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Baltic States Capitals

Vilnius, Riga, Tallinn

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Lithuania

Country overview

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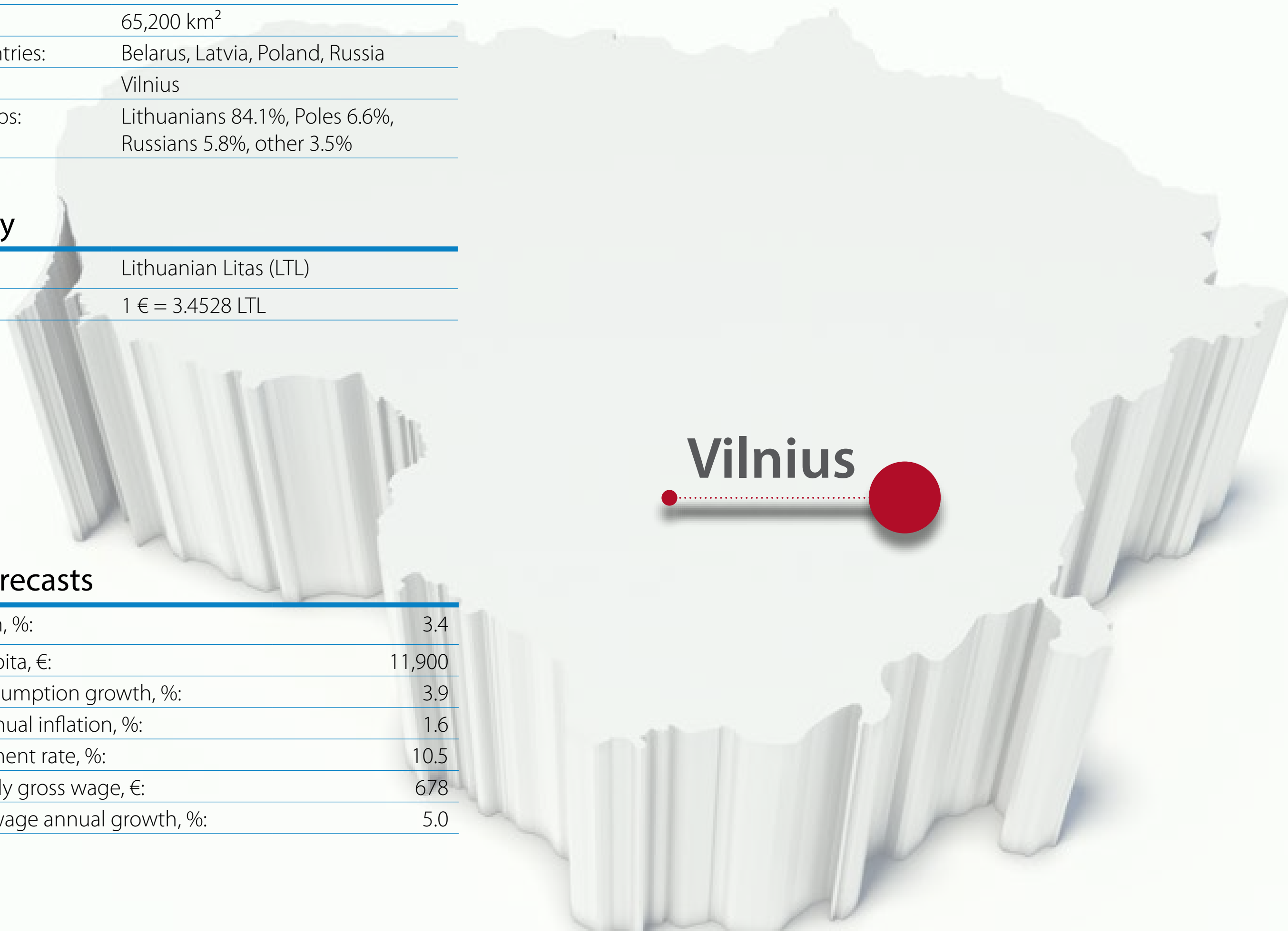
Geography & Social

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

Currency

Currency:	Lithuanian Litas (LTL)
Curr. rate:	1 € = 3.4528 LTL



2014 Forecasts

GDP growth, %:	3.4
GDP per capita, €:	11,900
Private consumption growth, %:	3.9
Average annual inflation, %:	1.6
Unemployment rate, %:	10.5
Avg. monthly gross wage, €:	678
Avg. gross wage annual growth, %:	5.0

Population	2008	2009	2010	2011	2012	2013
Lithuania	3,212,600	3,183,900	3,142,000	3,052,600	3,003,600	2,971,900
Vilnius	541,600	543,000	543,200	536,100	533,300	537,200
Kaunas	339,500	335,400	329,500	317,300	310,800	306,900
Klaipeda	172,700	170,700	168,100	162,900	160,100	158,500
Siauliai	117,800	116,200	114,500	109,700	107,700	106,500
Panevezys	106,500	104,800	103,100	100,000	98,500	97,300

Macroeconomics	2008	2009	2010	2011	2012	2013
GDP growth, %	2.9	-14.7	1.3	5.9	3.6	3.4
GDP per capita, €	10,135	8,427	8,946	10,224	11,025	11,500
Private consumption growth, %	4.0	-17.5	-4.9	4.3	3.2	4.0
Average annual inflation, %	11.1	4.2	1.2	4.1	3.2	1.2
Unemployment rate, %	5.8	13.7	17.8	14.8	13.2	11.8
Average monthly gross wage, €	623	595	576	593	615	646
Average gross wage annual growth, %	19.3	-4.5	-3.2	3.0	3.7	5.0
Retail sales growth, %	4.7	-21.6	-7.1	8.8	4.5	4.5
FDI stock per capita, €	2,894	2,935	3,286	3,667	3,902	4,119

Source: Lithuanian Department of Statistics, Ministry of Finance of Lithuania

Economy

Real estate market report 2014

Lithuanian economy at all time high, leaves great recession behind

Lithuania's economy continues to show signs of strength and growth. In 2013 GDP grew 3.4%, after growing 3.6% in 2012. Analysts forecast growth of 3.4% in 2014 and 4.0-4.5% growth in 2015.

Average annual inflation in 2013 dropped almost three times compared to 2012, i. e. from 3.2% in 2012 to 1.2% in 2013. Forecasts are for CPI growth of 1.6% in 2014.

Gross wages increased by 6.2% in Lithuania in Q3 2013 (compared to Q3 2012), to €668 per month before taxes. The average net monthly after tax wages in Q3 2013 was €517. Salary growth in 2014 is expected to be 4.5-5.0%.

Unemployment fell to 10.9% in Q3 of 2013, from as high as 18.3% in 2010. Analysts project 10.5% unemployment in 2014 and 9.0-10.0% in 2015.

Confidence among Lithuanian consumers is increasing. The consumer confidence indicator in December 2013 as compared with December 2012 increased by seven percentage points to negative 9%. The improvement was mainly due to household's favourable assessment of the country's economic prospects.

After three years of impressive export growth it increased by another 17.1% in first nine months of 2013.

Annual increase of constructions costs was 3.8% in November 2013. In this period, the biggest increase was recorded for roads (4.6%) and residential constructions (4.3%).

In 2013 retail turnover grow by 4.5%. The biggest increase in turnover was registered by companies selling clothes, textile, footwear, pharmaceutical, medical goods, cosmetics and second-hand goods, which increased by 6-11%. Retail turnover of motor vehicles, technical maintenance and repair works has increased by 10.7%.

As of September 2013, direct foreign investment totalled €12.2 bln (2.7% increase compared with September 2012), which is €4,119 per capita.

Lithuania hopes to join the euro in 2015, and to qualify all economic criteria like its deficit, which must not exceed 3% of gross domestic product. In the meantime, the litas (LTL), remains pegged to the euro at a rate of 3.4528 litas to one euro.

Six on-going office projects, more to come

Supply

Developers plan to continue the construction of new office buildings in the capital city of Lithuania. Two new projects were completed in 2013 bringing 13,900 sqm to the market. At the end of 2013 the total area of modern office premises (A and B class) stood at 482,400 sqm gross lettable area (GLA). At the end of 2013, in total there were 86 office buildings in Vilnius, of which as many as 65 were B class. By floor space, A class constitutes 39% of the total modern office premises in Vilnius, and B class 61%.

Despite to growing competition among business centres (considering both vacant office premises and those under construction), developers continue not only to announce but also to implement their plans in this sector. It is surely that 2014-2015 will see the completion of a further 6 office projects, which is currently under constructions and will provide the market with an additional 55,800 sqm of new office space.

There are more potential projects, which developers have announced earlier and which can also be completed in 2014-2015, but it is likely, that construction works won't start until pre-lease contracts are signed.

The vision of the previous government of Lithuania to transform Lithuania into a business services centre is gaining momentum. The arrival of major external investors gave a boost to the office market, which since 2010 has significantly contributed to the improvement of the indicators in this sector. In the period between 2008 and 2012, 15 foreign direct investment projects in the services area were implemented in Lithuania and served as the basis for establishing finance, accounting, IT, and customer service centres in Lithuania. For example, Barclays bank opened Technology Centre, which originally employed about 250 people, in Vilnius in 2010. Technology Centre

Q4 2013 snapshot
Vilnius

Total office space:
482,400 sqm

Total office vacancy rate:
5.7%

Vacant office space:
27,600 sqm

A class office vacancy rate:
2.7%

B class office vacancy rate:
7.6%

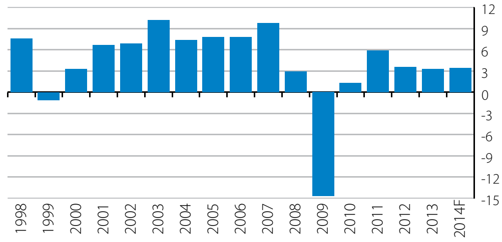
A class office rents (sqm/month):
€11.50 - €14.50

B class office rents (sqm/month):
€7.80 - €10.40

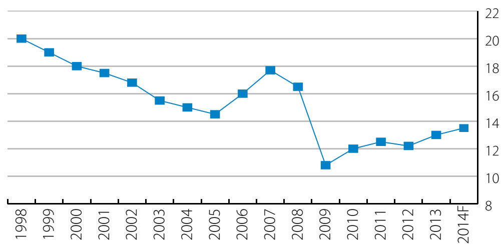
Top office rents (sqm/month):
€15.00

Additional office costs (sqm/month):
€3.00 - €5.50

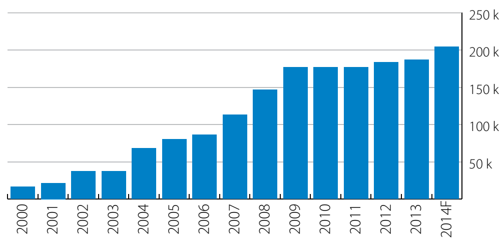
GDP growth, %



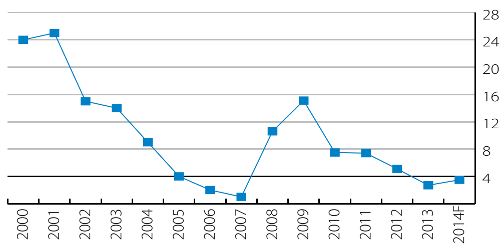
A class office rents, €/sqm



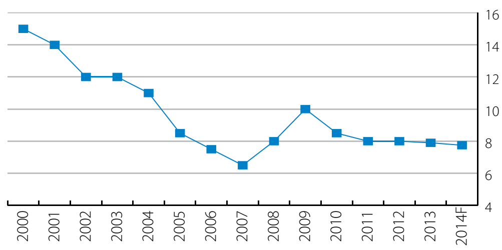
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yield, %



currently employs more than 1,100 people working in two modern business centres in Vilnius. Business service centres of well-known companies such as Western Union, SEB, Danske Bank, CSC and Storebrand have also been successfully established and have expanded.

Demand

The market of modern offices continues to grow with a consequent improvement in indicators. Significant positive changes were recorded in Vilnius, where vacancy rate is returning to the pre-crisis level.

In 2013, 42,900 sqm of office premises was leased in Vilnius business centres, which is almost 12% more compared to 2012. The best new office space absorption results were recorded in Q4, when two new business centres (Baltic Hearts second stage and GAMA) began operating and were almost fully leased on their opening day.

The vacancy rate of modern offices in Vilnius fell from 8.6% to 5.7% in 2013, and the total space of vacant premises dropped to 27,600 sqm. Still the highest vacancy rate remains for B class office buildings. At the end of 2013, the vacancy rate for class B buildings was 7.6% (totalling 22,500 sqm), while the vacancy for A class buildings was three times lower with 2.7%, totalling 5,100 sqm of vacant space.

As major number of companies prefer modern functional office space at a lower rents, B class premises account for as much as 72% of all offices leased in 2013 (almost the same distribution was recorded in 2012).

The arrival of international companies in Lithuania could be even faster, but companies usually look for a rather large area (2,000–4,000 sqm) in a single business centre with an option to expand. Considering the occupancy rates of business centres in Vilnius (or Kaunas), it was extremely difficult to find suitable premises in 2013.

Ober-Haus believes that vacancy will rise in the second half 2014, as more space comes to market.

Rents

As office vacancy dropped considerably in 2013, office rents were on the rise. A class office rents increased by an average 6%, B class – 4%. At the end of the 2013, A class office rents ranged between €11.50 and €14.50 per sqm and B class – €7.80-€10.40 per sqm in Vilnius.

Depending on the building, additional costs (single and double net) for tenants are from €3.00 to €5.50 per sqm.

Given that a number of new projects are in progress or have been prepared, Ober-Haus forecasts that rents in 2014 will retain the upward trend, but a rapid increase should not be expected. The owners who manage previously constructed buildings are about to face the biggest challenge. Older buildings find it increasingly difficult to compete with newly constructed projects because the implementation of more advanced technologies allows tenants to save money and ensure higher quality work places. Some owners of office buildings will have to compete in the market by offering lower rents or making additional investments in the objects they manage.

Lithuania

Office market

Real estate market report 2014

Recent developments

	Description	Size (GLA, sqm)	Completion
	**Baltic Hearts (II stage)** – local developer ZVC has successfully finished second stage of its A class office project on Ukmerges Street next to the new CDB. The total area of the project is 10,000 sqm and consists of three identical structures with 3,300 sqm each. First building was finished and opened in the second half of 2012 and second building (3,300 sqm of office space) was opened in Q4 2013. First two buildings are fully leased.	3,300	Q4 2013
	**GAMA** – after the successful completion and leasing of its ALFA and BETA office projects, local company Realco finished development of third office building in Ozo Park, near Siemens Arena and Vichy Aquapark. The 10-storey building with 10,600 sqm of lettable office area was opened in the end of 2013. The space was leased to Barclays, Western Union and SEB. ALFA, BETA and GAMA buildings were sold to the Finnish company Technopolis in H1 2013.	10,600	Q4 2013

New projects

	Description	Size (GLA, sqm)	Completion
	**Grand Office** – YIT is continuing construction of a 21-storey office building in the Virsuliskes district. The 81-metre tall building will offer almost 9,200 sqm of office space in the first half of 2014. YIT local companies will rent some space in this building.	9,200	H1 2014
	**Sonex Consulting/Atea** – Sonex Consulting is developing build-to-suit project in Virsuliskiu district next to the new western bypass. IT company Atea (former Sonex) will be the single tenant of the entire building with a total area of 6,500 sqm. The estimated completion date is in Q2 2014.	6,500	Q2 2014
	**Baltic Hearts (III stage)** – after completion of first and second buildings local developer ZVC continues construction of A class office building on Ukmerges Street. The total area of the project is 10,000 sqm and consists of three identical structures with 3,300 sqm each. Completion of the third building (3,300 sqm of office space) is scheduled for the mid-2014. Asking rents are from €13.00 per sqm.	3,300	Q3 2014
	**K29** – Local investment fund Lords LB Baltic Fund II has started construction of A class office building in the new Vilnius business district, on Konstitucijos Avenue. The 8-storey building will bring 14,000 sqm of lettable office area in H1 2015. The building will be surrounded by a 2 hectare green zone and will offer as many as 560 parking spaces. Total investments will reach €30 million.	14,000	H1 2015
	**Premium Business Center** – Local developer Evolis has started the construction of office project on the right side of the river Neris on Sporto Street (Zirmunai district). The project consist of two 6-7-storey buildings with a total above ground area of 8,300 sqm (7,300 sqm GLA) and 270 underground and outdoor parking places. One side of the project is facing Neris river and have a beautiful view of the surroundings. Estimated completion of construction works is in Q2 2015. Asking rents are from €12.00 per sqm.	7,300	Q2 2015
	**Quadrum Business City** – Norwegian developer Schage has started the construction of the biggest office project in Lithuania. With a total area of over 70,000 sqm this project plans to fill the shortage of A class office space in Vilnius by offering up to 40,000 sqm of top class space with BREEAM certification in the new Vilnius business district, on Konstitucijos Avenue. The first stage will be completed in Q3 2015 and will bring 16,000 sqm of office space to the market.	16,000 (I stage)	Q3 2015 (I stage)

Office market

Real estate market report 2014

Investment

The current situation in the market for commercial properties is also reflected by the recent growth in the number of investments. A total of ten investment deals were transacted with fifteen properties sold in Lithuania in 2013. The total value of these deals is over €155 million. This is a 38% increase compared to 2011 and 2012 taken together. Despite the increased number of investment deals, local funds and companies remain the key market players since they are very familiar with the local market and look for properties that can generate stable cash-flow. Office and retail sectors dominate in the Lithuanian investment market in 2013: offices - 57%, retail - 30% and warehouses - 13% of the total volume. 72% of investments were made in Vilnius.

The largest investment deal in Lithuania over the past 5 years was announced in March 2013. The Finnish company Technopolis signed a contract for the acquisition of 3 office buildings in Vilnius (ALFA, BETA and GAMA) from the ICOR group.The complex totalling almost 42,000 sqm of rentable space with additional growth potential of 30,000 sqm. It was reported that the Finnish company had paid €62.5 million for the buildings and that the net market yield equals 8.2%.

At the end of Q3 2013 Danhaus LT, a company controlled by a Lithuanian, had acquired a A class business centre on Saltoniskiu Street in Vilnius from the investment fund LORDS LB BALTIC FUND I. €16.2 million was paid for this office building with an area of 8,500 sqm. The building is fully let to Danske Bank. This was the second sale of this business centre: in 2010, LORDS LB BALTIC FUND I acquired it from the project developer Vilmesta.

Legal notes by SORAINEN

Rent is usually paid in advance, generally monthly. Rent is typically tied to the euro and indexed based on local or European Union inflation (CPI) rates. In addition to rent, tenants usually pay for utility services and a service charge for property maintenance. Payment of a security deposit is usually agreed. Triple net leases are not universally used. Double net leases are more common. As a rule, the owner is responsible for finishing leased premises up to a standard level proposed by a landlord. Typically, standard lease agreements are used in larger properties.

Lease agreements must be registered with the Real Estate Register if they are to be invoked against third parties. The tenant may terminate the lease agreement on change of ownership of the premises. In practice, this issue is attempted to be resolved by obtaining estoppels (upfront waivers of these rights) from tenants.

Lithuania

New international brands in Lithuania: IKEA and H&M

Supply

August 2013 saw the opening of the first IKEA shopping centre in the Baltics in Zirniu Street in Vilnius (near Vilnius airport); the total area of the shopping centre is 26,500 sqm. No other large traditional shopping centres were completed during this year in Vilnius. Only the existing or new food retail chains continued development of their small or medium-sized supermarket centres.

Fresh Market, a grocery store chain owned by Ipsun in Belarus, has entered Lithuanian market in the mid 2013. Fresh Market hopes to gain a competitive advantage by tapping into a smaller, convenience store-type format in residential districts and offering fresh items such as fruit, meat and fish. Till the end of 2013 this chain has opened 12 stores in different Lithuanian cities and plans to have 40-50 stores till the end of 2014.

German supermarket chain Lidl has started the construction of its first stores in Lithuania. Lidl plans to expand in all Lithuanian cities with a population of over 20,000 people. At least first several stores should be opened at the same time in 2014-2015 in order to ensure the supply of goods via new logistic centre.

At the end of 2013 there were the 22 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable area of 405,300 sqm. Currently Vilnius has 0.75 sqm of shopping area per capita.

No great changes in supply in 2014–2015 are expected, because active expansion of traditional shopping centres ended in 2009. Developers are still not sure about the implementation of larger projects in Vilnius because stiff competition and limited growth in consumption have led to a postponement of larger projects (e.g. the area of the former Velga factory). In 2014, two projects will be implemented in Vil-

Q4 2013 snapshot
Vilnius

Total mall space:
641,900 sqm

Total mall space per capita:
1.19 sqm

Total shopping space:
405,300 sqm

Total shopping space per capita:
0.75 sqm

Shopping centre vacancy rate:
2.3%

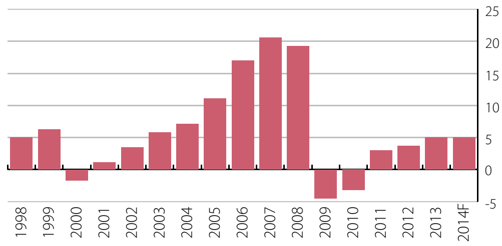
Retail rents for anchor tenants (sqm/month):
€8.50 - €13.00

Retail rents for medium sized units (sqm/month):
€12.00 - €35.00

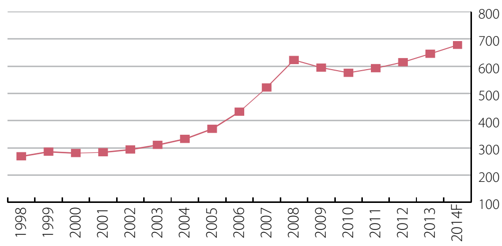
Retail rents for small sized units (sqm/month):
€50.00 - €65.00

High streets rents (sqm/month):
€16.00 - €38.00

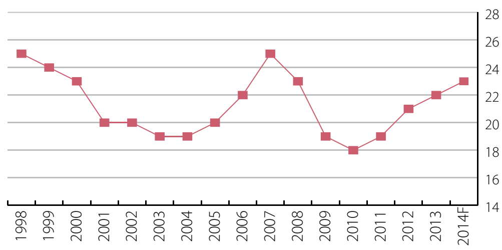
Average salary growth, %



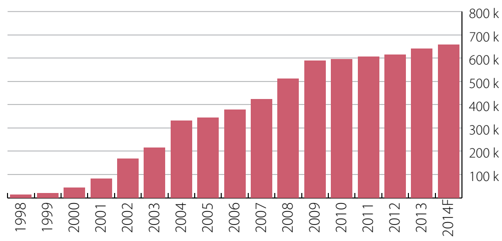
Average salary per month (brutto), €



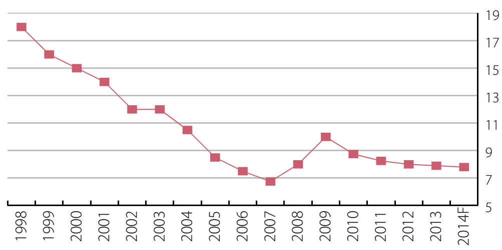
Average mall rents, €/sqm



Total mall space, sqm



Retail investment yields, %



nius: a 10,000 sqm Prisma shopping centre and the first phase of the DomusPro shopping park (7,500 sqm). It was also announced that a new 19,000 sqm shopping centre, which could be implemented not earlier than 2015, is also planned next to IKEA.

Demand

The vacancy rate of shopping centres decreased from 3.2% to 2.3% in 2013 and most of the shopping centres enjoy full occupancy. Further growth in retail trade volumes and the very small number of new projects provide managers of shopping centres an opportunity to revise the mix of tenants and select those that comply with their concept for their shopping centre. It is therefore no surprise that a weaker tenant will be replaced with a more attractive one able to pay higher rent. Therefore, tenants' choices have been significantly curtailed, particularly at the biggest and most successful shopping centres in Vilnius (Akropolis, Ozas, Panorama, etc.).

The arrival of international brands particularly contributes to the successful operation of big Lithuanian shopping centres. In August 2013, the first H&M store in Lithuania was opened in Vilnius. The 3,500 sqm store, the largest in the Baltic countries, is located in the largest shopping centre, Akropolis. The second (1,600 sqm) H&M store opened in Klaipeda Akropolis. In 2014, this chain plans to open four more stores: in Panorama, Ozas and Gedimino 9 in Vilnius and in Siauliai Akropolis.

The occupancy rate of high streets is very high, as vacancy rate the main shopping streets in Vilnius (Gedimino Avenue, Pilies Street, Didzioji Street, Vokieciu Street) is only 3%. If compare the current situation with the figures recorded during the peak of the economic downturn in 2009–2010, when the vacancy rate was almost 6% for shopping centres and as much as 15–20% for shopping streets, the current situation is good and allows the owners of the premises to find the new tenants and generate higher rent income.

Rents

It is clear that the recovery in the domestic economy, rising incomes and consumption, and higher employment rates are encouraging the growth in rents. In 2013, rents increased byanother 5-10% in Vilnius shopping centres.

Rents for a medium sized (150-300 sqm) unit in a major retail centre run from €12.00 to €35.00 per sqm and up to €50.00-€65.00 for small sized units. Rents for anchor tenants are €8.50-€13.00 per sqm.

Rents for retail premises in the high Vilnius streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) went up by another 5% in 2013, after a 15% increase in rents in 2012. In the end of 2013, rents for medium sized retail premises (100–300 sqm) in such streets were €16.00 – €38.00 per sqm.

It is likely that the rents for retail premises in 2014 will increase at a rate of 5%.

Investment

The current situation in the market for commercial properties is also reflected by the recent growth in the number of investments. A total of ten investment deals were transacted with fifteen properties sold in Lithuania in 2013. The total value of these deals is over €155 million. This is a 38% increase compared to 2011 and 2012 taken together. Despite the increased number of investment deals, local funds and companies remain the key market players since they are very familiar with the local market and look for properties that can generate stable cash-flow. Office and retail sectors dominate in the Lithuanian investment market in 2013: offices - 57%, retail - 30% and warehouses - 13% of the total volume. 72% of investments were made in Vilnius.

In May 2013, Lords LB Baltic Fund III, for an undisclosed price, acquired 100% of the shares of SMI Lietuva and its subsidiaries and 100% of the shares of SMI Latvia. SMI Lietuva and SMI Latvia control 8 shopping centres in Lithuania (in Klaipeda, Siauliai, Marijampole and Alytus) and Latvia (in Riga, Liepaja and Jelgava) and a warehouse in Riga. The total area of the acquired shopping centres in Lithuania is nearly 44,000 sqm.

A forward investment deal was announced in August 2013. BPT Baltic Opportunity Fund acquired the shopping centre (shopping park) DomusPro, which is being constructed next to Ukmerges Street in Vilnius, from the Danish developer TK Development. The shopping park is expected to have an area of 11,000 sqm, and the completion of the first stage (7,500 sqm) is expected in the spring of 2014. The value of the investment deal was established based on the required initial yield of 8.5%.

