Group acquired a 3.7 ha territory next the northern Vilnius city border, adjacent to the Ukmerges Highway. The company plans to develop a stock-office project.

In Q4 2022, the company managed by investment management company, Lords LB Asset Management, acquired a 0.75 ha plot with disused buildings, on Tunelio Street, in the Burkiskes district. The development plans are as yet, undisclosed.

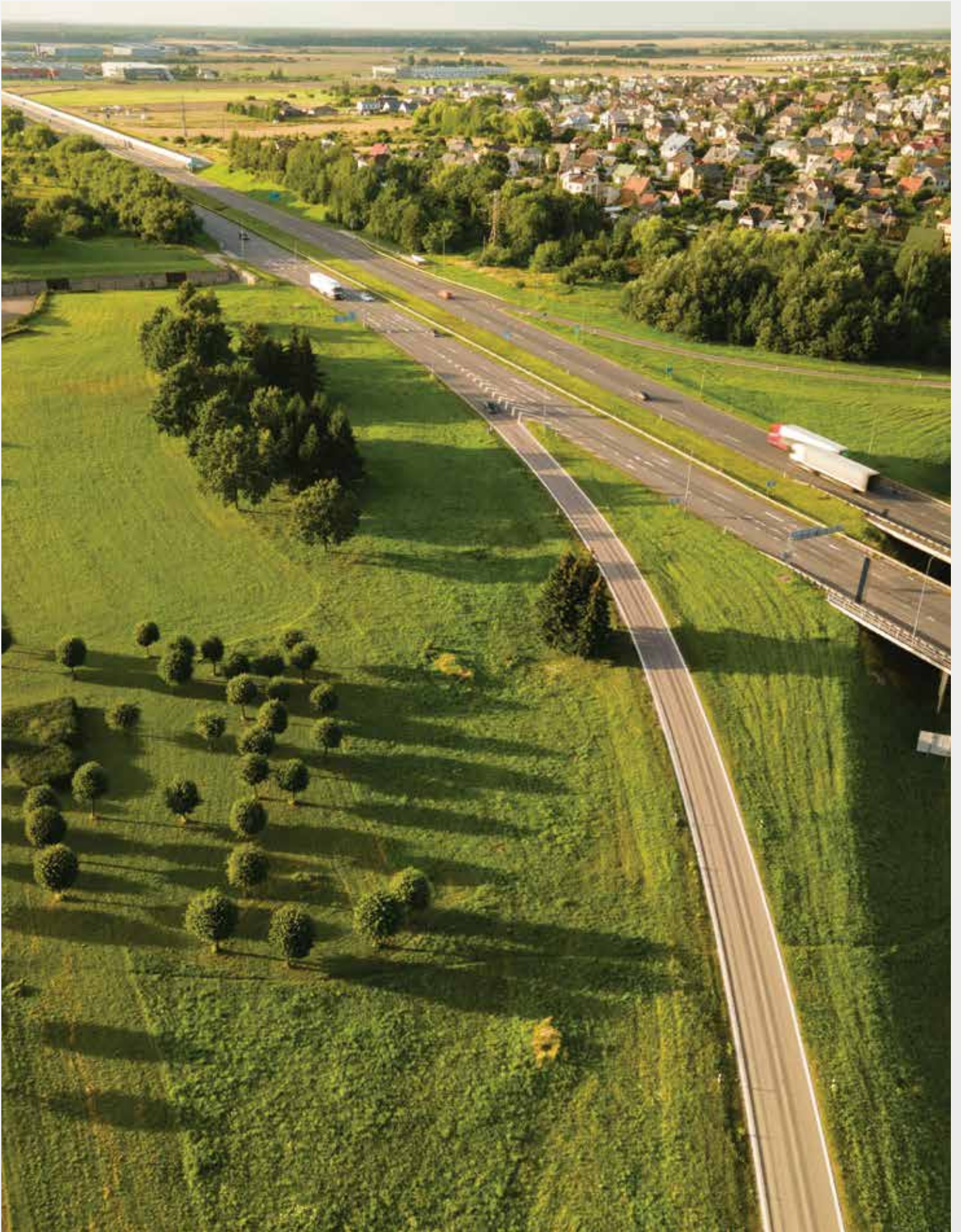
LEGAL NOTES BY **SORAINEN**

Long-term leasing of state-owned land under privately held buildings is very common in cities and towns.

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 0.37% on the value of real estate. However, the fees shall not be less than EUR 33 or exceed EUR 5,000 (plus VAT) for one transaction;
- State duties imposed upon the registration of a transfer of real estate are not material (up to EUR 17.19).

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 0.33-0.41% on the value of transaction (the fee shall not be less than EUR 17 or exceed EUR 5,000 (plus VAT)), when:

- $\geq 25\%$ of limited liability company's shares are sold;
- The sale price of shares 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 4.15). 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 the rent of real estate located in Lithuania is subject to 15% PIT on gross income for the income amounts (not including employment related income) not exceeding EUR 202,188 per calendar year of 2023, and 20% PIT rate is applied on the part exceeding this threshold. Upon certain conditions (i.e. rental of residential premises), individuals can opt to pay a fixed amount of tax on rent of real estate once a year, if such property is rented to individuals and not to legal entities. In such case individuals should obtain a business certificate for rent of residential premises. However, if the amount of income received from rental of residential premises exceeds EUR 45,000 per calendar year, the excess is taxed as property rental income, without obtaining a business certificate, at a 15% PIT rate.

SALE

Disposal of real estate in Lithuania can be affected 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 generally 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 straightforward. Separate tax aspects applicable to a direct disposal of real estate are described below.

VALUE ADDED TAX (VAT):

According to the general rule, sale of new buildings (in use for less than 24 months after their completion), unfinished buildings, building land or land with new buildings is subject to VAT at the standard rate of 21%. Sale of buildings after 24 months since they are completed or re-constructed 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 undertakings is 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 recalculation of WHT on the capital gains only (instead of on total sales proceeds).

PERSONAL INCOME TAX (PIT):

For local and foreign individuals, income from the sale of real estate located in Lithuania is subject to 15% PIT on gross income for the income amounts (not including employment related income) not exceeding EUR 202,188 per calendar year of 2023, and 20% PIT rate is applied on the part exceeding this threshold. Taxable income from the sale of real estate is calculated by deducting the purchase price of the real estate sold and any mandatory payments related to the sale of that real estate from the amount of income received from the sale of that real estate.

EXIT TAX

Starting from 2020 a new exit taxation rule is established in Lithuania. When the assets of a unit (local legal entity, branch or a permanent establishment of a foreign entity), used for the unit's activities in the Republic of Lithuania, are transferred (in other form than sale) to a foreign country and are started to be used for the activities carried out in the foreign country, exit taxes can apply. Such transfer can be considered as an asset sale at market price. The unit at the time of transfer of the asset recognizes the increase in the value of the asset, which consists of the difference between the fair market price of the transferred asset at the time of the transfer and the acquisition price of the asset. The increase in the value of the asset is subject to 15% CIT. These provisions do not apply to the transfer of assets for a period of less than 12 months, when the assets are transferred to finance securities or as collateral (advance), or to meet capital requirements for risk mitigation, or for liquidity management purposes.

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.5% to 3% depending on municipalities. In Vilnius, the RET rates established for 2023 are:

- 1% - standard RET rate;
- 0.7% - for cultural, leisure, catering, sport, educational or hotel buildings (with some exceptions);
- 3% - for real estate that is actually used and the construction of which is not completed; for real estate the owners or users of which do not comply with the obligations when supervising the structure as provisioned under the Law on Construction; for real estate which does not comply with the essential requirements provided for in the design of the structure; for real estate on which advertising is installed without complying with the Law on Advertising and when the ruling in the case of an administrative offence has become final for non-fulfillment of prohibitions and requirements.

- In addition, the increase of the rate by 1% may apply in specific cases (by increasing the rate of 1% or 0.7%), e.g. when the requirements set out in the Rules on Noise prevention in Public Places are not complied with.

Residential and other personal premises owned by individuals are exempt from tax where the total value of EUR 150,000 is not exceeded, whereas the excess value is subject to progressive taxation:

- 0.5% RET rate is applied on taxable value exceeding EUR 150,000 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.

Residential and other personal premises held by families which meet certain criteria are exempt from tax where the total value of EUR 200,000 is not exceeded, while the excess value is subject to progressive taxation:

- 0.5% RET rate is applied on taxable value exceeding EUR 200,000 but not exceeding EUR 390,000;
- 1% RET rate is applied on taxable value exceeding EUR 390,000 but not exceeding EUR 650,000;
- 2% RET rate is applied on taxable value exceeding EUR 650,000.

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 or using the replacement value (costs) method (performed 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 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 2022 are:

- 0.12% - standard tax rate for individuals and companies;
- 0.24% - increased tax rate for the use of land for commercial facilities (certain conditions apply) and for the land plots that do not ensure sustainable pedestrian mobility in their environment;
- 4% - increased tax rate for the land that is not used. As well,

for the land on which advertising is provided in breach of prohibitions and requirements established by the Law on Advertising and when the ruling in the case of an administrative offense has become final for non-fulfillment of these prohibitions and requirements.

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. In Vilnius, the land lease tax varies from 0.4% to 4%. Municipalities have an opportunity to apply tax incentives.



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 body – 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 to acquire 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, ie the unique number of the real estate, area, purpose of use, address, description of the land plot where the property is located (in the case of transfer of a building).

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

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 the shares are transferred or the price of the share transfer exceeds EUR 14,500 (not applicable to shares in a public limited liability company). This requirement is mandatory except for a private limited company where shareholders' personal securities accounts are transferred to a professional firm entitled to manage personal accounts for financial instruments (eg a financial brokerage firm).

Currently, investors circumvent the notarial form requirement by

switching to a double-tier or single-tier accounting of shares:

- single-tier: accounting of shares is transferred to an independent manager (eg licensed credit institution or financial brokerage firm);
- double-tier: in addition to a single-tier transfer of accounting for shares, the shares in the company are also registered with the Lithuanian Central Securities Depository and an ISIN number is issued.

Costs for switching to single- or double-tier accounting of shares are not yet fixed by law but are slightly lower than notary fees. The notarial fee for certifying a share sale-purchase agreement amounts to 0.33-0.41% of the transaction value and is capped at EUR 5,000.

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, eg: target company history, employees, unnecessary assets, subsidiary operations, related party transactions, transferability of loan facilities, deferred tax liability, 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 for 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 increases the transaction costs.

For transfer of certain real estate the parties may be required to meet particular procedures, eg for sale of buildings situated on land owned by a third party, consent from the landowner must be obtained; prior to sale of certain real estate – such as objects of cultural heritage or 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 re-characterisation of risk, ie an REI transaction structured as an asset deal may be re-characterised 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 should be carefully considered, including both taxation of the transfer itself and potential obligation to adjust historic VAT liabilities.

SALE-LEASEBACK

Sale-leaseback is more common in the industrial and logistics sector.

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 the 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 (or without) project financing commitments. The developer usually acts as developer until completion of the project or may act as project developer under a development contract while title to the target property under construction goes directly to the investor.

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

JOINT VENTURE

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

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

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 can propose PPP projects for implementation, which are mandatory for public institutions to discuss. The

regulation is established to encourage long-term cooperation between state and municipal authorities on the one hand and private investors on the other, 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 the shares are 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 on 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 can involve checks on e.g. ownership titles, the target and engineering infrastructure servicing the target, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for the 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, the Register of Contracts or the 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 0.37% of the real estate transaction value, capped at EUR 5,000 for transactions that involve one real estate object and at EUR 12,000 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. State duty for registration or deregistration of title to each real estate object amounts to EUR 17.19 (increased fees apply for accelerated registration).

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 0.33-0.41% of the transaction value and is capped at 5,000 EUR. For transactions that involve transfer of shares of two or more companies, the notarial fee (when applicable) is capped at EUR 12,000.

MERGER CONTROL

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

Irrespective of whether it is a share or an asset deal, an anticipated concentration must be notified to the Lithuanian Competition Council, whose consent to a concentration is required where the combined total income of the undertakings concerned (received from the Lithuanian market) is over EUR 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.

The notification of the concentration must be submitted to the Lithuanian Competition Council before the implementation of the concentration (acquisition). The concentration may not be implemented until it has been cleared by the Lithuanian Competition Council.

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, inland 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, eg rent.

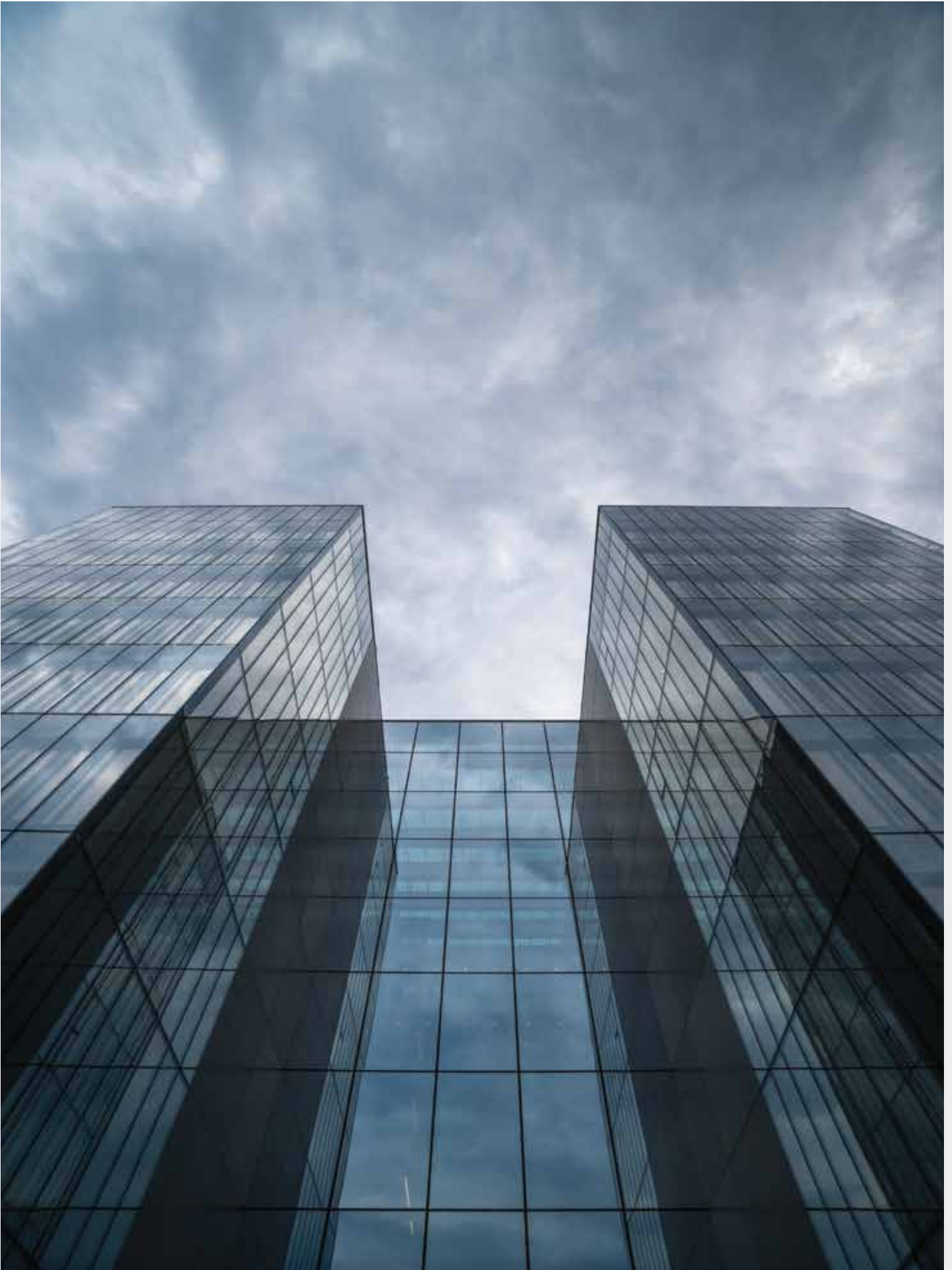
Real estate may be encumbered with servitudes (easements), pre-emption rights, lease rights registered with the Real Estate Register, mortgages, and other encumbrances that should be taken into consideration when using or constructing real estate. Residential property may be considered to be family assets,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

One of the key changes which will come into force in 2024 is that transfer of ownership in multi-apartment buildings, as well as residential premises in buildings for other uses, will only be allowed after the construction of the buildings is fully completed. This means that it will be forbidden to execute transactions or transfer the ownership of premises in unfinished buildings. The practice of selling premises in unfinished buildings has been well established and widely used in the real estate market hitherto, and such changes give rise to certain challenges for real estate market participants, including potential increases in development costs.

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.

It should be mentioned that the Law on Special Conditions on Land Use establishes that the execution of economic and/or



other activities, or the use of the site without the establishment of special land use conditions specified by law, may result in administrative fines. If special land use conditions are required for the performed activities, the relevant persons are obliged to establish the required special land use conditions and register them in the Real Estate Register by 31 December 2022. Carrying out activities without establishing and registering the required special land use condition is to be prohibited from January 2025.

As of 1 January 2023, residents who have settled in an unregistered sanitary protection zone, or businesses that have been carrying out commercial, social, and other activities there, will continue to have the possibility to do so – they will not be subject to the requirements of the sanitary protection zone.

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, and may terminate a lease agreement following a change in the owner of the real estate. However, if the parties agree, the tenant can waive such rights while signing the lease agreement.

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES AND SERVICE CHARGE)

Rent payments for a lease of commercial premises require

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, gas and 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 the expenses incurred by the owner for maintaining the leased premises. A guarantee, deposit or other similar security ensuring the payment of rent and costs may also be required.

REAL ESTATE FUNDS

It is possible to establish real estate collective investment undertakings (both closed-ended and open-ended) 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 Register of Contracts and Property Seizure Acts. Mortgage registration with the Register of Contracts and Property Seizure Acts is an administrative process (rather than a judicial one, as used to be the case) which is usually done by a notary. As a result of the amendments, the requirement to execute the mortgage in a standard form has been removed.

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, ie its property (pool of assets), the composition of which may change in the normal course of business of the mortgaged entity.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

According to the territorial planning regulations, the right to build in non-urbanised areas can be exercised if construction complies with special laws (e.g. laws related to national defence) and the master plan. As a result, construction on a land plot may only be carried out according to the solutions of a master plan.

However, under current legislation, the preparation of a detailed plan is mandatory when development of a territory is planned

within urbanised areas or within areas that are being urbanised. This may occur in cases where the existing and/or designed engineering and/or social infrastructure of the municipality is insufficient and needs to be planned. Considering the aforementioned, it is likely that a detailed plan would have to be prepared in most cases, i.e. in case of the absence of a detailed plan, construction would not be permitted to be carried out under the master plan.

Other key planning provisions are as follows:

- A district (quarter) is the smallest area for planning.
- State and municipal institutions organise the territorial planning documents.
- Legal acts provide a simplified procedure for establishing special conditions of land use and for changing both the purpose of land use and land plot boundaries.
- For detailed plans some corrections are available during preparation of technical design (if applicable).
- Environmental impact assessment and public health impact assessment are carried out prior to technical design.
- An information system (TPDRIS) is used in Lithuania for preparation of territorial planning documents in Lithuania and for state supervision of the territorial planning process.
- A territorial planning document enters into force from registration with the register of territorial planning documents.

CONSTRUCTION

According to the existing regulations, erecting, modifying and demolishing buildings and other structures (depending on the complexity of the intended works) require either documents authorising construction activities or design approval (if obligatory). From 1 May 2023, it will no longer be possible to apply to the State Territorial Planning and Construction Inspectorate under the Ministry of the Environment for a construction permit if a developer of the project disagrees with the municipal administration's refusal to issue a building permit after the approval of the project by all the persons who have examined the project.

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.

The key provisions of the Construction Law are as follows:

- Special requirements for building design (i.e. special architectural, heritage or protected area requirements) do not need to be obtained (they are issued only at the request

of the client). However, if the municipal administration, when inspecting a building design, identifies possible violations of the essential architectural requirements of the building (e.g. the building does not blend in with the landscape, the architectural solutions do not correspond to the purpose of the building, the architectural solutions do not form a harmonious, coherent overall whole), the municipality may ask the regional council of architecture to assess the design and issue a statement as to whether it complies with these requirements or not.

- Conditions for connection and special requirements for building design remain valid for five years if a construction permit has not been obtained.
- Mandatory 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 are required.
- The contractor is required to provide security for 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. 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 obligation for the main construction participants (designers, contractors, technical supervisors) to participate in the completion of construction. A certificate of energy efficiency should be obtained for a building 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 the 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 250 m²). A certificate of class A+ energy efficiency is required for newly constructed buildings where the construction permit was obtained after 1 January 2018. Under current legislation, buildings shall meet the energy efficiency requirements for class A++.

The contractor, the architect and the technical supervisor of construction are liable for collapse of the object or defects. Warranty periods (5, 10 and 20 years) are calculated from the date of transfer to the developer (customer) of all construction work 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 area legal requirements. However, a fee applies and is payable in cases of legalisation, depending on the scope of illegal construction.

Moreover, developers intending to carry out construction or reconstruction are required (i) to pay the infrastructure development fee (calculated as EUR X per 1 sq.m) or (ii) to contribute to the development of the planned public infrastructure, i.e. to install infrastructure (roads, networks etc.). The infrastructure development fee must be paid when applying for a construction permit.

INSOLVENCY

If a company is unable to cover its liabilities in a timely manner and the liabilities of the company exceed the value of its assets, then bankruptcy or restructuring proceedings may ensue.

RESTRUCTURING

Restructuring proceedings may be carried out if (i) a company may realistically be able to overcome its temporary financial problems; (ii) when a company is carrying out activities that will enable it to fulfil its obligations in the future; (iii) a company is not being liquidated due to bankruptcy. Company restructuring may not exceed five (4+1) years in duration. 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. The initiation of restructuring proceedings requires no approval by creditors, who become involved 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. Insolvency administrators are selected at random, using a special e-system.





EXECUTIVE OFFICER IN LATVIA




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Ober-Haus has 6 offices in Latvia which are located in Rīga, Liepāja, Ventspils, Jelgava, Valmiera, Daugavpils and three representative branches in Ogre, Sigulda and Tukums. In all, over 45 real estate experts are working in the country. Major local and foreign companies, medium sized and smaller companies, investment funds and private investors trust the quality of the services that Ober-Haus has to offer.



LATVIA


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

2023 FORECAST

GDP annual growth, %	-0.3
GDP per capita, €	15,600
Average annual inflation, %	10.9
Unemployment rate, %	7.8
Average monthly net salary, €	1106
Average salary growth, %	9.2

POPULATION

	2017	2018	2019	2020	2021	2022
Latvia	1,950,000	1,934,000	1,920,000	1,907,700	1,893,200	1,865,100
Riga	641,500	638,000	632,000	627,500	614,600	605,800
Daugavpils	86,100	83,300	82,600	82,000	80,600	79,100
Liepaja	69,400	69,200	68,900	68,500	68,000	67,400

ECONOMICS

	2017	2018	2019	2020	2021	2022
GDP growth, %	4.6	4.8	2.3	-3.5	3.1	2.1
GDP per capita, €	13,900	15,300	14,900	14,400	14,700	15,400
Private consumption growth, %	3.1	4.3	3.7	3.3	—	—
Average annual inflation, %	2.9	2.5	2.8	2.4	3.2	17.3
Unemployment rate, %	8.7	7.4	6.2	8.2	7.8	6.9
Average monthly net salary, €	676	742	800	844	916	1013
Average salary growth, %	7.1	9.8	7.7	6.2	8.9	8.5
Retail sales growth, %	4.9	4.0	2.3	1.5	—	—
FDI stock per capita, €	7,400	7,300	8,300	—	—	—



ECONOMY IS PREPARING FOR A REBOUND IN 2024

Forecasts made at the end of 2022, that the economy would recover after the negative impact of the Covid-19 pandemic, did not materialise. Russia invaded Ukraine, causing immeasurable damage to the Ukrainian people, their cities and infrastructure, undermining all the core values of a democratic society.

The unpredictable course of the war, and the development of global prices related to it – in particular, the price of energy resources – turned out to be especially painful for Latvia and the Baltic States, and indeed, the entire European Union.

According to the forecasts from the Bank of Latvia at the end of 2022, the base scenario is a short-term and shallow recession in the Latvian economy.

The war has affected all macroeconomic forecasts, which are still being issued under conditions of high uncertainty. Its development and duration will directly affect economic development both in Latvia and across Europe.

Due to adjustments made using actual data, the Latvian gross domestic product (GDP) growth forecast for 2022, was reduced to 2.1% (Latvijas Banka's December 2021 forecast for growth in 2022 was 4.2%, for 2023 – 4.0%), but the overall view of economic processes has changed. It is expected that in 2023 the GDP will decrease by 0.3%. A recovery in economic growth, to the previously forecasted 4.4%, is now only expected in 2024, and in 2025, an increase of 3.5% is projected.

Accompanying the fall in GDP, a 5.6% decline in household consumption and purchasing power is expected, negatively affecting the level of well-being across the population. It is worth noting, that the government plans to reduce the financial stress on some households by providing timely, targeted and proportionate support during the crisis, while also focusing on structural changes to the energy sector.

For the retail sector, this year has been more successful than the previous, the year of Covid-19. According to the data from the Central Statistics Office, in the eleven months of 2022, compared with the same period last year, the turnover of retail companies increased by 22% (calendar adjusted data). This rapid increase was facilitated by the rise in prices (inflation), and the increase in the number of employees, an increase in their income and

their savings during the pandemic. In addition, the easing of pandemic restrictions increased the flow of people and the volume of purchases at retail outlets.

In the first half of 2023, a decrease in the volume of retail sales is predicted, which is mainly based on the rate of inflation, high energy prices and a decrease in the amount of savings among the general population.

In Q3 2022, the average monthly net salary was €1,013, and when compared with the corresponding quarter of the previous year, it has increased by 6.0%. However, taking into account the increase in consumer prices during the year, the real net wage actually decreased by 12.9%, indicating a fall in the purchasing power of salaried employees for the third quarter in a row.

The unemployment rate was 6.9% in November 2022 and is expected to rise to 7.8% in 2023, with a slight decline expected in 2024 to 7.5%, and in 2025 to 7.2%.

It is expected that the nominal gross salary will increase by 9.2% in 2023, and in 2024 by 8.9%.

The average inflation rate during 2022 is expected to be 17.3% (with a significant increase in the second half of the year, where already from July, the monthly inflation rate compared to the corresponding period of the previous year does not fall lower than 21%). Inflation is predicted to be 10.9% in 2023, 4.4% in 2024, and 3.0% in 2025.

In July 2022, in response to high inflation, the world's leading central banks, including the European Central Bank, raised interest rates for the first time in 11 years. The long-term objective was to ensure a timely return to the 2% medium-term inflation target. September saw the biggest increase in interest rates in the history of the ECB, raising the base interest rates of monetary policy.

It is expected that starting from March 2023, the ECB will also begin a gradual reduction in the portfolio of the asset purchase programme, with the Eurosystem no longer fully reinvesting the principal payments of maturing securities. By the end of Q2 2023, the reduction will amount to an average of €15 billion per month, and its future levels will be determined later.

DEMAND

The vacancy rate of modern office space in Riga (both A and B class), has decreased from 13.7% to 11.2% during 2022. This can be explained by a partial return to the 'in person' work environment after the pandemic. Entrepreneurs have remained more active in choosing more energy efficient office premises, as well as choosing areas suitable for the number of employees. At the end of 2022, the vacancy rate for B class office space was 10.1% while for A class, it was 14.6%.

RENTS

There were no major changes in the rental market in 2022. Landlords cannot allow notable rent increase as other accommodation fees and utility payments have grown significantly (heating, electricity and management prices). It is expected what rents will remain stable during 2023-2024 as a significant amount of new A and B class office premises become available on the market. Additionally, rents for lower class offices with poor energy efficiency could decrease somewhat.

At the end of 2022, rents for A class offices were €14.00-€17.50 per sqm and €8.00-€14.00 per sqm for B class. Several exclusive office buildings are asking top rents of €18.00-€20.00 per sqm with additional charges for utilities and services.

Additional total costs per month in A class buildings are €3.00-€4.50 per sqm and in B class, €2.50-€4.50 per sqm. Parking space rental costs €30-€60 per space, and up to €80 in the city centre underground parking, for tenants and non-tenants alike.

INVESTMENT

As the largest transaction of 2022, the purchase of the office building Place Eleven by East Capital Real Estate, marked a significant turning point in the company's strategy. It is a 16,000 sqm office complex located in the rapidly growing area in the centre of Riga and was purchased for €53 million. The building is quite densely populated, and it is one of the most energy efficient buildings in Riga, boasting a BREEAM excellence certificate.



NOVIRA PLAZA RIGA

LEGAL NOTES BY SORAINEN

Rents are paid in advance, usually monthly, sometimes quarterly, and are indexed to local or EU inflation. Due to the recent high level of inflation, lessors are less inclined to agree on indexation caps, or they are set at higher levels (8%-10% per annum) than before. In addition to rent, tenants usually pay a maintenance fee and cover their own utility costs, invoiced by the owner or supplier after consumption. Security deposits of two to three months' rent are generally required by the owner or lessor. Real estate tax and property insurance payments are made by the owner and are subsequently charged to and compensated by the tenants.

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. Change of ownership of leased real estate does not entitle the tenant to terminate a lease agreement. A lease agreement can be terminated at the discretion of the new owner of real estate if the lease agreement is not registered with the Land Register.

RECENT DEVELOPMENTS



VERDE – The construction of the first building of the office complex Verde was completed in August 2022, putting 15,000 sqm of office space into operation. It is the first stage of investment in the Latvian capital by Lithuanian company, Capitalica Asset Management. The total value of the project will reach more than €65 million. The new building was the only A class office project completed in Riga in 2022. By the end of 2022, almost 70% of this building had already been leased.



ELEMENTAL SKANSTE

NEW PROJECTS



VERDE – After the completion of their first stage, Capitalica Asset Management's second stage of the development, with another 15,000 sqm of office space, will be finished in 2023. Verde is designed in line with science-based office wellness studies, and includes, relaxing terraces, greenery, state-of-the-art air ventilation systems, intelligent lighting, wise layout design, a variety of amenities and other solutions, all scientifically proven to boost well-being and productivity.



PRESE NAMS – The real estate developer Lords LB Special Fund V has invested €77 million to begin the first construction stage of a modern business district located opposite Riga's historical centre. The new development, will house an A class office building with 26,000 sqm of office space, a multifunctional centre with shopping and food court areas, green terraces, and the first ever roof-top football pitch in the Baltics. The former Press House skyscraper will be renovated to become a four-star Holiday Inn hotel. The project will embrace the Metacity conceptual framework to create a friendly environment for the people who live and work there, and also those visiting the city. This new business district will become an educational, cultural, financial artery of future Riga, boasting sustainable and environmentally friendly solutions. The site was designed by the architectural firm Arhis Arhitekti, and this first stage of construction is set to finish in 2023.



NOVIRA PLAZA RIGA – Novira Plaza is an office building at the very heart of Riga on Marijas Street near the train station, and offers everything an urban dweller needs. The plan, is to build a 30,000 sqm, 7-storey building by Q3 2023, of which about 20,000 sqm will be offered to tenants for office space, and about 3,500 sqm of retail space will be available for lease on the first floor.



ELEMENTAL SKANSTE – The developer Kapitel is building a modern office complex in Skanste district, the first stage of construction of the Elemental Skanste complex includes two 10-storey office buildings – the North and South buildings – with an area of more than 20,000 sqm of rentable office space. The project has been awarded the BREEAM Excellent sustainability certificate for the building design process. In the stages that follow, it is planned to build three more office buildings with a total leasable area of approximately 20,900 sqm, and a multi-storey car park complex at its centre.



BARONA KVARTĀLS – A new B class office building, where Cesu and Brivibas Street meet will be finished in Q1 2023. This will be new office building in an already functioning office hub. A 7-storey office building with an A+ energy efficiency rating (the requirement for Nearly Zero Energy Buildings) will connect to a spacious and multi-efficient underground car park. The leasable area of the building will reach 5,000 sqm.



MIHAILA TĀLA 1 – A new A class office building at Mihaila Tāla Street will be the first of the office buildings completed in the New Hanseatic Territory. The architects and engineers of the Pillar Group have paid attention to ensure that the office building is not only modern, but also complies with the principles of a sustainable building reflecting the ecological standards of the BREEAM certificate. The main part of the building has six floors, and is planned to have 12 floors in the tower. The building with the total area of 16,700 sqm and 12,700 sqm of leasable area will be completed in 2022.



ZEISS OFFICES – This new A class office building will be built on the site of the former Karl Zeiss optics factory, renovating the historic building and adding new and modern architectural elements. The project combines the historical aura with this modern construction solution and the latest technology. One of the main advantages of the building is its strategic location at the corner of Mūkusalas Street (the Mūkusalas business centre) and Dēļu Street, overlooking the Daugava and the towers of the Old Town. In addition, a new multi-storey car park will be added to the business centre. The total commercial area of this building will be 5,600 sqm.



GUSTAVS – The real estate developer Galio Group will complete the construction of the first building of the new business centre Gustavs, the total area of which is 23,500 sqm, including a two level underground parking garage. It will be the first of three buildings located at Gustava Zemgala Street, and is the first Galio Group project to be implemented in Riga. One of the first official tenants is the SEB Group's service centre in Riga, and an agreement has been signed to lease 11,000 sqm on the transfer of the existing SEB office to the newly built business centre.

In 2022, Europe's leading retailer Lidl, continued to strengthen its position in the Latvian market and based on turnover, became one of the top three Latvian retailer chains together with Maxima and Rimi. During that year, Lidl opened three new stores in Riga, Jurmala and a second store in Liepāja. At the end of 2022, there were already 20 Lidl stores in Latvia, reaching a total store area of 44,211 sqm, with a total sales area of 28,385 sqm. The company also plans to open several new stores during 2023.

Rimi too expanded in 2022, opening the first store in Alūksne and the Rimi Mini concept store in the Origo shopping centre. They already have 136 stores across Latvia and plan to open more new stores in 2023.

Also, the network of local retail stores of the Association of Latvian Enterprises, Citro, continues to expand, having already 80 sales points throughout Latvia.

In the summer of 2022, the international retail store network, Spar, also began operating in Latvia, opening its first stores in Liepāja, Daugavpils, Cēsis and Saldus. Currently, more than 13,500 Spar stores are open in more than 48 countries worldwide.

After more than 4 years of reconstruction work, the historical pavilion of the Āgenskalns market has re-opened its doors to visitors, where around 70 different local farmers and homemakers trade. It was developed by the company SIA Kalnciema iela after it obtained the right to lease Āgenskalns market and the adjacent territory for 30 years at auction in 2018.

In November 2022, after renovation and modernisation, the new shopping centre Augusts opened its doors in Riga, at Andreja Saharova Street 30. The total area of the building is 29,800 sqm, while the leasable area is 10,300 sqm. The three main anchor tenants of the shopping centre are Pļavnieku tirgus, sports club Lemon Gym and clothing store, Sinsay. The project was implemented by the real estate company SIA River Properties.

DEMAND

Although 2022 mostly passed without any measures restricting the activity of shopping centres, the vacant spaces in shopping centres increased slightly compared to 2021 and reached 7.3%, which could also be partially related to the increase in the price of energy.

RENTS

The rental price for small commercial premises in Riga in 2022 was €10–€30 per sqm, in places with a large flow of people and in Old Riga, €15–€40 per sqm. For smaller premises in more exclusive places it was also higher. In shopping centres, rents were €23–€40 per sqm.

In the last few years, there has not been a significant increase in rents for retail space in shopping centres, especially during the Covid-19 crisis, when tenants sometimes did not even have

the opportunity to be open due to various restrictions. However, taking into account the rapid rise in energy prices and high inflation in 2022, during 2023, rent increases can most likely be expected.

INVESTMENT

In the spring of 2022, the real estate investment company Hili Properties purchased shares in the holding company that owns the Stirnu Street shopping centre in Riga. The total investment of the transaction was €20 million. The company's portfolio now includes seven shopping complexes of this type in Riga.

In the spring of 2022, the sale of the shopping centre Damme, in Imanta, was also concluded. It was purchased by the Baltic real estate investment holding company Summus Capital, this marked the third real estate purchase transaction that Summus Capital has undertaken in Latvia. Although the total amount of the transaction was not disclosed, it is known that financing from Citadele Bank to the amount of €22 million was tied to the transaction. In total, Summus Capital now owns fourteen real estate properties of this type in the Baltics.

In January 2022, the company, whose investments are managed by Green Formula Capital, had concluded the purchase transaction of the Imantas Tirgus building. The amount of the purchase transaction was un-disclosed. The total area of the Imantas Tirgus building is 100,000 sqm, a large part of which remains undeveloped.

SIA RSkorpions purchased the store-warehouse building of Orange Cash & Carry on Kārļas Ulmaņa Street at the beginning of 2022. Orange Cash & Carry is the own brand of SIA RSkorpions. The transaction took place with financing from the Regional Investment Bank, who granted a loan of €4.7 million to SIA RSkorpions for the purchase of the property.

Also at the beginning of 2022, the asset management company, Prosperus Real Estate Fund III, purchased a recently commissioned shopping centre in Riga, on Valdeķu Street. Financing from Luminor Bank in the amount of €7 million was attracted to the transaction. The main tenant of the centre is Lidl.

In the spring of 2022, the real estate company KS Holding sold the Kesko Senukai buildings in Daugavpils and Vilnius to a Finnish investment fund for €20 million.

In March 2022, SIA OK ipašumi purchased at auction, the Dauga shopping centre in Ogre, on Rīgas Street. The amount of the transaction was €11.1 million.

LEGAL NOTES BY **SORAINEN**

Typically, one anchor tenant or a few medium-size tenants lease each property. As a rule, in large-scale shopping centres, tenants are charged for use of common areas and management of the building, as well as common marketing activities. Rents are indexed to local or EU inflation. Due to the recent high level of inflation, lessors are less inclined to agree on indexation caps, or they are set at higher levels (8%–10% per annum) than before. The owner usually pays the taxes and insurance applicable to the property, which in many cases are re-charged to the tenants. Turnover rents are commonly used in Latvia. In most cases the tenant is responsible for finishing and equipping leased premises for use. During this fit-out stage, rent-free periods are often agreed.

Lease agreements for retail properties are of rather good quality, but usually prepared in favour of the owner. When entering into a retail lease agreement, attention must be paid to distribution of maintenance and fit-out obligations between the owner and the tenant, as these obligations may not be defined very clearly in lease agreements. There is no standard approach to the set-up and use of marketing funds. As with office lease agreements, retail lease agreements only survive change of ownership and are binding on the new owner if registered with the Land Register.



RECENT DEVELOPMENTS



AUGUSTS – Augusts shopping centre was opened in Riga at the end of 2022, on A. Saharova Street. The shopping centre has three anchor tenants – Pļavnieku market with an area of more than 2,300 sqm, the sports club Lemon Gym and clothing brand store Sinsay. The shopping centre will also house the pharmacy chain Apotehka, the specialty alcohol store Vynoteka and others. Real estate company SIA River Properties is the real estate company implementing and developing the project. The total area of the building reaches 20,800 sqm, while the leasable retail area is 10,300 sqm.

NEW PROJECTS



TRADE PARK / RĪGAS PIENS KOMBINĀTS – The real estate developer VPH Latvia continues the design work on the development of the former territory of Rīgas piens kombināts on Valmieras Street, in Riga. The total area is 4.7 ha. A new shopping park is planned to be developed there, with not only retail space, but also offices, a catering sector, a kindergarten, a sports and health centre and other services. The developers plan to complete the design by mid-2023, begin the construction and open the new complex in the second half of 2024.



VIA JURMALA DESIGNER OUTLET VILLAGE II – Work continues on the second phase of the Via Jurmala Designer Outlet Village, located in Pinki, near Riga. Completion is planned for 2023, reaching a total area of leasable premises of up to 21,000 sqm. More than 50 different tenants are already operating successfully in the first phase of the development.



ELVI SHOPPING AND LEISURE QUARTER – By investing €2.6 million, ELVI began the construction of a new shopping and leisure block in Mārupe in July 2022, and the plan is to open in 2023.



JUGLAS STREET – A local plan for the development of the Juglas Street area in Riga, has also been approved. The developer, VPH Latvia, plans a retail and service facility covering 1.7 ha. The object is already under construction and is planned to be completed by the end of 2023.

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JUGLAS STREET

DEMAND

Due to the war in Ukraine and various other influencing factors, the demand for warehousing premises from potential tenants has remained constant. The only thing that is noticeable is that some still want to wait until spring after the heating season, to better understand what they can or cannot afford. On the other hand, the amount of space available to rent, has decreased, since the demand is still higher than the supply. At the end of 2022, the vacancy rate was only 1.2%. This, in turn, has affected rent levels, with the highest rents reaching as much as €6.00 per sqm in the new and most modern projects.

As it was in 2021, in 2022, demand for industrial facilities has once again grown. The only noticeable change, is that tenants choose facilities more cautiously, perhaps slightly smaller ones due to the high utility bills, or renting facilities that have newer energy-saving equipment.

RENTS

In analysing the 2022 market, it can be concluded that the rental market in the warehousing sector has remained unchanged. The demand for vacant areas is relatively high. The only thing that has changed is the costs. As a result of the war, tenants are directly affected by the increases in utility costs, especially heating, and have been forced to re-evaluate how much rental space they really need.

By the end of 2022, the rent for new warehouses in Riga city and its surroundings, was €3.80–€5.60 per sqm, and rental prices for older warehouses, from poor quality to fully renovated, were €2.00–€4.00 per sqm. Additional costs for tenants were €0.80–€3.00 per sqm on average. Compared with 2020 figures, the cost of utilities doubled during 2022.

For the smaller and older warehouses, and for factories or service facilities up to 500 sqm, the average selling price was €350–€500 per sqm. Sales prices for hangars built in the 1980s-90s, starting at 500 sqm, were on average, €50–€250 per sqm.

INVESTMENT

The Capitalica Green Logistics Fund, managed by the SBA Group investment management company, Capitalica Asset Management, has purchased the 6,250 sqm logistics centre Mārupe Smart Park near the Riga International Airport. These are already the third investments made by the Capitalica Green Logistics Fund last year. As a result, the fund continues to expand its presence in the Baltic logistics market and plans to accumulate more than €100 million over the coming years.

By bringing together two companies, Balt Cargo Solutions and Beinits Ltd., with already existing buildings, the real estate fund manager SG Capital has set up a logistics centre named NORDO with a total rentable area of 90,000 sqm (warehousing space around 75,000 sqm and office space around 15,000 sqm). Currently it is the largest logistics project in Riga. All of the space has been leased.



LEGAL NOTES BY SORAINEN

Industrial leases are rather simple and for such leases finance and construction opportunities are readily available. Rents are indexed to local or EU inflation. Due to the recent high level of inflation, lessors are less inclined to agree on indexation caps, or they are set at higher rates (8%-10% per annum) than before. Usually, the parties conclude triple net lease agreements where the tenant pays all maintenance, insurance and real estate tax costs. Industrial projects are usually built for the specific needs of the owner or the intended end-user of the premises.

RECENT DEVELOPMENTS



STOCKOFISS U30 – This project was completed in 2022. The total area of the first phase of the business complex StokOfiss U30 is approximately 3,650 sqm. There are individual rental rooms over two floors, each measuring 323-487 sqm, and suitable for a warehouse, shops or offices. All premises are leased.