Recent developments

	Description	Size (GLA, sqm)	Completion
	**IKEA** – the world's biggest home furnishings retailer IKEA opened its first shopping centre in the Baltics in Zirniu Street in Vilnius (near Vilnius airport); the total area of the shopping centre is 26,500 sqm. Total investment in the furniture shopping centre has reached €30 million. There is further development potential on this site, so it is possible that in the future the IKEA store and neighbouring business park will fully cover a 16 hectare territory.	26,500	2013

New projects

	Description	Size (GLA, sqm)	Completion
	**Gedimino 9** – East Capital Baltic Property Fund II acquired the shopping centre on Gedimino Avenue in the end of 2012 and has partly completed the reconstruction of Gedimino 9 in the end of 2013. Gedimino 9 with total area of 16,500 sqm, which was opened in 2008, will be fully completed in spring 2014 and will have 11,000 sqm of lettable office area. Swedish multinational retail-clothing company H&M will become the anchor tenant.	11,000	Q1-Q2 2014
	**DomusPro** – After BPT Baltic Opportunity Fund acquired the shopping centre (shopping park) DomusPro from the Danish developer TK Development, construction of this project has started. The shopping park next to Ukmerges Street is expected to have an area of 11,000 sqm, and the completion of the first stage (7,500 sqm) is expected in the spring of 2014. This retail park will house a Rimi retail chain store, as well as specialised furniture, interior finishing, leisure, and household goods shops, all of which will have separate entrances.	7,500 (I stage)	Q1-Q2 2014 (I stage)
	**Prisma** – In summer 2013 YIT has initiated a new shopping centre development next to the new western bypass in Virsuliskiu district. 10,000 sqm of retail space will host small shops in addition to the Prisma supermarket. The shopping center will have 300 underground and 160 outside parking places. The total value of the project is €12 million. The estimated completion date is in Q2 2014.	10,000	Q2 2014

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

LEGAL NOTES BY SORAINEN

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

Lease agreements may be invoked against third parties only if registered with the Real Estate Register. The tenant may terminate the lease agreement on change of ownership of the leased premises. In practice, this issue is attempted to be resolved by obtaining estoppels (upfront waivers of these rights) from tenants.

Retail market

Real estate market report 2014

Lack of new supply pushing up rents

Supply

Only one new warehouse was completed in Vilnius in 2013. Humana built-to-suit project increased total leasable area of modern warehousing premises in Vilnius and its surroundings to 443,600 sqm. Despite rising rents and high occupancy rate over the past few years, developers have not however started active development of warehouses. Where developers have announced the development of new projects, in reality construction does not usually start until the property has actually been leased to tenants.

One project is currently in progress in the vicinity of Vilnius – a logistics centre for Transekspedicija with a total area of 17,000 sqm next to the Ukmerges highway. This project will be completed in mid 2014.

78% of modern warehouse supply is located within the city limits. The bulk of warehouses are developed in the southwestern industrial zones of Vilnius (Kirtimai, Vilkpede, Aukstieji Paneriai and Zemieji Paneriai), as well as near the strategic highways: Vilnius – Kaunas and Vilnius – Minsk.

Warehouses with an area exceeding 10,000 sqm currently make up 58% of the current supply. Warehouses with an area from 5,001 to 10,000 sqm make up 25% of the supply, and the remaining 17% are warehouses with less than 5,000 sqm.

Ober-Haus sees increase of supply in 2015. In August 2013 the construction of Intermodal Terminal (first stage of Vilnius Public Logistics Centre (VLC)) has started. Total investments in terminal will reach over €36 million. Vilnius city municipality with other state-owned company

Q4 2013 snapshot

Vilnius

Total new warehouse space:
443,600 sqm

Warehouse vacancy rate:
3.0%

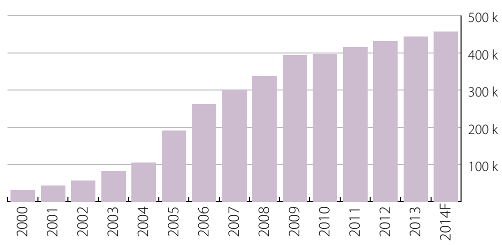
Annual warehouse rents change:
+7.0%

New warehouse rents (sqm/month):
€3.50 – €4.90

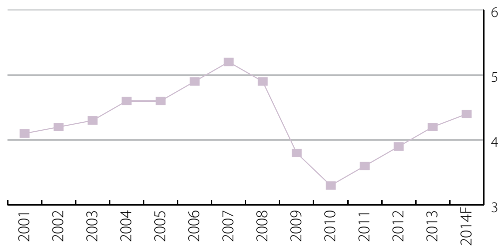
Old warehouse rents (sqm/month):
€1.20 – €2.90

Additional warehouse costs (sqm/month):
€0.90 – €1.20

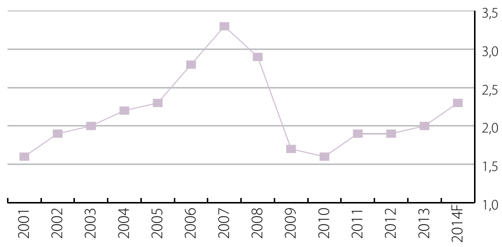
Total modern warehouse space, sqm



New warehouse rents, €/sqm



Old warehouse rents, €/sqm



Legal notes by SORAINEN

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

will prepare full infrastructure to attract private investors for logistic centres development in 2015. Companies like Rhenus Svoris and Autoverslas has already signed agreements for construction of their projects.

Demand

After revenue increase of warehousing and transport services by 38% in 2012 in Lithuania, another 9.5% increase was recorded in Q1-Q3 2013.

As it was year ago, it is very difficult to find large vacant premises (4,000–5,000 sqm) in existing modern warehouses. Total vacant space looks insignificant at the moment, but there are some companies which own big logistic centres and provide 3PL services and in some cases can offer additional space for solid tenants.

In Vilnius, the vacancy rate of modern warehouses by the end of 2013 was 3.0%. It's likely that in 2014 this indicator will stay in 3.0-4.0% range as one big new project coming to the market.

Rents

Good corporate performance results, high occupancy and shortage of new projects have led to further increases in rents. In 2013, rents for both new and old warehouses in Vilnius city and its region grew on average by 7%. At the end of 2013, rents for new modern warehouses near the city centre were from €3.70 to €4.90 per sqm, depending on the size. Near or outside the city limits, rents range from €3.50 to €4.00 per sqm. Newly renovated premises are being offered at prices from €2.30 to €2.90 per sqm. Average and poor quality premises are from €1.20 to €2.00 per sqm. Additional costs for tenants are from €0.90 to €1.20 per sqm on average.

Ober-Haus believes that in the near future, rents will continue a slight upwards trend.

Investment

The current situation in the market for commercial properties is also reflected by the recent growth in the number of investments. A total of ten investment deals were transacted with fifteen properties sold in Lithuania in 2013. The total value of these deals is over €155 million. This is a 38% increase compared to 2011 and 2012 taken together. Despite the increased number of investment deals, local funds and companies remain the key market players since they are very familiar with the local market and look for properties that can generate stable cash-flow. Office and retail sectors dominate in the Lithuanian investment market in 2013: offices - 57%, retail - 30% and warehouses - 13% of the total volume. 72% of investments were made in Vilnius.

In 2013 Capital Mill bought Zariju logistics centre in Vilnius from BPT Secura fund. 22,000 sqm sized logistic centre is located in the industrial district on Zariju Street. This property, along with other properties in BPT Secura fund portfolio (4 properties in total in Baltic capitals) is slated for sale as part of the fund's exit strategy. Transaction details have not been disclosed.

Recent developments

Size (GLA, sqm)	14,000
Completion	Q1 2013

Humana – In the start of 2013 Lithuanian developer Ogmios finished developing built-to-suit warehouse on Vilijos Street in Paneriai district. A new warehouse with a total area of 14,000 sqm was built for Humana clothes sorting centre. Total investments reached €9 million.

New projects

Size (GLA, sqm)	14,000
Completion	Q3 2014

Transekspedicija II – after completion of the first warehouse next to Ukmerges highway in early 2012, local transporting-forwarding company Transekspedicija is finishing construction of the second warehouse on the same location. Warehouse with 14,000 sqm warehouse premises and 3,000 sqm office premises will be completed in Q3 2014. Asking warehouse rents are from €4.30 per sqm, offices – from €6.50 per sqm.

Interested? For more information on these or other properties, contact Ober-Haus on:
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Lithuania

57% MORE NEW APARTMENTS SOLD IN VILNIUS IN 2013

PRICES

Over the past year, there has been a more optimistic mood in the housing market. The more positive outlook of people, increasing numbers of housing property transactions and attractive borrowing conditions have led to positive price changes in the capital of Lithuania.

Apartment prices in Vilnius increased by 2.8% in 2013, after decrease of 1.4% in 2012, according to the Ober-Haus Lithuanian apartment price index. As a result, the average price at the end of 2013 rose to €1,218 per sqm. The greatest positive changes in prices were recorded for new apartments in the prestigious districts of Vilnius, as well as for old apartments in residential districts of the capital city. Since the last lowest price level in May 2010 till December 2013, apartment prices increased by 5.5% (€64 per sqm).

Prices for new construction apartments in residential districts increased by 3.0% in 2013 and by the end of the year ranged from €900 to €1,550 per sqm without final fit-out.

In Lithuania new apartments are generally sold shell, which is without any fit-out at all. Apartments sold shell require average of €150-€175 per sqm to fit-out with floors, painting, lights, bathrooms and kitchen to a bare economy standard.

By the end of 2013, a standard two-room apartment (45-50 sqm) in a Soviet-era concrete block building located in a residential district cost from €37,000 to €48,000. Prices of apartments which are in old brick buildings are 15-20% higher. The lowest price for old construction unrenovated apartments in Vilnius residential districts is €600 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €950 to €1,800 per sqm for unrenovated and from

Q4 2013 SNAPSHOT
VILNIUS

ANNUAL APPARTMENT PRICE CHANGE:
2.8%

NEW APARTMENTS BUILT:
1,330

AVERAGE NEW APARTMENT FLOOR AREA:
54.5 sqm

ECONOMY CLASS NEW APARTMENT PRICES (sqm):
€900 – €1,300

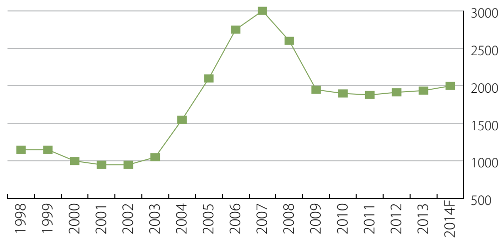
MIDDLE CLASS NEW APARTMENT PRICES (sqm):
€1,300 – €1,750

LUXURY CLASS NEW APARTMENT PRICES (sqm):
€1,800 – €3,000

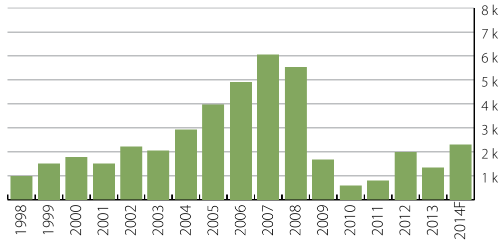
FINAL APARTMENT FIT-OUT:
€150 – €175

RESIDENTIAL INVESTMENT YIELD:
4.8%

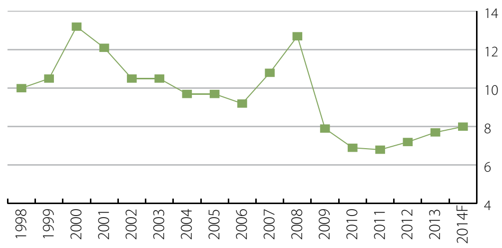
Residential prices in city centre, €/sqm



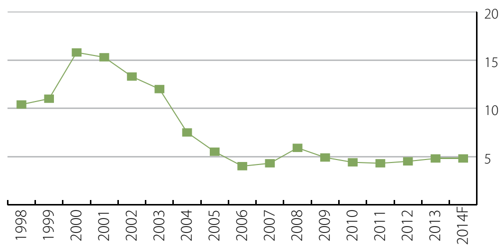
Completed units



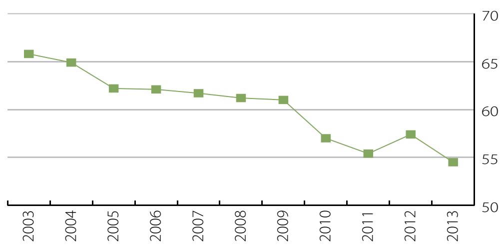
Residential rents in city centre, €/sqm



City centre residential investment yield, %



New apartment floor area, sqm



€1,400 to €3,200 per sqm for renovated apartments. Prices of new construction apartments are now offered for €1,400 to €2,900 per sqm without final fit-out.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas, Valakampiai), old apartment prices range from €750 to €2,150 per sqm. Prices of newly built apartments range from €1,250 to €2,100 per sqm without final fit-out.

In 2012, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate Vilnius surroundings have increased by 1-2%.

Detached houses (150-200 sqm with land plots of 600–1,000 sqm) located in a new housing area with full infrastructure in Vilnius district or near city limits (typically 10–20 km from the city centre) are sold as shell at prices ranging from €100,000 to €155,000. Prices for semi-detached houses (100-125 sqm with land plots of 300–400 sqm) range from €90,000 to €120,000. Full final fit out generally costs €150 per sqm or more.

The price for fully finished 150-200 sqm sized detached house within the city limits (city residential districts) averages between €150,000 and €300,000, and from €230,000 to €580,000 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.

Even though there has been some concern previously regarding the considerable increase in the number of new projects and competition among developers, the current overall activity in the housing market and sales results in the primary market give reason for optimism. It is highly unlikely that there will be any great price hikes in the near future, but it is obvious that developers of new projects are coming to the market with higher prices. Therefore, Ober-Haus believes that in 2014 new construction apartment prices will show increase of 5-7%. Prices for old apartments will also maintain their positive trends, but growth will be slightly lower, at about 2–3%.

Supply

According to Ober-Haus data, 1,330 apartments (in 22 different apartment building projects) were constructed in the capital in 2013, which is a 33% less than the number of apartments constructed in 2012. This, however, does not mean that the rate of the development of apartment buildings will slow down; a large number of projects are just being carried forward to 2014. In any case, the number of new apartments built in 2013 has been twice that of 2010 or 2011.

Developers see good prospects in the development of apartment buildings and there is regular news about newly started or resumed construction projects. It is expected that 2014 will see approximately 2,200 new apartments completed.

Last ten years developers built flats with smaller floor areas, and therefore smaller total prices. From 2003 to 2013, the average floor area of newly constructed apartments was reduced by 11.3 sqm, i.e. by 17%. The average floor area of apartments built in 2013 was 54.5 sqm.

Developers still are focusing on construction of economy and medium class apartments in residential districts of the city or near the central part of the city, which is attracting the greatest interest from buyers. A lower selling price was and has remained a key indicator in choosing homes. Looking at the apartment projects, which were constructed in Vilnius in 2013, the major portion of the supply of apartments are economy class (the cheapest) apartments that partially finished sell at €900 to €1,300 per sqm and account for up to 66% of the total supply of apartments. The aggregate supply of middle class apartments — the selling price of which (partially finished) is between €1,300 and €1,750 per sqm — is just lower compared to economy class and accounts for 28% of the total supply. The more expensive apartments in the central part of the city or the other prestigious districts account for the remaining 6% of supply. Current supply of such apartments is relative low, but the demand is also limited, which is not surprising because their price can reach €3,000 per sqm.

Developers are not building new private house developments to any great extent. The current trend is to extend previous private house developments or to build small-scale projects, typically consisting of around 6–12 semi-detached houses. There is no evidence of larger projects, as these are very cost-intensive that cannot boast of high liquidity. Typically developments are formed by selling land parcels for the construction of private houses. In 2013, 80 detached and semi-detached houses were built by developers in and around Vilnius, which is a 42% decrease compared to 2012.

Demand

The number of residential property transactions are on the rise in Lithuania – increase of 25% for apartments and 10% for houses was recorded in 2013.

Vilnius in 2013 saw a 32% increase in apartment sales and a 30% increase in house transactions. In 2012 on average 33 sales of private homes and over 565 sales of apartments were made in Vilnius each month, in 2013 this indicator increased to 43 homes and 750 apartment transactions per month. In the wider Vilnius district, the number of house transactions increased by 16% to 28 units per month.

Sellers of newly constructed apartments in Vilnius enjoy record sales. According to Ober-Haus, during 2013, almost 2,300 apartments in newly built buildings or buildings under construction were purchased or reserved directly from developers in Vilnius. This is 57% more than in 2012 and 90% more than was sold in 2011. In 2013, on average 190 new apartments were sold each month in the primary market in Vilnius.

According to Ober-Haus data, the number of unsold new apartments on the Vilnius primary market decreased by 25% during 2013. At the end of 2013 there were 1,160 unsold newly built apartments in the finished apartment buildings. Also, 1,300 new apartments in buildings currently under construction remained unsold in the primary market.

The largest portion of unsold apartments is in residential districts of Vilnius (counting 2013-2014 new supply). These account for as many as 77% of the total supply of unsold apartments. The remaining 23% of unsold properties are offered in the prestigious areas of Vilnius (Antakalnis, Zverynas and Valakampiai) and in the central part of the city and the Old Town. Clear leaders in the number of unsold apartments are Pasilaiciai and Pilaite. Over 33% of apartments remain unsold in these residential districts. i.e. a third part of all unsold apartments in Vilnius. However, this should come as no surprise, because over the past 6 years, the largest volume of apartment construction was carried out in these districts.

The current government is trying to revive the renovation of old apartments by applying a new renovation model. The government will reimburse 40% of the renovation cost and all costs for the preparation of a modernisation project of an apartment building, technical supervision and the administration of project implementation to those residents of apartment buildings who conclude contracts for renovation by the end of 2014. In the first phase of renovation, more than 800 inefficient apartment buildings and in the second phase – twice as many (1,700) have been selected. Some people are likely to decide to invest in the renovation of their residential property through the new renovation programme. However, how this will affect the Lithuanian housing market as whole, or individual regions of the country will depend on the actual volumes of the renovation.

The Mortgage Market

In 2013 the total value of outstanding residential loans increased only by 0.5% to €5.90 bln. Currently in Lithuania, the value of household loans equals about 17% of GDP. This rate is one of the lowest compared to other EU countries (EU27 average in 2012 – 52%). Also Lithuanians are much less leveraged than their Baltic neighbours, in Latvia and Estonia.

After interest rates for acquiring homes has showed a significant drop in 2012, it kept stability during 2013. In the end 2013 interest rates in the local currency, the litas, on average was 2.7%. The majority of loans are still taken in euros, and the average interest rate on new mortgage loans was at it lowest historical point with 2.3%.

The increased apartment sales are also reflected in the mortgage loan statistics. According to data from the Association of Lithuanian Banks, in 2013, the main credit institutions in the country provided new mortgage loans amounting to almost €550 million, which is a 34% increase compared with the same period of 2012.

Over the past 15 years, housing prices and people's income have been changing rapidly in Lithuania, while the possibilities to purchase real estate have been different in different periods. Real borrowing opportunities for housing appeared in 2001 giving a tremendous boost to the whole market. Improving loan accessibility gave people the opportunity to own property. However, it is difficult to compare people's possibilities to acquire housing in the long term, especially since the conditions have been changing rapidly: within a relatively short time, the maximum term for loans has increased from 10 to 40 years; interest on loans within a relatively short period can change 2-3 times; requirements for own funds have also changed, etc.

Therefore, in order to evaluate the real possibilities of people (rather than the affordability based on borrowed funds) to purchase their desired property simply and comprehensively and the condition of the housing market, a few fundamental indicators can be used: real disposable income and the price of property at a given time. The housing price to income ratio has changed considerably in Lithuania.

Looking at the past 15 year history of Vilnius, it can be seen that the worst apartment price to salary ratio was in 2006. At that time, an inhabitant of Vilnius could purchase 2.9 sqm in a medium-class apartment for his average (net) annual salary. At that time, the average price of a square metre of an apartment was €1,539, while the average net monthly salary was about €377.

The analysis of the period between 1999 and 2003 shows that the apartment price to salary ratio in other major Lithuanian cities was the best in 2001–2003, when, due to the Russian and Lithuanian economic crisis, prices were at their lowest and could not recover after the difficulties that Lithuania had faced. Meanwhile, Vilnius in that period stood out by their higher apartment prices, so the average annual salary of the population was equal to 4.3-5.2 sqm in a medium-class apartment.

Since 2007-2008, apartment prices in the major Lithuanian cities fell on average by almost 40%, while the nominal average salary over the past 6 years, depending on the region, increased by 25–30%. Therefore, statistically, urban residents are now able to purchase twice as much space than during the housing property price peak that occurred between 2007 and 2008. Having evaluated apartment prices and salaries in Vilnius in 2013, should be noted that the space to salary ratio is the highest in the past 15 years. Currently, an inhabitant of Vilnius can purchase 5.8 sqm in a medium-class apartment for his average (net) annual salary, which is twice more than in 2006.

Rents

2012 saw an average 4% increase in apartment rents, after rising 8% in 2012 in Vilnius. It is clear that changes in the rents of residential property are directly related to their selling prices – rising residential property prices lead to an increase in rents.

Typical two-room old construction apartment in Vilnius residential districts rents for €160 to €230 per month in the end of 2013. The same size new construction apartment rent starts from €260 per month. Maintenance costs are additional.

Rents for fully equipped two-room apartments (old or new) in the central part and prestigious districts of Vilnius range from €230 to €430 per month, and for three-room apartments from €260 to €700 per month. Rents for bigger and good equipped apartments in the Old Town can be from €800 to €1,000 per month. Maintenance costs are additional.

Fully equipped houses of 100–200 sqm in the outskirts and residential districts of Vilnius are usually offered for rent at €500 to €900 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and city centre or Old Town are higher and vary from €750 to €1,700 per month. Maintenance costs are additional.

Ober-Haus expects residential rents will keep the same tendencies as their prices in 2014, i.e. will increase 3-5%.

Legal notes by SORAINEN

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

Lithuania

Residential market

Real estate market report 2014

Recent developments

	Description	Price (sqm)	Completion
	**Lighthouse I** – in the end of 2013 local developer MG Valda has finished the construction of the first stage of a new residential project in Fabijoniskes district. The company offers 156 apartments in three blocks. The 7 and 9-storey residential buildings comprise apartments ranging in size from 38 to 90 sqm. A closed yard, and 2 floors of underground parking is connecting the blocks. The project has a smart house system, which allows residents to reduce their costs efficiently. Sales prices of the available apartments without fit-out are from €1,250 to €1,500 per sqm. Some of apartments are sold with final fit-out in the Scandinavian style. Almost 60% of the apartments have been sold or reserved.	€1,250 - €1,500	2013
	**Gabijos Street** – local company Anreka has finished another residential building with 85 apartments on Gabijos Street, in the Pasilaiciai district. 1-4 rooms apartments range from 30 to 90 sqm. Sales price of the available apartments without fit-out are from €900 to €1,100 per sqm. 90% of the apartments have been sold.	€900 - €1,100	2013
	**Solo city** – in 2013 developer YIT Kausta has finished a 6-storey apartment building with 42 apartments in the Virsuliskiu district next to the new western bypass. One to three room apartments range from 38 to 67 sqm. Apartments are sold without or with fully fit-out. A professional interior designer has developed a number of different Scandinavian-style apartment projects to choose. Almost 40% of the apartments have been sold or reserved.	N/A	2013
	**Grigiskes (Kunigiskiu Street)** – in the middle of 2013 construction of second 4-storey residential building in Grigiskes city, which belongs to Vilnius city, was finished. The second building delivered 24 apartments, sized from 37 to 77 sqm. Sales prices of the available apartments without fit-out are from €950 to €1,000 per sqm. 65% of the apartments have been sold.	€950 - €1,000	2013
	**Loft Town** – one of the biggest lofts projects in Lithuania. The buildings next to the Kalvariju and Kareiviu streets crossroad in Vilnius will shortly resemble a city in the city: there will be equipped apartments, studios, lofts and working rooms of different sizes. Some luxurious flats will be equipped with direct entrances from the garages located under them. Second stage was completed in the end of 2013. Asking prices for apartments, studios and lofts without fit-out are from €1,000 to €1,500 per sqm.	€1,000 - €1,500	2013
	**EIKA (Pilaite)** – in first half of 2013 local development company EIKA has completed development of 9-storey residential building with 71 apartments. The apartments vary from 28 to 67 sqm, and sell without fit-out from €1,100 per sqm. 95% of the apartments have been sold.	From €1100	2013

New projects

	Description	Price (sqm)	Completion
	**Sugiharos 2** – local company Veikme is building residential project with 103 apartments in Virsuliskiu district on C. Sugiharos Street. Apartments from 36 to 115 sqm are planned for the 5 and 9 storey buildings. This project will have 78 parking places. Construction will be completed in 2014.	N/A	2014

Residential market

New projects

	Description	Price (sqm)	Completion
	**Bendoreliai** – in spring 2014 local developer Markeris will fully complete construction of row houses quarter in Bendoreliai District (12 km from Vilnius City centre), next to the Old Ukmerges Road. In total there will be 72 row houses, secured with acoustic wall, installed drainage, lighting, walking paths, recreational park near the river and children's playground. Partially furnished 109 sqm row houses with land plots of 200-300 sqm were successfully sold for €87,000-€104,000. Another 97 row houses will be built in 2014-2018 with selling prices of €87,000 - €105,000.	€800 - €965	2014
	**Helios Pilaite** – local developer Via Sportas (Helios group) is finishing resumed construction of two 9-storey residential buildings in Pilaites district. The buildings comprises 112 apartments with commercial premises on the ground and second floor. 1-3 rooms apartments range from 39 to 66 sqm. Construction will be completed by the start of 2014. Sales prices of the available apartments without fit-out are from €1,100 to €1,350 per sqm.	€1,100 - €1,350	Q1 2014
	**Vingriu namai** – local developer Realinija is building a 4-storey apartment building in the Old Town on Vingriu Street. The building with 34 apartments and commercial premises on the ground floor will be completed in Q2 2014. Sales price of apartments without fit-out are from €2,000 to €2,500 per sqm. 30% of the apartments have been sold or reserved.	€2,000 - €2,500	Q2 2014
	**Ozo Park (4A and 4B1 blocks)** - in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark, Realco has started construction of two residential blocks with 92 (4A) and 54 (4B1) apartments. One to four room apartments range from 28 to 85 sqm. Construction will be completed in spring-summer 2014. Sales price of the available apartments without fit-out are from €1,500 to €1,800 per sqm. In total 500 apartments have been built in this territory in 2008-2012.	€1,500 - €1,800	Q2 2014
	**Liepyno namai** - local developer Vilnius Property Investment is building a 9-storey apartment building in the Zverynas district on Liepyno Street. The building with 87 apartments and commercial premises on the ground floor will be completed in Q2 2014. Sales price of the available apartments without fit-out are from €1,400 to €2,000 per sqm. Almost 80% of the apartments have been sold or reserved.	€1,400 - €2,000	Q2 2014
	**Zveryno namai** – local developer Hanner has started to build apartment buildings on the 3.3 hectares of land in Zverynas. Total investments will reach €25 million. On first stage two 6-torey residential buildings with 120 apartments will be built. Construction will be completed in autumn 2014. Sales price of apartments without fit-out are from €1,500 to €2,000 per sqm. 35% of the apartments were sold or reserved in the end of 2013.	€1,500 - €2,000	H2 2014
	**Birch Terraces** – local developer MG Valda is continuing conversion of the 5 ha Lithuanian Film Studios territory in Antakalnis district into modern residential quarter. The first stage of eight residential blocks with 181 apartments was completed in Q3 2012. Currently this company is developing four 7-8-storey residential buildings 140 apartments. Two to five room apartments range from 42 to 145 sqm, which will have balconies or individual terraces. Sales prices of the available apartments without fit-out are from €1,650 to €1,900 per sqm. In the end of 2013 50% of the apartments were sold.	€1,650 - €1,900	Q4 2014

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

Market activity of agricultural land in record highs

Prices

There were some positive price changes in the prices of residential and commercial land in 2013 in Vilnius region. Due to increased number of developments, prices for attractive (mainly near central part of the city) land plots have increased by 5-10%.