NP BUSINESS CENTRE – A stock-office type project, which was put into operation in December 2022. New storage rooms are designed to meet the needs of the tenant. Modern office spaces are on the second floor. The concept corresponds to the stock-office, but it is possible to lease an office separately, or a shop/small storage area. The total area of production and storage facilities is 6,600 sqm.



ULMAŅA PARKS II – The developer is Piche, and the object is located next to Airport Park. The total area of Ulmaņa Parks II is 21,000 sqm, of which, 19,000 sqm is warehouse space, while 2,000 sqm are set aside for offices. The latest technologies have been used in the construction process, in particular considering the comfort of employees. Warehouses are built as energy efficient as possible, paying special attention to floor load stability. It is the most energy efficient business centre in Riga. Already in March 2022, 70% of the premises were leased. The first stage of the project was handed over in August 2022. The second stage will be finished in 2023.



RUMBULA LOGISTICS PARK II – A modern, A class industrial park built using energy efficient construction materials and methods. The first stage of the park was completed in 2019, and the second stage with a total area of 32,000 sqm, was completed in Q2 2022.



NP BUSINESS CENTRE



NEW PROJECTS



JYSK – In December 2021, the ground-breaking for this project took place. To mark the event, a time capsule was placed in the foundations of what will be one of the most modern and energy efficient logistics centres in the Baltics. The warehouse will have a total leasable area of 42,000 sqm. The delivery of this logistics centre in Dreilini is planned for the beginning of 2023.



DISTRIBUTION CENTRE BY VGP – A distribution centre with an area of almost 30,000 sqm is located on the district border of Riga. The location is very accessible. The building consists of both office premises and warehouses. The warehouses are spacious with high ceilings and equipped with new, energy efficient heating solutions, making the premises even more attractive to tenants, at a time when it is very important to save on heating costs. The building is planned to be fully completed in March 2023.



LOGISTICS CENTRE ĶENĢARĀGS – This logistics centre will be located in a very convenient and accessible location near the Southern Bridge transport hub. The project is being created by the merger of two companies, SIA Ķengarags A and SIA Ķengarags B. It will be possible to adapt the premises to each tenant's needs. It is planned that the total area of the centre will be around 10,000 sqm. Most of the premises were already leased back in April 2022.



RUMBULA LOGISTICS PARK III – A modern, A class industrial park, built using energy efficient construction materials and methods. According to Sirin Development it has utilised the highest specifications, that include innovative engineering solutions to create optimal working conditions and save on utility costs. The first two stages of the park have been completed, offering A class warehouses and office premises. The third stage is under construction and planned to be completed in summer 2023. The area of the premises in the third stage will be 27,600 sqm.

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SUPPLY

The real estate market of 2022 was challenging for developers and buyers alike. Various events in the world affected the real estate market more and more severely. In the first weeks of the Russia-Ukraine war, real estate advertisement searches halved. But in the spring, customers returned with a new interest. As a result of the war, construction prices have become difficult to predict. Emphasis is placed on compact apartments with maximally functional and comfortable layouts. Buyers experienced another shock in the fall of 2022, when the Central European Bank raised interest rates, continuing to increase them every month.

The second half of 2022 shows that there is interest in new projects, despite rising prices and interest rates. Energy efficient housing is proving most attractive, because of the ever increasing prices of electricity and heating.

According to Ober-Haus data, 2,100 apartments were completed in Riga in 2022, which is a 6.4% increase compared to 2021 (1,973 apartments). And in 2023, Ober-Haus expects around 2,500-2,600 new apartments will be completed in the capital. This expected increase is also due to the delay in several projects, that could not be completed on time due to high prices and a lack of building materials. Naturally, it would be very positive if the projected volume did appear on the market, but experience over recent years suggests that projects are delayed by a year or more. It will be a good result if the volume built is at least at the level of previous years.

DEMAND

In comparing the number of apartment transactions in Riga in 2022 with 2021, it can be concluded that the sales volume has fallen by approximately 4%.

As a result of the war, construction prices have become difficult to predict. At the beginning of 2022, a stable sales volume was observed, and in the summer demand even increased. Quarter 3 2022 saw sales slowdown. This is due to the rapidly growing inflation, where the prices of construction materials increased, there was reduced availability of construction materials (due to the war conditions), and also, the increase in the interest rates by the European Central Bank. Many buyers could not afford to take out loans.

More and more series-type apartments appeared on the market, because owners wanted to sell old apartments and buy one from a new project. At the end of 2022, around 400 apartments were available in new projects, completed during 2022 or left over from older projects put into operation in previous years.

RENT

During 2022, the rental market noticeably changed. After rents increase during the year, the most noticeable changes were observed starting with the last quarter of 2022. The rental market shrank with the autumn and prices fell by 15%, compared to the

peak rental prices of the summer. The main reason for this was that the apartments, previously kept empty for various reasons, were now being increasingly offered for long-term rent, with the supply, exceeding demand. This was especially noticeable in serial and pre-war residential buildings, which can be explained by the fact that such properties had higher utility bills. Not only the prices decreased, but also the number of customers noticeably decreased by half, because students, who are a large part of the rental market, had already found their properties.

There are a couple of trends among owners in the rental market to not allow tenants to have pets – such families are in the majority – and owners also do not want to rent properties to several students at the same time. But, tenant trends show that it is students and small groups who make up the largest number of tenants. These specific things have caused the market to swing and the situation is now that tenants want to rent higher class properties at a lower price. And the owners have been forced to lower their rental prices.

The increase in utility bills has also introduced changes. People are evaluating their payment options and if they used to be able to pay for three-room apartments, now they can only afford two-room apartments. Or the landlords are forced to lower the rental price to maintain the total cost for apartment per month.

Rental prices for standard apartments in residential areas range from €200 to €400 per month for one room apartments, €200 to €450 per month for two rooms, and for three rooms, €290 to €550 per month. For new-build apartments in the same areas, the price can be at least 25% higher.

At the end of 2022, it was observed that the supply of housing exceeded the demand. The rental market has remained quieter. The most requested apartments are in the price category from €200–€550, depending on the number of rooms. If there is an apartment available in a new project in this category, then this is the primary focus of an apartment search. Most transactions took place in serial apartment category. There were also enough new projects where, adding all the expenses together, it becomes apparent that it is still cheaper to live in a serial house without energy efficient services, because the management fee for new projects is high. By the end of the year, tenants had a wide range of options.

In 2022 the demand has increased for low or medium level 3 to 4-room apartments in the price range €200 to €550. And as it was in 2021 also in 2022 students were the main rental group.

LEGAL NOTES BY SORAINEN

Residential leases are regulated by Latvian law more strictly than commercial leases. In 2021 a new law on residential tenancy was adopted. This law stipulates that the lease term cannot be indefinite and that the amount of deposit cannot exceed two months' rent, although the amount of rent may be freely agreed upon. The law on residential tenancy prescribes that residential leases are binding on new owners only when registered with the Land Register. This law also promotes more effective mechanisms for the eviction of bad tenants and for the resolution of disputes related to residential leases.

In 2022, major amendments to the Law on Residential Properties were adopted, which establish a new legal status for a community of apartment owners, as well as determining the rights and obligations of a community of apartment owners when performing economic activities or employing a natural person.

In 2023, it is planned to adopt new amendments to this law, regarding decision-making in apartment buildings. These amendments aim to improve the decision-making process of apartment communities in order to ensure the efficient management of residential buildings and to achieve the energy efficiency targets set in the European Union.

RECENT DEVELOPMENTS



MERKS VIESTURDĀRZS II – Located in the city centre on Rupniecības Street, this project was developed by Merks. It is the largest group of residential property to be built in the quiet, prestigious and popular centre of Riga. Industry experts and professionals have recognised the high quality of the project in all phases of its construction, through various awards. In total, over 350 apartments with commercial premises will be built in three stages. The project is planned to be completed by the end of 2023. The third stage building will have 5 to 7 floors, and have class A energy efficiency. Apartment sizes are 36-273 sqm, prices start at €107,000-€690,000. The second stage was completed in 2022.



MERKS MEŽPILSĒTA – This project is located in Mežciems, on Hipokrāta Street and the developer is Merks. The project was completed in 2022 and is located in one of the greenest neighbourhoods of Riga – a particularly popular living environment for young families. The local infrastructure is well developed with public transport, kindergartens, schools, medical facilities, sports and shopping centres, that guarantee a comfortable daily routine. As part of the first round of the project, it is planned to build three 5-storey buildings with a total of 117 apartments, sized 33-66 sqm, and priced at €95,000 to €158,000.



MERKS DUNTĒS ZĪLES – The project is located in Riga city centre and was developed by Merks in 2022. As part of the Merks Duntē Zīles project, two residential buildings were built with a landscaped and closed area, where there will be two children's playgrounds, a picnic area for residents and separate bicycle storage. Functional, fully furnished two to four room apartments with a total area of 40-95 sqm, with 2.75 m high ceilings are available. In the basement there are useful private storage rooms with sized 4-7 sqm. A pram room, as well as a 42 sqm recreation room, have been provided for residents at no extra charge. Residents are also able to enjoy the convenience of underground and surface parking spaces and an elevator that connects to the basement. The two buildings contain a total of 84 apartments, with prices starting from €87,000.



GOLDINGENA REZIDENCE – The project is located in Pārdaugava. The project developer is Estonian developer the Snel Group. The Goldingena Residence was designed with the help of renowned architect Reinholds Georgs Šmēlings, who has designed countless public and residential buildings in Riga. The original construction was completed in 1912, marking one of the most important stages of development for Riga as a city. Local weekend favourites of the residents of Kuldīgas Street include the creative Kalnciems Quarter, the Botanical Garden of the University of Latvia, Uzvaras Park, Māras Pond, the Daugava Promenade, Nordeķu Park and Dzegužkalns' Hill. There is one 5-storey building with 36 apartments sized 28-97 sqm. The apartments are fully finished, and are priced at €73,000-€254,000. The building was finished in Q3 2022.

RECENT DEVELOPMENTS



GLEZNOTĀJU REZIDENCE – Located in Pļavnieki, on Deglava Street, this development has the class A energy efficiency rating, modern and a well-thought out pair of buildings with a great perspective and set in a spacious green area. The developer is the Electra Group. Currently, the sale of the second round of apartments is underway. There are individual storage rooms on the first floor, as well as a shared room for bicycles and baby carriages. Children's playgrounds, green areas and parking spaces are available. The first two buildings house 152 apartments of various sizes with one to four rooms. Sizes are 28-86 sqm with prices on average of €1,900 per sqm for a fully finished apartment. The project was completed in Q3 2022.



SAFRĀNS – The project is located in Purvciems, on the quiet and peaceful Žagatu Street. The project developer is YIT Latvija. There is one 9-storey building with apartments of 31-88 sqm. For each apartment, the package price includes a storage room in the basement of the building. The building has 81 apartments. One, two, three and four-room comfort class apartments are available for purchase. They are fully finished, and are priced from €177,000 to €190,000. The building was finished at the beginning of 2022.



SILVAS NAMI – Located in Purvciems, on Dzelzavas Street, at the quieter and most distant end of this lively street. The project has been developed by YIT. The Silva House complex consists of four identical 7-storey buildings and one 8-storey building. Bicycle racks and car parking spaces will be placed within the fenced area, including designated parking spaces for charging electric cars. This is a standard-class project where, unlike other YIT projects, there is no underground parking, slightly lower ceiling heights and more compact apartment layouts, using simpler materials in the decoration. However, in general, not much comfort and quality of life is lost. For example, the house has a class A energy certificate, which is a very important aspect when buying a house. In the spring of 2022, the construction of the third building of this project began, providing two to four room apartments, with prices starting from €2,100 per sqm. At the end of the summer, the construction of the fourth building was also started. In the fourth building, modern and functional two-, three- and four-room apartments with an area of 41 sqm to 73 sqm, fully furnished, but without built-in furniture, are available for purchase. Prices are €94,000-€180,000.



VERTIKĀLES STAGE I – This project has been developed by Bonava. Imanta and is located in Imanta, on Dumbrāja Street. The neighbourhood is green, quiet and peaceful, and its history is connected with the life and development of manors, as evidenced by the preserved green surroundings of manor parks and the reflections of ancient buildings. Everything about this project is designed so that residents can enjoy a quality, sustainable lifestyle on a daily basis. There will be two buildings, 7 and 13-stories high, a total of 134 apartments, sized 58-91 sqm with an estimated price of €146,000-€273,000 for a fully finished apartment. The first building, at Dumbrāja Street 29 K2 was completed in Q4 2022. The plan, is to complete the entire complex by 2024.



DREILINGA MĀJAS – In Dreilīni, on Robežu Street, lies this project developed by Bonava. The residential complex Dreilinga mājas is being built near the Saga shopping centre, and Ikea. It is planned to complete all sixteen apartment buildings by 2024, creating homes for approximately 1,500 residents. Dreilīni is considered to be a very promising neighbourhood in which to develop a peaceful rhythm of life. It is a large-scale residential village with modern, well-thought-out apartments available to a wide range of people at very affordable prices. Two buildings were completed in Q4 2022. There are a total of 122 apartments, sized 40-93 sqm with prices at €1,400-€2,100 per sqm for a fully finished apartment.



TREBŪ HOME – Located in Riga, on the right bank of the Daugava, this development is set in the quiet and green neighbourhood of Pļavnieki, lying between Lubānas, Salnas and Kupriču Streets. The developer is AFI Europe, and 110 apartments were finished in 2022 with another 110 apartments to be finished in 2023. The total construction area of the Trebū Home project exceeds 145,000 sqm and will contain more than 1,400 apartments, to create one of the most ambitious residential complexes in Riga. The project was created in collaboration with the leading Latvian architectural offices Arhis Arhitekti and Mark in an architectural collaboration with the Israeli architectural office ARC4G. Apartments are 35-95 sqm in size.

NEW PROJECTS



DAINAS IEĻA – Located in Riga centre on Dainas Street, this project is being developed by Vilia. In the Dainas Street project, one to four room apartments are available, which are fully furnished to a high quality. Parking spaces will be available for residents. The location is convenient, with a well-developed infrastructure, including public transport, parking and easy walking or cycling. While enjoying all the advantages of the centre – there are various shops, schools and kindergartens, cafes and restaurants for diners – there are also backyard urban gardens or parks for walking and relaxing in the fresh air. The current building, with 114 apartments, will be finished Q2 2023. Apartment sizes are 24-97 sqm, and prices start at €2,600 per sqm.



EZERJUGĻA – This project is located in Jugla, on Murjanu Street. Life in Ezerjugla will be like resting on your own island surrounded by forests, watching the lake mirror the changes of seasons. The project has been developed by SIA Abora. It comprises a block of buildings with the heartbeat of the city and a leisurely daytime flow. There will be eight 4-storey buildings in a well-maintained, safe area. There are two and three room apartments, most with spacious balconies. Altogether, 535 apartments are planned, sized 44-102 sqm with prices at €2,200-€2,500 per sqm for a fully finished apartment including balcony. They are planning to finish all buildings simultaneously in 2023.



MOHO PARK – Located in Mežaparks, on Kokneses Avenue, in an excellent location between the forest and the city. The project has been developed by Kaamos. There are three important things combined in this project – practicality, sophistication and sustainability. All apartments have balconies and terraces with a gorgeous view. There are two buildings, a total of 154 apartments, sized 36-170 sqm with prices at €94,000-€370,000 for a fully finished apartment including balcony. These Mežaparkas houses are characterised by excellent design, the quality of durable natural materials, warm floors throughout the apartment and a healthy microclimate. Each apartment has a balcony, but penthouse apartments have roof terraces. Construction began in Q2 2021. Building A will be completed by spring 2023 and building B by autumn 2023.



KRASTA KVARTĀLS – A project located in Krasta district, on Maskavas Street. It is being developed by Bonava Latvia, and is an ambitious undertaking, located near the historic Kridenera Dam. The Krasta district, as part of the new Moscow Fortress, began to develop during the construction of the Island Bridge (the Salu tilts) in the 1970s, but it only became the most lived-in neighbourhood in Riga after Latvia regained its independence, bringing intensive construction of commercial, office and residential buildings to the area. In Q2 2023, two more buildings will be completed, with 96 apartments in each, with sizes 31-81 sqm. Prices are €92,000-€220,000.



KULDĪGAS PARKS

NEW PROJECTS



KULDĪGAS PARKS – Located near the Botaniskais garden and developed by Hepsor. Kuldīgas parks consists of two 7-storey residential buildings. The buildings have 116 comfortable two-, three- and four-room apartments with modern solutions suitable for active and creative city dwellers. The balconies or terraces of the apartments on the upper floors offer an inspiring view of the green Āgenskalns. The project is characterised by class A energy efficiency, functional and comfortable apartment layouts, generous windows, and each apartment has a terrace or balcony. Outside, the apartments, every stairwell has an elevator, storage rooms, a green and well-lit shared space with rest areas and children's playgrounds, underground and surface parking, with a designated bicycle and motorcycle parking facility. Apartment sizes are 40-177 sqm, priced at €1,850-€2,950 per sqm. The project will be commissioned in Q1 2023.



MĀRPAGALMI – Is located on Zemaišu Street between Māras pond square and St. Albert's church. The developer is YIT. The first stage of the project will construct 101 apartments. Each apartment will have a balcony or terrace, the basement of the building has underground parking, separate storage/bicycle rooms, as well as communal bicycle storage. Mārpagalmi offers apartments in two project classes – standard and comfort. Standard-class apartments will satisfy the requirements of residents who value high energy efficiency, an orderly environment and the opportunity to share common spaces with friendly neighbours, while comfort class apartments will appeal to people who have stricter design preferences and requirements for materials, as well as those who need a more spacious home. Apartments will be 39-87 sqm. Prices are €82,000-€248,000. The plan is to be finished in 2023.



MERKS MAGNOLIJAS – Located in Pārdaugava, on Skrīnes Street. The developer is Merks. Construction started on this project in 2022. There will be two to four room apartments with spacious balconies and terraces. For the first stage, 96 apartments are planned. Reservations of these first stage apartments has already begun. This will be the first residential project of the construction company Merks in Pārdaugava, in the Šampēteris neighbourhood. The 3-storey buildings fit perfectly into the low-rise structures of the neighbourhood, which boasts beautiful private houses and manicured gardens. The project offers modern two to four room apartments with full high-quality interior finishing. A feeling of spaciousness will be created by the 2.90 m ceiling height and balconies or terraces of up to 12 sqm attached to each apartment. Prices start from €114,000.



HARMONY HOME TEIKA – The new project Harmony Home Teika is located in Riga, on Ķeguma Street and the developer is Stats Group. It is the most suitable choice for those who want to live in an energy efficient A+ new project apartment while enjoying privacy. In this project, there is only one 4-storey building housing 48 apartments – with one and a half, three, or four rooms – and a well-thought-out ergonomic layout. The new project has glazed loggias, personal storage, and bicycle storage for a comfortable and organised environment. Large elevators and wide doorways ensure easy accessibility for families with strollers. Harmony Home Teika apartments are 41-86 sqm in size, and priced at €109,000-€225,000. It is planned to be completed in 2023.



ROPAŽU STREET – The project developer here, is Bonava. In the upcoming project on Ropažu Street, in the historical territory of the Vidzeme bakery, three 5-storey buildings with a total of 220 two- to four-room apartments with balconies or terraces are planned. Each stairwell will have an elevator, personal storage, and a well-maintained, closed area with opportunities for recreational and sports activities. Within the development, there will be several bike storage units under cover, each apartment will have an individual ventilation system with recuperation, and it will be possible to charge electric cars right at the entrance to the location. All three buildings are planned to be completed by 2024. Apartment sizes will be 38-82 sqm. Expected prices are €110,000-€217,000.



MĀRUPES DĀRZS – Mārupes dārzs is located in the administrative centre of the Mārupe on Lielā Street, in a rapidly growing area next to Riga with an already evolved infrastructure. It is being developed by Hepsor. This new residential project is composed of four house blocks with 23 comfortable apartments in each of them. Everything necessary for an active everyday life is within easy reach: kindergartens, schools, gyms, supermarkets, medical facilities, and the airport. There are also opportunities of active recreation, and entertainment, with a broad range accessible: sports centres, a pool, ice hall, tennis clubs, a BMX track, golf course, restaurants, cafes and so on. In total, 92 apartments are planned, sized 47-99 sqm and priced €2,200-€2,900 per sqm for a fully finished apartment. The apartments will be available by early summer 2023.

Starpini. Plot prices in the suburbs are €25–€90 per sqm.

Vendors do not intend to reduce their prices at all. But the buyers are not currently ready to buy land plots at such high prices. As a result, activity in the land plot market came to a halt in 2022.

For commercial land, near highways and next to Riga, prices are €20–€30 per sqm, with commercial land in Riga neighbourhoods priced at €20–€100 per sqm. However, everything depends on the location of the plot. In 2022, land prices in general stayed at the same level as they were in 2021.

DEMAND

The transaction volume of individual residential land plots in Riga city in 2022 decreased by 14% compared to 2021. According to the data from Cenu banka, in 2021 there were 2,610 transactions and in 2022, 2,250 transactions.

The majority of activity was in the Riga suburbs, with plots of land sized 1,200–1,800 sqm. Prices mostly rose in the most popular districts in Riga, for example, Mārupe.

Also the offer has reduced. There is little interest in plots of land without communications, as both the cost of electricity and the cost of road construction have increased. Customers are ready to buy more expensively, but require that communications are already available. Banks have also noted that requests for loans for building houses have decreased. Construction costs continue to rise.

INVESTMENT

The developer of industrial real estate, Sirin Development, has won the auction organised by Riga city and has entered into a purchase-sale agreement for the purchase of 39 ha of land for €5.6 million next to Riga's international airport. The developer plans a warehousing complex of 180,000 sqm with a total investment of over €100 million. In Riga, the company is currently developing and managing a logistics park in Rumbula in an area of almost 55,000 sqm and has also developed a logistics centre in the area of Olaine (near Riga).

LEGAL NOTES BY SORAINEN

Investments by foreigners from the EU and countries that have agreements on mutual promotion and protection of investments with Latvia are generally unrestricted. Restrictions on foreign (non-EU) entities exist for acquisition of land, especially agricultural and forestry land (except if construction is permitted there) as well as 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) or non-residential buildings and related engineering structures by a natural person, a 1.5% stamp duty is levied on the property value. In case of acquisition of a property by a legal person, a 2% stamp duty is charged on the value of the property, but not more than EUR 50,000.
- If legal title is transferred under a deed of gift, a 3% stamp duty is levied on the property value, but not more than EUR 50,000.

The reduced rates may apply in the following cases:

- 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), but not more than EUR 50,000.
- 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 1.5% 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, but not more than EUR 50,000.

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 the 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 a coefficient of 0.8).

PERSONAL INCOME TAX (PIT):

Rental profit for individuals is taxed at a progressive rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 78,100), 31% (annual income above EUR 78,100). Taxable income is based on the rental profits (income less deductible expenses).

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 filed.

A person that is not registered with the tax authorities for commercial purposes, but who has informed the tax authorities on the real estate renting activities, pays PIT at a reduced rate of 10% applied on total amount of rental income after filing the annual income tax return. However, the lease agreement should be registered with the Latvian tax authorities within 5 business days after signing it with the lessee in such case. The taxable income may be reduced by the amount of real estate tax paid, with no deduction on any other expenses related to the rental activities allowed.

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 78,100), 31% (annual income above EUR 78,100) with no deduction for expenses associated with rental activities.

SALE

The standard Value Added Tax (VAT) rate in Latvia is 21%.

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.

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 a VAT registered person (option to tax approach). Share sale is out of scope of VAT and related input VAT on service directors related to non-taxable supply would not be recoverable.

CORPORATE INCOME TAX (CIT):

If a Latvian company sells a RE, any capital gain is tax exempt until the company's profits are distributed in dividends or deemed dividends. In such cases the profits are taxed at an effective rate of 25%. Generally, the gain is calculated as selling price less net book value.

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

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.

There is a ruling by the State Revenue Service which exempts WHT on proceeds where shares in a RE company are alienated through a share exchange as part of a group reorganisation.

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 the company's profits are distributed in dividends or deemed dividends.

PERSONAL INCOME TAX (PIT):

If an individual sells a RE for non-commercial purposes¹, a 20% PIT is charged on the capital gains (difference between the acquisition cost and the selling price). Only certain costs would be considered tax deductible for capital gains purposes.

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).

The capital gains by individual would be tax exempt, if:

- 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 the only one in possession and has been reinvested before or during the 12 months period from the sale into another RE of the same function.

The above mentioned exemptions are 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 capital gains would be part of business income and would be subject to progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 78,100), 31% (annual income above EUR 78,100).

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 also 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 an 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; individuals, whom the low-income status is granted etc.). Certain municipalities can apply specific rules to enable a taxpayer to pay 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 cadastral value of the related land and the cadastral value of the building itself.

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 engineering structures,
- chimneys,
- lighting constructions and fences.

There is a list of other real estate objects that are not subject to RET in specific circumstances.

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.

Currently in discussion there is a draft bill regarding recalculation of RE cadastral value for tax purposes as of 2025. According to provisions introduced to the public, it is planned that there will be an increase (approx. 3 times) in cadastral values of RE due to improved valuation principles. Changes in the law should be introduced by 30 June 2023.

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 from the transaction exceeds €14,229 in a taxation year except for sale of private property,
- The economic nature of the activity or the amount of property owned by the individual indicates a systematic action to obtain remuneration.



INTRODUCTION

On 24 February 2022, two years after the start of the COVID-19 pandemic, when it seemed that the worst was over, we were all surprised by the Russian Federation's brutal and illegal invasion of Ukraine, which also affected the real estate market. Areas that have most affected the real estate market include interest rates, overall inflation, and the rapid rise in energy and construction costs.

Despite world events, the market returned to its usual level and the total amount of transactions in 2022 did not fall below the usual market level in Latvia (though the record numbers of 2021 were not reached).

As in previous years, the largest investments were made in retail and office space, but high demand also remained for industrial spaces. Since more Class A office buildings appeared on the market, the number of investments in them also increased. It is expected that the demand for such offices will only increase.

As regards residential buildings, the availability of such buildings has decreased, which is due to the rapid rise in apartment prices and interest rates for loans. Investors in non-residential and commercial properties, as in previous years, came most frequently from Scandinavian countries, as well as, in case of the energy sector, from the Baltics.

In addition, due to rather unclear regulation on the acquisition of agricultural land, practical difficulties continue to arise with investments in the agricultural (and consequently the forestry) sector.

It should be noted that the real estate market will definitely be affected by the decline in the construction of non-residential buildings. Construction volumes were lower than in the previous year, and activity decreased in all areas of engineering construction and all sub-sectors. This is due to rapid price increases in almost all groups of construction products. The prices of individual construction products increased several times and the increase in the prices of fuel and energy resources increased the cost of certain types of construction works. However, the market is cautiously optimistic that construction prices could stabilise (or even decrease) in the second part of 2023.

TITLE TO REAL ESTATE, LAND REGISTER

Title to real estate is transferable and must be registered with the Land Register. In addition to land plots, buildings can also be registered with the Land Register. In general, buildings are considered to be a part of the land beneath them. However, as a result of the land reform in the 1990s and due to formation of long-term lease relations, a land plot and a building on it may belong to different owners. In order to end these long-term

leases with regards to apartment buildings, the parliament passed the Law on Compulsory Termination of Shared Property in Privatized Apartment Buildings, which grants the apartment owners the right to buy out the land attached to the building for its cadastral value, thus ending the long-term lease relations. Additionally, the so-called "building right" was introduced in 2017. The building right allows construction of a non-residential building on another person's land with the right to use the building as a separate property during the term of the building right. Construction of residential buildings is prohibited under the building right set-up. The building right is a transferable and mortgageable right with a minimum term of 10 years and must be registered with the Land Register in the name of the person entitled to construct a non-residential building or an engineering structure on a land plot encumbered by a building right.

The Land Register keeps a record of any information regarding the legal status of real estate, including the composition of the real estate, its area, history of ownership, encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations. The Land Register is a public register: information it contains is publicly available and is binding on third parties. Land Register data can be accessed on a digital online database for a set fee.

For the convenience of users, the Land Register and State Land Service continue to increase their mutual cooperation, thus reducing information overlap and the number of documents to be filed in order to register any changes in relation to property. The Land Register keeps only those records whose basis is an agreement, will or court judgement, or for which the law otherwise specifically requires registration. Other records, such as encumbrances arising from the law, are kept by the State Land Service. It should, however, be noted that Land Register data and State Land Service data in respect of the same real estate may still sometimes not match and any 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 in Latvia may be acquired in one of the following ways – as an individual land plot, as an individual building, as a land plot together with buildings situated thereon, as an apartment or an engineering construction, or as building rights .

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, the public credibility of such registration is legally ambiguous.

LETTERS OF INTENT AND HEADS OF TERMS

In practice, a letter of intent, heads of terms or a preliminary agreement (all three together – a LOI) may be used in order to bind negotiating parties to a contemplated real estate transaction. Under such agreements, each party can require (insist on) the conclusion of a purchase agreement, but it (the conclusion of the purchase agreement and consequently a change of title) cannot be compulsorily enforced.

Usually, a LOI sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) and lays down other obligations to be followed during a certain period. Breach of the exclusivity obligation under a LOI or preliminary agreement usually entitles the aggrieved party to claim compensation for damages, including specified contractual penalties.

CHANGE OF OWNERSHIP

Each transaction with real estate and registration of ownership title with the Land Register involves several formalities, which have to be completed or resolved before title transfer can occur. For instance, any real estate tax debt and tax for the entire year on a particular property must be settled in advance – if not, registration of ownership title with the Land Register will not be possible. Registration of title will also not be possible if the authority or person with a right of first refusal, if any, has not waived its rights of first refusal. The period for registration of title to real estate with the Land Register is 10 days after filing all necessary documentation with the Land Register, although in more complex cases this term may be prolonged for up to 30 days..

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 sales 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 liabilities before change of ownership;
- due diligence investigations are more extensive since 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;
- financial assistance rules apply;

- deferred tax issues have to be taken into account.

Asset transfer involves the following benefits and drawbacks:

- asset transfer involves notary fees and state duty, making it more costly than a share transfer in this respect;
- the scope of due diligence investigation is limited since it concerns only the target asset;
- 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 new owner or entirely new supply contracts must be concluded;
- 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 make portfolio deals because they enable sufficient diversification and volume, a larger market share, and reduce overall risk and relative cost.

FORM OF AGREEMENT

Real estate transactions require written form, as well as registration with the Land Register. Notarisation of the purchase agreement is not legally required in Latvia.

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

In addition to the purchase agreement and corroboration request, other relevant documents must be prepared and filed with the Land Register (e.g. waiver of rights of first refusal by the authority or person with right of first refusal, if any; consent from a spouse, if the seller is a natural person).

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, in such a case the original copy 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 in the presence of a notary.

DUE DILIGENCE

Before carrying out a real estate transaction, it is advisable to research the legal and technical status of the target real estate, e.g. encumbrances (as the Land Register may not contain all current data), permitted use as set by the local authority, lease agreements affecting the real estate, etc. For this purpose, information available in the Cadastral Information System as well as other public registers should also be analysed. The results of such research may help set the final purchase price that reflects the true value of the target real estate.

RIGHTS OF FIRST REFUSAL

The Law on Municipalities which was in force until 31 December 2022 provided municipalities with a right of first refusal in the event of the disposal of real estate in the administrative territory of the respective municipality. The new Municipalities Law, which entered into force on 1 January 2023, no longer includes the right of first refusal for municipalities. This means that after concluding the real estate purchase agreement, it is no longer necessary to offer (and receive a waiver from) the municipality to use the right of first refusal before the buyer's title to the real estate can be registered with the Land Register.

A decision on such amendments was taken because such rights were ineffective, easily circumvented and did not provide practical benefits to the local authorities themselves. The use of the right of first refusal was very rare and the procedure itself took a disproportionate amount of time before a decision to refuse the right of first refusal was taken.

The cancellation of this institution will significantly simplify procedures for title registration.

However, the right of first refusal has not disappeared for other authorities and persons, for example specific regulation covers execution of rights of first refusal to agricultural land, whereby the Latvian Land Fund and the lessee of a particular land plot have rights of first refusal. Under specific circumstances rights of first refusal may exist in relation to property located in a special economic zone, a nature protection zone, a harbour territory, or where the property is a cultural monument of state significance. 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 undivided share of immovable property being sold.

Generally, rights of first refusal are exercised within two months of the purchase agreement being delivered to the persons entitled to those rights.

In many cases, a person with right of first refusal, such as a co-

owner of real estate, who is not given the chance to exercise their right, acquires a buy-out right with regard to the new owner. This right entitles 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

When arranging the purchase price, the parties usually agree to follow escrow account procedure. According to this procedure, during registration of the title to real estate neither the seller nor the buyer has access to the funds transferred to the escrow account. These funds are released to the seller only after registration of the buyer's ownership title with the Land Register and fulfilment of other conditions, if agreed by the parties (e.g. signing a deed of acceptance). In smaller transactions, the parties may agree to deposit the funds with a sworn notary. As with the escrow procedure, the funds are transferred to the seller's bank account by the sworn notary after registration of the buyer's ownership title with the Land Register. If there is a mutual trust relationship between the parties, the purchase price may be directly transferred by the buyer to the seller before or after the ownership title registration.

RELATED COSTS

Sharing of the costs incurred during real estate purchase is subject to agreement between the parties. It is common practice that the buyer pays the state and stamp duties and reimburses the real estate tax paid for the year of the transaction (proportionally to the title registration), whilst notary and escrow account fees are shared equally between the parties.

Generally, state duty amounts to 1.5% on either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher, for natural persons as buyers, and 2% for legal entities. The maximum state duty is EUR 50,000.

In addition, an index of 1.5 is applied to the state duty if registration of title is delayed by over 6 months from the moment a document that grants a right to register the title (e.g. a purchase agreement) is signed. Stamp duty for title registration is EUR 15.00. The notary fees may vary depending on the structure of the transaction, but if only two parties are involved, these costs amount to approximately EUR 100.

MERGER CONTROL

Transfer of real estate may require prior approval by the Latvian competition authority (the Competition Council). According to the Competition Law, acquisition of assets or acquisition of the right to use such 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 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 (including gas stations), 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 of – or the right to use – the assets of two or more other undertakings are treated as 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 the acquisition of land in Latvia. Acquisition is restricted more heavily in certain specific areas such as coastal areas and heritage protection zones. Restrictions pertaining to use of real estate should also be checked beforehand.

ACQUISITION OF AGRICULTURAL LAND

Limitations apply to acquisition of agricultural land in Latvia. An EU or Latvian citizen or a citizen of the EEA, Switzerland or an OECD country can possess in total no more than 10 ha of agricultural land without additional restrictions. A natural person who wishes to acquire more than 10 ha of agricultural land must comply with the following:

- is registered as a performer of economic activity in Latvia;
- has no tax debt over EUR 150 in Latvia or their country of domicile;
- confirms in writing that after purchase of the land he or she will commence 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 direct payments;

- holds an EU citizen registration certificate, if the person is a citizen of the EU, the EEA or Switzerland;
- holds a certificate of Latvian language skills to at least B2 level, if the person is a citizen of the EU, the EEA, Switzerland or an OECD country.

Stricter limitations are set for legal entities. Without any additional limitations a legal entity may possess in total no more than 5 ha of agricultural land. If a legal entity wishes to acquire more agricultural land, it must comply with the following:

- it is registered as a taxpayer in Latvia and has no tax debt over EUR 150 in Latvia or its country of domicile;
- all shareholders are either EU, EEA, Swiss or OECD country citizens or citizens of other countries that have concluded agreements on protection of investments with Latvia;
- it can identify all its true beneficiaries, all of whom must be EU, EEA, Swiss or OECD country citizens;
- confirms in writing that it will commence 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 direct payments;
- 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 the EU, the EEA or Switzerland, hold an EU citizen registration certificate;
- 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 the EU, the EEA, Switzerland, an OECD country, or a state with which Latvia has entered into international agreements regarding the promotion and protection of investments (ratified by 31 December 1996), hold a certificate of Latvian language skills to at least B2 level.

Although the European Court of Justice ruled in 2020 that these last two requirements for legal persons (that their shareholders/representatives must hold an EU citizen registration certificate and/or a certificate of Latvian language skills) are discriminatory and not in line with Articles 9, 10 and 14 of Directive 2006/123/EC on services in the internal market, the parliament has not yet amended the law accordingly.

None of these restrictions apply to the acquisition of agricultural land in rural areas whose permitted use is set as construction land under the territorial plan of the relevant municipality. Moreover, such land can also be acquired by non-EU citizens and legal entities without restrictions; however, a formal permit still must be obtained from a local municipality.

The maximum area of agricultural land that can be owned by a single person (natural or legal) is 2,000 ha and the maximum area of agricultural land that can be owned by a group of related persons (natural or legal) is 4,000 ha.

Unlike restrictions on acquisition of agricultural land, no similar restrictions (area, language skills etc.) apply to EU citizens and legal entities that wish to acquire land plots in urban areas in Latvia.

ACQUISITION OF 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 (also by non-EU citizens and legal entities) without further restrictions and limitations unless the land beneath them is included in the deal. In most cases, however, ownership of an apartment 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.

SANCTIONS AGAINST THE RUSSIAN FEDERATION

Sanctions against citizens, companies, credit institutions and certain industries of the Russian Federation, such as the oil and aviation industries, were adopted at the end of February 2022 by almost all the major countries of the world, individually and collectively, in condemnation of the military aggression of the Russian Federation against Ukraine, its sovereignty and territorial integrity. These sanctions also restrict real estate transactions.

The sanctions provide that the real estate belonging to a sanctioned person is frozen, which means that the person himself can continue to use it, but cannot acquire the real estate or receive financial benefits from the real estate. The imposition of sanctions does not terminate agreements concluded regarding real estate, but it may be impossible to fulfil the agreement terms. Regarding lease and tenancy agreements, if the tenant is willing to comply with the sanctions, then in fact the agreement in question should be terminated, as it will be impossible to fulfil it.

Attention should also be paid to mortgages in favour of sanctioned Russian Federation banks, including those covered by US sanctions (EU sanctions include banks under sectoral sanctions). In such a case, there may be situations where payments made after 26 March 2022 will not be a ground for mortgage redemption.

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. Any encumbrances should be considered prior to the acquisition of real estate. Depending on the intended use of the property (e.g. construction) legal, technical and environmental due diligence may also have to be performed beforehand.

MORTGAGE

Purchase of real estate is often financed by third party (e.g. bank) loans, with the lender requiring security from the borrower in the form of a mortgage.

In order to register a mortgage on real estate, a loan and mortgage agreement must be concluded. For registration of a mortgage, it is also necessary to submit the consent from the spouse, if applicable. An application to register the mortgage with the Land Register must be signed in the presence of a sworn notary and state duty of 0.1% of the loan value must be paid as a registration fee. Stamp duty for mortgage registration is EUR 15.00. The Land Register registers the mortgage within 10 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 engaged by the owner.

MANAGEMENT OF RESIDENTIAL BUILDINGS

Maintenance and management of a residential building is an obligation of the owners of the building, namely, apartment owners. In comparatively small buildings, maintenance is usually performed 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 the legal relationship between those involved in the management process, 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. Other contents of lease and tenancy agreements are freely agreed upon by the parties. Lease agreements involving non-residential real estate remain binding on new owners only if registered with the Land Register. If the lease is not registered, the new owner has the option to unilaterally terminate the agreement. Should the new owner exercise the option, the tenant is entitled to compensation from the previous owner for premature termination of the lease agreement.

The same condition applies to residential tenancy agreements, which, if signed after the new law was adopted, also remain binding on new owners only if registered with the Land Register. At the same time, the new law on residential tenancy aims to protect the rights and interests of residential tenants and allows registration of the lease with the Land Register. Nevertheless, there is no procedure how residential tenants can enforce lease registration. In addition, only permanent residents of Latvia and individuals who reside in Latvia based on a temporary residence permit may claim protection under this law.

DURATION AND EXPIRY OF LEASE AGREEMENT

The term for lease or tenancy agreements is usually set in the agreement. Latvian law allows a lease to be set for either a specified or unspecified term. Lease of residential premises can be set only for a specified term. As for termination of a commercial lease agreement, Latvian law lays down only general rules.

More specific provisions on termination are prescribed under the Law on Residential Tenancy, which aims to protect the interests of residential tenants. Hence, options for unilateral termination by the owner of a residential tenancy agreement are limited, as unilateral termination is allowed only in cases explicitly stated by law and by obtaining a final court ruling: for example, if the tenant is damaging the apartment or the apartment building, the tenant owes rent or payments for basic services, or if the tenant has sub-leased residential space without the owner's consent. Unilateral termination of the tenancy agreement does not entitle the owner to arbitrarily evict the tenant. Unilateral termination of the tenancy agreement is also allowed if capital repairs or demolition of the building are necessary. However, in this case the owner must reimburse the tenant for relocation expenses and investments made in the residential premises in accordance with the contract, as well as indemnify them for losses, if any.

If a residential tenancy agreement is made in a form of a notarial deed or is registered with the Land Register, then simplified court procedure can be used for recovery of related tenant's debts and/or for eviction of tenants.

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES)

Latvian law sets no specific procedure for payment of security deposits or for payment of rent under lease relations. As regards residential tenancy, there are regulations that govern calculation of rent payments; however, the existence of these regulations does not preclude parties from freely agreeing the amount of rent. The law on residential tenancy limits the total security deposit to the sum of two months' 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 in an amount of one to three months' rent is often required by the owner. The owner uses the security deposit for instances when 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. Obligations of the tenant may likewise be secured by a bank guarantee.

PPP & INFRASTRUCTURE

In Latvia, a PPP project may be arranged in accordance with the Law on Public and Private Partnership (PPP Law), which sets the procedure for awarding contractual PPPs – partnership procurement 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 sectors establish a joint venture through a competitive process, and afterwards the public partner enters into a partnership procurement contract or concession directly with the joint venture.

INVESTMENT FUNDS AND REAL ESTATE

The Law on Alternative Investment Funds and Their Managers regulates alternative investment funds (AIF) investing in real estate. Both foreign and domestic investments may be administered through an AIF. AIF units may be subject to public or private offering. In practice, only closed-end AIFs invest in real estate.

Real estate acquired by an AIF must be registered under the name of the alternative investment fund manager (AIFM) (if the AIF is established as an aggregation of property) or in the name of the AIF itself (if the AIF is established as a joint stock company or as a partnership). Real estate can be sold or encumbered only with permission of the custodian bank if the AIF is managed by a licenced AIFM. However, if the AIF is managed by a registered AIFM, then permission is needed only if required under the establishment document or AIF rules. Assets of an AIF may be invested in real estate according to the rules set out in the establishment document and AIF rules.

Real estate owned by an AIF can be managed by the AIFM, provided the AIFM is authorised by the Bank of Latvia (Latvijas Banka) to provide this ancillary service. If it is not, the real estate will probably be managed by a professional real estate management company.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Municipalities in their territorial planning documents set the permitted use of each land plot located in their territory. The permitted use sets forth the possible ways in which the land plot can be used (i.e. for construction of residential buildings or factories). Territorial planning documentation also specifies the requirements for construction. Certain territories must have a detailed plan produced (this usually takes 8-12 months) before they can be developed.

CONSTRUCTION

A construction permit is issued right at the beginning of the construction process. In order 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 for design. However, the building permit itself does not serve as a basis for carrying out construction works. Construction itself can start only when all the design and construction 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 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 finding various issues with the target real estate 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.