Further rapid increased activity and 10% increase in prices were recorded in the agricultural land market in 2013. Interest in agricultural land, which started to grow in 2011, continued through 2012 and 2013. Both direct users of the land (farmers), and speculators, who hope to profit from reselling the land, were interested in agricultural land. The main reason for this interest is that these parcels of land are relatively inexpensive and, depending on location (land productivity), range from €1,000 to €3,500 per hectare.

Asking prices for plots in the city centre suitable for residential development (with detail plan or construction permit) are now €300 - €1,500 per sqm of land, or roughly €200 - €700 per gross buildable square metre of residential space.

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

Prices for plots for private homes with partial or full infrastructure stay flat during 2013, and are €19 - €35 per sqm in the cheaper suburbs, to as high as €45 - €85 per sqm in Riese, Bajorai, Kalnenai, Gulbinai.

Demand

Total land transactions in Lithuania increased 25% in 2013, after growing 12% in 2012, according to the data of the Central Registry.

Q4 2013 snapshot Vilnius

Annual land price change (agricultural):
+10%

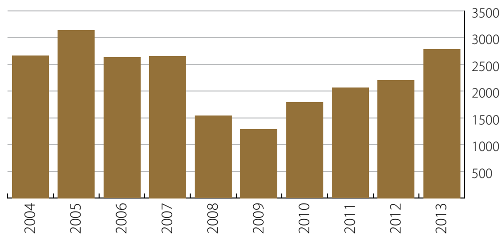
Total land transactions change (Vilnius city & district):
+22%

Land prices in city centre for residential development (sqm):
€300 – €1,500

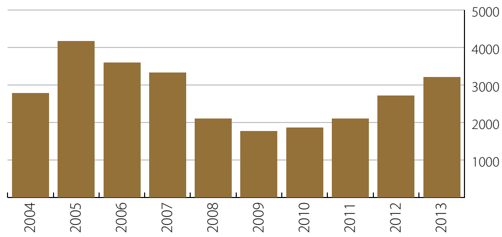
Land prices in residential districts for residential development (sqm):
€60 – €200

Land prices in city suburbs for private homes (sqm):
€19 – €85

Land transactions in Vilnius city



Land transactions in Vilnius district



Land prices for private homes in Vilnius suburbs, €/100 sqm

Legal notes by SORAINEN

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

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

An individual together with related persons cannot acquire (own) more than 500 hectares. Investments in land by non-Lithuanian citizens are not restricted except for direct acquisition of agricultural and forestry land. This restriction will cease on 30 April 2014.

Land market

Real estate market report 2014

Total land transactions increased 26% in 2013 in Vilnius City, to 230 transactions per month. Total land transactions increased 18% in 2013 in Vilnius District, to 270 transactions per month.

Since new apartment buildings are actively being developed in Vilnius, it is clear that there has been increased interest in land parcels in attractive areas of the city. This has had some impact on prices.

In June 2013, the local developer Hanner bought the buildings and land of the former Vilniaus Pergale sweet factory for €7.8 million in the residential area of Zverynas. It is planned to build apartment buildings on the 3.3 hectares of land.

In 2013, Hanner purchased a 14-are parcel for €0.6 million in the centre of Vilnius. Construction of a 5-storey apartment building has already started. The project will offer 40 apartments and commercial space on the ground floor of the building.

News

From the beginning of 2013, the new land tax is calculated on the basis of the market value of the land at a rate of 0.01%-4%. Tax rates are set by municipalities. The land valuation methodology also changes and the average value of the parcel of land is calculated according to land value maps. Valuing the land according to the new average market value means that the value of a particular plot can increase significantly. As a result, the land tax on parcels of land in central and other prestigious areas of the cities may rise considerably. That is why there will be a transitional period of 5 years for this tax, which means that tax increase will be reduced by 80% in 2013, 60% in 2014, 40% in 2015 and 20% in 2016.

In April of 2011, the European Commission allowed the Lithuanian Government to extend its prohibition on the sale of agriculture land in Lithuania to foreigners until May 2014. This restriction is not applicable to foreigners who are permanent residents in Lithuania and have been engaged in agricultural activity for at least three years. If the Lithuanian Parliament decides to extend the ban, the government will have to negotiate this with the European Commission. If the negotiations are successful, the ban will be in force for another three years. At the same time, the Central Electoral Commission of Lithuania has registered the request by activists to hold a mandatory referendum in the country with the main goal to prevent the sale of land to foreigners.

On 1 January 2014, the new version of the Law on Territorial Planning came into effect. The aims of the law are to simplify and speed up territorial planning procedures. It is expected that this law will make obtaining permits for the construction of private houses and the development of large investment projects much faster and even cheaper. However, some of the subordinate legislation has not yet been adopted, and there are no precedents for possible disputes in certain situations, so it is very likely that in the first half of 2014 there will be considerable confusion and some investment projects will not speed up, but rather be delayed until the law starts functioning in full.

Lithuania

Real Estate taxes & legal notes

2014

ACQUISITION

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

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

- notary fees are 0.45% on the value of real estate; however, the fees shall not be less than LTL 100 (approx. EUR 29) or exceed LTL 20,000 (approx. EUR 5,800) for one transaction;
- state duties imposed upon the registration of a transfer of real estate are typically not material and vary depending on the real estate value (up to LTL 8,000 (EUR 2,320)).

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 not subject to any notary or registration fees (as the direct legal owner of real estate remains the same). The transfer of shares in a real estate holding company is not taxed with any VAT.

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

RENT

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 registered for VAT purposes and performs economic activities. If a company exercises this right in respect of one rent transaction, the same VAT treatment will automatically apply to all analogous transactions for the following 24 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. companies' profit is taxed).

Withholding Tax (WHT)

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

Personal Income Tax (PIT)

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

SALE

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

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

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

VAT

According to the general rule, sale of new buildings (in use for less than 24 months after their completion), unfinished buildings, building land or land with new buildings is subject to VAT at the standard rate of 21%. Sale of buildings completed or re-constructed earlier than 24 months ago is VAT-exempt, with an option to apply VAT if the purchaser is engaged in economic activities and 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 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. companies' profit is taxed).

Withholding Tax (WHT)

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

Personal Income Tax (PIT)

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

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.3% to 3%depending on municipalities. In Vilnius, the RET rate established for 2014 is 1%. Residential and other personal premises of individuals is exempt from tax where the total family-wise-ownership value of LTL 1 million (EUR 290,000) is not exceeded, whereas the excess value is subject to 1% RET.

Tax base is the average market value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (performed every 5 years) or using the replacement value (costs) method. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

LAND TAX

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

Land tax rates range from 0.01% to 4% depending on local municipalities. In Vilnius, the Land tax rate established for 2014 is 0.3%. 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%.

There is a transitional period set for the period 2013-2016 in case the taxable value increases, therefore the land tax expenses may gradually increase for a tax payer during this period.

LAND LEASE TAX

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

Introduction

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

Title to Real Estate, Real Estate Register

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

Title to real estate passes as of the moment the real estate is transferred. An agreement on acquisition of real estate is valid and binding on the parties irrespective of registration with the Real Estate Register. However, it may only be invoked against a third party after registration with the Real Estate Register.

Acquisition of Real Estate

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

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

Letter of Intent and Heads of Terms: Ordinarily, a letter of intent (LOI), heads of terms (HOT), or preliminary agreement details what the parties have to do before entering into the main agreement for acquisition of real estate, the main terms and conditions of the contemplated transaction, and liability for not entering into the main agreement.

The LOI, HOT or preliminary agreement must be in writing. There is no legal requirement to notarise a LOI, HOT or preliminary agreement.

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

Legal structures of real estate transactions: The Lithuanian legal environment has proven to be flexible in meeting investment practices introduced to the local market by foreign investors. 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

Acquisition of a target holding real estate may be performed either via an SPV incorporated in Lithuania or elsewhere.
The share sale-purchase agreement need not be notarised or publicly registered, unlike an agreement on sale-purchase of real property. The list of new shareholders must be filed with the Register of Legal Entities; however failure to do so does not have any impact on ownership rights to the shares.
Issues usually to be tackled while structuring the REI transaction as a share deal include, eg: target company history, employees, unnecessary assets, subsidiary operations, transferability of loan facilities, deferred taxes and financial assistance.

Asset deal

Asset deals usually require a narrower scope of due diligence review than share deals, and are more tax-transparent.
An agreement on sale-purchase of real estate must be certified by a notary public. Failure to notarise an asset transfer agreement makes it invalid. Notarisation and registration of transfer with the Real Estate Register generally increase the transaction costs.
For transfer of certain real estate the parties may be required to meet particular procedures, eg for sale of buildings situated on land owned by a third party, consent from the land owner must be obtained; prior to sale of real estate – objects of cultural heritage as well as real estate under construction – the respective authorities must be notified and specific documents must be obtained.
Another bottleneck of an asset deal over commercial property is the statutory right of a tenant to terminate the tenancy agreement on change of ownership of the leased property. In practice this issue is tackled by collecting estoppels from tenants.
Asset deals may involve recharacterisation risk, ie a REI transaction structured as an asset deal may be recharacterised as sale of a business. As a result, investors may be exposed to additional risks related to transaction validity and liability to creditors and employees of the former owner of the target.

Sale-leaseback

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

Forward purchase

Projects under development have more often been structured as forward purchase transactions. In these cases the investor undertakes a forward commitment to purchase the property. The developer usually acts as a developer until completion of the project or may act as project developer under a development contract while title to the target property on construction goes directly to the investor.
These REI investment structures are rather complex, may involve particular elements of share and asset deals, and usually involve other arrangements related to project development (eg development agreements, escrow arrangements, project management and letting agreements).

Joint venture

Joint ventures are quite commonly formed for project development purposes both by local developers and foreign investors.
In a joint venture, various contractual instruments are used in order to define eg project goals, responsibilities of the parties, terms for profit-sharing between the partners, terms related to project management, project exit mechanisms. Commonly, the partners establish an SPV to develop the project. The internal relationship between the partners is usually agreed in a shareholder agreement and related documentation. Commonly, the scope of such transactions includes execution of asset management, project management and property management agreements + 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.

Form of Agreements

Share transfer transactions must be in written form. Real estate sale-purchase agreements (asset transfer transactions) must be in written form and certified by a notary. Failure to notarise an asset transfer agreement makes it invalid.

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 be also in Lithuanian.

Due Diligence

Legal due diligence of target real estate is strongly advisable before investment or divestment. From the perspective of both seller and buyer, due diligence forms a basis for contract negotiations, risk distribution, verification of purchase price, and pre- and post-closing commitments. Due diligence checks on eg ownership title, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for supply of utility services.

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 its land plot have different owners, the owner of real estate situated on a land plot enjoys a pre-emption right to acquire the land plot upon its sale. 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, within the statutory limitation period, apply to the court for an order transferring the rights and obligations of the buyer.

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 made 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 the buyer. In order to secure the interests of 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 involves a notary fee and state duty respectively. The notary fee amounts to 0.45% of the real estate transaction value, capped at LTL 20,000 (approx EUR 5,792) for transactions that involve one real estate object and at LTL 50,000 (approx EUR 14,481) for transactions involving two or more real estate objects. State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired and depends on the average market value of the real estate. State duty varies from LTL 10 (approx EUR 3) to LTL 5,000 (approx EUR 1,448) per object.

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

Concentration 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 LTL 50 million (approx EUR 14.5 million) for the financial year preceding the concentration and the aggregate income of each of at least two undertakings concerned (received from the Lithuanian market) is over LTL 5 million (approx EUR 1.4 million) for the financial year preceding concentration.

Restrictions

Restrictions on Acquiring Real Estate

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

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land and forest unrestrictedly except for acquisition of agricultural land in which 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 have the majority of the votes in an entity or who enjoy a decisive influence on an entity.

Foreign legal and natural persons may acquire title to land if they comply with European and Transatlantic criteria. Foreign legal entities are assumed to comply with these criteria, if they are established 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 Co-operation 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.

However, even foreign natural and legal persons complying with European and Transatlantic criteria may not acquire agricultural and forestry land for a transitional period, except:

- foreign natural persons who permanently reside and are engaged in agricultural business in Lithuania for at least three years; and
- foreign legal persons and other foreign organisations with established representative or branch offices in Lithuania.

However the above restriction will cease on 30 April 2014.

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

Public Restrictions on Use of Real Estate

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

Property Management

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

Lease Agreements

General

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

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

Duration and Expiry of Lease Agreement

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

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

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

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

Lease Payment and Accessory Expenses (Utilities and Service Charge)

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

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

Real Estate Funds

From March 2008, it became possible to establish real estate collective investment undertakings (both closed-end and open-end) in Lithuania.

Mortgage

As of 1 July 2012, amendments to the Civil Code eliminated the institution of mortgage judges and, as a result, simplified execution and foreclosure of mortgages in Lithuania. A contractual mortgage requires only approval of a notary. Mortgage registration became an administrative process (rather than a judicial one, as it used to be). Under the amendments, the requirement to execute the mortgage in a standard form is cancelled. As a result, a mortgage agreement may be executed as a separate agreement or be part of the other agreement.

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

Another novelty introduced by the amendments to the Civil Code 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

A new version of the Law on Territorial Planning entered into force on 1 January 2014. The purpose of the new law is to speed up and simplify the territorial planning process as well as to make it more efficient.

Based on new regulation, municipal master plans will become the main territorial planning documents. However, the municipality can prepare a detailed plan of a certain land plot. If a municipality fails to prepare a detailed plan, construction on a land plot may be carried out according to a master plan. The procedure for detailed plan preparation will be shortened from 125 business days to 75 business days.

Other key new provisions:

- status of territorial planning documents of projects of national importance is to be introduced;
- special plans will become part of the master plan and the number of special pans has been reduced;
- a district (quarter) will be the smallest area for planning;
- the procedure for establishing special conditions of land use and for changing the purpose of land use will be simplified;
- impact assessment of solutions has been abandoned (en-

vironmental impact assessment and public health impact assessment will be carried out prior to the technical design project);

- a new information system for preparation of territorial planning documents in Lithuania and for state supervision of the territorial planning process (TPDRIS) will be introduced; a territorial planning document will enter into force from registration with the register of territorial planning documents.

Construction

According to existing regulation, erection, modification and demolition of buildings and other structures (depending on the complexity of intended works) require either documents authorising construction activities or design approval (if obligatory). As from 1 January 2014, the State Territorial Planning and Construction Inspectorate under the Ministry of the Environment has been authorised to issue a document permitting construction where a municipal administration fails to issue it within the established time limits and does not indicate the reasons for not issuing it.

Construction may be carried out only based on a building design prepared by a professional architect or engineer. Building design documentation must comply with territorial planning documents and meet official building norms. The obligation for the main construction participants (designers, contractors, technical supervisors) to participate in completion of construction has been eliminated as from 1 January 2014.

After completion of construction, reconstruction, modernisation or other construction activities (depending on the complexity of works 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 on compliance. As of 9 January 2013, a building may not be used without this documentation (certificate on completion or confirmation on compliance), except residential buildings.

A certificate of energy efficiency of a building should be received before issuance of the certificate on completion of construction or confirmation of compliance. Moreover, as of 9 January 2013, the certificate of energy efficiency of the building should be received before sale or lease of the property. The certificate should be placed in a visible location in hotel, administrative, commercial, services, catering, transport, cultural, educational, sports, medical treatment and recreational buildings (when the area used is more than 500 m2).

The contractor, the architect and the technical supervisor of the construction are liable for collapse of the object or defects. From 1 January 2014, the warranty period calculation procedure has changed: warranty periods (5, 10 and 20 years) will be calculated from the date of transfer to the developer (customer) of all construction works carried out by the contractor and not from completion of the works.

The Law on Construction allows the legalisation of illegal construction provided that such construction is in line with territorial planning documents and with mandatory environmental protection, heritage conservation and protected areas legal requirements. As of 1 January 2013, a fee accrues and is payable in cases of legalisation, depending on the scope of illegal construction.

Insolvency

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

Restructuring

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

Bankruptcy

Generally, if a company is insolvent bankruptcy proceedings may be commenced. Operations of 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.

SORAINEN
ESTONIA LATVIA LITHUANIA BELARUS

Latvia

2014

Latvia

Country overview

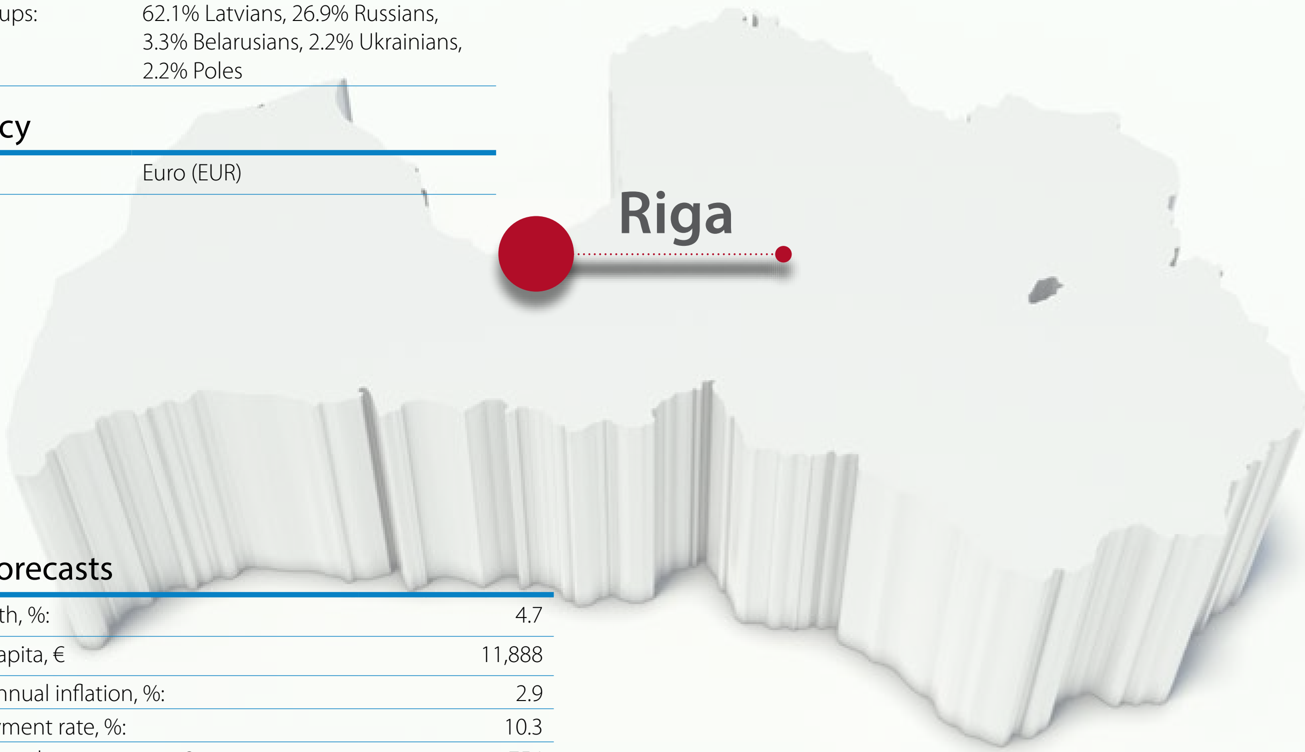
Real estate market report 2014

Geography & Social

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

Currency

Currency:	Euro (EUR)



2014 Forecasts

GDP growth, %:	4.7
GDP per capita, €	11,888
Average annual inflation, %:	2.9
Unemployment rate, %:	10.3
Average montly gross wage, €	754
Average montly gross wage annual growth, %	5.5
Retail sales growth, %	7.0

Population	2008	2009	2010	2011	2012	2013
Latvia	2,191,800	2,162,800	2,120,500	2,074,600	2,044,800	2,023,800
Riga	697,300	687,400	673,400	659,400	649,900	643,600
Daugavpils	101,700	98,700	96,000	93,600	90,900	89,200
Liepaja	81,700	80,700	78,900	76,900	74,800	73,500

Economics	2008	2009	2010	2011	2012	2013
GDP growth, %	-3.3	-17.7	-0.9	5.5	5.6	4.5
GDP per capita, €	10,509	8,682	8,674	9,873	10,800	11,354
Private consumption growth, %	16	-16	-8.8	5.3	5.7	4.9
Average annual inflation, %	15.4	3.5	-1.1	4.4	2.3	0.4
Unemployment rate, %	7.5	16.9	18.7	15.4	13.8	11.4
Average monthly gross wage, €	682	656	633	660	684	715
Average gross wage annual growth, %	22.5	-2.3	-7.5	4.5	3.7	4.5
Retail sales growth, %	3.6	-27.3	-2.0	4.6	9.7	6.2
FDI stock per capita, €	3,553	3,628	3,701	4,223	5,042	-

Source: Latvian Department of Statistics, Ministry of Finance of Latvia

Economy

Real estate market report 2014

Five-year resident permits is the driving force for new developments

Economy

2013 was the third year of GDP growth. After GDP grow of 5.6% in 2012, 4.5% in 2013, forecasts are for continuing growth of 4.7% in 2014.

Inflation, which hit a high of 18% prior to the crisis, ran at 2.3% in 2012 and is expected to be just 0.4% in 2013 and 2.9% in 2014.

The minimal wage increased from €285 to €320 on 1 January 2014, the personal income tax rate maintained in the previous 24% level.

In 2010, the law of immigration was changed, allowing non-residents obtain a five-year resident permit in exchange for investment in real property provided the transaction value exceeded €142,000 in Riga or Jurmala region or €71,000 in other regions. The total volume of investments in real property reached €477 million in July 2013. Resident permits were a key factor for developers of many renovations and new residential project development. In order to be able to approve the next year's budget, the government was forced to set 800 quotas per year to resident permits as a compromise gesture towards the coalition partner, the National Association (NA), which initially were absolutely against the system as such. 800 quotas had been issued by August 2013. The President of Latvia returned the bill to review the new quotas system.

Negative short term impact on Latvian economy will be caused by insolvency process of the metallurgy company Liepajas Metalurgs, the process started on November 12. Liepajas Metalurgs had helped Latvia to overcome the crisis.

The tragic accident when 54 people lost their lives in the collapse of a Maxima hypermarket is highly likely to bring changes in the construction law or control procedures of construction, after the investigation is complete.

Latvia has adopted euro as its national currency as of January 2014. Lats, the Latvia's national currency until now, was changed to the euro at the rate of 0.7028 Latvian lats (LVL) to one euro (1 LVL = 1.4299 EUR).

INTERNATIONAL COMPANIES FILL THE NEW OFFICE BUILDINGS

SUPPLY

The total area of modern office space available in Riga is 679,000 sqm at the start of 2014. There were no new office building developments in 2013. Despite the growing demand for modern offices, new developments are entering market slowly. However, the new SRS Office Complex with 42,000 sqm GLA will be completed in 2014, also, Ober-Haus expects a new office building at Vaiņodes Street to be delivered in 2014, having approximate total area of 7,000 sqm.

The owner of Mukusalas Business Centre is going to renovate a building at Mukusalas Street, planned to be finished in 2015, the total area for building A is 6,511 sqm and the total area for building B – 7,066 sqm.

The multifunctional complex Z-Towers will be completed in 2015. There will be offices from fourth to thirteenth floors.

There are developers that are ready to build or renovate office buildings if they find anchor tenants. Unfortunately tenants are not willing to sign pre-lease agreements.

DEMAND

The total take-up was almost 15,000 sqm in 2013. Due to no new developments rate of leasing was enough to push the vacancy rate down from 14% at the start of 2013 to 12% by the end of the year.

Take-up was strong for modern offices in the CBD, Skanstes Street has become one of the most demanded locations, for example ABLV bank relocated to Jupiter centre and leased nine floors of GLA 5,677 sqm in 2013.

Q4 2013 SNAPSHOT

RIGA

TOTAL OFFICE SPACE:
679,000 sqm

TOTAL OFFICE VACANCY RATE:
12.0%

A CLASS OFFICE VACANCY RATE:
2.0%

B CLASS OFFICE VACANCY RATE:
19.0%

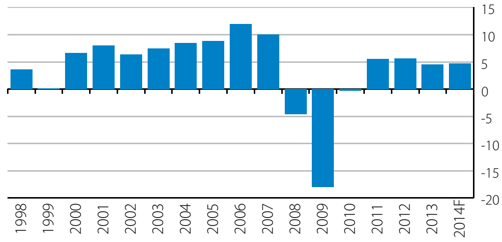
A CLASS OFFICE RENTS (sqm/month):
€9.00 - €15.00

B CLASS OFFICE RENTS (sqm/month):
€7.00 - €10.00

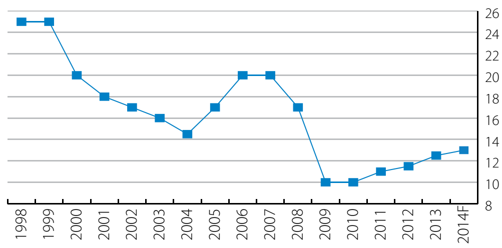
TOP OFFICE RENTS (sqm/month):
€16.00

ADDITIONAL OFFICE COSTS (sqm/month):
€2.35 - €6.00

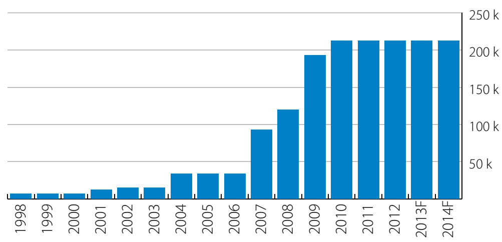
GDP growth, %



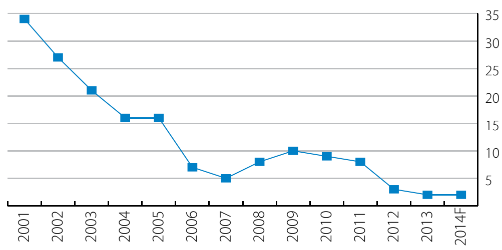
A class office rents, €/sqm



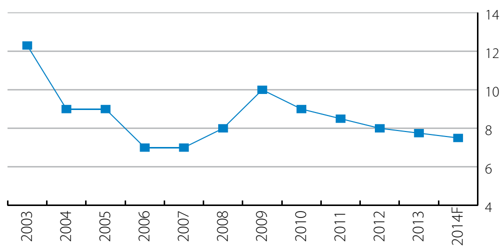
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yield, %



Office market

Real estate market report 2014

The major lease agreement was signed with three Scandinavian companies, Seesam Insurance, Pohjola Bank and Pohjola Finance, which settled in a common office at Muitas Street 1 of 1,564 sqm GLA in 2013.

Ober-Haus has received a number of requests from international companies to find new office premises, the deals are still in process and most likely will be finished in 2014, however Ober-Haus has already helped to find a new office to CV-Online Latvia, City24, a company from Nokia group and others.

So the demand is strong for offices in new office buildings with leasable area from 50 to even 2,000 sqm, unfortunately there is lack of fresh supply.

Rents

Rents grew till 20% in projects located at CBD in 2013. Rents for A class offices in Riga are mostly within the range from €9.00 to €15.00. Rents for B class offices in Riga range from €7.00 to €10.00 per sqm.

Typical utilities and service charges in A class buildings range from €2.35 to €6.00 per sqm per month.

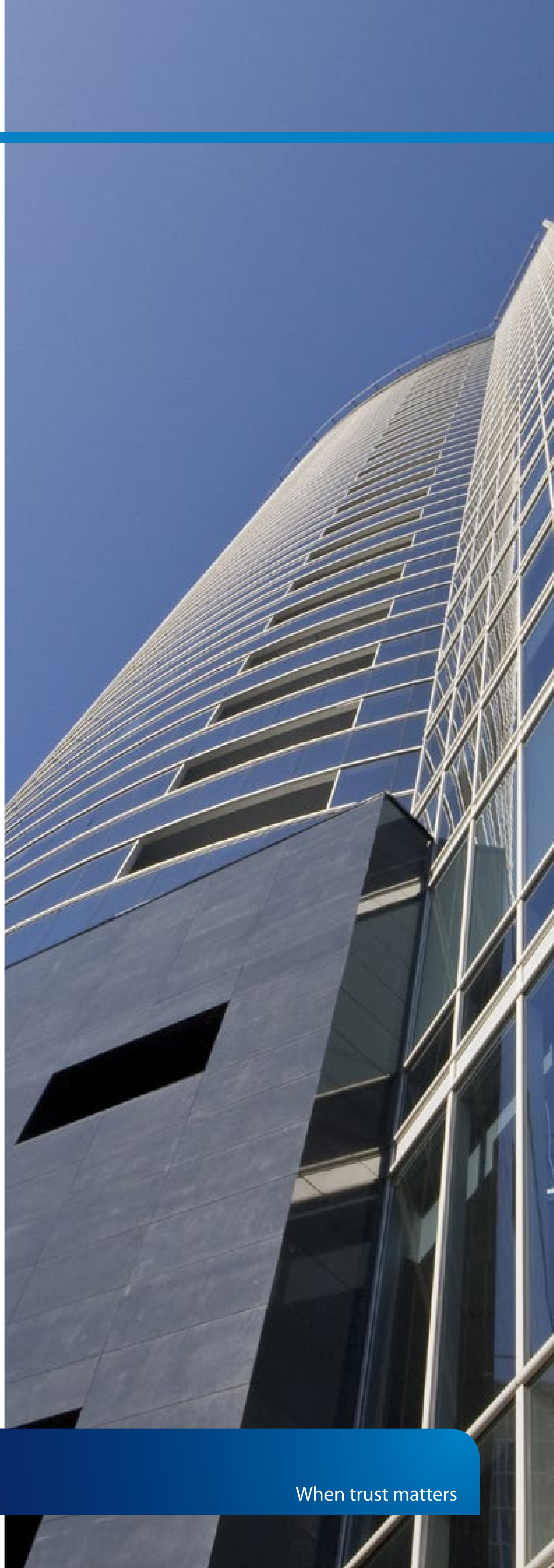
Investment

Capital Mill bought the Valdemara Centrs office building, located at Valdemara Street. The previous owner was BPT. Total area of the building is 11,954 sqm, GLA 8,309 sqm. Transaction details have not been disclosed.

Latvijas pasta banka bought an office building from Rietumu banka, located at Brivibas Street, the transaction price was €7.15 million, the total area of the building is 4,033 sqm.

MC Estate bought an office building, located at Jura Alunana Street, the transaction price was €9.5 million, and the total area of the building is 5,800 sqm.

An office building located at Brivibas Avenue 366 of 1,670 sqm total area was sold to E. Gulbja Laboratorija, with assistance by Ober-Haus, the price was €2 million.



New projects

	Description	Size (GLA, sqm)	Completion
	**SRS Office Complex** – a B+ class project, developed by Biroju Centrs Ezerparks, the project will be located within the territory of the multifunctional development complex Ezerparks, with 42,000 sqm net leasable area, of which 40,000 sqm is built to suit the needs of the State Revenue Service of Latvia (SRS) and 2,000 sqm will be offered on the market. The building will be opened in January of 2014.	42,000	Q1 2014
	**Jeruzalemes 1** – a B+ class reconstructed project will be located in Riga city centre with 6,300 net leasable sqm with 56 in-house parking lots. The planned commissioning is in the first half of 2015.	6,300	H1 2015
	**Business Centre Mukusala** – the owner of Business Centre Mukusala is going to renovate a building at Mukusalas Street, planned to be finished in 2015, the total area for building A is 6,511 sqm and the total area for building B – 7,066 sqm.	13,577	2015
	**Z-Towers** – this multifunctional complex consists of two round towers, joined by a podium at the base area, 30-storey high each, developed by Towers Construction Management. Z-Towers Complex is situated on the left bank of the River Daugava (Pardaugava) by the Cable Bridge in Riga. There will be 10 floors for A class offices about 800 sqm each floor, the offices will be located in south tower from fourth to thirteenth floors. The complex will be completed in 2015.	~ 8,000	2015

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

LEGAL NOTES BY SORAINEN

Rents

Rents are paid in advance, usually monthly, sometimes quarterly, and are indexed to local or EU inflation. Recent practice shows that an option to index rent according to European inflation is used more commonly. In addition to rent, tenants usually pay a maintenance fee and cover their own utility costs, invoiced by the owner or supplier after use. Security deposits for two to three months' rent are generally required. The owner usually pays all applicable real estate taxes.

Investments

Lease agreements of business centres are of rather good quality, though other lease agreements for office space might be of low quality. Typically, the owner prepares standard lease agreements, which are mostly one-sided and in favour of the owner. Lease agreements are binding on the new owner of real estate on transfer of title only if registered with the Land Book.

Office market

Real estate market report 2014

Latvia

Retail market

Real estate market report 2014

Boutiques are filling the empty spaces in side streets

Supply

The total modern shopping centre space available in Riga is 885,000 sqm and the shopping space is 665,000 sqm at the start of 2014. There were no new relevant developments in 2013. New supply was brought by leading food retail chains. Maxima opened a new 3,200 sqm hyper-market on Dzelzavas Street with several line shops in Q2 2013, Maxima Latvija Ltd investments were approximately €5.5 million. Two more Maxima hypermarkets were planned to open in Q4 2013, a new grocery store on Dammes Street of 1,000 sqm, and also a new supermarket on the corner of Bikernieku and Evalda Valtera Street of 7,500 sqm. But due to the tragic accident of Maxima Zolitude collapse these two developments were suspended. RIMI opened the first hyper-market in Kekava municipality. The food retail chain leased 2,500 sqm in the re-constructed A7 hypermarket. RIMI is also working on two new projects in Ogre, approximately 35 kilometers from Riga.

Vacant retail spaces can be expected to appear in shopping centres due to Varner Baltija announcement to close all Cubus, Bik Bok and Dressman stores in Q1 2014.

AKROPOLIS LV, SIA, a subsidiary of AKROPOLIS GROUP, UAB is currently developing a multifunctional real estate project at Maskavas Street. This project will bring another 60,000 sqm of retail and 7,400 sqm office space to the market at the end of 2015.

Another project by the same developer will be located at Daugavgrivas Street, the project will be started in 2015 and will produce 92,000 sqm of retail and 91,000 sqm office space.

Q4 2013 snapshot

Riga

Total mall space:
885,000 sqm

Total mall space per capita:
1.38 sqm

Total shopping space:
665,000 sqm

Total shopping space per capita:
1.03 sqm

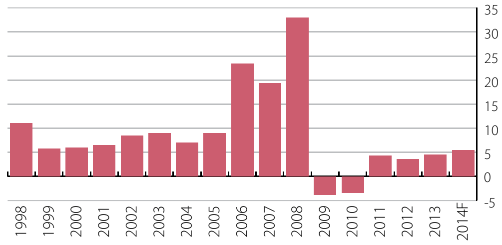
Retail rents for anchor tenants (sqm/month):
€5.00 - €9.00

Retail rents for medium sized units (sqm/month):
€12.00 - €35.00

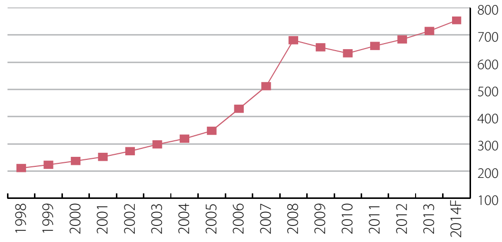
Retail rents for small sized units (sqm/month):
€25.00 - €50.00

High streets rents (sqm/month):
€15.00 - €50.00

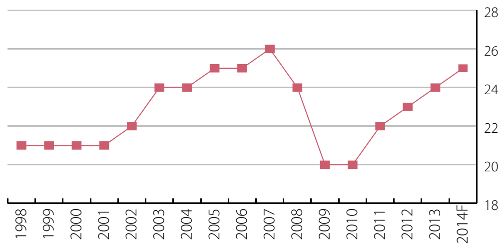
Average salary growth, %



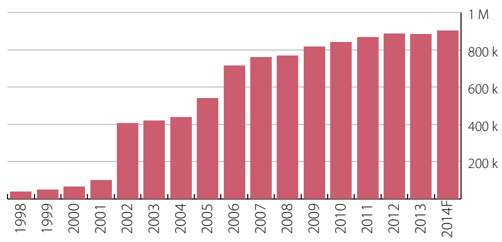
Average salary per month (brutto), €



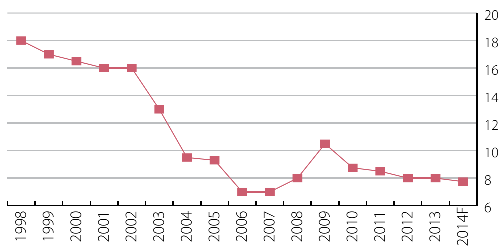
Average mall rents, €/sqm



Total mall space, sqm



Retail investment yields, %



The Bowlero entertainment centre located near the Spice shopping centre changed their concept and started to lease their premises as retail space, their first tenant was EURONICS.

Ober-Haus expects to see an expansion of the existing shopping centres such as Origo and Alfa in the next few years, if the demand for retail premises continues to be strong. The expansion of Alfa is being planned for opening in late 2016 and expansion of Origo - for opening in 2017. To meet this time-line, however, the decision to proceed with either project has to be made during 2014.

Developments are also expected to occur within the city centre arcades such as Upisa Pasaza, Valdemara Pasaza, Berga Bazars, etc.

Due to insufficient supply in retail streets, boutiques are being squeezed to cross streets, to make way for recognizable brands.

Demand

The high street of Riga continued to recover in 2013, with vacancy reduced to just 2% after reaching nearly 20% in the depths of 2009. The greatest demand and the highest rent are for retail space from 50 to 150 sqm in the city centre or district centres, in places with high traffic and pedestrian flow.

Demand in the city centre is sensitive to season – during the summer months the demand has considerably grown for premises to fit in a cafe in the Old Town, for an option to set up a seasonal terrace in its more dynamic streets the proposed lease fee reaches up to €50 per sqm, but there are actually no such options.

The demand in high street exceeds the supply. Tenants, especially boutiques, workshops, barbershops and other unrecognizable brands settle in less attractive side streets. Most demanded are retail premises from 40 to 80 sqm.

There is a special situation in the Old Town, after summer when the city centre was crowded by local people and tourists; the demand has gone up, and along it – the rents. The highest demand there is for three main streets providing high pedestrian traffic, at the same time, smaller streets and locations "behind" are not so popular and the rents had not grown. A new tendency in 2013 for the Old Town – there is also demand for retail premises for apparel and footwear shops.

New brands kept entering Latvia in 2013, which included Stradivarius, Blue Inc London, Faconnable, Silvian Heach Garmin, Camp David, Mangano, Stefanel, Happytheka, Desigual, Marc Cain, YoYo frozen yoghurt, Aldo, Tally Weijl, Bio2You. H&M were also expanding, in Q4 2013 they opened a store in Mols and are about to open two more stores in Spice and Riga Plaza.

Due to the growing demand, most shopping centres are nearly fully leased, with minimal vacancy rates. The vacancy at the largest shopping centres at the beginning of 2014 was 0% at Spice and Spice Home, 0.1% at Alfa, 0.4% at Mols, 0.7% at Origo, 1.9% at Galerija Centrs, 3.0% at Riga Plaza, 8.0% at Dole and 14.0% at Olimpia.

Sky&More, to improve their position on the market, are going to develop a new concept, known as Corner Shop or Shop-in-shop system. Shop-in-shop systems serve to distinguish parts of a product range spatially from the rest of the offerings. The system will be launched in Q1 2014.

Rents

Rents have grown till 15% in demanded locations due to the limited supply. High street rents now range from €15.00 to €35.00 per sqm. In the prestigious Old Town area, retail space rents are now €20.00 to €50.00 per sqm.

In shopping centres, rents start at €5 per sqm for large size units (1,000 sqm or more), from €12.00 to €35.00 per sqm for medium units (150-300 sqm), and €25.00 - €50.00 per sqm for small units (under 100 sqm). Anchor tenants, such as supermarkets, typically pay €5.00 to €9.00 per sqm.

Investment

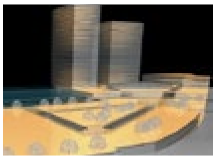
During 2013, a number of international companies used Ober-Haus services to find new premises, for example, Ober-Haus helped KG Knutsson to expand their operations in the Baltic States and KG Knutson bought a building on Gunara Astras Street 3 with total area of 1,542 sqm.

BPT Baltic Opportunity Fund bought the SKY shopping centre, located at Bikernieku 120B for a price of €4.4 million, the total area of the shopping centre is 3,814 sqm.

A major transaction was the sale of four retail premises of SMI Latvia of 35,800 sqm total area. The buyer is Lords LB Baltic fund III. Transaction details have not been disclosed.

East Capital bought Prisma Hypermarket located at Riga, A. Saharova Street of 11,604 sqm GLA.

New projects

	Description	Size (GLA, sqm)	Completion
	**RIGA AKROPOLE** – AKROPOLIS LV, a subsidiary of AKROPOLIS GROUP is currently developing a multifunctional real estate project that will feature retail and entertainment companies as well as offices and parking facilities. The properties that make up the project will be built on a 14,8 ha lot in the neighborhood of the Southern Bridge, between Maskavas and Salaspils streets, close to the Slavu Bridge and Krasta Street. The project will be located in the territory of the former Kuznecov porcelain factory at Maskavas Street. This project will bring 60,000 sqm of retail and 7,400 sqm office space to the market at the end of 2015.	60,000	Q4 2015
	**DAUGAVGRIVAS PROJECT** – AKROPOLIS LV, a subsidiary of AKROPOLIS GROUP will develop another project located at Daugavgrivas Street, project will be started in 2015 and will bring 92,000 sqm of retail and 91,000 sqm office space.	92,000	N/A

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

LEGAL NOTES BY SORAINEN

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

When looking at investment properties, keep in mind that lease agreements may be of low quality. Distribution of maintenance and renovation obligations may not be set very clearly in lease agreements. There is no standard approach to the set-up and use of marketing funds. Rents are indexed to local or EU inflation. Lease agreements survive change of ownership and are binding on the new owner only if registered with the Land Book.

Retail market

Real estate market report 2014

Vacancy rate is pressed down; modern industrial premises are becoming deficit

Supply

There were no new developments in 2013. The total modern industrial space available in Riga and its immediate surroundings remained 492,000 sqm at the start of 2014. Most premises are located outside the city along major highways.

Ober-Haus projects the supply to grow at least by 79,000 sqm in the next two years. VGP Park Kekava will deliver a warehouse complex of 20,000 sqm in 2014 instead of 2013 as estimated before. The speculative industrial complex of total area of 24,000 sqm developed by Balt Cargo Solutions will be delivered in March 2014.

POLIPAKS plans a new warehouse and office complex in Marupe district of total area of 35,000 sqm. Its completion is expected by the start of 2015.

Despite the coming developments, the low rents still do not encourage the potential developers and thus the supply of modern warehouse spaces is poor.

Demand

Despite the bankruptcy process of Liepajas Metalurgs, the production turnover grew by 1.4% in first nine months of 2013 and the retail turnover grew by 2.1% in the same period. Thus, an additional pressure was put onto the slowly growing modern industrial segment.

The absorption of new supply will be fast. VIA 3L Latvia already leased 14,000 sqm in the new industrial complex developed by Balt Cargo Solutions.

Due to the lack of new supply, the vacancy rate for industrial space fell to 5% at the start of 2014 from 55% three years ago at the start of 2010.

Q4 2013 snapshot

Riga

Total new warehouse space:
492,000 sqm

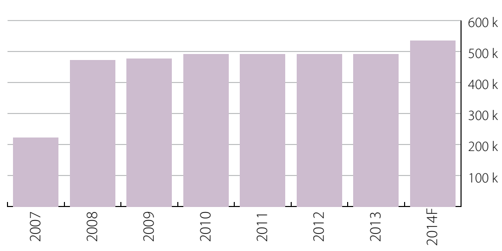
Warehouse vacancy:
5.0%

New warehouse rents (sqm/month):
€3.50 – €4.20

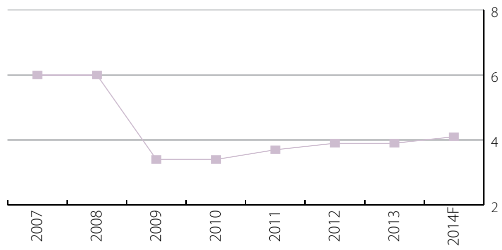
Old warehouse rents (sqm/month):
€1.50 – €3.00

Additional warehouse costs (sqm/month):
€0.40 – €0.80

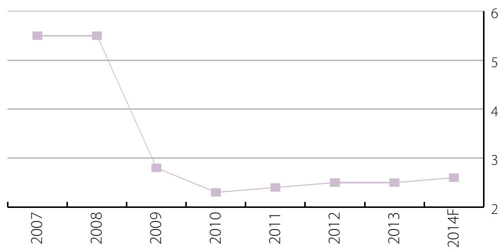
Total modern warehouse space, sqm



New warehouse rents, €/sqm



Warehouse rents on surrounding roads, €/sqm



Industrial market

Growing demand and lack of speculative developments force companies to develop built to suit projects.

The greatest demand is for warehouses and manufacturing facilities of 1,000 to 3,000 sqm.

The demand is strong from Russian companies who want to have a foothold in the European Union markets, and find Latvia an ideal location due to its proximity and its Russian speaking workforce.

Rents

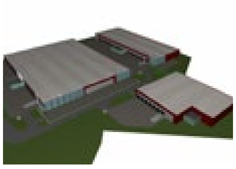
Despite the lack of new developments rents in general remained within last year's margins.

After falling by 40% during the crisis years, warehouse rents rebounded in 2011 and 2012 each by 10%. Warehouse rents in Riga now range from €3.50 to €4.20 per sqm, and on the surrounding ring road rents range from €1.50 to €3.00 per sqm.

Investment

The major transaction was a sale of SMI Latvia industrial premise in Bergi of total area of 50,200 sqm. The buyer is Lords LB Baltic fund III. Transaction details have not been disclosed.

New projects



Size (GLA, sqm)	20,000
Completion	Q1 - Q2 2014 (I stage)

VGP Park Kekava – VGP plans to develop the first phase of 20,000 sqm in the spring of 2014. The whole project will consist of 40,000 sqm warehouse space on a land plot of 83,000 sqm. The project will be on the crossroads of the important highway A7, also known as Via Baltica, only 18 km from Riga. The project will be developed by VGP, providing turnkey solutions from the concept to the handover of the final building approval and future expansion.

Size (GLA, sqm)	24,000
Completion	Q1 - Q2 2014

Balt Cargo Solutions – located next to the important transport hub Riga-Dreilini, about 15 minute drive from the city centre, consists of 5,000 sqm office and 35,000 sqm warehouse premises, the entire existing complex is 100% leased. The complex is developed by Balt Cargo Solutions. Another 24,000 sqm of warehouse space is going to be added in spring 2014. 14,000 sqm of the new supply on the way is already leased.

Size (GLA, sqm)	35,000
Completion	Q1 2015

POLIPAKS – packaging manufacturer POLIPAKS plans a new warehouse and office complex in Marupe district of total area of 35,000 sqm. Its completion is expected by the start of 2015, and the project will be built by Merks.

Legal notes by SORAINEN

Industrial leases are quite simple; finance and construction opportunities are readily available. Rents are indexed to local or EU inflation. Usually, the parties conclude triple net lease agreements where the tenant pays all maintenance costs. Projects are usually built for owner-occupiers. Sale-leaseback arrangements rarely take place.

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Resident permits to foreigners – a lifeboat for developers

Prices

Apartment prices in Riga increased on average by 4% in 2013, after increase of 2% in 2012.

Prices of newly developed apartments rose by 5% in the city centre and by 7% in residential districts. Prices of new apartments in the city centre and the Old Town range from €1,700 to €4,000 per sqm at the start of 2014, and prices for very exclusive projects can even reach €4,500-€5,000 per sqm. New apartments in residential districts sell for €1,100 to €1,800 per sqm at the start of 2014. New apartments usually are sold fit-out with everything except kitchen.

Prices on the secondary market rose by 7% in Soviet–era buildings, and are €615 per sqm on average at the start of 2014.

Supply

About 3,000 new apartments were delivered in Riga in last four years. More than 1,100 units were added to the total new apartment market in 2013.

Due to the growing demand, Ober-Haus expects at least 1,250 new apartments to be completed in 2014.

At the start of 2014, there were over 1,900 unsold newly developed apartments available on the primary market, which is by 300 unsold apartments more than last year, however the absorption of new supply compared to 2012 has almost doubled.

Subsidiary companies of banks still are active on the market with a great supply. Given their more favourable lending terms and good selling price, they most probably squeeze the private seller in its attempts.

The supply of apartments in renovated houses of an area from 70 to 150 sqm in the price range

Q4 2013 snapshot

Riga

Annual apartment price change:
+4.0%

New apartments built:
1100

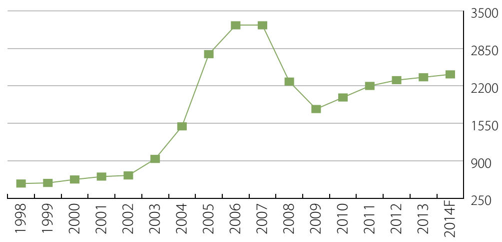
Economy class new apartment prices (sqm):
€1,100 – €1,400

Middle class new apartment prices (sqm):
€1,400 – €1,800

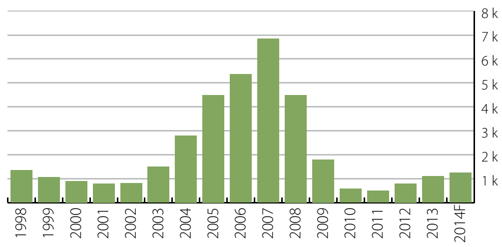
Luxury class new apartment prices (sqm):
€2,000 – €4,000

Residential investment yield:
4.3%

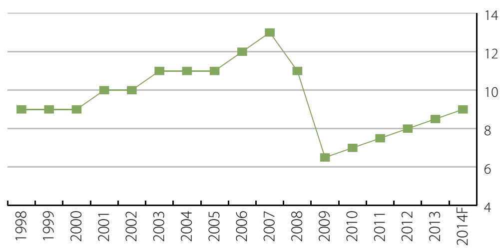
Residential prices in city centre, €/sqm



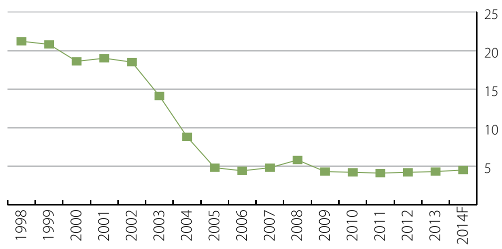
Completed units



Residential rents in city centre, €/sqm



City centre residential investment yield, %



from €150,000 to €300,000 in the quiet centre and the Old Town still does not satisfy the demand.

Demand

Five-year resident permits have come as a salvation to a certain number of developers. Foreign buyers are willing to pay above the market value for their resident permits. The profile of a resident permit investor has become more diverse. When the program was launched on the 1 July of 2010, the regular buyer was from Russia and looking for property located in the city centre of Riga or Jurmala, but, the first six months of 2013 brought approval to 107 investors from China, unlike Russians, they are willing to invest in other cities as well. Now the most frequent investors come from Russia, Uzbekistan and China. To get a five-year resident permit for investment in real property, the transaction value must exceed €142,000 in Riga or Jurmala region or €71,000 in other regions.

The number of transactions grew by 20% in 2013 and the growth is more than 45% compared to the 2011. The rising number of transactions is also a result of active selling politics by subsidiary companies of banks. Subsidiary companies of banks usually offer more favourable credit terms and good average price.

Demand in the suburbs generally comes from local buyers, while city centre flats are bought by both local buyers and foreigners.

The price segment ranging €145,000 to €200,000 remains active for foreign buyers. Foreign buyers usually evaluate project options within a 3 to 5 year period, first - rent options and second - the possibility to sell it after three to five years.

Local buyers are looking for two and three room apartments which cost less than €100,000. Most buyers are careful, when choosing an apartment, they analyse the general condition of building, the time when utility mains had been changed, the condition of the roof, the size of utility and maintenance payments, the ownership of land plot under the building, is it a deemed part of the property or not. In the city centre, an important criterion is availability of parking.

Due to limited savings, local buyers frequently cannot find the down payment to buy a better apartment.