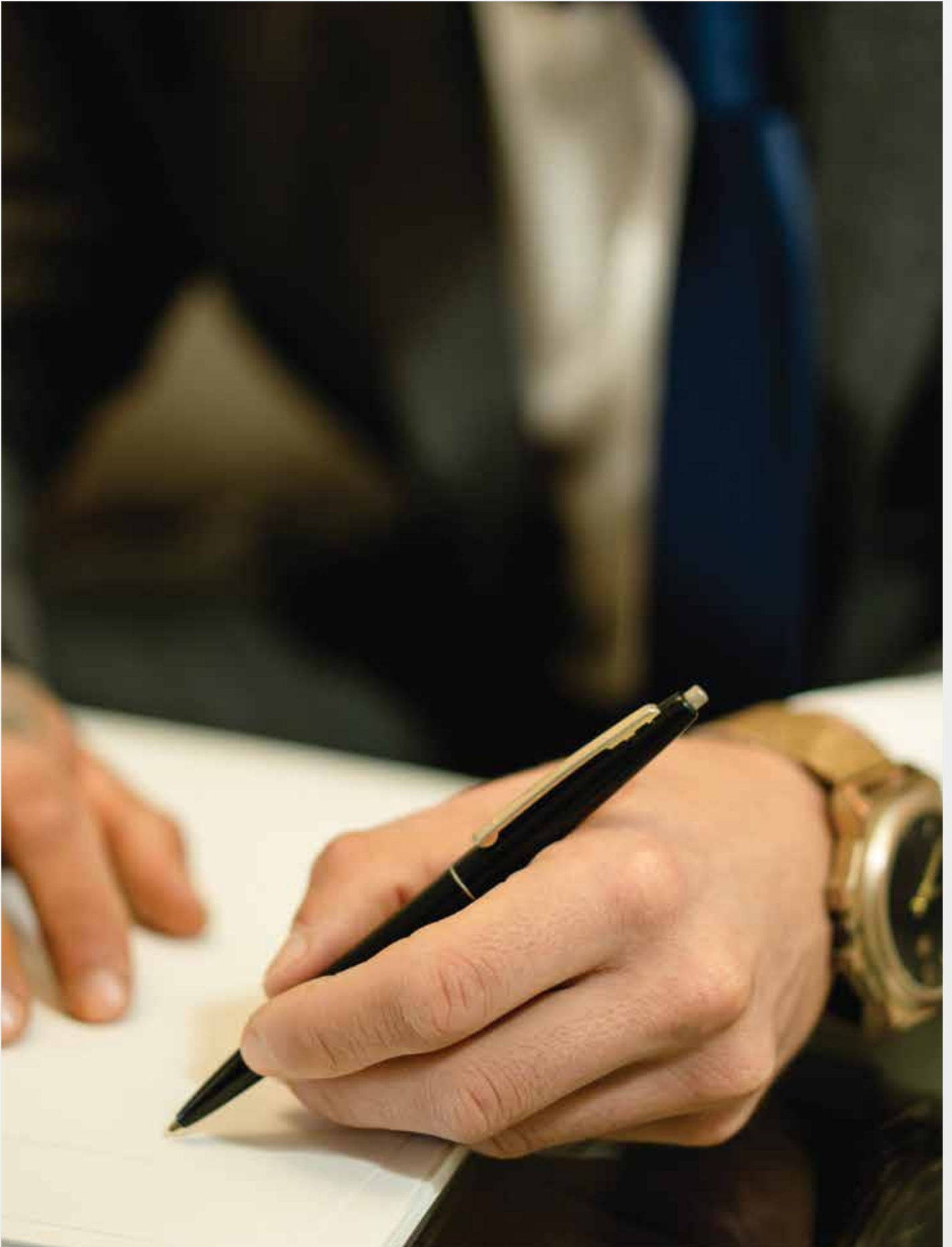
Acquisition of real estate during insolvency proceedings is also usually done by auction organised by the insolvency administrator. During insolvency, the operations of the company's administrative institutions are suspended and management is performed by the insolvency administrator. The insolvency process, including the auction procedure, is regulated by the Insolvency Law and the Civil Procedure Law. However, since in most cases real estate is mortgaged, mortgaged real estate can be acquired without an auction if the secured creditor(s) and the insolvency administrator agree.

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 or surrounding regions, or acquires no more than two real estate objects outside those 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 or 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. In order to obtain a temporary residence permit, the third-country national must pay a state fee of 5% of the real estate purchase value.

An application for a temporary residence permit is issued only for transactions involving purchase of real estate functionally related with buildings. Transactions with agricultural or forest land or vacant land plots 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 during the permit's validity period. 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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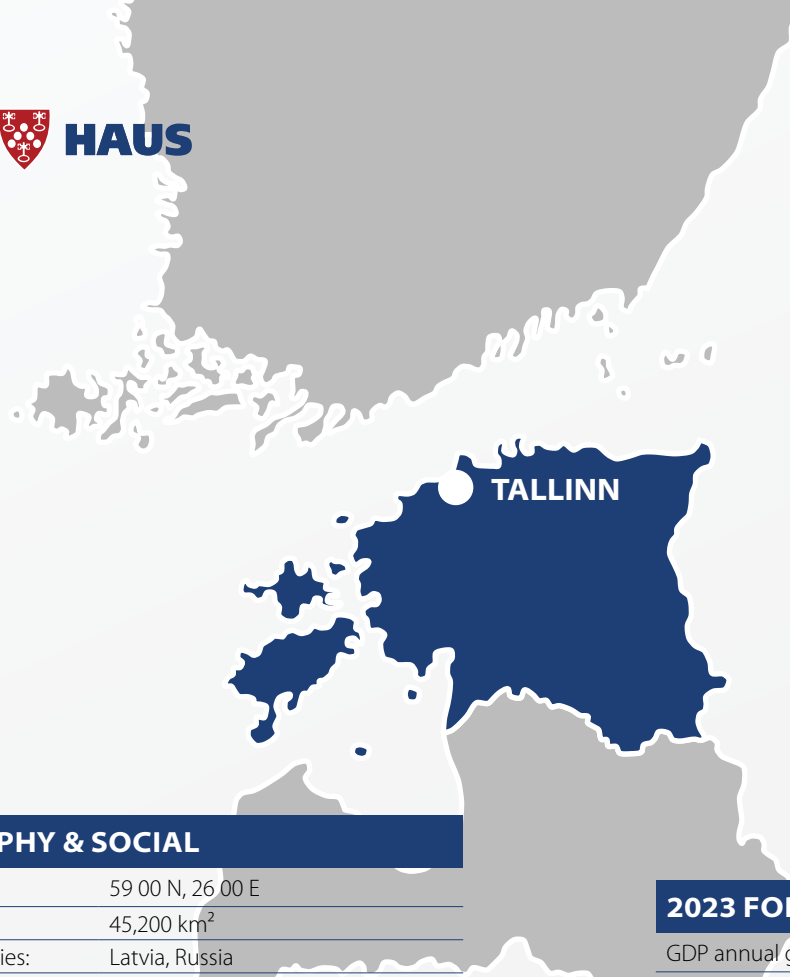
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Ober-Haus was established in 1994 and has now three offices in Estonia located in Tallinn, Tartu and Jõhvi with more than 61 real estate experts working across them. Our professional team provides a wide range of real estate services such as residential and commercial real estate mediation and advisory services, property valuation, real estate consulting, property management and market research and analysis.

An aerial photograph of a city, likely Tallinn, Estonia, during a vibrant sunset. The sky is filled with soft, colorful clouds in shades of orange, pink, and purple. The city below is densely packed with buildings, many of which have their lights on, suggesting dusk. A prominent church with a tall, dark spire is visible on the left side of the frame. The word "ESTONIA" is overlaid in large, white, bold, sans-serif capital letters across the center of the image.

ESTONIA


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

2023 FORECAST

GDP annual growth, %	0.4
GDP per capita, €	23,500
Private consumption annual growth, %	0.7
Average annual inflation, %	9.2
Unemployment rate, %	7.3
Average monthly net salary, €	1,478
Average salary growth, %	8.7
Retail sales growth, %	5.0
Exports annual growth, %	5.0
Imports annual growth, %	5.0

POPULATION

	2017	2018	2019	2020	2021	2022
Estonia	1,315,700	1,319,100	1,324,800	1,329,000	1,330,000	1,358,000
Tallinn	426,500	433,000	435,000	437,000	438,500	459,000
Tartu	95,700	96,500	97,000	95,100	94,800	97,000
Narva	57,130	56,100	55,250	55,200	54,000	53,600

ECONOMICS

	2017	2018	2019	2020	2021	2022
GDP growth, %	4.9	3.9	5.0	-2.9	8.3	-1.3
GDP per capita, €	18,100	19,600	21,000	20,200	22,800	23,300
Private consumption growth, %	2.6	4.6	3.3	-2.5	7.3	-1.9
Average annual inflation, %	3.4	3.4	2.3	2.0	5.0	19.4
Unemployment rate, %	5.8	5.6	4.4	7.3	6.2	5.8
Average monthly net salary, €	986	1,098	1,162	1,189	1,255	1,360
Average salary growth, %	6.7	7.1	5.9	2.3	7.8	8.9
Retail sales growth, %	7.5	6.6	6.9	0.9	14.3	15.4
Exports annual growth, %	3.5	4.3	6.6	-7.0	24.4	16.8
Imports annual growth, %	3.6	6.1	4.4	-2.1	26.6	24.5
FDI stock per capita, €	14,604	16,586	18,931	21,154	23,145	24,141



THE FULL IMPACT OF THE ENERGY CRISIS IS ONLY NOW BEGINNING TO BE FELT BY THE ECONOMY

The high rate of inflation will continue to reduce consumption, causing the profitability of companies to decline. However, indications are that inflation has peaked and will probably fall to slightly below 10% in 2023.

The Estonian economy has so far performed better than the average. Despite the rapid rise in the cost of living, the reaction of consumers to high prices remained mild until the autumn, and consumption increased both in euros spent, and in volume. Despite the notable drop in confidence, people were prepared to keep pace with high inflation, which was made possible by the savings built up during the pandemic and money withdrawn from the second pension pillar.

High inflation is now increasingly affecting economic growth. Reduced purchasing power and diminished savings point to a fall in consumption volumes by the end of this year and during the first half of next, with corporate profitability taking a hit. The economy shrunk by 1.3% in 2022 but is estimated to grow by 0.4% this year, mainly as a result of an increase in government spending.

Inflation will come down slowly. With energy prices remaining consistently high and prices rising for the goods and services needed for production not yet entirely being passed on to end consumers, inflation will fall, but slowly.

Unemployment will rise as the economy cools, peaking at around 9% in 2024, and a part of the increase in unemployment will be due to refugees from Ukraine looking for jobs in Estonia, which

is starting to be reflected in the labour market statistics. Wages will rise by around 8-9%. Purchasing power will have fallen by 9%.

Tightening monetary policy will increasingly curb inflation. The Euribor will push up the cost of borrowing for people and companies, cooling the economy and so slowing the rate of inflation for manufactured goods and services in particular. Interest rates on loans being higher than previously, is more in line with the growth in consumer and asset prices in Estonia, and will help to reduce the risk of the real estate sector overheating.

The budget deficit will widen sharply in 2023, as it will be deepened by several decisions coming into force next year, including a rise in family benefits, an increase in the tax-free threshold, and an extraordinary rise in pensions, including a tax exemption for them.

The minimum wage in Estonia was increased to €725 starting 1 January 2023.

Average gross wages in Estonia increased by 8.9% in 2022, to €1,685 per month before taxes. The raise was one of the biggest in recent years. Salary growth in 2023 is expected to be 8.7%.

Unemployment was at 5.7% at the end of 2022 and is expected to increase to 8.5% by the end of 2023.

In 2022 inflation was 19.4% and is expected to decline to 9.3% in 2023, falling to 2.8% in 2024.

In the Hipodroomi Quarter, the main buildings of Swedbank and Elisa will also be completed in 2024, providing a total of approx. 40,000 sqm of office space.

The development of office space is concentrated on the outskirts of the city centre, along the roads exiting the city, like Tammsaare Road and roads in Ülemiste City, the most popular area for the information technology sector.

DEMAND

The vacancy rate of A class offices is around 5%, and for B class it is around 8%. Most of the potential clients for A class office spaces are linked to foreign companies and their representative firms, including IT, medical, and financial companies. Since Q2 2021, with the recovery of economic growth, the vacancy rate of A class office space has been decreasing.

Due to the more recent economic downturn, several companies have started to reduce staff numbers, which will lead to an increase in vacancies in 2023.

The transactions market in office space is more fluid in the centre of the city, since in secondary locations companies prefer to rent. Deals are dependent on the location, with prices commonly ranging from €1,500 to €2,500 per sqm. In a few projects in the centre of Tallinn, prices have been between €2,700 and €4,000 per sqm. The prices for smaller individual office spaces can be up to €6,000 per sqm.

RENTS

Although demand increased in early 2022, A class rents did not significantly change during the year overall due to the war and the recession. As of the end of 2022, rental prices for class A offices were €15.00-€19.00 per sqm and for B class office spaces, €9.00-€13.00 per sqm. The rents for individual, smaller, and exclusive A class offices can be €18.00-€20.00 per sqm, on the upper floors of high-rise buildings. Rents can also be higher in the CBD. In the suburbs, the rents for offices in less desirable locations or older buildings are from €5.00 to €7.00 per sqm per month. Ober-Haus expects rents to remain stable during 2023, but ancillary costs will increase further.



LIIVALAIA 28

LEGAL NOTES BY SORAINEN

Rent is usually payable monthly, in advance. Payment of rent more than one month in advance is not customary.

Rent is typically indexed to local inflation. Sometimes an index floor and cap are used to limit the risk of excessive changes, especially considering the high inflation rate in 2022 in Estonia.

Triple net leases are common for commercial properties but not universally used, and there are often variations and disagreements over, for example, which costs are related to property maintenance, which are CapEx and which are landlords' internal costs. There have also been some offerings on the market with fixed utility costs. The concept of a sinking fund (amortisation) is rare.

Generally, normal wear and tear is allowed and is at the risk of the landlord. The parties can also agree that the tenant will arrange for the repair or incur the costs of any normal wear and tear.

Quite commonly, payment of rent and costs is secured by rent deposit and less often by bank or parent company guarantee. Generally, the rent deposit amount is 1-3 months' rent.

Leases survive the transfer of property titles. 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 of becoming the owner, provided the new owner shows that they themselves have a pressing need to use the premises so the intention to re-let at a higher rent is not sufficient grounds. If the leased property is transferred to a new owner during the course of bankruptcy or enforcement proceedings, the new owner has the right to terminate the residential lease agreement or the lease agreement for business premises, without the necessity to prove an urgent need to use the leased premises. In the case of other types of transferral of rights and obligations arising from the leased property, the landlord still has to prove the existence of an urgent need to use the leased premises if they wish to cancel the lease contract. In recent years, asset deals have become more common than share deals.

INVESTMENTS

In 2022, several transactions were suspended due to the war in Ukraine, the general uncertainty of the situation and a series of interest rate hikes. Foreign investors are cautious, but local investors are looking for suitable properties.

In Q3 2022, US Real Estate bought the Foorum Centre, the seller was Forum Invest OÜ and Forum Valduse OÜ. The centre is a modern A+ class building located at the intersection of Hobujaama Street and Narva Road, and the first floor of the office building has a shopping street that connects the two. Office spaces are located on the upper floors. There is a total of 9,600 sqm of leasable space, with a 50/50 split between office and

commercial. Anchor tenants are KPMG, Vapiano and Swedbank. The value of the transaction was ca €33 million, with a yield of ca 6%.

In Q1 2022 LHV Pension Funds purchased an office building on Sõpruse Street, which is one of the greenest commercial buildings in Estonia. Located in the Kristiine District of Tallinn, it was completed in 2015. It has more than 2,500 sqm of rental space. The anchor tenant of the building is the well-known IT company Proekspert AS. The value of the transaction was around €5.4 million, with a yield of ca 7%.

RECENT DEVELOPMENTS



KAWE CITY – Commercial real estate group Kawe, built an A class office building called Kawe City next to Kawe Plaza in the heart of Tallinn. It was completed in Q3 2022. The total area of the building is 9,250 sqm, of which, approx. 8,000 sqm is leasable. The rents are €15.00-€20.00 per sqm for office spaces and for commercial spaces on the first floor €15.00-€30.00 per sqm. Anchor tenants are PricewaterhouseCoopers and Creditinfo. The entire project cost €13.5 million



AVALA QUARTER – Avala Quarter is a unique business park in the city centre of Tallinn in the immediate vicinity of all the major connecting roads. The airport and bus station are only a few minutes away by car. In Q2 2021, the first stage, an A class office building named Electra, was completed. The second stage building, named Polaris, with a GLA of 10,000 sqm, was completed in Q3 2022 and a third office building called Sirius is being planned. The project will meet the LEED Gold standard. Rents range from €15.00-€16.00 per sqm and office spaces are from 250-10,000 sqm. Additional costs are €2.00 per sqm. The developer is Kaamos.



BÜROO 113 – Hepsor is building the first high-rise in continuation of the green thinking concept on Pärnu Road, close to the heart of Tallinn. The A class 13-storey office block will have a total of 3,900 sqm of rental space. In addition to offices, there are commercial premises, a restaurant and ample parking. The sunny roof terrace on the fifth floor will be open to all users of the building. This will be the first high-rise in Tallinn to be heated in winter and cooled in summer using geothermal energy. Rents start at €15.50 per sqm, and the building was completed in Q3 2022. By end of 2022 was vacancy rate was zero. The developer was Hepsor.



ALMA TOMING – Ülemiste City invested €30 million in a new 11-storey A class office building of 22,400 sqm, with a GLA of approx. 16 000 sqm. The building is located next to the planned Rail Baltic terminal, on Sepise Street. The building was pre-awarded a LEED Gold certificate and was completed in Q4 2022. The anchor tenants are Fujitsu and Skeleton. By the end of 2022, the vacancy was almost at zero. The rents are €16.00 per sqm, with additional costs of €1.90-2.10 per sqm. The developers were Technopolis Ülemiste and Mainor Ülemiste.



TECHOPOL 3 (MÄEALUSE 2/4) – The developer Astlanda Ehitus, built a 8-storey building, which became the largest office building in Tehnopol. The new building, on Mäealuse Street, is 12,000 sqm of office space and has parking spaces for 600 cars. The building meets the latest technological requirements and is rated as class A. The tenants of the building, which was completed in Q4 2022, are mainly technology companies. The rental prices start at €12.5 per sqm, plus additional costs.

NEW PROJECTS



PORTO FRANCO – Next to the Admiralty Pool located in the immediate vicinity of both Tallinn's harbour and the Old Town, Porto Franco will be a business and commercial complex with a seaside promenade, a unique glass roof and an internal street. There will be around 25,000 sqm of office space. The offices will have panoramic views and high ceilings. Additionally, various commercial outlets like, cafés, and restaurants in the centre are planned. There will also be an underground parking facility for 1,250 cars. The total cost of the project will be €190 million. The office complex was intended to be completed in 2022, but the project has been delayed for various reasons. The developer is Porto Franco.



MAAKRI HUB – This will be a 17-storey A class office building, located in CBD of Tallinn. Its predecessor, the well-known Postimees Media House was completed in 2000, but is now being completely reconstructed. On the first floor of the building there will be a restaurant and other commercial premises. There will be also a conference centre, with rooms to rent on an hourly basis. The building will provide about 10,000 sqm of modern leasable space and will be completed in the summer of 2023. The rents are €17.00–€23.00 per sqm. The developer is Fausto Capital.



A. H. TAMMSAARE ROAD 56 – US Real Estate will soon commence the development of Tondi Business Quarter next to the Kristiine City's residential environment. The development will bring 28,000 sqm of office and retail space to the area. The first office building with a GLA of 6,500 sqm on A. H. Tammsaare Road, will be completed at the beginning of 2023. Subsequent stages, on the streets Tammsaare and Tondi, will be completed by 2025.



ROSENI MAJA – A 6-storey A class office building will be constructed in the city centre of Tallinn within the Rotermanni quarter next to the port and the Old Town. Retail, restaurant and café spaces with direct access from outside have been designed for the ground floor, while the other floors be office areas. The total area of these buildings is 15,000 sqm, of which 8,900 sqm is leasable. The rents are €15.50–€16.50 per sqm. The whole project will cost €20 million and will be completed in Q2 2023. The developer is NG Investeeringud.



TULE MAJA – The outstanding Tule Maja is located on Peterburi Road, on the section closest to the city centre, and hence the logistical hub for both national and international traffic. Fast tram connection to Tallinn Airport is available, and Tallinn Bus Station, provides easy access to the city centre, giving a much needed advantage during rush hour traffic. Ülemiste train station is also nearby, as will be the planned terminal of Rail Baltica. The A class 10-storey office building will have a total of 16,000 sqm of rental space and 600 parking places. The rents are from €13.5 per sqm. The building, developed by Combicon will be completed in 2023.



LIIVALAIA 28 – Kapitel's total investment in the development of this quarter rising at the intersection of the streets Liivalaia and Juhkentali in the centre of Tallinn will be approximately €100 million. The construction on Liivalaia Street, will be one of Estonia's largest and most demanding projects of all time. The quarter, with a total gross area of 77,000 sqm and a rental area of 36,000 sqm, will consist of three buildings and a carpark. A 9-storey building with 3,000 sqm of rental apartments will be completed at the start of 2024, a 15-storey commercial building with a rental area of 9,000 sqm by mid-2024 and finally, a 28-storey commercial building with a rental area of 19,000 sqm in the second half of 2024. The construction began in Q2 2021. The developer is Kapitel/Merko.