As usual, the key factors to successful projects are a good location, high quality construction and finish materials and fittings, and that the majority of units are actually sold.

The highest demand is for three to four room apartments (90 to 140 sqm) in the city centre with full finish, for up to €250,000, and for two and three room newly built apartments (60 to 80 sqm) in suburbs also with full finish with prices up to €100,000.

The local private house buyers are looking for new economy class buildings within a price range of €90,000 to €120,000 or uncompleted houses below €50,000 in Riga region. There is also demand for completed middle class houses, ready for immediate dwelling, within a price range €130,000 to €180,000.

The Mortgage Market

Loans are offered in euros with maturities up to 35 years. The average interest rate at the start of 2014 was 6-month Euribor (0.33%) plus an average margin of 3.0% to 3.5% (depending on the customer's financial standing), to a total of 3.6%. Clients can borrow up to 85% of a property's value. About 70% residents and 20% foreign buyers used a loan to purchase an apartment.

Outstanding mortgage loans in Latvia total 32% of the annual GDP. The mortgage market slowed down during the crisis years, but banks resumed active lending in the second half of 2010.

Rents

Due to the growing demand, average rents increased by 10% to 15% in 2013. The typical monthly rent for an unfurnished, renovated three-room apartment (approximate size 70 sqm) in a pre-war building in the city centre ranges from €750 to €900 per month and in a newly built project from €800 to €950 per month.

Local customers usually are looking for one or two room apartments in the city centre within the rent range of €300 to €450 per month plus utilities and household management costs. Meanwhile the foreign customers usually are looking for furnished two or three room apartments of a total area of 50 to 100 sqm in the quiet or active centre within the rent range of €500 to €1,500 per month plus utilities and house management costs and also for spacious, unfurnished four to six room apartments within the rent range of €1,500 to €2,500 per month plus utilities and house management costs. The main requirements of foreign tenants are a new or renovated building with security, elevator, convenient parking and modern interior.

The demand for private house renting has remained stable. The most requested are houses in Marupe, Kipsala, Bierini and Mezaparks. In 2013, a quite popular location for foreigners has become Pinki due to the International School opened there. The average rent is €1,000 to €2,000 per month plus utilities and household management costs.

Recent developments

	Description	Price (sqm)	Completion
	**Marasdarzi** – located in Pardaugava, at Liepajas Street 2, owned by subsidiary companies of SEB, DNB and Nordea. This project comprises two six-storey buildings, with 154 apartments. Apartments range from 60 to 234 sqm, prices starting at €1,800 per sqm without finishing. The project was finished in 2007, but was taken over by the financing banks and re-launched in 2012. So far, only 20% of apartments are sold.	from €1,800	2007/2012
	**Biķerziedi** – located in Teika, at Talivalza Street 21 and 21a, developed by YIT Celtnieciba. This project comprises two four-storey buildings, with 85 apartments and with underground parking lots. Apartments range from 29 to 71 sqm, prices range from €1,200 to €1,625 per sqm for a fully finished apartment. The project was finished in 2013. YIT has pre-sold 60% of the apartments. YIT has already started the second phase of the project with the same volumes, Ober-Haus expects it will be finished by 2014.	from €1,200	2013
	**Ģipša Fabrika** – located in Kipsala, on the coast of the Daugava River, developed by SIA Gipsa Fabrika. This project comprises four partially renovated three-storey buildings, with 62 apartments. Apartments range from 46 to 280 sqm, prices range from €4,000 to €6,000 per sqm for a fully finished apartment. The project was finished in 2013. About 50% of apartments are sold at the start of 2014.	from €4,000	2013

New projects

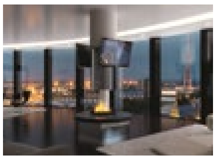
	Description	Price (sqm)	Completion
	**Ezerparka Nami** – located in one of most attractive residential districts, Mezaparks at Rusova Street 5, developed by New Europa Real Estate. Multifunctional district Ezerparks, designed by SWECO, is one of the largest mixed-use developments in the Baltics with excellent potential to become a new hub of commercial activity in Riga. Project Ezerparks will truly be a city in the city - a multifunctional complex with an excellent infrastructure featuring: well-designed traffic system - optimized for convenient accessibility, friendly living environment, with schools and kindergartens, service and trade facilities, largest park created in Riga in over 40 years. In the first phase of the multifunctional project is planned to produce 136 apartments, apartment's size will be 45 - 105 sqm on average, price range €1,150 to €1,700 per sqm for a fully finished apartment. The first phase will be completed in spring 2014. A total of eight residential houses with 600 apartments are planned to be constructed there.	from €1,150	Q1 - Q2 2014
	**Park Alley** – located in the quiet city centre at Rupniecibas Street 44, developed by Park Lane. The project's first phase will consist of one seven-storey building with 35 apartments. The project provides covered parking on the ground floor of the building. Apartments will range from 41 to 147 sqm, prices range from €2,000 to €2,300 per sqm for a fully finished apartment. The project will be completed in spring 2014. About 5% of apartments are pre-sold at the start of 2014.	from €2,000	Q1 - Q2 2014
	**Midtown Apartments** – located in the city centre at Hospitaļu Street 39, developed by YIT. The project will consist of one six-storey building with 67 apartments. The project provides underground and above ground parking lots. Apartment sizes will range from 35 to 103 sqm, prices range from €2,300 to €2,400 per sqm for a fully finished apartment. The project will be completed in summer 2014. About 5% of apartments are pre-sold at the start of 2014.	from €2,300	Q3 2014

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

Residential market

Real estate market report 2014

New projects

	Description	Price (sqm)	Completion
	**NCC Majas** – located in Mezciems, at Bikernieku Street 160, developed by NCC Majas. This project comprises eighteen five-storey buildings, twelve of them are already finished, with 336 apartments and with parking. Apartments range from 47 to 80 sqm, prices starting at €1,200 per sqm for a fully finished apartment. The project will be finished in 2015. About 80% of apartments are sold and reserved.	from €1,200	2015
	**Z-Towers** – this multifunctional complex consists of two round towers, joined by a podium in the base area, 30-storey high each, developed by Towers Construction Management. Z-Towers Complex is situated on the left bank of the River Daugava (Pardaugava) by the Cable Bridge in Riga. There will be 204 apartments and approximately 700 underground parking lots in the northern tower. Apartment sizes will range from 35 to 623 sqm. It is going to accommodate an international school, kindergarten, playground, restaurants, sport court and own garden in the territory. The complex will be completed in 2015.	N/A	2015
	**Skanstes Majas** – located in the city centre at Grostonas Street 17, 19 and 21, developed by Merks. The first house of a projected three five- to ten-storey buildings complex was finished in Q4 2013. There are 64 apartments of 90 sqm average size of apartment. The next two buildings will be completed by 2015.	N/A	2015

LEGAL NOTES BY SORAINEN

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

Due to the growing demand, the supply in the city centre is exhausted

Prices

Prices in the city centre rose by 20% in 2013. Land prices in the city centre range from €400 to €3,000 per sqm of land plot, or roughly €300 to €1,000 per buildable sqm of final either residential or commercial building space.

In suburban areas, prices remained largely unchanged and the price of land is roughly €50 to €100 per buildable sqm of final either residential or commercial building space.

Supply

Lack of supply has become more acute problem in densely built downtown and prestigious parts of city centre. There are no good offers publicly available. Public offers are usually full of properties carrying restrictions and at inadequate prices. Developers are forced to spend more resources to find some good land properties. An option is to participate in auctions and bid the property or looking for vacant land property and chasing its owner. Real estate companies also work with good properties, although more often they work with potential buyers rather than sellers.

There is a better supply located further from the city centre. Unfortunately the apartment price level in residential districts has not reached the level to produce highly profitable projects. Selling plans of the new supply down the road are affected by the uncertainty around the five-year resident permits, and the speed of absorption just by local buyers has become unpredictable.

Supply in residential districts close to Riga keeps rapidly decreasing and prob-

Q4 2013 snapshot

Riga

Annual land price change (Riga city centre):

+20%

Total land transactions change (Riga city & district):

+17%

Land prices in city centre for residential development (sqm):

€400 – €3,000

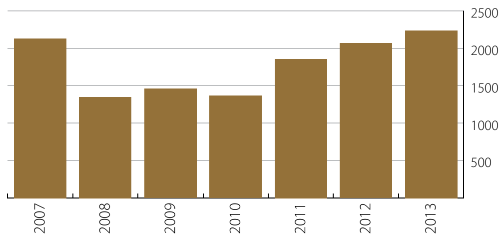
Land prices in residential districts for residential development (per buildable sqm):

€50 – €100

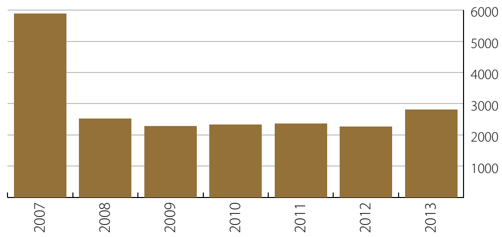
Land prices in city suburbs for private homes (sqm):

€30 – €40

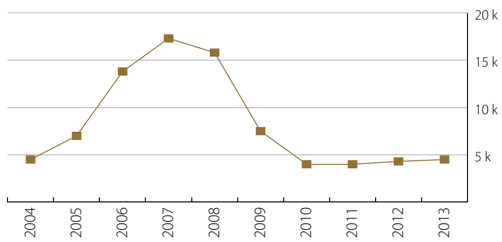
Land transactions in Riga city



Land transactions in Riga district



Land prices in Riga city, €/100 sqm



Land prices in Riga district, €/100 sqm

Legal notes by SORAINEN

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

ably in near future we will see new developments of green lands. Although there are plenty of land plots available further from Riga and the demand is very weak.

Demand

Demand is great for land plots in the city centre due the stable rise of apartments' prices. We expect to see land plot transactions in suburban areas as well, as developers, for example, YIT, complete projects on land already owned by them and are interested to increase their land portfolio.

Construction costs in first three quarters of 2013 rose only by 1.2%. Demand is on the rise from buyers that are ready to handle construction themselves. Prices in Riga and in suburban areas close to Riga both rose approximately by 5% in 2013. The greatest demand is for plots of 1,000 to 1,500 sqm which cost from €15.00 to €20.00 per sqm close to Riga or €30.00 to €45.00 per sqm in Riga.

Investments

At the end of 2012, Larix Property Ltd bought 2.5 hectares of land in the so-called quiet centre of Riga City, in a block between Antonijas, Melngaiļa and Strelnieku streets. Today they design a project which is going to consist of an office building of 4,500 sqm GLA in the first phase and a residential building with 60 apartments in second phase.

News

There is plan to establish a land fund to limit the opportunities for foreigners to own agricultural land in Latvia. The fund would be managed by JSC Lauku attistibas fonds (Rural Development Fund) which initially would invest at least €14 million of its own financial resources. The Fund would offer an opportunity to sell agricultural land to the Latvian fund instead of a foreign company. The fund is going to be launched in 2014.

Latvia

Real Estate taxes & legal notes

2014

ACQUISITION

• Upon acquisition of land or land and buildings, or a building property which includes residential building (including function-related buildings), a 2% stamp duty is levied on the property value.

• Upon acquisition of land or land and buildings, or a building property which includes only non-residential building or non-residential buildings and related engineering structures, a 2% stamp duty is charged on the real state value, capped at € 42,686.

• If legal title is transferred under a deed of gift, a 3% stamp duty is levied on the property value.

• In all 3 cases described above, if legal title is transferred to spouses, children, parents, siblings, stepsisters/stepbrothers, grandchildren, great-grandchildren and great-grandparents, for registration of legal title in Land Register, a 0.5% stamp duty is charged on the value of real estate.

• If real estate is invested in the share capital of a company, a 1% stamp duty is payable on the investment value.

• In case of acquisition of residential property from legal person, which carries out business activities, a 6% stamp duty is charged on the value of residential property.

• The value of the real estate for the purposes of stamp duty is determined as the highest value of:

- The value stated for each property in acquisition agreement;
- The value of 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 estate is invested in share capital;
- The highest bid value of the property in case the auction has been carried, or, in case there was no auction – starting price;
- The cadastral value of each property and value of forested areas. The cadastral value of the property is valid for unlimited time, if it has not changed according to the written Notice or electronically available information from Land register.

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

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

LEASE

Value Added Tax (VAT)

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

Corporate Income Tax (CIT)

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

Personal Income Tax (PIT)

Rental income is taxed at a rate of 24%. 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. In this case all expenses related to rental activities are deductible, and any loss can be offset over a period of three years.

A person that is not registered with the tax authorities for commercial purposes pays PIT at a reduced rate of 10% after filing the annual income tax return, with no deduction for expenses associated with rental activities.

SALE

Value Added Tax (VAT)

TThe sale of real estate is generally exempt, with the exception of new unused real estate or development land. As of 1 January 2014, the definition of new unused real estate includes:

- new unused buildings, or its part, and the related land, or part of related land;
- 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 related land;

- a building, or its part, in case it hasn't been used after reconstruction, renovation, restoration, and the related land, or a part of 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 related land.

As of 1 January 2014, the development land is defined as a piece of land that has a construction permit issued for building work or for the construction of engineering communications or roads. However, the parcel qualifies as development land only if the construction permit has been issued after 2009. The land is not meeting the definition of development land if the construction permit for construction works has been issued:

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

The applicable rate of VAT is 21%. In the 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.

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

- they are supplied in Latvia,
- the supplier and customer are both registered for VAT, and
- non-cash payment is made.

Corporate Income Tax (CIT)

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

Withholding Tax (WHT)

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

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

The recent amendments to CIT Act allow the non-resident from EU or DTT countries to pay 15% on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence.

Personal Income Tax (PIT)

If an individual sells real estate for non commercial purposes, a 15% PIT is charged on the difference between acquisition cost and selling price. In this case the amount of PIT due must be declared and paid on or before the 15th day of the following month if the capital gain exceeds €711.44.

The exemptions:

- Real estate 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 exempt;
- Real estate held for at least 60 months and during 60 months prior to sale it has been the sole real estate of the taxpayer;
- The sole real estate has been reinvested during the 12 months period from the sale into another real estate of the same function.

A person selling real estate for commercial purposes must register with the tax authorities and is subject to a 24% PIT.

REAL ESTATE TAX (RET)

Real estate tax is levied on all land and buildings in Latvia owned by individuals or companies.

Starting from 1 January 2013 the local authorities in Latvian regions and towns are free to set rates on real estate in their area at 0.2%–3% of cadastral value. A rate exceeding 1.5% may be charged only on improperly maintained real estate. Applicable rates for the following year must be published by 1 November in the current year.

If the local authorities do not publish their own rates, RET 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.

Relief is available to certain categories of taxpayers (such as families with three or more children under the age of 18).

All other real estate, including land and property used for commercial purposes, attracts a 1.5% RET.

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

From 1 January 2014 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 months the building is maintained in line with statutory procedures. The rate will be charged on the highest of cadastral value of the related land and the cadastral value of building itself. There is a specific transition period, covering the construction permits issued before 1 July of 2013 and not extended till 31 December 2014, according to which the tax will be payable.

Unused agricultural land is taxable:

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

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

From 1 January 2014 the living property owned by proprietors are 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 new obligation to notify the local council in case the business activities are carried out in the living property. The same notification must be submitted in case the business activity has ceased.

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

- *there are three or more similar transactions a year or five similar transactions over three years, or*
- *income arising on one or more transactions exceeds €14,229.*

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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's 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 specialization 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.

Introduction

Recent trends in the real estate market indicate that the number of deals and their value has started growing, while transactions with distressed assets still remain a large part of the market.

Foreigners from non-EU states continue to acquire mostly residential real estate in order to obtain long term residence permits in Latvia. This has substantially increased activity in the upscale residential real estate market.

Title to Real Estate, Land Book

Title to real estate is transferable subject to registration with the Land Book. Buildings are also registered in the Land Book. In general, buildings are considered to be a part of the land beneath them. However, as a result of land reform or due to long term lease relations, a land plot and a building situated on it may belong to different owners.

The Land Book stores information regarding the legal status of real estate, including all encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations. The Land Book is a public register; the information it contains is publicly available and is binding on third parties. It is also available in a database version in Latvian via internet in return for a fee.

Acquisition of Real Estate

General

Real estate may be acquired as a building and land plot beneath (entire or ideal parts) or as a building (if registered in the Land Book as a permanent property object) or land (if registered in the Land Book as a permanent property object) or apartment ownership.

Letter of Intent and Heads of Terms

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

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

Change of Ownership

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

Legal structures of real estate transactions

Asset Transfer vs Share Transfer

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

When considering a share transfer of a company holding target real estate, take the following into account:

- notary fees and state duty arising from real estate sales are excluded from transaction costs on the sale of shares of a company;
- ownership of shares is transferred as agreed in the sale agreement, at the time of signing the agreement, or on registration, which takes only a few days;
- the buyer, on completion of the transfer of shares, assumes responsibility for the whole company including any matters that occurred before change of ownership;
- due diligence investigations are more extensive as a share deal transfers the entire company (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;
- applicability of financial assistance rules;
- deferred tax issues.

Asset transfer involves the following benefits and drawbacks:

- asset transfer is subject to notary fees and state duty and in this respect is more expensive than a share transfer;
- limited scope of due diligence investigation since the review concerns only the target asset;

- only lease contracts registered in the Land Book still bind the new owner after purchase of the target asset;
- agreements on supply of utilities and other services must be assigned to the buyer or new agreements signed with service providers;
- an asset transaction may in some cases be treated as sale of an enterprise, in which case all obligations associated with the enterprise may be transferred from seller to buyer.

Portfolio Deals

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

Form of Agreements

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

Registration of ownership rights in the Land Book is carried out on the basis of a registration application signed by both seller and purchaser in the presence of a notary public.

In addition to the purchase agreement and registration application, other documents have to be prepared and filed in the Land Book (eg waiver of rights of first refusal by the local municipality).

Language Requirements

There is no specific requirement under Latvian law to use only the official state language (Latvian) in agreements on real estate. Parties may choose the language of the agreement themselves. However, the Land Book must have at least a notarised translation of the purchase agreement and one copy of the original agreement.

In practice, the Land Book does sometimes refuse to register the title if Latvian is not the prevailing language in bilingual agreements. The registration application to the Land Book is prepared and signed in Latvian.

Due Diligence

Before carrying out any real estate transaction, it is advisable to research the status of the real estate, eg encumbrances, permitted use as set by the local authority, lease agreements affecting the real estate. The results of research may help set the final purchase price reflecting the value of the real estate.

Rights of First Refusal

Local authorities have rights of first refusal in respect of acquisition of real estate (land and buildings) located in their territory. Only after the municipality has decided not to exercise its rights of first refusal may a purchase agreement be registered in the Land Book and ownership transferred to the purchaser.

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

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

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

A person with rights of first refusal, such as a co-owner of real estate, who is not offered the possibility to exercise those rights, then acquires pre-emption rights. Pre-emption rights entitle a person denied the possibility to exercise rights of first refusal to acquire the property from the new owner.

Typical Purchase Price Arrangements

Usually the parties agree to use an escrow account in a bank. During registration of the real estate title, neither the seller nor the purchaser has access to the funds transferred to the escrow account. These funds are released only after registration of the purchaser's real estate title in the Land Book and fulfilment of other conditions agreed by the parties (if any).

Related Costs

Sharing of costs incurred during purchase is a matter for agreement between the parties. Usually, the purchaser pays for state and stamp duties, whilst notary fees are shared equally between the parties.

State duty amounts to 2% of either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. Nevertheless, state duty may not exceed EUR 43,000 when buying commercial real estate. Stamp duty for registration and issue of a Land Book certificate is approx EUR 22.

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

Merger Control

Transfer of real estate may be subject to prior approval by the Latvian Competition authority (Competition Council). The intended merger must be notified for approval to the Competition Council if the following criteria are met:

- the aggregate turnover of the undertakings involved in the transaction exceeds EUR 35,.572,000 million for the financial year preceding the concentration; or
- the joint market share of the undertakings exceeds 40% in the relevant market.

However, notification of merger to the Competition Council is not needed in transactions where only two parties are involved (buyer and seller) and if the turnover of one party does not exceed EUR 2.134 million.

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

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

Restrictions

Restrictions on Acquisition of Real Estate

Restrictions on real estate acquisition in Latvia apply to land plot purchases. Foreigners from non-EU states should be aware of several restrictions on acquiring land plots in Latvia. Buyers should investigate restrictions on use of real estate. Use may be restricted in eg coastal areas, heritage protection zones, protected zones for power lines, railways. These restrictions can also influence eg construction area.

EU Citizens and Legal Entities

Until 1 May 2014, EU citizens and legal entities domiciled in other EU Member States must follow restrictions on acquisition of agricultural and forestry land in Latvia. Before 1 May 2014, EU citizens may only acquire agricultural or forestry land if they reside and have been engaged in agriculture in Latvia for at least three consecutive years.

The Government has been working on changes in the law restricting sales of agricultural land to foreigners in Latvia. A draft law is still under discussion.

Unlike agricultural land, there are no restrictions for EU citizens and legal entities to acquire land plots in cities in Latvia.

Non-EU Citizens and Legal Entities

No restrictions are imposed on acquisition of land plots by companies registered in the Latvian Register of Enterprises in the following cases:

- if more than 50% of the company's share capital is owned by Latvian citizens, the state or a municipality; or
- if more than 50% of the capital is owned by foreign natural persons or undertakings, and Latvia and the relevant foreign country have concluded agreements on mutual promotion and protection of investments (Latvia has signed such agreements with most European countries, Canada and the USA); or
- if the company is a public limited liability company with publicly listed shares (NASDAQ OMX Riga).

If, after land acquisition, the shareholder structure of an undertaking is changed so that it no longer corresponds to legal requirements, permission from the municipality must be obtained to retain ownership of the land. If the local municipality does not issue permission, the land must be transferred to another person within two years.

Should potential foreign purchasers fail to fulfil the criteria listed above, they must apply for permission from the local municipality, which has the discretion to accept or reject the application. Permission is necessary, regardless of the size and other particulars of the land plot to be purchased.

However, permission is required only for acquisition of land. Therefore, apartments or buildings may be acquired without further restrictions and limitations, unless the land beneath such apartments or buildings is included in the deal. In most cases, apartment ownership also comprises a certain ideal part of the land plot, the land plot being in the co-ownership of all apartment owners in the house.

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

Encumbrances

Real estate might be encumbered with servitudes, rights of first refusal, lease rights registered in the Land Book, mortgages, protection zones, and other encumbrances that should be considered prior to acquisition of the real estate and planning of construction.

Mortgage

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

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

Property Management

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

Management of residential buildings

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

Management structure of residential buildings depends on the ownership structure.

Lease Agreements

General

General terms for lease and tenancy agreements are laid down in the Latvian Civil Law and the Law on Apartment Leases. The contents of lease and tenancy agreements are subject to agreement between the parties. However, the Law on Apartment Leases protects the rights of tenants.

Lease agreements on real estate remain valid if registered in the Land Book. Otherwise, a purchaser of real estate may terminate an unregistered agreement. However, the tenant is entitled to compensation from the owner for termination of a lease agreement before expiry.

Residential tenancy agreements are binding on new apartment owners under the Law on Apartment Leases without registration in the Land Book.

Duration and Expiry of Lease Agreement

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

Lease Payment and Accessory Expenses (Utilities)

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

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

From 1 January 2014, Latvia has joined the Eurozone, so that all the payments are made in euro. Previously concluded agreements about lease payments in lats will not lose their force. The parties only need to recalculate the amount of payment according to the exchange rate of the Bank of Latvia.

PPP & Infrastructure

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

Investment Funds and Real Estate

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

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

Planning Requirements and Construction

Planning

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

Construction

A preliminary development sketch must be approved by the local Construction Board in order to receive a construction permit and administrative deed with conditions on construction. A permit is issued if the sketch complies with the territorial plan or the detailed plan of the particular territory. A construction permit only gives the grounds and conditions for design drawings. This means that construction itself can be started only when all the regulations included in the construction permit are fulfilled and accepted by the Construction Board.

Changes to the technical design require additional approval from the Construction Board. The approved design is valid for two years. Construction works require a permit from the Construction Board. Newly erected buildings have to be put into operation by a special commission formed by the municipality.

Acquisition of distressed assets

Distressed real estate can be acquired on the basis of a voluntary agreement between the parties, in a procedure of compulsory enforcement or during insolvency proceedings of the owner of the real estate. In any case acquisition of distressed real estate is more complex; therefore thorough due diligence should be performed as the possibility of problems is much higher. For example, during financial difficulties of the owner, real estate may be managed and maintained poorly.

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

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

Obtaining temporary residence permit

A temporary residence permit can be obtained, for a period not exceeding 5 years if a foreigner acquires real estate in Latvia with total purchase price of not less than:

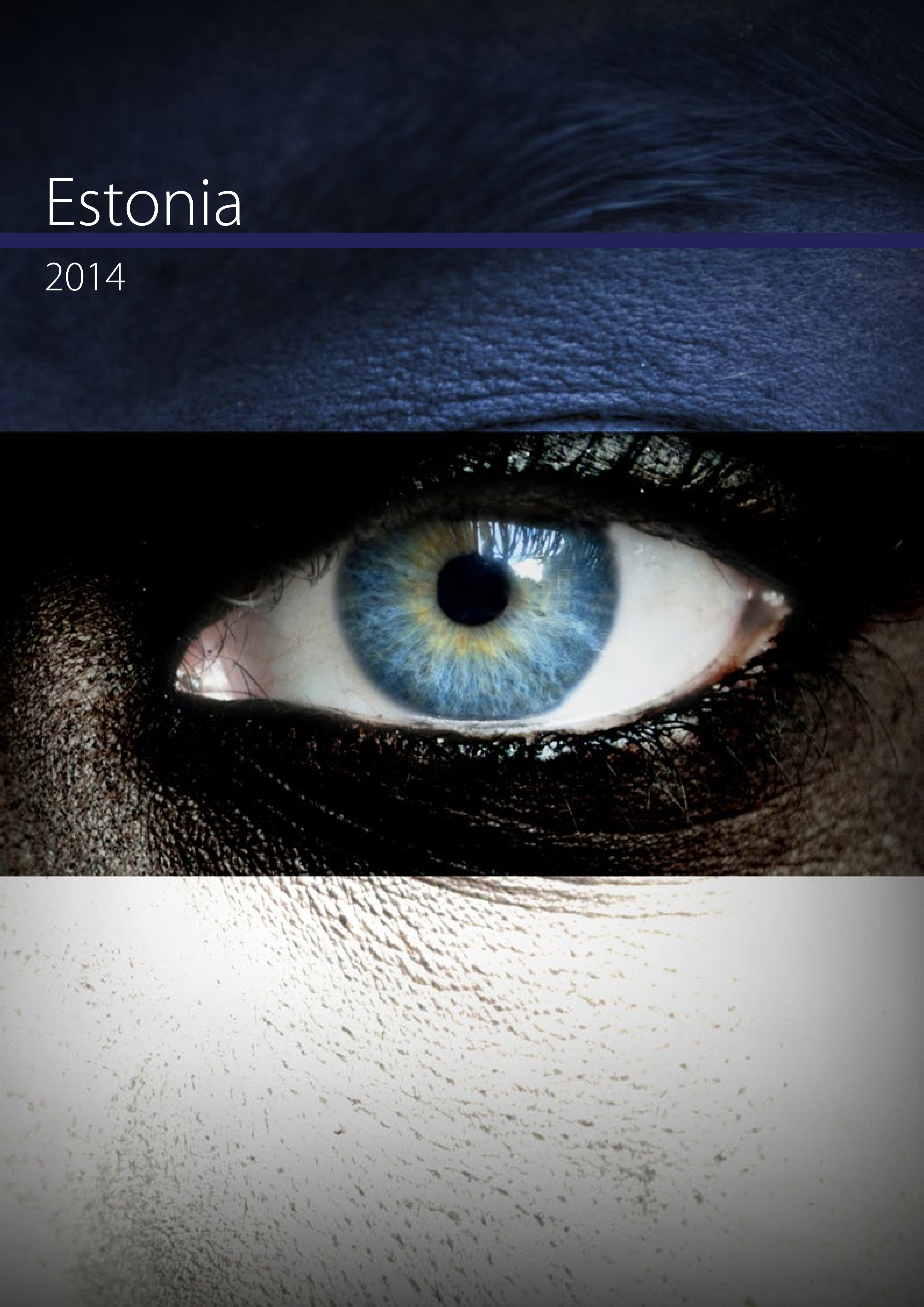
- approx EUR 143,000, if the real estate is purchased in the Riga region or in Latvian cities; or
- approx EUR 72,000 if the real estate is purchased outside the Riga region or in rural areas of Latvia.