GOLDEN GATE – In 2024, the Rotermanni quarter will expand towards the sea, and the Golden Gate will be the gateway from the harbour to the city centre. This office building at Ahtri 6 will have a unique location, between the Old Town, the heart of the city and the cruise port. The total area of the 6-storey building will be 13,400 sqm and it has been awarded the LEED certificate. The rents are €20.00–€25.00 per sqm. The developer is US Real Estate.



LIIVALAIA 9 – Infotar is building 9-storey a class A office building in the city centre with a total area of 6,600 sqm for its own use, with an office space of 3,900 sqm. The company's three main areas of activity are shipping, energy and real estate. Construction will be completed in Q2 2023.

In 2023, the popular Swedish clothing store ARKET will open its first store in Tallinn and the sporting goods chain Decathlon will open in Kumna park.

The trade/services sector has been significantly affected by movement restrictions during the pandemic, with a decrease in the number of tourists and very high inflation.

The existing retail space per capita in Tallinn is one of the largest in Europe and no new major projects are expected in the coming years.

DEMAND

While consumption rose sharply in 2021 following the lifting of Covid-related restrictions, it began to slow down in the second half of 2022. The total turnover of retail trade enterprises in 2022 was €10.5 billion.

In 2022, retail trade turnover increased by 12% in the retail sale of automotive fuel, the biggest increase when compared with manufactured goods retail, where turnover rose by just 3%. Retail turnover in grocery stores decreased by 3%. In December 2022, turnover decreased by 7% compared to December 2021.

At the end of 2022, the vacancy rate in Tallinn's largest and most popular shopping centres was close to zero. In 2021 vacancies in the shopping centre T1 were at about 50%. However, in 2022 the vacancies decreased significantly, due to new brands opening and the construction of an additional entrance.

The main goal of shopping centres is to differentiate themselves from competitors through different concepts, especially in terms of entertainment and service. The main risk is that high inflation reduces the purchasing power of consumers and increases the costs for retail chains, leading to lower unit sales. In addition, e-shopping has significantly influenced consumer habits, and it is increasingly noticeable how consumer goods are purchased from stores closer to home, rather than from a larger centre.

RENTS

While in 2020 closures and restrictions put pressure on the retail sector and some landlords were forced to make big discounts for existing tenants, in 2021 the situation stabilised along with the increase in consumption. In 2022, there was pressure to raise rents. At the same time the number of new leases had started to decrease and owners wanted to increase rents by 5-20%.

In shopping centres at the end of 2022, rents for medium-sized premises (150-300 sqm) ranged from €13.00 to €20.00 per sqm, and for smaller units, €35.00-€70.00 per sqm. Rents for anchor tenants run from €9.00 to €13.00 per sqm.

In 2022, the reduction in tourists that started in 2021 still exerted pressure on high street rental prices. The rental prices for commercial spaces on streets along popular pedestrian areas ranged from €20.00 to €35.00 per sqm and did not change during the year.

INVESTMENTS

In Q4 2022, a contract was signed for the purchase of the commercial premises at Priisle Street, in Tallinn, for which a contract under the law of obligations had been entered into in December 2021. A long-term rental agreement has been signed with Selver AS for the use of these commercial premises, and leasable retail area of 1,500 sqm. The value of the transaction was €2.7 million.

In Q2 2022 – Capital Mill bought the biggest shopping centre in Raplamaa, Rappel, and the Maxima supermarket properties in Ahtme, from Fausto Capital. The value of the transaction was around €14 million. The size of the Rappel centre property, completed in 2012, is almost 16,000 sqm, and the closed net area reaches 5,300 sqm. The size of the Ahtme Maxima property, completed in 2015, is 7,450 sqm with a closed net area of 3,600 sqm. The current economic situation has become difficult, unpredictable and has made foreign investors anxious. This is also the reason for the suspension or temporary freezing of large real estate transactions, but here the situation favours the activity of local investors when making transactions.

A Luxembourg company called Lintgen Adjacent Investments S.à r.l. bought the bankrupt T1 Mall of Tallinn at the third auction in 2021. Lintgen paid €55 million to snap up the shopping centre, which is still open to the public, but is largely devoid of tenants. Given the planned Rail Baltica terminal nearby in Ülemiste, the location was one of its selling points. Retail will be concentrated on the two lower floors, a new entrance will be built towards the railway line and Ülemiste Centre, and movement between the 1st and 2nd floors will be improved. The third floor will have new functions – offices, sports and hobby activities, health and public services. No changes are planned for the fourth floor. An initial auction of the property earlier in the year had a starting price of €85 million and, when it failed to attract any bids a second auction with a €65 million reserve price was organised. While this attracted four registered participants, it also saw no bids. The shopping centre location, on Peterburi 2, is within walking distance of one large mall, the Ülemiste Keskus, and one smaller one at Sikupilli, meaning it struggled to compete and never managed to fill all its units with commercial tenants.

LEGAL NOTES BY SORAINEN

In most aspects, retail-based premises are let out on terms similar to office spaces. One major exception is that for retail, turnover-based rent is widely used.

Even in the case of investment-grade properties, there is no standard approach as to the set-up and use of marketing funds.



RECENT DEVELOPMENTS



LIDL – The German supermarket chain Lidl opened five stores in Tallinn in Q1 2022 (Tähesaju 4, Rannamõisa 12A, Karjavälja 12, Raadiku 11 and Sõpruse 153) and in Q1 2023 at Akadeemia 31. In addition, stores were opened in Pärnu, Narva and Tartu. Lidl has also bought several plots of land for the construction of stores.



IKEA – In Q3 2019, IKEA Estonia launched its online store as well as its first bricks-and-mortar location, (with a limited showroom and pickup point), in the Lasnamäe district of Tallinn. They also purchased a 20-hectare plot of land on the Tallinn Ring Road in the vicinity of the Maxima logistics centre in Kurna village. IKEA opened its doors here in Q3 2022. The surface area of the two-story outlet store is almost 30,000 sqm. There is also an in-house restaurant, a Swedish food market and a bistro.



TABASALU CENTRE – A shopping centre of local importance with a total area of approx. 13,000 sqm, with the energy class A, was opened in Tabasalu in this rapidly developing area in the immediate vicinity of Tallinn in Q4 2022. The anchor tenant is Selver with an area of 2,800 sqm. In addition, the centre has office and service spaces, an outdoor market for small producers and a food street. The developer was Reterra Estate.



PRISMA HARKU ROO – In Q3 2022, Prisma opened a locally important supermarket with a total area of 3,300 sqm (of which 2,500 sqm is used by Prisma), adjacent to Tallinn's Haaberst district. In addition, Apotheke, PetCity and Chopsticks are also represented. The total amount of the investment is approx. €6 million. It was developed by Capital Mill.



PRISMA MAARDU – In Kallavere, near Tallinn, in the centre of Maardu, Prisma opened a supermarket of local importance in Q2 2022 with a total area of 2,350 sqm. Prisma occupy 1,450 sqm, and in addition, there is Súdameapteek and two eateries – MySushi and Chopsticks. The total amount of the investment was approx. €4.5 million, and it was developed by Capital Mill.

NEW PROJECTS



KURNA PARK – Next to the IKEA store, approx. 18 km from the city centre, along the Tallinn Ring Road there will be a 20,000 sqm shopping centre with 20 different stores. This retail park is planned to open in Q3 2023. The anchor tenants will be Selver with an area of 6,000 sqm and the sporting goods chain Decathlon, its first store in Estonia. The total investment of the Kurna Park project will exceed €30 million. The project is being developed by Baltic real estate developer VPH Group in collaboration with Tallinn Retail Park OÜ.



PORTO FRANCO – This complex will have a seaside promenade, a unique glass roof and will be located near Tallinn Harbour, which previously benefited from a footfall of ten million per year. There will be about 35,000 sqm of retail space housing fashion shops, gourmet food, cafés, restaurant areas and a large supermarket. There will also be an underground parking facility for 1,250 cars. The anchor tenants will be Prisma. The completion of the remainder of the project has been delayed for various reasons. The developer is Porto Franco.



SELVER KURNA – In 2023 supermarket chain Selver will open a 6,000 sqm supermarket next to the IKEA store developed in Kurna, in the Rae municipality. Once open, the Selver chain will have 75 stores and nearly 120,000 sqm of retail space. The supermarket is set to become a part of a complex including the IKEA store alongside the Tallinn Ring Road. The developer is Tallinn Retail Park (VPH).



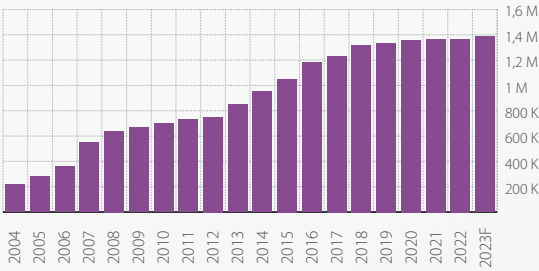
LUIGE SHOPPING CENTRE – Developed by Restate, a shopping centre of local importance with a total area of 3,340 sqm will be opened in Q3 2023 in an area close to Tallinn, approx. 13 km from the city centre. A stock-office complex is also planned to be built alongside the centre. Rental premises of 22-291 sqm will be available. The anchor tenant will be Rimi, with a rental area of 1,500 sqm. The rental prices of most medium-sized spaces are €15-€20 per sqm. By the end of 2022, approx. 70% of the centre's spaces were already booked.

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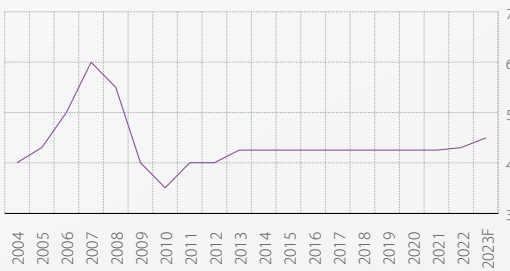


LUIGE SHOPPING CENTRE

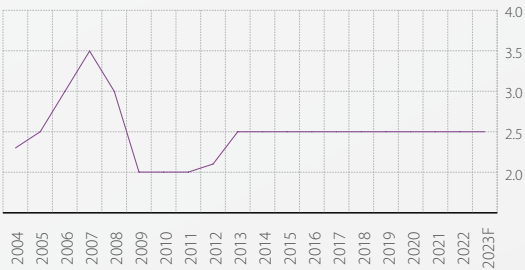
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



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TALLINN SNAPSHOT (END-2022)

TOTAL NEW WAREHOUSE SPACE	1,367,600 SQM
WAREHOUSE VACANCY RATE	4 %
NEW WAREHOUSE RENTS (SQM / month)	€4.00 - €6.00
OLD WAREHOUSE RENTS (SQM / month)	€2.50 - €3.50
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.50 - €2.50

STOCK-OFFICE TYPE PROJECTS ON DEMAND

SUPPLY

Tallinn and Harju county have a total of 1,367,600 sqm of modern warehouse space. In 2022, the industrial sector was still active and at the end of the year there was approx. 100,000 sqm under construction.

In 2022, logistically attractive locations in the suburbs continued to be popular, because they allowed businesses to combine their warehouse, office and retail needs. Eight new stock-office projects were completed in 2022 bringing almost 39,000 sqm of space to the market and a further twelve projects with 70,000 sqm will be completed in 2023.

The Covid pandemic has, and continues to change the business models of many companies, and the demand for logistics space and solutions has increased due to the growth in e-commerce.

DEMAND

In 2022, clients showed increasing interest in spaces located near Tallinn, in Rae district next to the Tartu and Ringtee roads. Stock-office projects, available at various locations in Tallinn, were also popular, especially in the Lasnamäe, Haabersti, and Mustamäe districts.

The highest demand is for stock-office spaces, which include a warehouse, production space, and a representative office for the supply of goods or services. Usually 65-85% of the building area is a warehouse or showroom, with 20-30% as office space, with some companies needing a separate showroom.

INDUSTRIAL MARKET

In the case of stock-offices, smaller units of 200-500 sqm are most in demand. The location is particularly important – high-density roads inside and outside the city are preferred.

In Estonia, the development of storage and production facilities is closely related to external demand and exports.

The vacancy rate of warehousing premises in the Tallinn region was at 4% by the end of 2022, and in the stock-office sector it was 3%.

RENTS

Despite the rents in Tallinn and Harju County being stable in 2021, in 2022 there was pressure to increase rents.

At the end of 2022, rents for new modern warehouses in the most attractive locations ranged from €5.00 to €6.00 per sqm. Near or outside the city limits, rents range from €4.00 to €5.00 per sqm. Renovated premises are being offered at prices from €2.50 to €3.50 per sqm. Average and poor-quality premises range from €1.50 to €2.50 per sqm.

Rents for smaller A class stock-office premises of up to 300 sqm, vary from €6.00 to €12.00 per sqm depending on the proportion of office space versus warehousing.

The country's economic growth, which recovered after the end of the pandemic, started to weaken in the second half of 2022 and this will definitely affect the industrial sector.

Ober-Haus predicts that rents for traditional warehousing may increase in 2023 due to high inflation.

INVESTMENTS

Local investors were active in the market as foreign investors became cautious due to the uncertain situation and transactions were postponed. At the same time, rising interest rates had an impact. In the current market situation, investors expect a return of at least 7% on warehousing and production facilities in and around Tallinn. The volume of e-commerce in the Baltic region continues to grow, so investment in logistics currently offers a significant advantage.

In Q2 2022, one of Estonia's largest investment companies, Infotar, expanded its real estate portfolio by purchasing a newly built loft-office type building (under financing from Luminor), from real estate developer Restate. It is located on Tähesaju Street, Lasnamäe in Tallinn. The size of the building is 5,600 sqm and is 100% occupied by tenants. The value of this transaction has not been disclosed.

In addition, in Q4 2022, Infotar bought a newly completed stock-office building on Tähesaju Street. The size of this building is also 5,600 sqm. Several strong brands are already concentrated in the area: Bauhaus, Home4You, Juku, Magaziin, Motonet, Prisma, Selver, Toyota, and Hortes. Rental prices start at €9.50 per sqm.

The developer is Restate. The value of this transaction has been withheld.

In 2021/2022 East Capital Baltic Property Fund II sold two buildings with a GLA of 40,000 sqm, as part of the J13 Logistics Park located in Tännasilma on the outskirts of Tallinn. The fund had been the owner and manager of the complex since 2012. The buyer was OÜ Neoinvesteeringud, an Estonian holding company engaged in real estate investments. The value of the transaction is confidential.



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 and are becoming more popular.

RECENT DEVELOPMENTS



IRU ÄRKESKUS – This is a new 2-storey stock-office type building on the Vana-Narva Road near Tallinn. This three-in-one solution enables the company to bring all its business under one roof and thereby save on logistics, communication, staff, and ancillary costs. Multifunctional units start at about 350 sqm, but there are also commercial spaces up to 980 sqm. About 9,500 sqm of commercial space can be created by joining the units. Rents are €5.50–€6.50 per sqm. At the end of 2021, about 50% of the space was reserved. The building was completed in Q4 2022. The developer was Favorite.



RINGI 13 – In Q3 2022, a stock-office type building was completed near the intersection of the Tallinn Ring Road and the Tartu Highway. Business premises of different sizes and purposes are available based on the client's needs. The building is energy class A. The gross area of the building is 7,500 sqm with rental prices starting at €6.50 per sqm.



RUKKI 2 – In Q2 2022, a stock-office type building was completed near the Tartu Highway, 12 km from the centre of Tallinn. The premises offers different sizes and purposes according to the client's needs. The total volume of the building is nearly 5,700 sqm and it can be divided into smaller units of 96-830 sqm. The units can also be combined. Rental prices start at €7.00 per sqm.



RETI 6 – In Q2 2022, a stock-office type building was completed near Tartu Road in Peetri village. The A-energy class building has 20 commercial premises, which are suitable for warehousing, showrooms, small scale production and workshops. Unit sizes are 84-295 sqm and they can be connected to each other. Rental prices start at €6.50 per sqm. The developer was Colonna.



PRIISLE 18 – In Q2 2022, a stock-office type commercial building was opened in Priisle Äripark, a suburb of Tallinn, which enables the entire company's operations to be located under one roof, thereby saving time and resources. The sizes of the units are 84-295 sqm. At the end of the year, the vacancy in the building was zero. The business park has several strong brands. The developer was Restate.



TÄHETORNI TEHNOPARK

NEW PROJECTS



RINGTEE TECHNOLOGY PARK – The park is located in Rae district, by the Tallinn Ring Road which has the highest traffic density in Estonia. There are several well-known enterprises in the neighbourhood: Hansaplant, Uponor, Maxima Logistics and IKEA. The plots for sale range from 4,100 to 8,400 sqm. According to the detailed plan, it is possible to erect as many as twelve buildings up to a height of 12 metres. By the end of 2021, all plots had been sold. The project will be completed in seven years. The developer is Hammerhead.



TÄHETORNI TEHNOPARK – This technology park in the suburbs of Tallinn on Härgmäe Street (next to Paldiski Road), is rapidly expanding. In June 2019, the first stock-office building with 6,300 sqm was completed and another with 4,400 sqm was completed in Q1 2020. In Q4 2021, another building with 5,400 sqm was completed. In Q3 2022, the construction of the fourth, 4,600 sqm building began, which will be completed during 2023. A total of around 60,000 sqm of commercial premises are planned for this technology park. The developer is Favorte.



KADAKA TRADE CENTRE – The KTC will be a new two-storey multifunctional stock-office type building in the highly valued Kadaka business district. The 14,200 sqm of rental space is appropriate for medium and large-sized companies that need commercial space for retail, service, office or storage purposes. Rental prices are on average €12.00 per sqm. The building will be completed in 2023, and the developer is Favorte.



MAKITA CENTRE – Japanese tool manufacturer Makita is building a central warehouse, maintenance, and training centre of up to 25,000 sqm in the Gate Tallinn business park near Tallinn. The sale of equipment to Estonia, Latvia, Lithuania, Norway, and Sweden will be coordinated from Makita's representative office, to be located in Laagri. The investment will reach €24 million. The centre will be completed in 2023.



RIMI LOGISTIC CENTRE – By 2024, Rimi Eesti will move all its operations to a large new office in Laagris Gate, Tallinn, where there will be a modern logistics centre with 18,000 sqm, with an expanded central kitchen and an office suitable for new ways of working under one roof. Construction was scheduled to begin in Q4 2022. The developer is Lumi Capital.



RUKKI 11 – The stock-office type buildings under construction will be built in the attractive Rukki Business Park, logistically well-located near Tallinn, next to the Jüri Ring Road. High profile Estonian companies are located in the neighbourhood: Smarten, Baltic Agro, Omniva, and Ace Logistics. The GLA of the buildings is 8,000 sqm. The intended use is offices, warehousing, and manufacturing. Rental prices are €6.20–€8.80 per sqm. The developer is Hauses Grupp.



EAST CAPITAL LOGISTICS PARK – The management company East Capital Real Estate, better known for investing in completed objects, has diversified into real estate development, acquiring a 30-hectare plot in Rae district near Tallinn. The planned logistics park will be located at the intersection of Tallinn beltway and the Tartu Highway, in the vicinity of the expected IKEA centre. East Capital decided to invest in real estate development as there are fewer and fewer attractive and viable management opportunities in the logistics sector.

The average price of a 3-room apartment in the secondary market in Tallinn was €125,450 (€2,677 per sqm).

New apartments with a final fit-out cost €3,000–€6,000 per sqm in the city centre and €2,500–€4,500 per sqm in the residential districts.

Prices of apartments mainly vary according to the location. Most transactions were in the city centre and involved apartments in good condition, in modern or fully renovated buildings, with prices from €3,200 to €3,800 per sqm.

In buildings with the best views or special architectural features, prices can exceed €4,000 per sqm. Well-renovated flats in the Old Town cost from €3,500 to €5,500 per sqm.

In residential areas, most of the sales were for cheaper one or two-room Soviet-era apartments in need of renovation, costing from €1,800 to €2,200 per sqm. Apartments in excellent condition situated in popular locations in residential areas cost from €2,400 to €2,800 per sqm.

Inevitably, property situated in less sought-after locations is much less marketable, even if they are in good condition. In popular suburban locations like Pirita, Nõmme or Kakumäe, prices for modern apartments range from €2,700 to €3,200 per sqm.

RENTS

In Q2 2022, the rental market was significantly affected by Ukrainian war refugees and the supply decreased by 50%, with prices increasing by about 20%. In the third quarter, however, the supply started to grow and was twice as large as at the end of the 2021 and prices began to fall.

At the end of 2022, the asking price for rental apartments in the suburbs of Tallinn was €9.00–€14.00 per sqm and €12.00–€15.00 per sqm in the city centre for apartments in period buildings.

The price of a new rental apartment in the city centre is €15.00–€20.00 per sqm, and in the suburbs, €11.00–€16.00 per sqm. Average micro apartment rents can exceed €30 per sqm. The price of a parking place might be included in the rental price of an apartment.

In the centre of the city, demand is highest for one or 2-room furnished apartments, which rent for €450–€650 per month, preferably with parking. Tenants pay their own utilities on top of the rent.

The most active rental market in Tallinn is in the city centre, as well as in the Lasnamäe and Mustamäe districts. The average rental term is usually 1 year. Contracts for longer than 3 years are usually

There are no restrictions on leasing apartments. Residential rents are usually fixed and not indexed; therefore, the term of a lease is relatively short. Costs for electricity, heating, etc, are customarily

excluded from the rent and need to be paid by the tenant. The renovation fund is usually also paid by the tenant, although legally, it should be paid by the landlord.

Increased purchase prices, high inflation and rising interest rates have put pressure on the rental yield of apartments. The gross rental yield of Tallinn apartments was 4-5% in 2022, depending on the type and location of the apartment.

Owners generally negotiate rental agreements of short duration (up to one year) and thoroughly check tenant backgrounds.

ason for Tallinn's growing rental market is immigration, and in particular, the impact of Ukrainian war refugees in 2022.

Smaller apartments are low risk investments that retain demand and reliable rental prices. There is constant demand for small, cheap, functional rental premises in Tallinn as with many large cities, which is supported by the constant growth in the population of Tallinn and its neighbouring areas.

Most tenants are students, young people, employees from other parts of Estonia and internationals.

One of the most important advantages for tenants is that they can rent an apartment for as long as they need and the situation where residents must move out due to owners' plans changing does not usually arise (e.g., the sale of the property).

The emerging buy-to-rent market offers investors a lower return in the short term than, for example, commercial real estate, but it is a more sustainable business model in the current uncertain time and in the long run.

The private sector in Estonia has not previously owned such a large rental apartment portfolio of properties specifically developed for rent. It is a good opportunity to provide residents with professional management and a wider range of additional services at a reasonable price.

In 2019 Lumi Capital and LHV Pension Funds started investing in rental apartment buildings in Tallinn. In Q2 2020, a new project with 164 apartments, was started in Mustamäe which was completed in 2021/2022. LHV Pension Fund plans a portfolio of 500 rental apartments in Tallinn.

EFTEN Capital also entered the rental market. The first investment by the fund was a residential building with 112 apartments and 93 parking lots at the Kadaka Metsapark development in Tallinn, which was completed in 2021/2022.

The largest portfolio of rental houses in the Baltics, with a total of 479 new apartments under development has been sold. One hundred of them will be built in Estonia on Päevalille Street in Öismäe. The project will be completed in 2023. The insurance company BTA entered the Estonian commercial real estate market with this transaction, and the business plan will be implemented by the local investment manager Lumi Capital.

SUPPLY

In 2022, 2,200 new apartments were completed in Tallinn, compared to 2,800 in 2021. If the economy revives and residential property demand rebounds, 2,000 apartments should be completed in 2023.

Residential development is also growing near the centre of Tallinn, particularly in the Lasnamäe, Mustamäe and Haabersti districts.

At the start of 2023, there were apartments for sale in around 60 newly developed projects in Tallinn and in another 20 projects in the immediate vicinity of the city.

In 2018, the largest apartment development project in Tallinn was started in the New Veerenni Quarter. Developed by Merko, with a capacity of 1,600 apartments, the first stage was completed in 2019/2020.

The second biggest project developed by Merko in Tallinn is Lahekalda, which began in 2019. The first phase of construction, with 144 apartments was completed at the end 2020. The total volume of the project will be more than 1,000 apartments.

The third largest project developed in Tallinn is the Volta kvartal, in the neighbourhood of the city centre in Kalamaja, with 755 apartments. The developer is Endover, and construction started in 2022 – the quarter should be completed in 2025.

Most projects, however, 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. Kalamaja district which is located near the sea and the city centre, is an extremely popular area, and the prices of apartments are €3,500-€7,500 per sqm.

The development of apartments is mainly undertaken by larger developers such as Merko, Endover, Fund Ehitus, Liven, Hepsor, Metro Capital, Bonava and YIT.

DEMAND

In 2022, the number of apartment deals in Tallinn decreased by 11%, but the total financial volume increased by 8%.

During 2022, an average of 190 new apartments sold each month, which is 24% of all apartment transactions in Tallinn.

If in 2021 the demand for new apartments exceeded the supply, and most of the apartments were booked and sold before the building was completed, then in contrast, from Q3 2022, the demand decreased sharply. In 2023, the impact of rising interest rates on the housing market is expected.

Almost 70 apartments were sold during 2022 with purchase prices exceeding €500,000, most of them by the sea. The most expensive apartment was sold for almost €1.6 million.

PRIVATE RESIDENCES

While in 2021 the market for residential premises grew significantly, a decline began in Q3 2022. In Q4 2022, the number of transactions decreased by 38% compared to the same period in 2021, and the financial volume decreased by 40%, but the average transaction price did not change significantly. This is the biggest decline in the housing market in the last 4 years.

In Q4 2022, the number of houses offered in Tallinn and Harju County increased by about 50% compared to Q4 2021. The most desirable, in the surrounding areas of Tallinn, are new or up to five years old, and are 120-160 sqm with modern technical solutions and economic heating systems. Prices range between €200,000 and €300,000. The price for such houses did not change significantly in 2022. The average transaction price in Tallinn and Harju County was €248,000.

Most of the deals take place in Tallinn and within a 25 km radius outside Tallinn, especially in Rae, Saku, Saue, Harku, Viimsi. The highest average price was in these districts. Increasing prices can be observed based on location, especially in the highly priced and well-established private residential boroughs of Tallinn (Nõmme, Kakumäe and Pirita), and in the districts bordering Tallinn. During the last year, the popularity of Kiili and Saku districts has increased.

THE MORTGAGE MARKET

Competition in the real estate financing market is still strong. Several domestic banks have experienced strong growth and increased their market share, but large international banks still prevail.

The housing loan market was very active in the past couple of years. Demand in the housing market started to increase from the second half of 2020 and was supported by the rapid growth in household incomes and the savings people built up. The real estate market received a further boost from the money withdrawn from the second pension pillar. Loans were also made more affordable by the average interest rate on housing loans issued by banks reaching record low levels. The number of loans issued was 15% higher in both 2021 and 2022 than in previous years. The peak of growth in the housing loan portfolio of the banks was reached at 12.2% last September. Since then, borrowing activity has backed off, though the growth over the year in the housing loan portfolio was still significant in December at 11%. After the extraordinary amount of activity in the past couple of years, it was to be expected that the housing loan market would calm down.

Caution in an uncertain economic environment and the general rise in prices and interest rates led to a substantial decline in new housing loans at the end of 2022. The banks issued a total of €170 million of housing loans in December 2022, and the amounts paid out for new housing loans contracted sharply as the banks issued one fifth less in new housing loans than they did in the same month of 2018-2019, which was before the period of increased activity.

Demand for housing loans is likely to improve in the future. The rise in the Euribor and general inflation, will reduce enthusiasm for taking new housing loans, but wages continuing to rise will offer some relief. Housing loans are generally taken by households with an income above the average, that are also able to save more.

The average size of a housing loan has increased by 10.9%, reaching €132,000 in Tallinn with an average borrowing period of 24.2 years. A third of borrowers contribute 15-25% of the transaction price as self-financing, and 34% of borrowers contribute at least 25%.

The average interest rate on housing loans started to rise in 2022. The average interest rate on new home loans with a mortgage was 3.78% in Q4 2022, as compared to 1.96% in the end of 2021.



NEW VEERENNI

LEGAL NOTES BY SORAINEN

Rents are usually payable monthly, in advance. Tenants generally pay for their own utilities based on the invoices directly to the service providers after use. Generally, normal wear and tear is allowed and is at the risk of the landlord. Quite commonly, payment of rent is secured, e.g. by a rent deposit of one month's rent. Residential leases are not subject to rent control. Some residential properties owned by the local government enjoy subsidised rent, but there are few of them and they are allocated on an as-needed basis. Leasing of residential premises is more strictly regulated than leasing of other premises, such as commercial premises. Evicting delinquent tenants can be problematic. 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 the recovery of the premises from illegal possession, and eviction is possible only by a bailiff based on a court decision. This process can take a couple of years, although in most cases matters can be resolved within a more reasonable timeframe.

At the beginning of 2021, some changes in the regulation of the lease agreement came into force. As of then, it is allowed for the landlord and the tenant to agree on the contractual penalties in case of a non-monetary breach under the residential lease agreement. In such cases, the total contractual penalty may be up to 10% of the monthly amount payable by the tenant per breach. The maximum amount for a contractual penalty in one month is up to 20% of the monthly amount payable by the tenant. It is also possible for the landlord and tenant to agree that the tenant has the obligation to bear the costs of the building's maintenance and improvement works. In addition, it is possible to agree for the tenant to arrange a repair or to incur the costs of any normal wear and tear after the termination of the lease agreement. The grounds for increasing the payable amount of rent were also specified in the regulation which entered into force at the beginning of 2021.

RECENT DEVELOPMENTS



LAHEKALDA – Lahekalda is a new, rapidly developing residential district where over the next 10 years contemporary buildings with more than 1,000 comfortable apartments will be constructed. Situated on the almost 70 hectare, naturally beautiful Maarjamäe limestone bank, these apartment buildings will rise to just the right height above sea level to provide amazing views to the sea and the city centre towers. The first phase of construction, which was completed by the end of 2020, comprised of three buildings with 144 apartments, and the price per sqm remains at €3,100-€3,900. The second stage, with 96 apartments, was completed at the close of 2021. The third stage with 98 apartments was completed at the close of 2022 and the price per sqm was already €3,500-€5,000.



NEW VEERENNI – The New Veerenni Quarter is Tallinn's largest single residential development area. The buildings are in the Veerenni subdistrict. Over the next ten years, around 50 residential buildings with more than 1,400 apartments will be built. The buildings will have a B energy rating. There will be an underground car park and intra-quarter roads will be constructed. Courtyards in the quarter will be landscaped to include play and recreation areas. The first stage, with 137 apartments, was completed by the end of 2019. The second stage with 90 apartments, was completed in 2020 and the third stage with 59 apartments was completed in 2021. The fourth stage of this development project was completed in late 2022 comprising three apartment buildings containing 84 apartments. Prices of apartments range from 3,200 to €4,500 per sqm, parking space prices are €17,000-€22,000, storerooms cost €5,000/€8,000. It was developed by Merko.



KIIKRI RESIDENCES – These residences are in arguably the most beautiful area of Tallinn, right next to Kadriorg Park and Tallinn Bay. In the final stage, 86 apartments and 4 commercial premises will be built. On the upper floors there are exclusive penthouse-type homes with spacious terraces. During construction, every apartment owner could have their apartment designed from start to finish, according to their preferences. The interior finish can be chosen from four different packages. In 2020, the earlier stage of the project, received the award for the best housing development in the Baltics. The price per sqm remains from €3,700 to €6,000. This project was developed by Metro Capital and was completed in 2022.



KALARANNA QUARTER – Located near the Old Town, and close to the sea, Kalaranna Quarter is undoubtedly one of the most unique areas in Tallinn on Kalaranna Street. The development will have eight buildings with 240 apartments, commercial premises, and underground parking. Apartment prices range from €3,000 to €6,200 per sqm. The most expensive, exclusive apartment costs up to €680,000. The purchase price of an underground parking space is €20,000 and the price of a storage room is €6,900. This project was developed by Pro Capital and was completed in 2022.



NOBLESSNER HOME PORT – This is an exclusive, centrally located, seafront multifunctional project in the Noblessner Quarter, comprised of five residential buildings with 161 apartments and 14 commercial premises. Noblessner, a city district with a dignified history, has been designed to provide a contemporary living environment, where the residential buildings are surrounded by integrated urban space, including squares, park areas, a seaside promenade and high quality recreational facilities. The first stage includes two residential buildings with 60 apartments and 6 commercial premises next to the Noblessner Marina on Vesilennuki Street. This will be completed at the beginning of 2023. The buildings will have sea views, large balconies, and energy rating B. The size of the apartments are 33-377 sqm and the prices start from €3,500 per sqm. The developers are Merko and BLRT Grupp.

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VOLTA KVARTAL

NEW PROJECTS



ODRA – Right in the centre of Tallinn, on the corner of Lastekodu and Odra streets, a new house consisting of three parts with more than a 100 apartments and seven commercial spaces will be built. The building, located in a logistically perfect place, will house one to five-room apartments. The city centre, Kadriorg Park, as well as plenty of cafés and restaurants, and the Central Market (with plans for a new lease of life in the next few years), are all located within a pleasant walking distance. Prices for apartments range from €3,500 to €6,000 per sqm. The project will be completed in 2023 and will be developed by Merko.



VECTOR – A tower construction with one 16-storey and one 12-storey tower will accommodate 200 apartments and 320 parking spaces. There will also be a 1,500 sqm roof garden on the roof of the parking garage. The buildings are designed to meet the requirements of the LEED Gold certificate and the gross area of the complex is 38,000 sqm. Prices for apartments range from €3,000 to €5,000 per sqm. The project will be completed at the end of 2023. The developer is Triple Net Capital OÜ.



VOLTA KVARTAL – The Volta industrial site, which covers 11 hectares on the sea-facing side of the suburb of Kalamaja, is set to gain a new lease of life thanks to property developer Endover. The plan is to reshape it as a modern and environmentally friendly residential and business quarter combining old and new architecture. In total, 755 apartments, along with commercial premises will be built. The quarter is due for completion in 2025, construction having started in 2022. Prices of apartments range from €3,800 to €7,900 per sqm, with parking costs of €19,900, and storerooms at €4,900/€7,900. The most expensive, exclusive apartment will cost up to €750,000. The developer is Endover.



NÖMMEMÄE KODUD – Mäepealse Street is surrounded by the greenery of Nõmme and the park. A total of 138 apartments with one to four rooms sized 29-76 sqm will be provided in three buildings. Each apartment will have a balcony and the upper floors will offer sweeping views of the city's panorama and surrounding forests. There will also be parking in the underground car park. The sale of Nõmmemäe homes started in 2022 and the remaining apartments will be completed in 2023. Prices are yet to be published, and the developer is Bonava.



MANUFAKTUURI 5/7 – This project is located in the Sitsi subdistrict of Northern Tallinn, in the area of the former Baltic cotton factory (the Sitsi factory), and the future Manufactory Quarter to become the new centre of Northern Tallinn. An estimated 500 apartments will be built. The total volume of residential and commercial premises to be developed is 70,000 sqm, with an investment of €100 million. Construction and sales will begin in Q1 2023 and the project will be completed in 2025. The developer is Hepsor/Tolaram.



HARKURANNA TORN – A 14-storey residential building with 100 apartments on Paldiski Street 221A is being built in a valued location next to Harku Lake and the beach. On the top floor, there is a penthouse-type apartment with a private terrace. A parking space in the area next to the house costs €10,000 and in the underground parking lot €18,000. The storerooms cost €7,000. The apartments are 31-90 sqm and the prices range from €2,500 to €4,900 per sqm. The penthouse-type apartment is valued at €440,000. The project will be completed in Q2 2023, and will be developed by ITM Grupp Arendus.



OJAKALDA – A new three-tower house with spacious family apartments will be built on Paldiski Street, right on the border of the dignified Õismäe district. Playgrounds, lots of greenery and good connections to the city centre make Ojakalda a pleasant environment. The residential complex with 203 apartments has a B energy rating. Prices of apartments range from €3,300 to €4,100 per sqm and are valued at €198,000-€380,000. Parking spaces in the driveways costs €7,000, while parking spaces under the building cost €12,000 and storerooms, €3,500. The project will be completed in Q2 2024. Construction began in September 2022, by developers Hepsor.



SUUR - KARJA RESIDENTS – An exclusive development project in a historic house located on the oldest street in the Old Town of Tallinn. The building was originally built in the 15th century. The apartments will be 29-92 sqm and the prices range from €6,200 to €9,000 per sqm. In addition, there will be 4 commercial premises, sized 26-455 sqm. The project will be completed in 2023, by developers Suur – Karja Residents.



TIHASE KODUD – A residential complex consisting of two buildings with 46 apartments is being built near the centre of Tallinn, in the Kristiine district, at the intersection of Sõprus Street 26/28 and Tihase Street. The energy rating for the buildings is B. Two to three-room apartments will be built in buildings located in a logistically ideal location, with commercial premises on the first floor. All apartments will have balconies or terraces. The price of apartments will be €4,600-€5,400 per sqm, costing €250,000-€740,000. The project will be completed in Q2 2024 and is developed by Merko.



LEGAL NOTES BY **SORAINEN**

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

Construction requires a building permit issued by a local government. Construction must generally comply with local spatial planning – in particular, with a comprehensive plan, and in certain cases with a detailed plan. In densely populated areas, a detailed plan is usually required. Local governments often require developers to undertake to construct infrastructure as a condition for adopting a detailed plan. Some local governments also require payments to social funds. When buying land for construction, the existing detailed plan must be thoroughly assessed to ensure its applicability.





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 building land 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 building land, 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. Estonia 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 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 at least 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. Rent

of residential property is always VAT exempt, optional taxation 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 2019, corporate income tax rate of 14% (14/86 on the net amount) is applied to regularly distributed profit. In case the recipient of the dividend is an individual, additional 7% withholding tax applies. The year 2018 was the first calendar year that was 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):

Generally, non-residents without a permanent establishment in Estonia are subject to 20% income tax on the gross rental income by way of withholding, in case the rental payment is done by a company. If a company pays rent to resident and non-resident individuals, 20% income tax should also be 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, no source documents are needed. Therefore, the effective tax rate for individuals on rental income is 16%. Non-resident individuals are allowed to use the same deduction by way of self-assessment to reduce the tax payable.

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, 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 building land, 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 generally exempt from VAT. However, transfer of shares in a real estate company could be subject to VAT in case the real estate owned by the company is a new or significantly renovated apartment or building, or a building land.

CORPORATE INCOME TAX (CIT):

Capital gains received by resident companies upon sale of real estate or shares in real estate company 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 company 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 DOMESTIC 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 located in Estonia. In addition, interest 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):

Generally, 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)

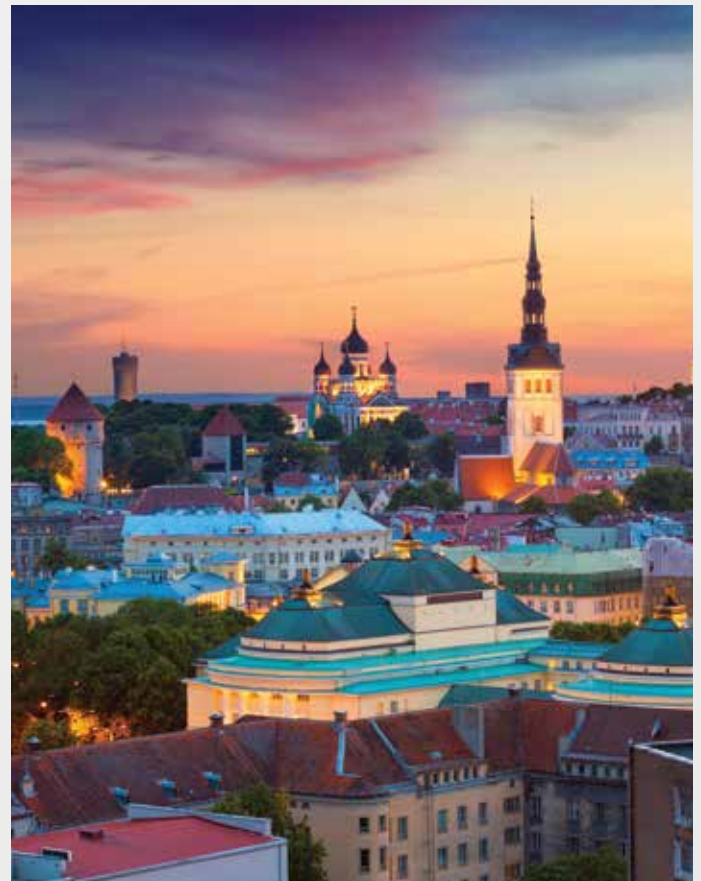
There is no real estate tax in Estonia.

LAND TAX

As a 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, by which registration in the Land Register confers the title in itself. This makes verifying titles simple and transactions secure. At the same time, the requirements for notarisation and documentation can make other aspects of the transactions cumbersome and time-consuming.

TITLE TO REAL ESTATE, LAND REGISTER

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

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

Titles to real estate are considered to be transferred on registration of ownership with the Land Register, not on signing the agreement. The notary who certifies the transaction will file a notarised registration application, together with the transaction documents, in the Land Register. This is done electronically usually on the same day. In the case of a simple transaction, ownership is often registered within one week of 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 arrival of applications and so parties to a transaction often agree to act as though the ownership has already transferred once they have submitted an application to register a change to the Land Register.

ACQUISITION OF REAL ESTATE

GENERAL

Most commercial properties held for investment purposes in Estonia 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 the sale of shares has become rarer.

An asset transfer may constitute a transfer of enterprise, in which case it will be similar to a share deal since the seller's obligations 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, it is not permissible to transfer a building separately from the underlying land, except if a building title is established and then transferred. A building title provides its owner with the transferable and inheritable right to erect and/or own a construction permanently attached to a land plot that they do not own for a specified term of up to 99 years. In that case, the building forms an essential part of the building title, not of the land. Building titles can be transferred separately from the land plot. In recent years, building titles have commonly been used to construct and establish ownership over renewable energy projects on land plots, such as wind parks and solar parks.

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 contemplated real estate transactions. 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. A breach of the exclusivity obligation entitles the aggrieved party to compensation by way of damages, including the 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 covering the intended negotiation period plus some additional time.

ASSET TRANSFER

Asset transactions must be notarised and therefore often have to 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 transfers do not require research into the legal or financial background of a company to the same extent as share transactions. Nevertheless, as an 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 an 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 disposition for the transfer of a share must be notarised. In addition to the notarial form of the share transaction of the private limited companies, as of 1 August 2020, if the shares are not registered with the Register of Securities, such share transactions may be concluded in a simple written form if certain conditions are met. In order to conclude such a share transaction in a simple written form, the share capital of a private limited company has to be at least EUR 10,000 and fully paid in; and this possibility has to be prescribed in the articles of association of the private limited company. All the shareholders of the private limited company have to be in favour of waiving the requirement for notarisation of the share transaction documents in the private limited company's articles of association.

Increasingly stringent Know Your Client and Anti-Money Laundering rules have forced banks to limit opening bank accounts for foreign investors, which can sometimes make 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 due to this.

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

Anyone considering a portfolio deal should bear in mind the following:

- Portfolios may include flawed or unwanted properties. Here, due diligence is of the 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, for example, 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 (e.g. guarantee, surety).
- Closing date under the asset purchase agreement should coincide with the lease commencement date irrespective of the actual date of the title transfer (in order to avoid book-keeping issues and to reconcile the costs, etc).