However, a new law has been debated in the Parliament which might change the requirements and amounts of funds that should be invested in order to obtain a temporary residence permit.

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

Estonia

2014



Estonia

Country overview

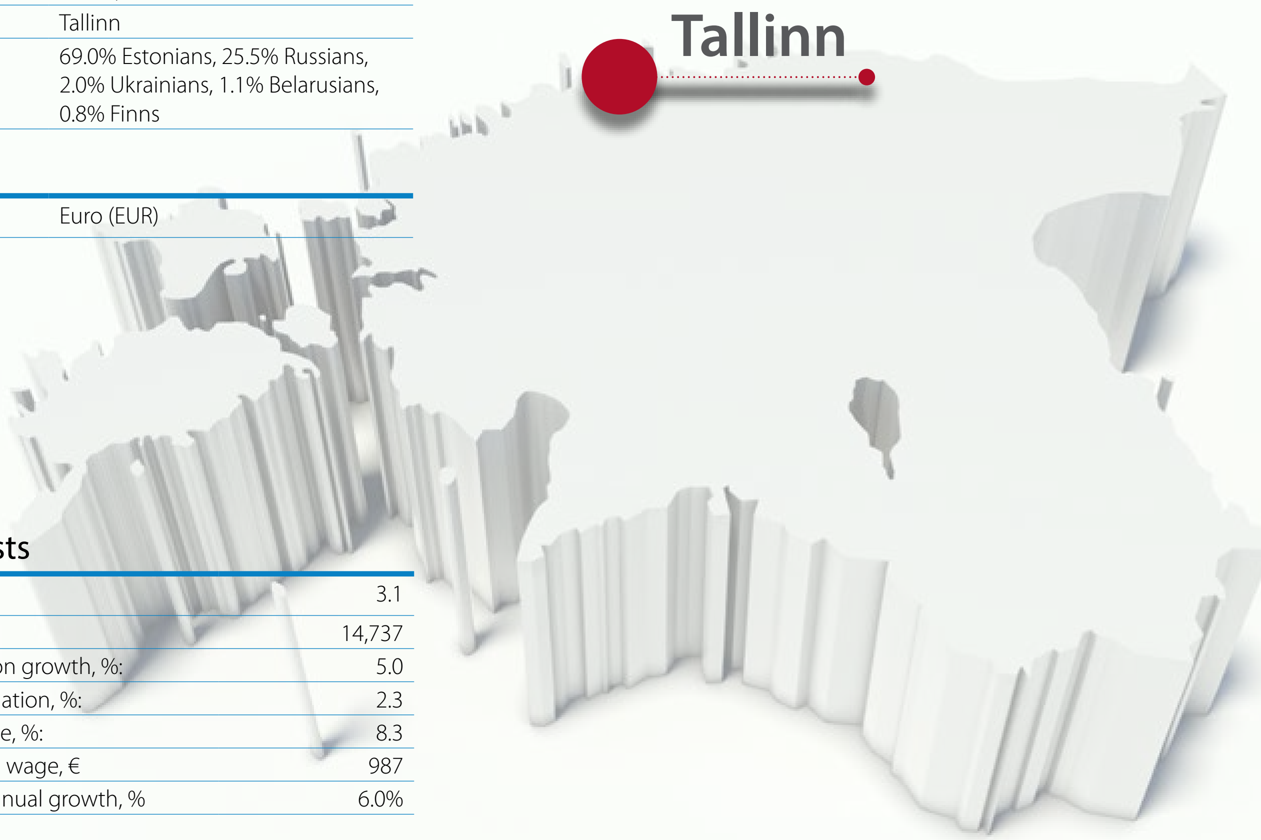
Real estate market report 2014

Geography & Social

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

Currency

Currency:	Euro (EUR)



2014 Forecasts

GDP growth, %:	3.1
GDP per capita, €	14,737
Private consumption growth, %:	5.0
Average annual inflation, %:	2.3
Unemployment rate, %:	8.3
Avg. monthly gross wage, €	987
Avg. gross wage annual growth, %	6.0%

Population	2008	2009	2010	2011	2012	2013
Estonia	1,340,900	1,340,400	1,340,100	1,340,200	1,294,500	1,286,500
Tallinn	404,000	406,700	412,000	416,000	420,000	430,000
Tartu	102,400	102,800	103,300	103,700	104,100	98,500
Narva	66,400	66,200	65,900	65,500	65,300	64,000

Economics	2008	2009	2010	2011	2012	2013
GDP annual growth, %	-3.7	-14.3	2.3	7.5	3.9	0.7
GDP per capita	12,110	10,423	10,723	12,101	13,495	14,035
Private consumption annual growth	-3.7	-14.3	2.3	7.5	4.9	5.2
Average annual inflation, %	10.4	-0.1	3.0	5.0	3.9	2.9
Unemployment rate, %	5.5	13.8	16.9	10.9	10.2	8.7
Average montly gross wage, €	825	784	792	839	887	931
Average gross wage annual growth, %	5.0%	-5.0%	1.0%	5.9%	5.7%	5.0%
Retail sales growth, %	6.0	-17.0	0.0	11.0	5.0	6.0
Exports annual growth, %	5.0	-23.0	35.0	38.0	4.3	-2.0
Imports annual growth, %	-5.0	-33.0	27.0	37.0	8.8	-1.3
FDI stock per capita, €	8,781	8,706	9,324	9,781	11,330	11,971

Source: Estonian Department of Statistics, Ministry of Finance of Estonia

Economy

Real estate market report 2014

Private consumption is driving up economic growth

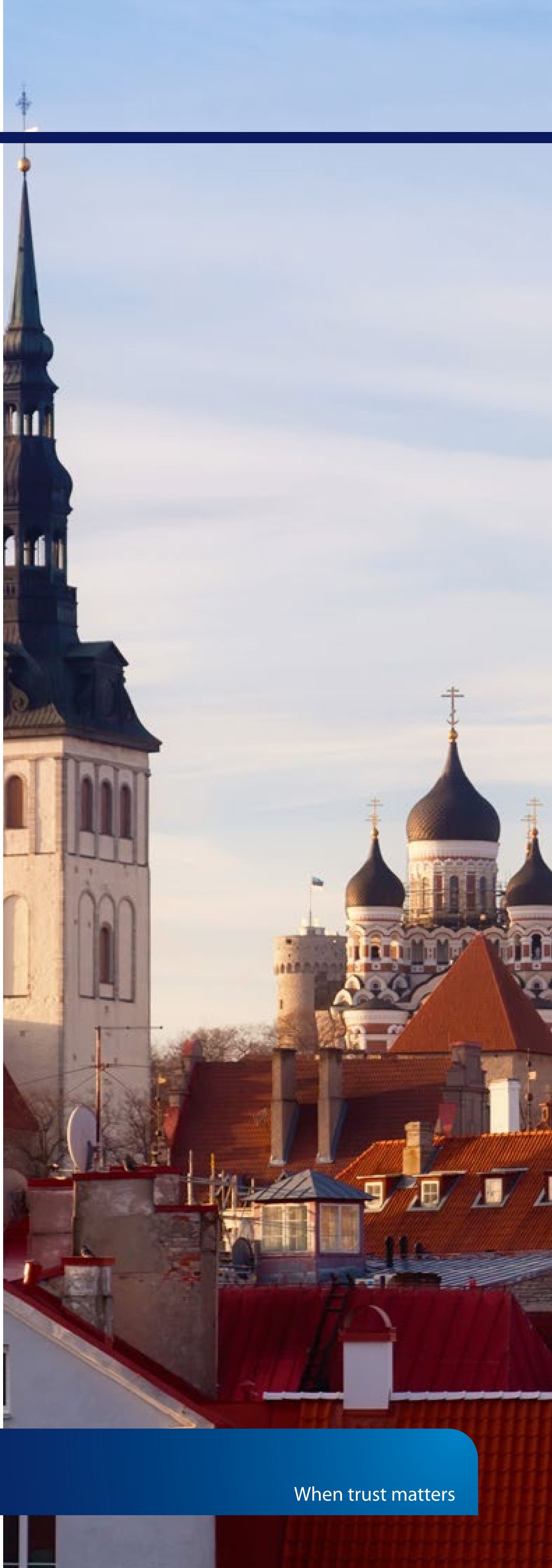
The Estonian GDP growth in 2013 was 0.7%, which is significantly less than the 3% forecast a year ago. The economic slowdown was caused by several factors of mostly a temporary nature, such as the high reference base of government sector investments, the weakness of export markets and rapid price growth. Exports are expected to regain broad-based strength only towards the second half of 2014 with the recovery of the euro area and the demand for investments.

Looking at the neighbouring markets, Finland is dealing with an extensive but still temporary cool down. The Finnish open economy will revive together with the global economy. Of other Nordic economies, Swedish and Norwegian have the best perspective for rapid growth. Among the Baltic States both Latvia and Lithuania will preserve almost 4% economic growth, which makes them the most rapidly growing economies in the European Union. The economy of Russia will most likely grow annually 2.5% on average over the next few years. The competitiveness of Estonia on the Russian market was decreased by the weakened rouble to euro exchange rate.

The slower price increase supports the 4% salary increase and the main growth contribution which is private consumption. The contribution of the construction sector will increase in 2014, although the accelerating construction of buildings will probably not offset the impact of the decrease in the EU-financed infrastructure and renovation projects. The number of building permits issued for residential dwellings (new buildings) is growing fast but it still remains on the level of 2005 – 2006. This does not indicate overheating. However, the growth of prices of new residential spaces is exceeding wage growth, limiting the amount of potential buyers. Demand for high-quality residential spaces will persist over long term.

While the demand for new office spaces is justified, the continuation of the growth trend in the commercial spaces sector would result in oversupply.

The economy of Estonia is ready for a turnaround and more signs of it are seen in the external environment. Estonia will remain among the fast-growing member economies, including throughout the recovery phase of the euro area.



Estonia

Office market

Real estate market report 2014

THE VACANCY RATE OF A CLASS OFFICES IS DECREASING; AN INCREASE IN THE NUMBER OF STATE ORDERS IS TO BE EXPECTED IN THE NEAREST FUTURE

SUPPLY

In 2013, approx. 45,000 sqm were brought to the market. The significant part - approx. 16,000 sqm, was ordered by the State Real Estate (Riigi Kinnisvara AS). In 2012 only 20,000 sqm of new office spaces were added to the market. The number of A class space offers decreased at the cost of the B class space. Altogether, by the end of 2013, there were 615,000 sqm of office space in Tallinn. 15,000 sqm more will be added in 2014.

DEMAND

The vacancy rate of A class office space is still decreasing at the cost of B class. The vacancy rate of A class space is currently 3%. The vacancy of the B class premises is still considerably higher, reaching 20% in some buildings. The total office vacancy rate is 8%. The owners of B class premises are forced to make investments or change the function of the buildings in order to keep the clients. As several Estonian ministries are planning to move to modern office buildings, the development volume of office spaces should increase in the nearest future.

The vacancy of A class spaces had been in a decreasing trend for several years, which prompted the construction of new office buildings. However, rising construction prices are a problem. The highest demand as potential tenants interested in A class space comes from the representative offices of foreign companies.

The purchase and sale market of office spaces is still illiquid. Only single transactions took place at the price range of €600–€1,300 per sqm.

Q4 2013 SNAPSHOT

TALLINN

TOTAL OFFICE SPACE:

615,000 sqm

TOTAL OFFICE VACANCY RATE:

8.0%

A CLASS OFFICE VACANCY RATE:

3.0%

A CLASS OFFICE RENTS (sqm/month):

€11.00 - €13.00

B CLASS OFFICE RENTS (sqm/month):

€7.00 - €10.00

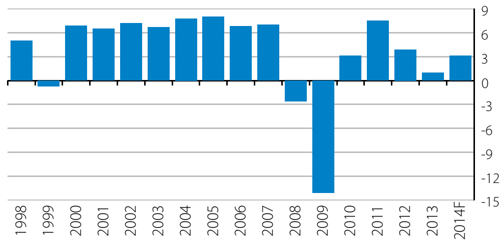
TOP OFFICE RENTS (sqm/month):

€14.00

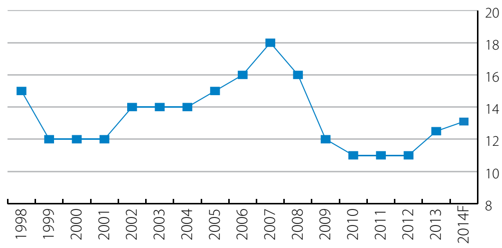
ADDITIONAL OFFICE COSTS (sqm/month):

€2.00 - €4.50

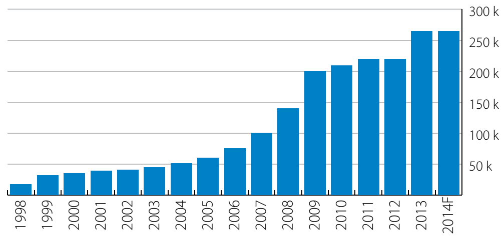
GDP growth, %



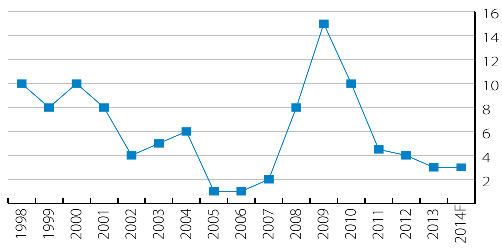
A class office rents, €/sqm



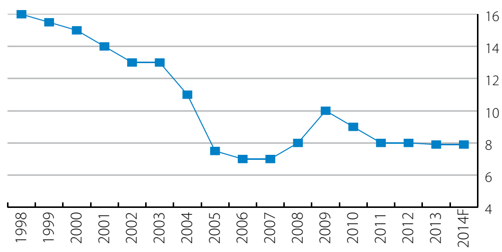
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yield, %



Office market

Real estate market report 2014

Rents

Office rents increased by an average of 10% in 2013 in Tallinn. In the city centre A class rents are in the range from €11.00 to €13.00 per sqm and in some projects rents can reach €14.00-€15.00 per sqm. B class rents range from €7.00 to €10.00 per sqm. Additional charges range from €2.00 to €4.50 per sqm.

Rents for offices in lower quality buildings remained unchanged. In the suburbs rents in less valued areas and buildings range from €3.20 to €5.70 per sqm, while in more valued areas and buildings rents are from €6.00 to €9.00 per sqm.

Investments

Throughout 2013 investors from Estonia as well as neighbouring countries still showed interest towards the objects situated in the popular locations of Tallinn, providing stable cash-flow. In the current market situation, foreign investors are expecting an 8% yield. During recent years, investors from Russia and Italy have started to show a growing interest. Among the local investors the most active is Eften Capital.

An A class office building of 10,300 sqm located in the active business area of Tallinn on Ravala Street was sold for €13 million by Baltic Property Trust Estonia to Capital Mill OU. The most known tenants of the building are Swedbank, Microsoft and Lindorff. The building was built in 1997 and the letting area equals to 7,400 sqm. The yield has not been made public.

Investors affiliated with Colonna Kinnisvara OU acquired an office building in need of repair in the centre of Tallinn (the so called Journalist house) for €6.5 million (including VAT). The building was built in 1966 and has a total area of 8,000 sqm.

Eften Kinnisvara sold the main building of the Centre of Registers and Information Systems for €4.0 million to local investors. The building was the property of Eften Capital from 2009 and was previously acquired from State Real Estate Ltd (Riigi Kinnisvara AS).

The building was built in 2003 and has a letting area of 4,200 sqm. The yield has not been made public.

In the centre of Tallinn on Endla Street 4 a functionally outdated building in need of repair with the total area of 9,000 sqm was sold for €5 million. Both the buyers and sellers were local investors. The building was partly rebuilt in 2001 and most of the rents were €6.4 per sqm (including utility costs).

Recent developments

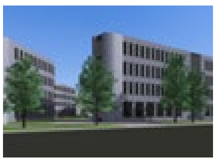
	Description	Size (GLA, sqm)	Completion
	**Lootsa Street 8A** – in close proximity to the centre of Tallinn and Tallinn Airport, Technopolis Ulemiste AS has constructed three new 10-storey office buildings with 24,000 sqm of office space. This is the biggest office space development project for the last year. The Estonian Tax and Customs Board is the main tenant with 11,650 sqm of office space. Rents have not been made public. The project was completed in autumn 2013. Currently the offers in this complex start from €12.00 per sqm. Ulemiste City plans to construct approx. 160,000 sqm of office space in total.	24,000	Q4 2013
	**Navigaatori maja, Laeva Street 2** – a new A class commercial building with the Gold LEED certificate is under construction in the area between Tallinn City Centre and Tallinn Ferry Port. The building has an underground parking garage and the enclosed net area of approx. 10,000 sqm. Available office premises for rent are located on the 2-6 floors at the rate of €13.00-€16.00 per sqm. Business spaces on the main floor are offered at the rate of €25.00 per sqm and parking lots on the ground floor at the price of €100 per month. The minimum rent period is 5 years. The building will be ready by the end of 2013. The developer is Capital Mill OÜ, and the construction company is YIT.	10,000	Q4 2013
	**G4S Office Building, Paldiski Road 80** – the Estonian subsidiary of G4S, the biggest security services provider in the world, has ordered the construction of a new 8-storey modern building of approx. 9,000 sqm with increased security, mostly for own use. The building will be occupied by operational, cash processing and educational centres with over 800 people working there. The date of completion was autumn 2013. Rents in this building start from €11.50 per sqm.	9,000	Q4 2013
	**Tatari 51** – a new 4,800 sqm built-to-suit office building constructed in the city centre by Kaamos Real Estate and leased by the Statistical office of Estonia. The construction was completed in autumn 2013. The developer is Kaamos Group.	4,800	Q4 2013
	**Sakala 10/Kentmanni 4** – Selvaag Sakala OU, a subsidiary of the Norwegian company Selvaag Group has started the development of a modern 6-storey A class office building on Sakala/Kentmanni Street. It is located in Tallinn City Centre and will have an underground parking garage; the leasable area is 3,045 sqm. Rents are between €13.00 and €16.00 per sqm plus management and utility fees. The building is now 100% let out. The construction was completed in autumn 2013.	3,045	Q4 2013

LEGAL NOTES BY SORAINEN

Rents are usually payable monthly in advance. Payment of rent in advance for more than one month is not customary. Tenants generally pay for their own utilities, invoiced by the owner after use. Rents are typically indexed to local inflation. Triple net leases are common for commercial properties but not universally used. The concept of sinking fund is not very common, although use of the concept of normal wear and tear is widely accepted. Quite commonly, payment of rent and costs is secured, eg by rent deposit, bank or mother company guarantee. Leases survive transfer of property title. However, absent agreement to the contrary between the parties to the lease, the new lessor obtains the right to terminate the agreement upon becoming the owner if he/she needs the premises for personal use. This requires three months advance notice.

The quality of lease agreements still varies considerably. Typically, no standard agreement is used. It is not unusual for buildings to suffer from technical defects with eg air-conditioning, humidity system or ventilation. Often, foreign investors and local sellers have a different understanding of what is considered an A-class or a B-class building. Asset deals and share deals are equally common.

New projects

	Description	Size (GLA, sqm)	Completion
	**Sopruse** – a new 4-storey office building with the total leasable area of 2,400 sqm, an innovative design, and energy-efficient parking for clients is under construction by Sopruse Avenue, one of the main roads of Tallinn. The building is being built to meet the standards of the Green building certificate. Under the requirements for certification, the building uses at least 25% less energy than a typical office building of a similar standard design and built in accordance with the requirements of Estonian law. The construction permit has already been issued and the building should be ready by spring 2014. Depending on the interior finish the rents begin from €11.50 per sqm plus projected additional costs of €2.10 per sqm.	2,400	Q1 - Q2 2014
	**Mehaanika 21** – an energy-efficient 4-storey office building with 2,000 sqm under construction near the city centre by Mustamae road, one of the main roads. The building has 1,500 sqm of office space and a restaurant of 500 sqm on the ground floor. Rents for office premises start from €10.00 per sqm plus utility costs. The construction works began in autumn 2013 and the building is scheduled to be ready during 2014.	1,500	2014
	**Ageplaza** – a new modern 9-storey A class office building to be located right next to one of the busiest main roads in Tallinn (Parnu road) and in the middle of a unique public and general transport node. The building will have a leasable area of approx. 4,820 sqm and an underground parking area. A garage for bicycles and an electric vehicle charging station are also planned to be built. The building initially was planned to be ready by summer 2014, but the construction works have not yet been started. Rents and the total volume of the investment for this project have not been made public. The developer is local real estate development company Age Vara.	4,820	Q3 2014
	**Metalli Maja** – a 6 storey development project with underground parking located close to Tallinn city centre on Metalli Street 6. All office spaces with private terraces on the upper floors have already been reserved. The total area of the building is 5,820 sqm, and the letting area is 3,280 sqm. The construction works have already started and the building is to be ready by autumn 2014. The rents for office premises start from €12.00 per sqm plus utility costs.	3,280	Q3 - Q4 2014
Eesti Energia	**Eesti Energia Head Office** – the Estonian state-owned energy group Eesti Energia has sold two southern Tallinn properties serving as the home to its headquarters, service and operations centre and will move its workplaces to new rented premises at Parnu road 139, near the logistically favourable crossing of Parnu and Jarvevana roads. A 10-year rent agreement will be signed. The size of the rented space is 7,500 sqm. The building will be ready by the end of 2014.	7,500	Q4 2014
	**Kadrioru Business Centre** – a modern business quarter in Kadriorg, next to the Liivaoja living quarter, comprising of four buildings and underground parking area. The closed net floor area of the building is 11,330 sqm. The works are scheduled for completion in Q1 2015.	11,330	Q1 2015

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Estonia

Consumption is growing

Supply

Consumption was supported by the increase in income, the decrease of inflation, and the rising confidence of consumers.

At present there is 1.62 sqm of mall space per each inhabitant in Tallinn, which is one of the highest figures in Europe. Approximately 15,000 sqm of retail space was added in 2013. At the same time the construction of two new shopping centres (Panorama city, letting area - 59,800 sqm, Pro Kapital Peterburi Shopping Centre, letting area - 55,000 sqm) has not yet been started, because of financing problems.

In addition, at the end of 2013 a detailed plan of the Tallink City entertainment and trade centre, with 144,000 sqm of retail space, was adopted. Also, several new retails centres and markets of different concept are at the stage of planning (so called close-to-home shops).

Demand

During 2013 there were almost no vacant space offerings in the biggest shopping centres of Tallinn. The vacancy rate was 0%, as retail trading tends to concentrate in big shopping centres and the retail trade volumes trend grows.

Such local retail chains as Selver, Bauhof, ETK, Rimi (originating from Sweden), Maxima (originating from Lithuania), Prisma (originating from Finland) are also expanding throughout Estonia. The world-known clothing chains H&M and Debenhams recently entered the Estonian market.

Q4 2013 snapshot

Tallinn

Total mall space:
680,000 sqm

Total mall space per capita:
1.62 sqm

Shopping centre vacancy rate (biggest SC):
0%

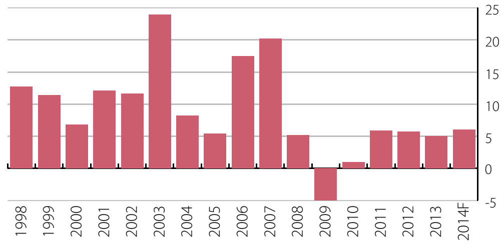
Retail rents for anchor tenants (sqm/month):
€8.50 - €14.00

Retail rents for medium sized units (sqm/month):
€13.00 - €20.00

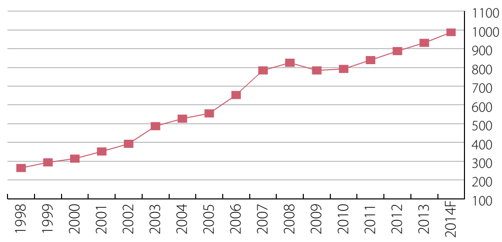
Retail rents for small sized units (sqm/month):
€23.00 - €35.00

High streets rents (sqm/month):
€20.00 - €40.00

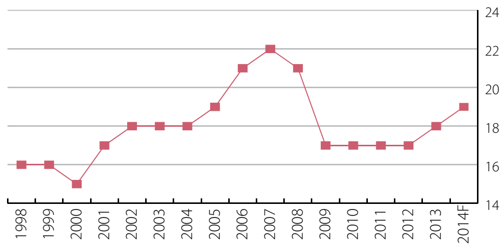
Average salary growth, %



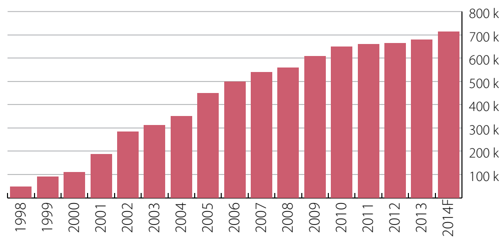
Average salary per month (brutto), €



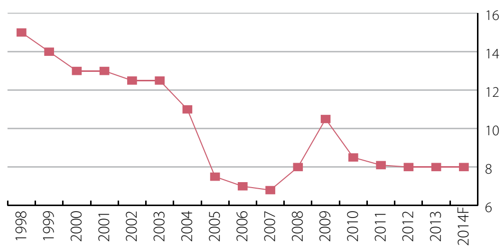
Average mall rents, €/sqm



Total mall space, sqm



Retail investment yield, %



Retail market

Real estate market report 2014

In spring 2014 Massimo Dutti and River Island clothes shops are to be opened in the Viru shopping centre.