FORM OF AGREEMENTS

Transfer of a title to real estate requires a sales agreement (setting the terms and conditions of sale) and a real right agreement (agreement to transfer a title). These are usually contained in one document, but may be separated to facilitate separate closing.

All transactions related to the obligation to sell and purchase real estate require notarisation in order to create legally binding obligations. The notary verifies the 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. Legally, the agreement can also be in English, although in practice only a few notaries are comfortable with attesting to English-language agreements.

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, for example, titles, encumbrances, area and boundaries, 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 management board members of companies.

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. Certain rights of pre-emption must be entered in the Land Register to be valid. Other rights of pre-emption that are based on law may be valid regardless of the Land Register entries. 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. Furthermore, the state or local government has a pre-emption right mandated by law on transfer of real estate located within the boundaries of a shore or shore bank building exclusion zone, and on real estate located in certain nature protection zones, and on heritage protection sites located on real estate.

Pre-emption rights 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 of receiving notification of a sales agreement. On exercising this right, the practical outcome is that an agreement on the same terms as the original transfer agreement is deemed to have been concluded between the seller and the beneficiary. To avoid breaching the agreement with the beneficiary and liability for losses, the seller must cancel the agreement with the original buyer. For larger transactions, this often means that either the seller obtains a waiver from the beneficiary or that closing is postponed until after the two-month period has passed. If the beneficiary is a state entity and the right derives from the law, then usually the issue is ignored, as the risk of the state exercising the right is minimal. It is not possible to obtain a waiver from either the state or the municipality for mandatory pre-emption rights.

As to pre-emption rights, preliminary notation plays an essential role. A preliminary notation is a notation that may be entered in the Land Register to secure a claim for the acquisition or deletion of a real right, or for the change of content or ranking of a right, including a future or conditional claim. If a preliminary notation regarding a 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 it 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 account or to the seller's account before the real estate sales 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 the sales agreement is concluded. 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 sales agreement.

RELATED COSTS

Asset transactions incur notary fees and state duties. However, as the percentage fee decreases with the size of the transaction, for 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 be incurred, 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.

TAXES

The sale of real estate is generally exempt from value added tax. This is not the case if the property includes a new or newly renovated building, or if the real estate is a new parcel created as the result of a process of detailed planning. Also, except for residential properties, value added tax can be added voluntarily by the seller. This is done to allow recovery of input value added tax.

The owner of real estate is liable to pay land tax for the property for the full year. The land tax is 0.1–2.5% of the land value per year. The tax rate is established by the local government. In 2022, the Land Board carried out a mass valuation of land, resulting in a change in the value of the land, due to which the amount of land tax increased significantly. In order to mitigate the impact of the land revaluation on land tax, tax rates will be reduced starting from 1 January 2024: the land tax will be 0.1–1.0% of the land value per year.

CONCENTRATION CONTROL

Transfer of real estate (both an 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 the participants in the concentration (target undertaking and buyer) exceeds EUR 6,000,000; and
- turnover in Estonia of at least two participants in 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 previous financial year. If the buyer has no business in Estonia (on making the 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, as well as some islands, the seacoast and state border areas.

Acquiring real estate whose intended purpose 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 (EEA or OECD contracting state),
- a legal person from an EEA and OECD contracting state, if engaged for the 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 only on approval of the local government.

Transfer of land on smaller islands and in certain border areas is only allowed to non-citizens, legal persons of states not contracting parties to the EEA Agreement, or citizens of the United Kingdom of Great Britain and Northern Ireland on permission of the Estonian Government.

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

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

ENCUMBRANCES

The following rights, which are entered in the Estonian Land Register, may encumber real estate: servitudes, usufruct, personal right of use, real 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 a notarised agreement to secure the interest of the purchaser, seller, third persons or neighbouring real estate. Establishing and amending an encumbrance by transaction requires a notarised agreement. Removal of an encumbrance is also possible using a digital signature.

A notation of a lease agreement may be entered into the Land Register, which ensures that on change of ownership of the real

estate the new owner may not terminate the lease agreement on that ground.

MORTGAGE

Real estate is commonly used to secure a loan. In order to finance the purchase or for other purposes, a mortgage may be established on real estate by a notarised agreement as security for a bank. 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 is encumbering the real estate before the 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 the risk that another application could be 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 for the owners of the building, that is, apartment owners. With small buildings, this is usually carried out by the owners themselves. With 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 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 being 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 a pro-rata share of rent for common space is rare.

In common market practice, rent increases are generally permitted annually and are generally set at Estonian CPI, or a fixed rate (such as 3–5% yearly). However, considering the high inflation rate in Estonia and increased electricity and gas prices over the last year, parties are paying more attention to the rent increase clauses in the lease agreements than before. Therefore, the rent increase ranges have also increased, and a maximum rate of 7% is no longer unusual. 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 the 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 so in such a situation the courts often limit the period for which the full rent can 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 the 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 having secured 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 related to 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, and is granted either for a charge or without charge. On the granting of a construction work concession, the contracting authority may use a negotiated tendering procedure with prior publication of a tender notice.

In practice in Estonia 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 no sooner than within six months of 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% of whose assets are 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 to exit real estate investment or receive financing without losing control over the investment. Depending on the performance of the investment portfolio, fund management fees may be structured as success fees.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Local governments have the authority to approve detailed plans. Detailed plans are established and mandatory for city areas and some more densely populated 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. An interested party must apply to the local government to initiate detailed plan procedures: these involve public hearings and discussions. When the environmental impact is significant and the construction may cause changes to the environment, a strategic environmental assessment should be carried out. The whole process of approving a detailed plan may take from nine months to three years, depending on the area and the complexity of the project.

CONSTRUCTION

Under the Building Code, construction means the erection,

construction, installation or demolition of a construction work (i.e. buildings or civil engineering works) or any other operations in relation to the construction work that leads to the creation of that construction work or to a change in its physical properties. Construction work also means shifting soil or layers of paving 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 (for example, it is not possible to erect residential buildings on commercial land and vice versa). If no detailed plan is in place or required, construction work must be performed in line with design specifications issued by the local government normally this occurs within 30 days of the submission of the application. The principles of open proceedings (public hearings and discussions) do not usually apply.

The local government issues building permits based on building design if this complies with the detailed plan or design specifications. Generally, a building permit is required to erect buildings with a ground projection area bigger than 60 m² and higher than 5 metres, or to expand an existing building by more than 33% of its originally planned volume. Construction without a valid building permit is not allowed and can be punishable by a fine. A building permit becomes invalid (lapses) if construction work does not begin within five years of the issuing of a building permit. Once construction work has commenced, the building permit is valid for up to seven years from its issuing.

After completion of construction work, the local government issues a permit for use of the building, if it has been constructed under a valid building permit and in accordance with design documentation, and the building can be used in accordance with its purpose of use. Use of a building is generally not allowed without a permit for use, and such use can be punishable by a fine.

Once construction work is finished, the construction company may give a guarantee for construction defects. However, this is not mandatory under Estonian law. It is therefore essential for the client to carefully review and negotiate construction agreements prepared by the contractor. Regarding the construction work where the other contracting party is a consumer, it is presumed that any construction defect that becomes evident within two years 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 defects lies on the construction companies.

In the case of a sales agreement where the object is the whole of an immovable property or part of it; apartment ownership; a 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 of the day of delivery of the building to the consumer existed already at the time of the delivery of the building. Agreements which derogate from this subsection to the detriment of the consumer are void.

Information regarding construction-related permits, buildings and civil engineering works 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 that buildings are lacking certain permits. Such errors have no legal effect. Only the actual applications, design specifications, notices, building permits, permits for use, 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, these sales are subject to the customary regulation described above.

During enforcement proceedings, the asset is sold by the bailiff, usually at a 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 the buyer will usually have no recourse upon default.

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 that serve the public interest (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. As of 14 January 2021, if the leased property is transferred to a new owner in the course of bankruptcy or enforcement proceedings, the new owner has the right to terminate the residential lease agreement or lease agreement for business premises without the necessity to prove an urgent need to use the leased premises, which makes the process of terminating such lease agreements and evicting the tenant easier compared to the process under the previous regulation.



Need help in tax and legal issues?

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Everyday application of tax laws is not an easy task. If you need assistance in tax and legal issues, please bear in mind that the team of PwC's tax consultants is one of the most experienced in your region. Half of us have at least ten years of work experience in the Baltic market. Since we deal with taxes every day, we are familiar with the latest theory and practice in our country and abroad. This combined with specialisation in specific areas, good access to international experience and close cooperation with other PwC offices all over the world leads to an excellent outcome – advice that justifies its price.

We provide advisory services in the following areas:

- practical application of the Estonian, Latvian and Lithuanian tax law,
- international taxation and restructuring,
- transfer pricing,
- tax due diligence investigations,
- management of tax audits and tax disputes,
- preparation of tax ruling requests,
- registration services,
- accounting services and tax compliance,
- legal assistance in real estate transactions and on regulatory issues.



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 <p>Legal Adviser</p> <p>Deka Immobilien</p> <p>Full-scale advice on the acquisition of the Quadrum business centre in Vilnius from Norwegian-owned real estate developer Schage Real Estate.</p> <p>The largest investment transaction in the Baltic office real estate market to date.</p> <p>EUR 156 million</p>	 <p>Legal Adviser</p> <p>Tietoevery</p> <p>Advise on signing a lease agreement for a 5,000 m² office space in the Verde office centre.</p> <p>The largest office lease transaction in Latvia in 2022.</p>	 <p>Seller's Legal Adviser</p> <p>Stockmann</p> <p>Advice on the sale of department store properties with a net leased area of 23,000 m² in Tallinn, and 16,000 m² in Riga, to the investment arm of Viru Keemia Grupp.</p> <p>One of the largest real estate transactions involving both Estonia and Latvia in 2021.</p>	 <p>Buyer's Legal Adviser</p> <p>Titanium Baltic Real Estate</p> <p>Full-scale advice on acquiring the 30,000 m² Ozols shopping centre in Riga, and the shopping mall Viimsi Market in Viimsi, Harju County, Estonia.</p> <p>Advice on the sale-leaseback acquisition of the 12,000 m² industrial and production property of Saku Metall in Rae municipality, Estonia.</p>
 <p>Buyer's Legal Adviser</p> <p>REInvest Asset Management and its fund DEREIF SICAV FIS</p> <p>Advice on acquiring the SEB Bank headquarters building in Vilnius.</p> <p>This was one of largest real estate transactions in the Baltic states in 2020.</p>	 <p>Seller's Legal Adviser</p> <p>Lords LB Baltic Fund III</p> <p>Advice on closing down and selling 11 properties in Lithuania and Latvia.</p> <p>This is one of the largest portfolio sales in the Baltics in recent years.</p>	 <p>Buyer's Legal Adviser</p> <p>Tewox</p> <p>Advice on the acquisition of the Dragūnai shopping centre in Klaipėda, with more than 3,000 m² of retail area.</p>	 <p>Legal Adviser</p> <p>Eveko Investicija</p> <p>Advice on the built-to-suit agreement with Itella Logistics for the logistics terminal in Kaunas.</p>
 <p>Legal Adviser</p> <p>Estonian Ministry of the Environment</p> <p>Advice on the possibility of introducing nuclear energy to Estonia. Our analysis focuses on the human resource requirements of the key organisations that would play roles in developing a new nuclear power programme in Estonia.</p>	 <p>Legal Adviser</p> <p>RB Rail</p> <p>Advice on FIDIC contract arrangements, contracts, templates and consultations during procurement related to Rail Baltica cross-border railway infrastructure.</p> <p>Project value: EUR 5.6 billion</p>	 <p>Legal Adviser</p> <p>Pon.Bike</p> <p>Advice on negotiating and signing an agreement with YIT Lietuva for the construction of a 40,000 m² manufacturing facility in the Kėdainiai Free Economic Zone in Lithuania.</p>	 <p>Legal Adviser</p> <p>Sunly</p> <p>Advising the independent power producer Sunly on raising around EUR 200 million to build and expand its renewable energy portfolio in the Baltics and Poland. Sunly will use the capital for further development of its 17.9 GW pipeline for solar and wind power in the Baltics and Poland.</p>
 <p>Legal Adviser</p> <p>Ignitis Renewables</p> <p>Advice on entering into the largest deal for development and acquisition in Central Europe in 2020.</p> <p>The total capacity of these projects will reach 170 MW.</p>	 <p>Legal Adviser</p> <p>TIIC consortium KEKAVA ABT</p> <p>Advice on a landmark PPP project in the Baltics, the Kekava Bypass.</p> <p>PPP project value: over EUR 250 million</p>	 <p>Legal Adviser</p> <p>IWG</p> <p>Advice on expanding this hybrid co-working business by opening several new centres in the Baltics under the Spaces and Regus brands.</p>	 <p>Legal Adviser</p> <p>YIT</p> <p>Advice on the establishment of a partnership involving the largest ever residential to-let development project in the Baltics.</p>

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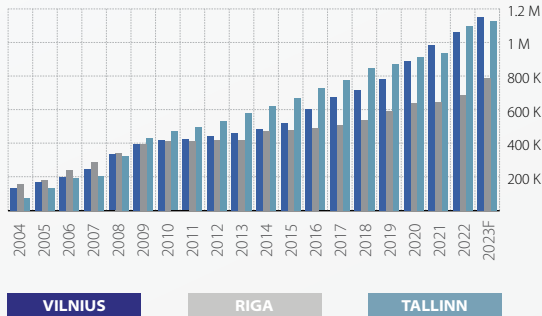
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OFFICE

TOTAL MODERN OFFICE STOCK, SQM

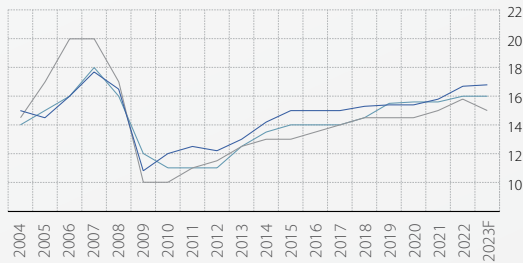


VILNIUS

RIGA

TALLINN

A CLASS OFFICE RENTS, €/SQM

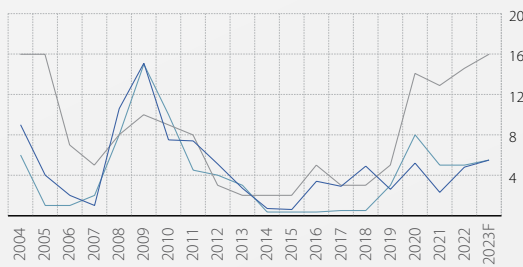


VILNIUS

RIGA

TALLINN

A CLASS OFFICE VACANCY RATE, %

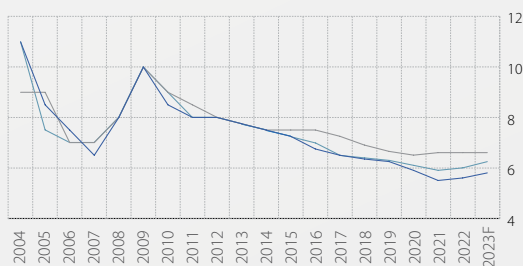


VILNIUS

RIGA

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A CLASS OFFICE INVESTMENT YIELDS, %



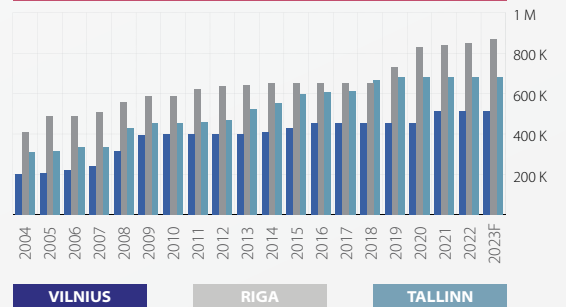
VILNIUS

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RETAIL

TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM

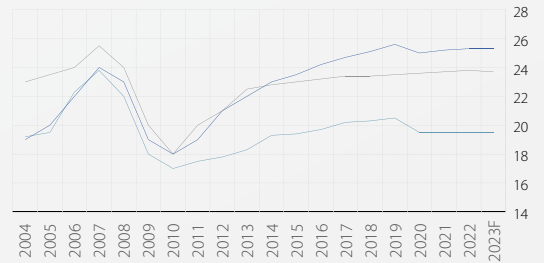


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AVERAGE SHOPPING CENTRE RENTS, €/SQM

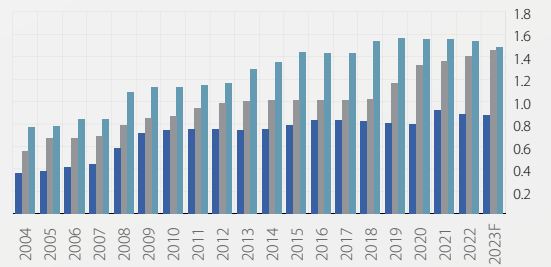


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TOTAL SHOPPING CENTRE SPACE PER CAPITA, SQM



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RETAIL INVESTMENT YIELDS, %



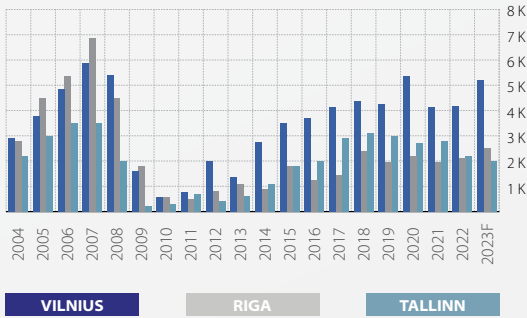
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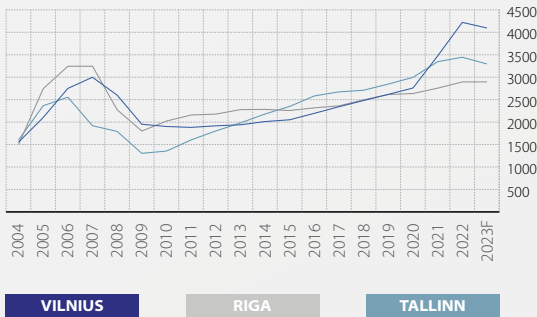
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RESIDENTIAL

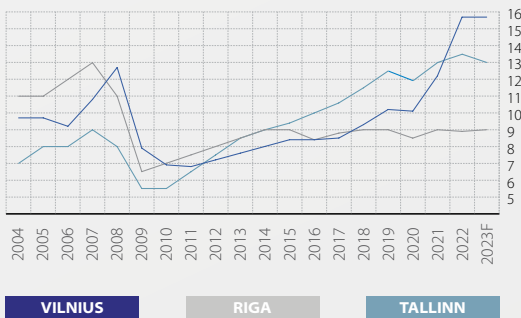
COMPLETED APARTMENTS



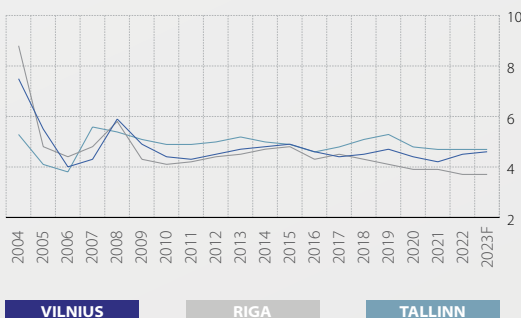
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM

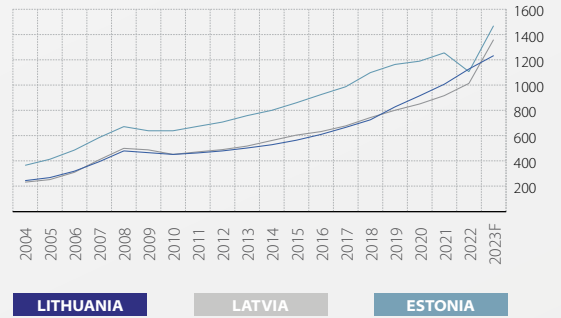


CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

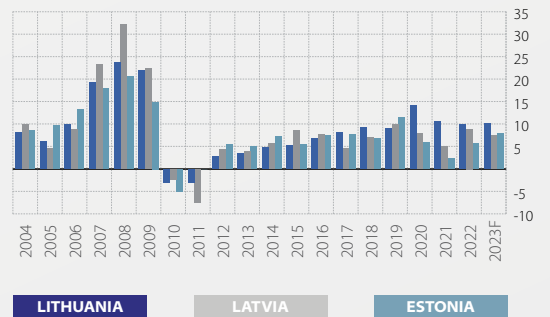


ECONOMICS

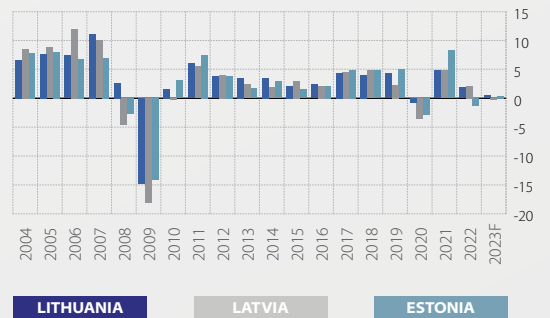
AVERAGE NET SALARY PER MONTH, €



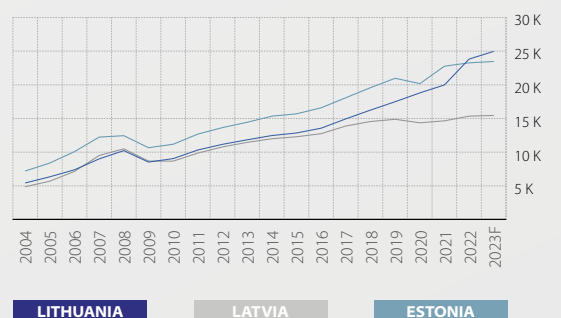
AVERAGE SALARY GROWTH, %



GDP GROWTH, %



GDP PER CAPITA, €



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