Provided that several big projects will be completed, the rents of retail premises situated in less favourable locations might fall under serious pressure in a 2-3 years perspective.

As an essential increase of consumption is expected on the market of retail spaces in the perspective of a couple of years, extension plans of (mainly successfully operating) retail centres have been launched again in Tallinn.

Rents in 2013 grew 5% on average and 2014 is expected to bring another 5% increase. Rental spaces of average size (150-300 sqm) in retail centres are leased within the price range of €13.00 to €20.00, smaller spaces for €23.00 to €35.00 and spaces for anchor tenants for €8.50 to €14.00 per sqm.

At the end of 2013, rents for retail premises in high streets were from €20.00 to €40.00 per sqm.

Investments

In 2013 investors continued showing rising interest in the retail objects of average or above average size situated in popular locations of Tallinn, providing stable cash-flow and a yield of at least 8%.

The largest retail investment transaction was the 9,120 sqm sized Tondi K-Rauta premises acquired by Eften Capital. The transaction price was €12.9 million.

Marine Aluminium Industries acquired a 5,840 sqm shopping centre located in the largest suburb of Tallinn on P. Pinna Street from Palm Investment Partners. The purchase price was €2.6 million. The yield has not been made public.

Legal notes by SORAINEN

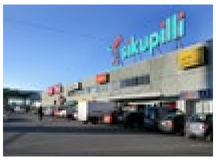
Even in the case of investment grade properties there is no standard approach as to the set-up and use of marketing funds. Turnover-based rent is widely used. Rents are typically indexed to local inflation, although indexation is not always enforced. Lease agreements may sometimes be of low quality,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

Estonia

Retail market

Real estate market report 2014

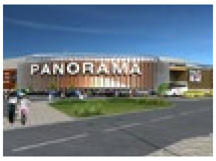
Recent developments

	Description	Size (GLA, sqm)	Completion
	**Post House** – first built in 1980 and located in the city centre next to the Forum trading centre, the main Post Office for the Estonian Postal Service was rebuilt as a modern retail centre by CA Fastigheter AB. The total leasable retail area is 7,000 sqm. The anchor tenants are H&M (2,600 sqm) and Rimi (1,100 sqm). The building was opened for clients in autumn 2013.	7,000	Q3 - Q4 2013
	**Rocca al Mare** – located in a Tallinn suburb, one of the biggest and well-known retail centres opened a new reconstructed part in Autumn 2013 and presented new-comers such as H&M (rented area - 2,500 sqm) and Debenhams (3,000 sqm). After the reconstruction, the centre has 57,000 sqm of letting area in total.	+4,200 (expansion)	Q3 - Q4 2013
	**Mustika Centre** – in 2012 this shopping centre located in a Tallinn suburb was acquired by Eften Capital. An area of 19,700 sqm was reconstructed. During the reconstruction 4,000 sqm of letting area was added. This was the largest expansion of letting area in retail centres in 2013. The centre has now 40,000 sqm of letting space. The tenants include Prisma Family Market, Olympic Casino, OnOff, BabyCity, ZooPlanet, Bauhof and others.	+4,000 (expansion)	2013
	**Sikupilli Centre** – a shopping centre bought by private investors at the end of 2012 was enlarged in 2013 by 200 sqm, and common spaces were rebuilt to be more customer and tenant friendly.	+200 (expansion)	2013
	**Kristiine Centre** - one of the most popular retail centres near Tallinn city centre was extended by 2,500 sqm. 2,300 sqm were let out to H&M. The extended part was opened in autumn 2013. Also, the current owner of the building, Finnish origin Citycon, is trying to get the approval from the local municipality to add 2 more floors and additional parking spaces in the future.	+2,500 (expansion)	Q3 - Q4 2013
	**Peetri Selver** - one of the biggest retail chains Selver, belonging to Tallinna Kaubamaja, opened a new hypermarket of 6,000 sqm in autumn 2013 by the Tartu road, in the rapidly developing small town of Peetri near Tallinn. Besides 3,000 sqm of sales area, the market also has 1,000 sqm of sub-leased space. A new Neste self-service filling station is also located next to the centre. The developer was Merko Ehitus. The volume of the investment for this project has not been made public.	6,000	Q4 2013

New projects

	Description	Size (GLA, sqm)	Completion
	**Ulemiste centre** – one of the biggest retail centres located in close proximity to Tallinn City Centre, between Tallinn Airport, Ülemiste City and the recently reconstructed important road junction, is going to be expanded by 32,000 sqm. After the expansion the total area of the centre will be approx. 92,000 sqm and the letting area of 60,000 sqm, comprising 210 shops and restaurants. A new main entrance and a 3 storey parking house are to be built. One of the new tenants will be H&M. The amount of the investment is €40 million. The extension is planned to be opened by Q4 2014.	+32,000 (expansion)	Q4 2014
	**Stroomi Shopping Centre** – Nordecon AS and Kantauro OU concluded a contract for the construction of the Stroomi Shopping Centre in Tallinn at the cost of €9 million plus VAT. The net size of the Stroomi Shopping Centre, including its underground car park level, will be approximately 15,000 sqm. The key leaseholder on the first storey will be the Maxima retail chain with its XX store. The construction works have been started. The opening is scheduled for the end of 2014.	15,000	Q4 2014

New projects

	Description	Size (GLA, sqm)	Completion
	**Pro Kapital Peterburi Shopping Centre** – a new shopping centre with the gross area of 130,400 sqm located at Peterburi road, on the largest and most modern traffic junction in Tallinn within just a few minutes by car from the city centre and at the starting point of the motorways to Tartu, Narva and Parnu. The Shopping Centre will accommodate more than 200 shops on approximately 55,000 sqm of GLA. Selver Hypermarket will be an anchor tenant with 6,000 sqm at its disposal. The total estimated investments are €89 million. The centre is scheduled to be ready by 2015, although the construction work has not yet been started.	55,000	2015
	**Hilton** – the Olympic Entertainment Group will establish a new upscale hotel operated by Hilton Worldwide, replacing the current Reval Park Hotel & Casino in Kreutzwaldi St., Tallinn. The target clients will be tourists from Northern and Central Europe. The new hotel and entertainment complex will be constructed by Merko and is scheduled to be ready by the end of 2015. The amount of the investments is €36 million.	N/A	Q4 2015
	**Tallinn Gate** – the biggest retail park development project that will be located in Tallinn on the highway leading from Tallinn to Parnu and Riga. The project will include mainly big format retail units and offices, but also logistics and warehousing units. The total building volume planned on the plot is about 240,000 sqm. The roads and crossroads of the neighbouring region are already under construction and the date of completion will be 2016.	240,000	2016
	**Hobujaama Prisma** – Prisma Family Market, part of the Finnish SOK group, has signed a contract to open a new store in central Tallinn by 2016. The new 2 storey store of 16,000 sqm will be located on the corner of Hobujaama and Ahtri Street. In spring 2013 Prisma opened a small (approx. 500 sqm) store in Tallinn Harbour, near D-terminal and entered into competition with Norde Centrum and Superalko. A bus terminal will also be located in the same complex as Prisma.	16,000	2016
	**Panorama City** – one of the largest shopping and entertainment centres at the border of Tallinn city centre and Lasnamae, with a total area of 92,500 sqm, 59,800 sqm of leasable area and 200 shops is currently put on hold due to difficulties with financing. The shopping centre is unique by its one-of-a-kind entertainment centre situated on three floors, offering attractive leisure options for all ages and until late hours – a multiplex cinema, a sports club, bowling, laser games and childcare.	59,800	N/A
	**Tallink City** – a new retail and entertainment park with 6 above ground stories and one below ground parking level is planned to be built in the largest suburb of Tallinn. The heart of the centre will be an amusement park. The centre will have 144,000 sqm of commercial space and 22,500 sqm of space for entertainment. The amount of investments is €288 million. The detailed development plan was approved at the end of 2013 and the owners are now looking for additional financing.	166,500	N/A

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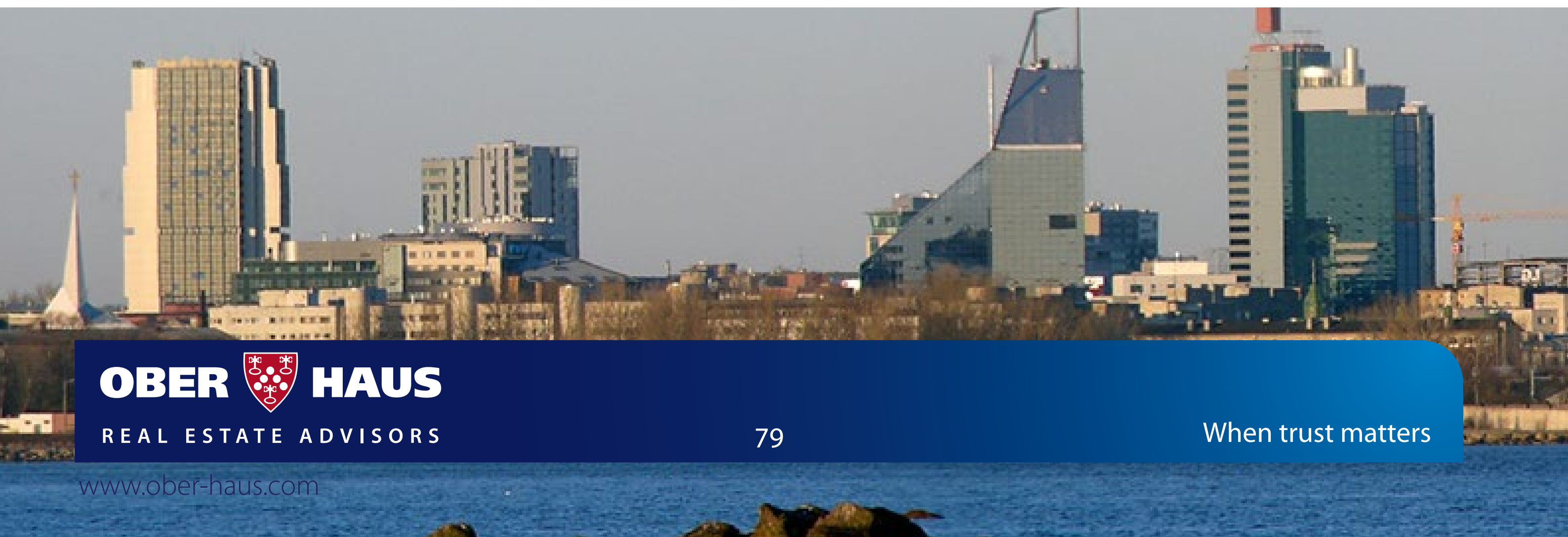


Demand is increasing

Supply

During 2013, approx. 100,000 sqm of new modern warehouse and production space built mostly for own use were brought to the market in Tallinn and Harjumaa. In 2014 approx. 100,000 sqm will also be added.

There are almost no modern warehouse/production spaces situated in favourable locations for sale because, in the current market situation, such spaces are built mainly for own use.

There are only a few developers, VGP for example, who currently build without prior agreements with tenants.

Rents

During 2013, the rents of modern new A class spaces rose 5%, and are between €4.00-€5.00 per sqm, although most of the transactions take place at the range of €3.50-€4.50 per sqm. The older spaces price range did not change and is from €2.00 to €3.00 per sqm. The spaces in need of investments and with non-functional layouts range from €1.00 to €2.00 per sqm.

Foreign clients are ready to pay a price above market average, but their location and quality expectations are significantly higher.

Demand

The development of warehouse and production spaces in Estonia is related to the growing foreign demand, export-based economic growth and Scandinavian investors. In 2012 Estonian exports grew 5.6% compared to the previous year, but in 2013 the increase was only 1.8%. In 2014 exports are expected to grow 2.6%.

In 2013, clients continued to show interest towards A class premises in favourable locations, although many potential tenants decided to wait with leasing decisions due to the uncertainty in the economy.

Q4 2013 snapshot
Tallinn

Total new warehouse space:
850,000 sqm

Warehouse vacancy:
3.0%

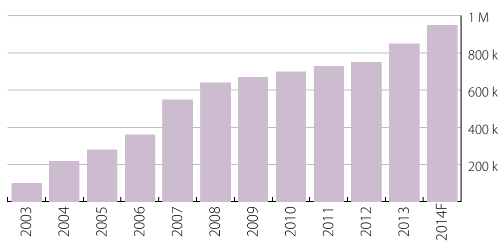
Annual new warehouse rents change:
+5.0%

New warehouse rents (sqm/month):
€3.50 – €5.00

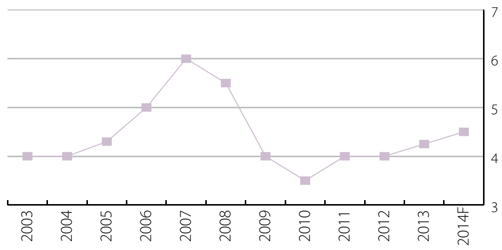
Old warehouse rents (sqm/month):
€2.00 – €3.00

Additional warehouse costs (sqm/month):
€0.90 – €1.20

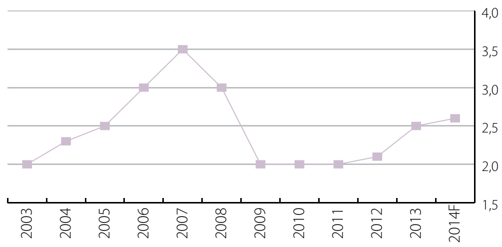
Total modern warehouse space, sqm



New warehouse rents, €/sqm



Old warehouse rents, €/sqm



Industrial market

Real estate market report 2014

The vacancy rate has significantly decreased, but only for A class premises. B class spaces in secondary locations have problems finding tenants despite favourable rents.

Alike the owners of older office spaces, the owners of older warehouse and production spaces will have to find resources for renovation works.

Proceeding from the current rent rate it is economically not justified to start building new warehouse and production premises for renting purposes without a certain client in mind, as clients have very different requirements for the premises.

Investments

During the recent couple of years, local investors have been very active in the market. Investors from Russia are also showing a rising interest. In the current market situation investors are expecting a yield of 9% from warehouse and production spaces located in Tallinn and its neighbourhoods.

EfTEN Real Estate Fund acquired five buildings from Baltic Property Trust - the K-Rauta building material store in Tallinn, the Hanza Mechanics production building in Tartu, the Mediq warehouse in Saue, Stora Enso production building in Saku, and the Logistika Pluss logistic centre in Tallinn. The total sum of the transaction amounted to €30.5 million and the total area of the buildings is approx. 40,000 sqm. The yield has not been made public.

Capitall Mill acquired a modern complex of warehouses of 6,500 sqm in Lasnamae on Vedru Street for €2.5 million. The asset was sold by BPT Secura. The yield has not been made public.

Legal notes by SORAINEN

Industrial leases are quite simple. Rents are indexed to local inflation. Nearly all properties are owner-occupied or if not, very often in distress. Good-quality tenants are in short supply, as are sufficiently universal properties to create an investment market. The number of sale-leaseback transactions is low.

Recent developments

	Description	Size (GLA, sqm)	Completion
	**Muuga Harbour** – one of the world's leading logistics companies Katoen Natie began the construction of the biggest covered logistics centre in Estonia in the Port of Muuga, with a total investment of €35 million. The logistics centre will be constructed in three phases. The first phase was finished by the beginning of 2013. The second phase (15,000 sqm) was finished in the Q4. By 2015 a total of 65,000 sqm of warehouse space will be ready.	40,000 (I & II stages)	2013
	Estanc - steel tank manufacturing company Estanc is constructing a new production complex at the rapidly developing Rae rural municipality. In 2013 the second phase (5,700 sqm) of the construction was finished. In total 12,000 sqm of warehouse and production space is planned to be built. The amount of investments of the 2 phases is €7.5 million, €4.3 million of which were invested into buildings and €3.2 million into equipment.	5,700	2013
	**ABB production building** – a global leader in power and automation technologies, ABB AS is building a new production and office building in Juri near Tallinn with the cost around €13 - €14 million. The new building has 14,000 sqm of space and was completed by spring 2013. In the future the campus can be extended to the total area of 30,000 sqm. Together with the new building, ABB occupies 45,000 sqm of premises in Juri.	5,700	Q1 - Q2 2013
	**Tallegg** – Estonia's biggest poultry company, Tallegg, opened a fully renovated and extended (the new part is 6,500 sqm) plant of 13,000 sqm in Tabasalu near Tallinn in 2013. The investment is €7.8 million. The amount of the total investment together with the equipment was €15.6 million. The main export markets of the company are Latvia and Lithuania.	13,000	2013

New projects

	Description	Size (GLA, sqm)	Completion
	**Via 3L** – logistics service provider Via 3L is planning to expand its logistics centre and add approx. 13,000 sqm. The existing wholesale warehouse complex is located on the Kalmari Road in Rae Parish, next to Tallinn roundabout. The total net area of the complex will be about 33,000 sqm. The amount of the investment is €6 million, with completion during Q1 2014.	+13,000	Q1 2014
	**Allika Industrial Park** – the Allika Industrial Park situated at the border of Tallinn by Paldiski mnt is suitable for ecologically less demanding production as well as warehouse and logistics activities. All necessary utility networks have already been built. The total area of the park is 14.8 ha, and the built-up area is 29,000 sqm. The construction is scheduled to be ready by Q2 2014.	29,000	Q2 2014
	**Logistika Pluss** – Logistika Pluss is the largest logistics company in Estonia providing comprehensive warehouse and production services for the electronics industry and other companies. Based on Logistika Pluss's request, and in addition to already existing warehouse area in their possession, a new logistics centre, with a total area of approximately 23,000 sqm, will be constructed close to the Vana-Narva highway and the Saha-Loo crossroad in Iru. The logistics centre will serve companies which demand just-in-time warehouse services and value adding services. The centre is scheduled to be ready by 2014. The complex will bring new jobs for approx. 170 people. The investment amount is €7-€8 million. The construction company is Merko.	23,000	2014

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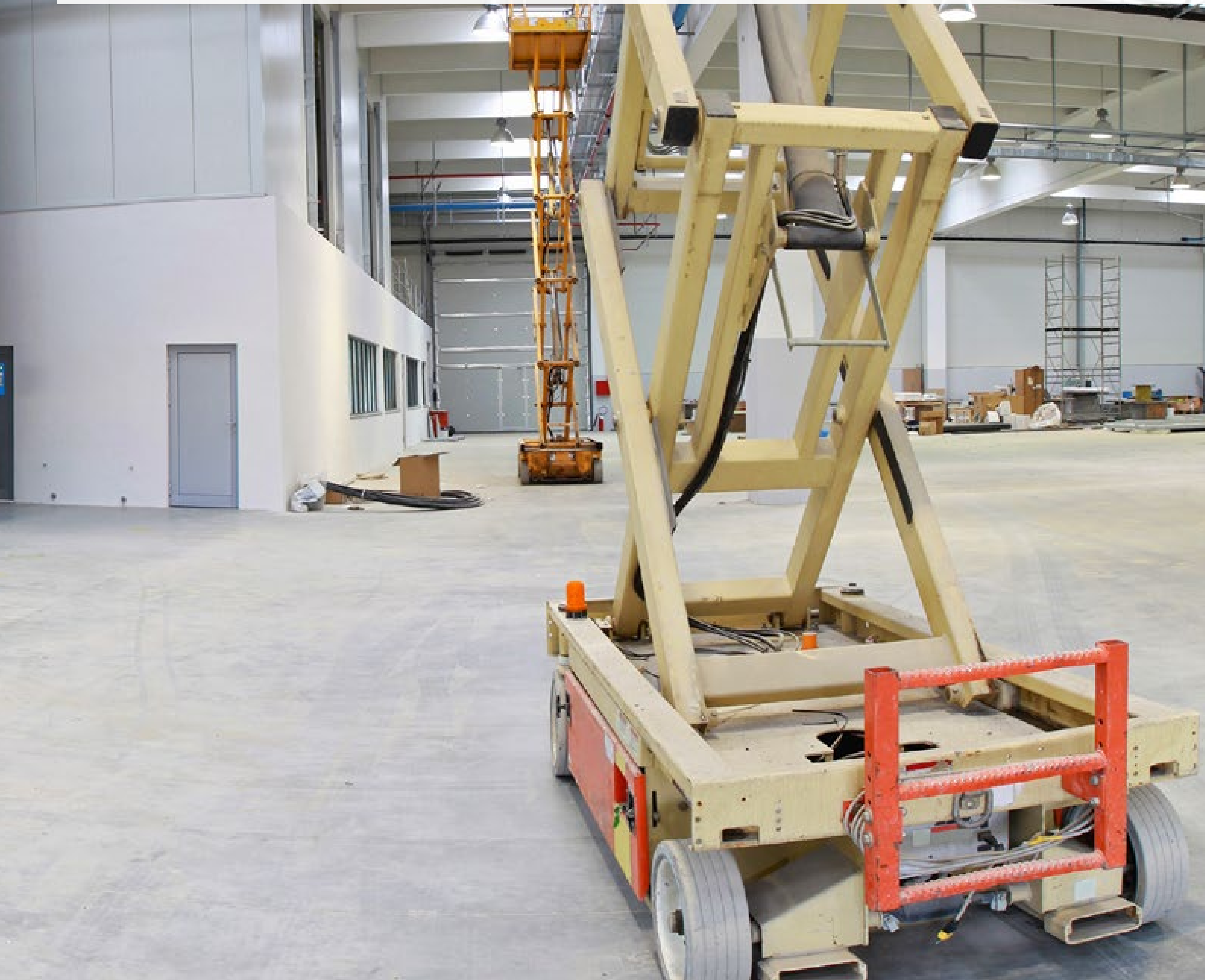
New projects

	Description	Price (sqm)	Completion
	**Maxima** – the well-known retail chain throughout the Baltics, is planning to construct a logistics centre of 45,660 sqm by the Tallinn Ring road, which will become the biggest logistic centre in Estonia. The building permit has already been issued and completion is scheduled to Q1 2015.	45,660	Q1 2015
	**VGP Park Nehatu** – VGP Park Nehatu has a total area of 109,918 sqm and is located adjacent to the St. Petersburg route (port direction) and in the vicinity of the Tallinn Ring Road. The site offers a built up area of more than 49,000 sqm, divided in a complex of three buildings, which are suitable for both logistic and production purposes. By the end of 2013, the first phase of the construction (21,600 sqm) was finished, and the final phase will be completed in 2015. The developer is VGP Park, originating from the Czech Republic and operating in Germany and Western and Eastern Europe.	49,000	2015



The market of modern new apartments is very active. Rapid price increases

Prices

Apartment prices in Tallinn increased by 20% in 2013, reaching €1,359 per sqm in December 2013. The number of apartment transactions in Tallinn increased 10.4% and the total value increased 25% compared to 2012. In the meantime the number of offers has constantly decreased. According to one of the biggest real estate portals (kv.ee), there were 9,400 apartment ads in Tallinn at the beginning of 2012, but only 5,590 at the end of 2013 – a 41% drop.

The prices of typical apartments in smaller residential districts grew by up to 30%; the prices of new apartments increased by 15%.

The reasons for the price surge are: the low mortgage interest rate, the increase of income, decreased unemployment and the acquisition of apartments for investment purposes. The main reason for the purchase of a new apartment is the opportunity to save on energy costs. Approximately 45% of the transactions were conducted without the use of the mortgage.

New apartments cost €2,000-€5,000 per sqm in the city centre and €1,300–€2,100 per sqm in the suburbs.

The prices of apartments differentiate mainly in accordance with the location. Most transactions were in the city centre involving well-conditioned apartments in modern or fully renovated buildings with prices from €1,500 to €1,900 per sqm.

In buildings with the best views or special architectural features, the price sometimes exceeds €2,800 per sqm. Sales grow for large, well-renovated flats in the Old Town and prices reached €2,700 to €4,000 per sqm.

In residential districts, most of the sales were for cheaper one or two room Soviet era apartments

Q4 2013 snapshot

Tallinn

Annual appartment price change:

+20%

New apartments built:

600

Average new apartment floor area:

64.2 sqm

Economy class new apartment prices (sqm):

€1,300 – €1,700

Middle class new apartment prices (sqm):

€1,800 – €2,000

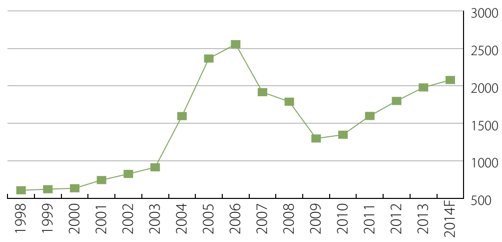
Luxury class new apartment prices (sqm):

€2,000 – €5,000

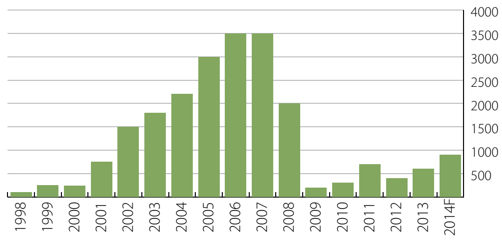
Residential investment yield:

5.2%

Residential prices in city centre, €/sqm

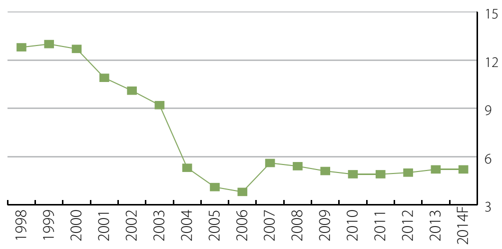


Completed units



Residential rents in city centre, €/sqm

City centre residential investment yield, %



in need of renovation. These flats cost from €750 to €950 per sqm. Suburban apartments in excellent condition situated in popular locations costs €1,100 to €1,450 per sqm. Apartments in less sought after locations are much less marketable, even if they are in good condition. In popular locations like Pirita, Nomme and Kakumae, prices for new or renovated apartments range from €1,800 to €2,500 per sqm.

Supply

In 2013, developers completed approximately 600 new apartments and started building another 1,000 new apartments. Most of the new projects were launched in the city centre or its neighbourhoods, where development risks are smaller and demand is higher.

The construction prices of the apartments in new development projects grew within the last year 15-25%, while apartment sale prices grew only 10–15%. During the last year 50–70 new apartments were sold each month. Most of the apartments were sold or reserved already at the stage of construction.

Several development projects were stopped because it was not possible to make a profit due to the current economical financial climate and increasing construction costs. Clients value mostly smaller unique development projects located in the city centre and its neighbourhoods.

During 2004-2008 there were over a dozen real estate developers in Tallinn, now the development activities are in hands of big developers such as Merko, NCC, Endover, Metro Capital, TTP, Astlanda, Colonna Kinnisvara, YIT, Skanska.

Rents

In 2013, prices grew 10-15% depending on the location. Prices increased the most in the city centre. Rents of apartments located in Kalamaja and Lillekula have almost reached the level of the city centre. In autumn 2013, the asking rents for apartments in the suburbs were €6.00 - €7.00 per sqm, and €9.00 per sqm in the centre.

In the city centre the demand is highest for one or two room furnished apartments which rent for €400 to €500 per month, preferably with parking. Tenants pay their own utilities on top of the rent.

The gross rental yield of apartments in Tallinn in 2013 was 5% to 7%, depending on the location. This number does not satisfy investors. Owners generally conclude short-term rental agreements and most carefully check the tenant's profile.

Private residences

In 2013, the market of private houses in Tallinn and Harjumaa was characterised by an 18% increase in the number of transactions compared to 2012. This was because of the transactions with objects cheaper than average - summer houses, which could be rebuilt as private houses. At the same time the number of modern residences up to 5 years old for sale also increased.

In the current market situation clients prefer new or residences up to 5 year old with modern technical compliances, economic heating systems and a total area of 130–180 sqm in the price range of €145,000-€220,000. The prices for these homes grew within the year by 5-10%.

Most of the transactions are conducted in Tallinn and 20-30 km away from Tallinn. The price surge could be observed in the valued regions of Tallinn (Nomme, Kakumae and Pirita).

Legal notes by SORAINEN

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

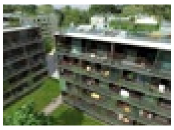
Recent developments

	Description	Price (sqm)	Completion
	**Must Luik (Black Swan)** – an exclusive development in Tallinn city centre between Kadriorg Park and the sea with 32 apartments and 6 commercial spaces. Prices range from €2,550 to €2,970 per sqm, and completion was in 2012. The project is sold by Ober-Haus.	€2,550 - €2,970	2012
	**Pagari Street** – an exclusive, luxury renovated 19th century apartment building in the heart of the Old Town, whose flats are sure to be the most sought after apartments in town. Prices range from €2,900 to €4,000 per sqm, and with this sort of luxury and location, they are very much worth it. Completion was in autumn 2013. The project is sold by Ober-Haus.	€2,900 - €4,000	Q3 - Q4 2013

New projects

	Description	Price (sqm)	Completion
	**Suve 2** – a new apartment building with commercial spaces close to the Old Town comprises 70 apartments and 4 commercial premises. The price range is €1,800 to €2,400 per sqm. The prices for the commercial premises on the ground floor range €1,750 to €2,000 per sqm. The scheduled date of completion is the beginning of 2014. The developer is Astlanda Ehitus.	€1,800 - €2,400	Q1 2014
	**Uus-Tatari 12** – a development project comprising of 28 apartments is located close to the very centre of Tallinn. The date of completion is scheduled for spring 2014. The apartments have 1-4 rooms and sizes range between 32-102 sqm. Those on the last 5th floor have wide terraces, and parking spaces are included on the ground floor. Apartment prices range between €2,000 and €3,000 per sqm, a parking space costs €10,000, and a storage room €2,500. The developer and constructor is Remet, and the seller is Ober-Haus.	€2,000 - €3,000	Q1 - Q2 2014
	**Lucca houses** – a development project comprising 8 A energy class houses located in a valued seaside suburban area. All houses have wide terraces and sea views. Clients have the opportunity to choose the package containing ECO sun panels. The sizes of the homes range 159-187 sqm. 6 homes have already been sold. The price includes the interior finish and is €279,000. The seller is Ober-Haus, with completion during Q2 2014.	€1,900	Q2 2014
	**Hoburaua house, Vibu 5** – a complex of 2 apartment buildings under construction in the popular Kalamaja region in close vicinity to the sea and the city centre. A wide inner yard with a playground, benches and "green islands" will be erected between the two buildings. The first building is almost ready and comprises 57 apartments. Parking lots and storage boxes are located on the ground floor. Most of the apartments have balconies or terraces facing the inner yard and heat-returning ventilation systems. The price range is €1,900-€3,100 per sqm. A storage box and parking lot is included in the price of each apartment. The building will be ready by the end of 2014. The developer and constructor is YIT.	€1,900 - €3,100	Q4 2014
	**Kentmanni IV**– an exclusive 14-storey residential building with great views located in the very centre of Tallinn. Commercial premises are located on two lower floors, and apartments start from the third floor. Altogether there are 111 apartments, and parking lots are located on the ground floor. Prices depend on the floor and the views and range from €2,500–€5,100 per sqm. The most expensive apartments are offered at the price of €800,000. The rents for the office premises on the street floor are €25.00 per sqm, and€15.00 per sqm for the second floor. By the end of 2013, most of the apartments were reserved, and completion will be in December 2014.	€2,500 - €5,100	Q4 2014

New projects

	Description	Price (sqm)	Completion
	**Meerhof, Pirita road 26** – a new exclusive development project between Tallinn city centre and the sea. All apartments have great views to the sea, large balconies and parking lots on the basement floor. Prices start from €2,600, and are €4,000–€5,000 per sqm on the 8th and 9th floors, with the most expensive apartment offered at the price of €985,000. Most of the apartments have 2-3 rooms. The developer is Metro Capital and the construction company is Nordecon. The scheduled time of completion is the beginning of 2015.	€2,600 - €5,000	Q1 2015
	**Tondi Living Quarter** – a development project located in the inner quarter near Tallinn city centre. All apartments have wide balconies; the apartments located on the 5th floor have roof terraces. The size of the developed area is 12 ha, with a total of 300 apartments. Prices range from €1,900 to €2,600 per sqm, and a parking lot costs €7,950. The first building will be ready during Q2 2015, and the full project during 2018. The developer is Pro Kapital.	€1,900 - €2,600	Q2 2015 (Building I)
	**Magasini 29** – are terraced houses located in the green area of Veerenni right in the centre of Tallinn. 33 four-apartment terraced houses are planned to be built in three phases. 15 of them will be 150 sqm in size and 18 units 108 sqm. The price without the final interior finish is €299,000. Currently 2 houses are presold and 2 are reserved. The developer and constructing company is Nordecon, and the seller is Ober-Haus, with completion during Q2 2015.	€2,300	Q2 2015
	**Mardi Street 4/6** – a development project in Tallinn City Centre, comprising of three buildings with 130 apartments altogether. The price range is €2,000–€3,000 per sqm. The date of completion is 2015. The developer is Arro Consulting.	€2,000 - €3,000	2015

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

Estonia

Demand is recovering

The number of transactions with residential land in Tallinn and Harjumaa increased rapidly - by 36%, which was caused by several block transactions. The average price did not change during 2013. In highly valued residential districts like Pirita, Kakumae and Nomme the price surged by 10%. The price for a 1,000-1,500 sqm residential plot in a valued location cost between €70,000 and €120,000. In secondary locations 1,000–1,500 sqm land plots cost between €20,000 and €40,000. A large number of sales offers can usually be seen in developments located in poorer, secondary locations. There is practically no interest in residential lots without utility networks and insufficient infrastructure, even if offered cheap.

The number of transactions with industrial and commercial land decreased 10%, but the total value didn't change in 2013. Most transactions are between €30 - €50 per sqm.

Q4 2013 snapshot
Tallinn

Annual land price change:
0%

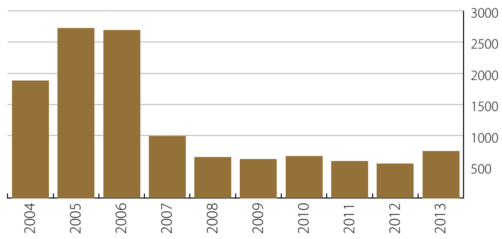
Total land transactions change (Tallinn & Harjumaa):
+36%

Land prices in city centre for residential development (sqm):
€250 – €450

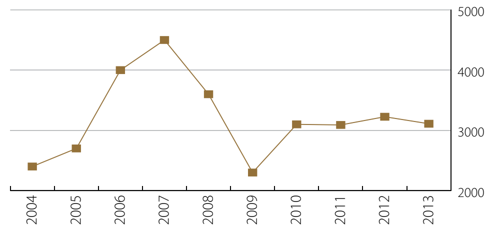
Land prices in residential districts for residential development (sqm):
€150 – €250

Land prices in city suburbs for private homes (sqm):
€50 – €80

Land transactions in Tallinn city & district



Land prices for private homes in Tallinn suburbs, €/100 sqm



Legal notes by SORAINEN

No restrictions exist on foreign natural or legal persons purchasing land, except for foreign persons purchasing agricultural and forestry land over 10 ha.

Existing detailed plans may be non-practical and entail investment obligations in local infrastructure.

Setting a price on development potential (construction rights) is the most difficult point of purchase negotiations. As sellers are often inexperienced, they may have difficulty in assessing development potential, or may base their assessment on optimistic relations with local government in charge of establishing construction rights. When buying land for construction, the existing detailed plan must be thoroughly investigated to ensure its applicability.

Land market

Real estate market report 2014

Estonia

Real Estate taxes & legal notes

2014

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 marginal state and notary fees (in case of private limited company OÜ) or proceeding and entry fees (which in case of a public limited company AS are to be paid to the Estonian Central Securities Depository).

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

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

- the 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.);
- the state fee is also 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.

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

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 still required and the process should be managed carefully.

LEASE

Value Added Tax (VAT)

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

Corporate Income Tax (CIT)

Due to the specifics of the Estonian corporate tax system, rental income received by Estonian companies only becomes subject to 21% corporate tax upon distribution of profits. Permanent establishments of non-residents are taxed similarly to Estonian companies, i.e. only upon making formal or deemed profit distributions.

Withholding tax (WHT)

As a general rule, non-residents without a permanent establishment in Estonia are subject to 21% income tax on the gross rental income by way of withholding.

Personal Income Tax (PIT)

Estonian resident individuals pay 21% income tax on gross rental income, i.e. without the right to make any deductions on the expenses incurred in relation to the property.

Resident individuals registered as sole proprietors are allowed to deduct expenses directly related to the rental income and thus pay 21% income tax on the net income. Such expenses must be properly documented and most often relate to loan interests, costs of repair works and commission fees. However, sole proprietors must also pay social tax in addition to the income tax on the net rental income.

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

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

SALE

Value Added Tax (VAT)

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

Corporate Corporate Income Tax (CIT)

Capital gains received by resident companies upon sale of real estate or shares in real estate companies remain untaxed until distributed as profits. Non-resident companies pay 21% income tax on the capital gain from the sale of real estate or shares in real estate companies by way of self-assessment. A company is deemed to be a real estate company if at the time of sale or at any period during the 2 years preceding the sale more than 50% of the assets directly or indirectly consist of Estonian real estate. The capital gain is calculated as the difference between the sales price and acquisition cost. All documented expenses made in order to buy, improve or supplement the property, including all expenses directly related to the sales transaction may be deducted.

Special rules for domestic investment funds

Estonian Parliament has adopted amendments to the Income Tax Act which entered into force from 1 January 2014. The amendments introduce special rules for taxation of domestic contractual investment funds on their real estate related income. Whereas so far domestic contractual investment funds were not taxpayers in respect of their income and instead the income was taxed in the hands of investors, the amendments now make domestic contractual investment funds taxpayers in respect of their real estate related income and gains.

Personal Income Tax (PIT)

As a general rule, private individuals are liable to pay 21% income tax on the capital gain upon sale of real estate. Exemption is provided for sale of home (one home can be sold tax exempt in every 2 years).

REAL ESTATE TAX (BUILDINGS PREMISES)

There is no real estate tax in Estonia.

LAND TAX

As a general rule, land tax is applicable on real estate located in Estonia.

The tax rate varies between 0.1% and 2.5% of the taxable value of real estate, which depends on its location 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 1500 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

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

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

Title to Real Estate, Land Register

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

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

Title to real estate is considered transferred on registration of ownership in the Land Register, not on signing the agreement. Ownership will usually be registered within four weeks as of filing an application with the Land Register along with the signed and notarised agreement.

Acquisition of Real Estate

General

Most commercial properties held for investment purposes are held in single asset special purpose companies. Commercial property can therefore be sold either by selling the real estate (asset transaction) or by selling 100% of the shares of the property holding company (share transaction). Both options are widely used. An asset transfer may constitute a transfer of enterprise in which case it will be similar to a share deal since obligations of the seller will transfer to the buyer along with the asset.

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

Letter of Intent and Heads of Terms

IIn practice, letters of intent (LOIs) and heads of terms (HOTs) are used to bind negotiating parties to a contemplated real estate transaction. However, in Estonia all transactions related to the obligation to buy or sell real estate (including preliminary agreements, LOIs and HOTs) require notarisation in order to be legally binding. Without notarisation, a buyer cannot require the seller to conclude the sales contract and transfer ownership, or to pay contractual penalties.

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

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

Asset Transfer

Asset transactions must be notarised and therefore are very often still in Estonian.

Asset transactions require registration in the Land Registry and therefore can take two to four weeks or longer to be registered.

Due diligence is limited to just researching the property, as asset transfer does not require research into the legal or financial background of a company as a share transaction would.

Existing lease contracts remain valid after the transaction.

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

Share Transfer

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

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

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

We have participated in many portfolio deals in the past (2005-2008), but not during recent years. Portfolio deals may come back with distressed funds and sale of assets by real estate companies set up by banks. Acquisition of a portfolio versus acquisition of many single properties is less time-consuming, so that a single portfolio deal may result in a buyer gaining significant market share.

Considering a portfolio deal requires bearing in mind the following:

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

Sale-leaseback

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

Form of Agreements

Transfer of title to real estate requires a sale agreement (setting the terms and conditions of sale) and a real right agreement (agreement to transfer title). These are usually contained in one document.

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

Language Requirements

The sale agreement and real right agreement are drafted and verified by a notary, in Estonian. If requested by the parties, a notary may prepare agreements in another language, if the notary is proficient enough in that language. If agreements are verified in Estonian, foreigners may ask for a written translation or obtain the help of an interpreter before signing.

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

Due Diligence

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

Pre-emption Rights

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

Pre-emptive rights may be exercised within two months after receiving notification of a sale agreement.

Typical Purchase Price Arrangements

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

Related Costs

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

Concentration Control

Transfer of real estate (both asset and share transfers) may be subject to concentration control by the competition authorities if:

- turnover in Estonia of participants to the concentration (target undertaking and buyer) exceeds EUR 6,391,200; and
- turnover in Estonia of at least two participants to the concentration exceeds EUR 1,917,350 each.

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

Restrictions

Restrictions on Acquisition of Real Estate

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

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

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

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

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

Public Restrictions on Use of Real Estate

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

Encumbrances

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

The Land Register may register notation of a lease agreement, which ensures that on change of ownership the new owner may not terminate the lease agreement within three months of acquiring the premises by citing urgent personal need to use the premises.

Mortgage

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

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

Property Management

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

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

Lease Agreements

Estonian commercial law allows wide freedom to both owners and tenants to contract their lease agreements as desired. Residential leases are subject to heavy mandatory regulation.

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

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

Break options were common in older leases, giving the tenant the right to break the lease with as little as three months notice. Break options were less common in commercial properties from 2004-2007, as owners became more sophisticated. However, as the market became a tenant's market once again in the past years, we have noticed that break options have become a point commonly insisted on by tenants. Now, however, the trend is shifting back to not using break options.

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

Add on factors, requiring the tenant to pay rent on the pro-rata share of common space, is uncommon in older leases but is common practice today.

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

Tenant incentives are generally given by the owner. In today's tenant's market, owners generally pay (or give a rent credit) for tenant fit out, as well as offering rent free periods for up to 5% of the lease value.

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

If a tenant abandons the premises then the landlord may, according to recent Supreme Court practice, claim rent until the end of the original lease term, less benefits from alternative use. A landlord who leases the property out prior to expiry of the original lease term at a lower rental rate may claim the difference in rent until the end of the original lease term.

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 is taking more interest in PPP as an alternative to immediate direct investments especially in projects concerning new highways and prisons.

Concessions

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

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

Sale-Leasebacks

Increasingly, sale-leaseback agreements are used in Estonia for structuring PPP's. 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. In practice, lease agreements (ie PPP agreements) are far from being as comprehensive and detailed as their counterparts in Western Europe and Scandinavia.

Regulated Real Estate Funds

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

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

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

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

Planning Requirements and Construction

Planning

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

Construction

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

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

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

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

Once construction works are finished, the construction company must give a minimum two-year guarantee for construction faults. A manufacturer's guarantee for equipment incorporated in construction works cannot be shorter than six months.

Distressed Assets

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

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

A distressed asset is sold "as is", which makes thorough due diligence very important. The seller is typically insolvent or close to insolvency, which in effect means that upon default the buyer will usually not be able to claim against the seller.

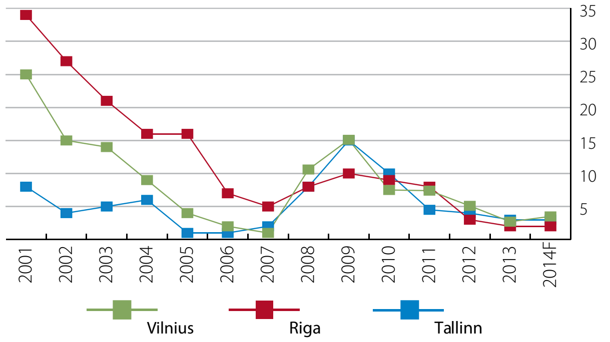
If the asset is sold in enforcement proceedings then all rights ranking below the right of the creditor who has initiated the proceedings will be deleted from the Land Register. Exceptions to this rule are servitudes which serve public interests (such as public utility lines and rights of way).

Local banks have set up SPV-s purchasing distressed assets financed by the same bank. Portfolios of these SPV-s consist mainly of commercial property.

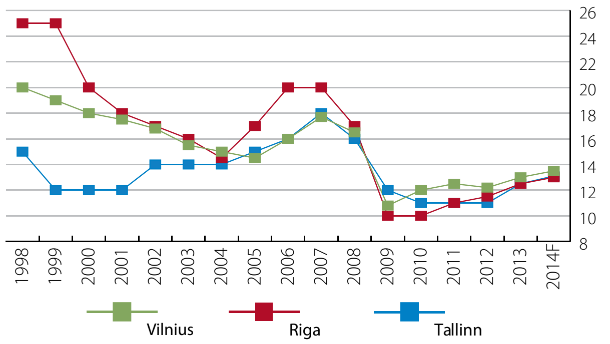
A common problem for a purchaser of distressed assets is that the distressed seller has signed lease contract(s) on unfavourable terms to the asset owner. Such agreements transfer to the purchaser, even if the bailiff and the purchaser were unaware of the lease agreement. The purchaser must thereafter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

Office

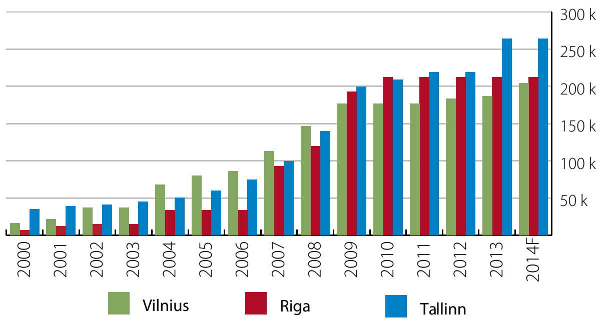
A class office vacancy rate, %



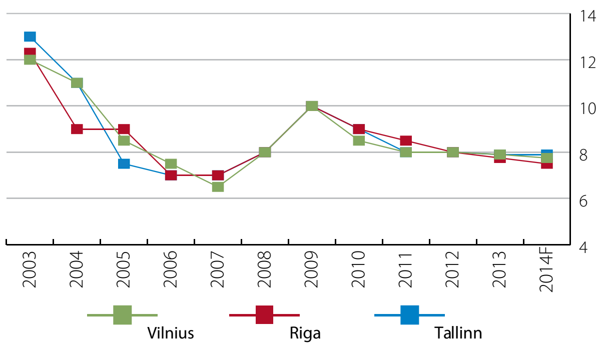
A class office rents, €/sqm



Total A class office space, sqm

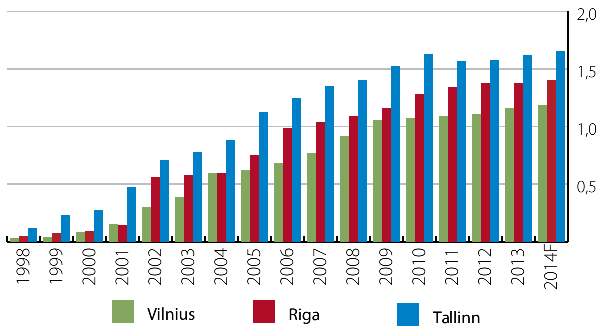


A class office investment yields, %

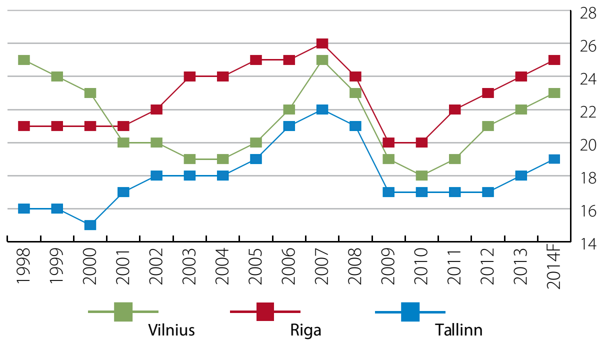


Retail

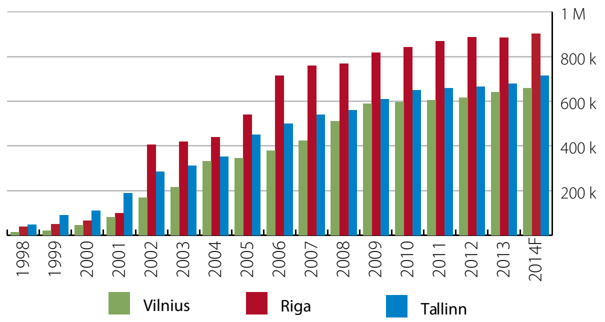
Total mall space per capita, sqm



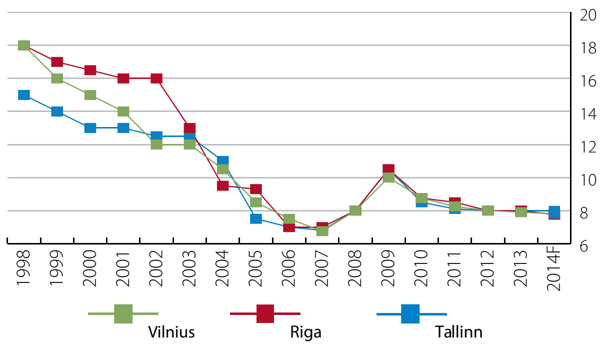
Average mall rents, €/sqm



Total mall space, sqm

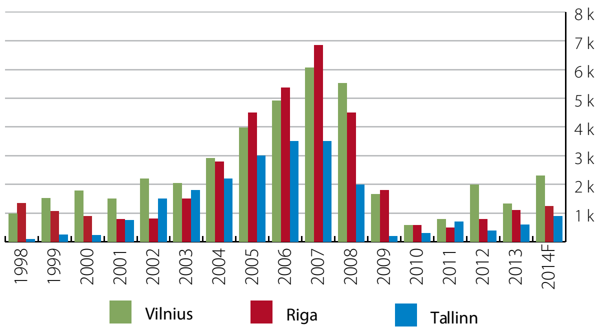


Retail investment yields, %

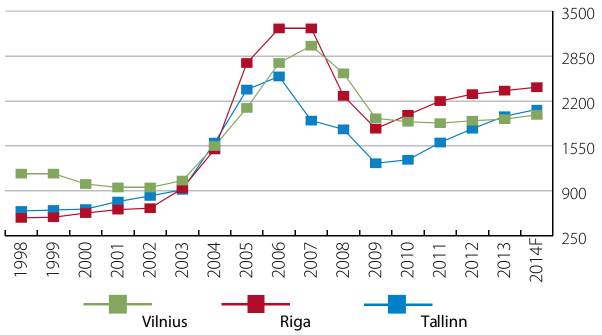


Residential

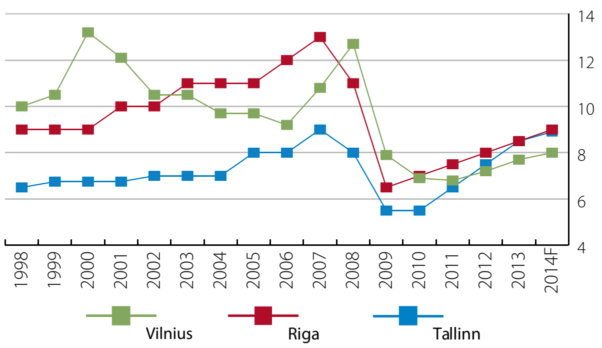
Completed units



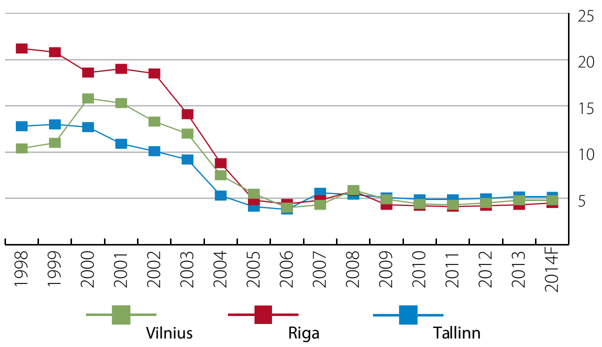
Residential prices in city centre, €/sqm



Residential rents in city centre, €/sqm

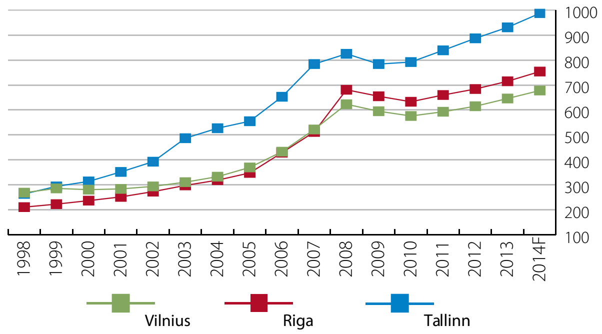


City centre residential investment yield, %

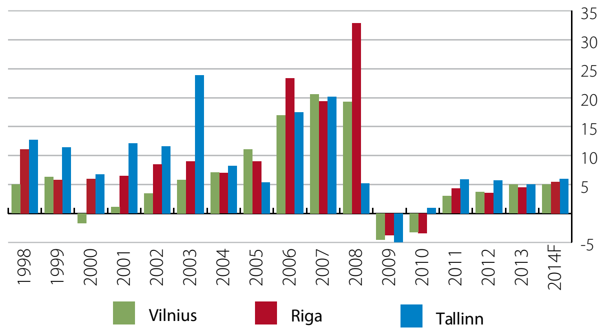


Economics

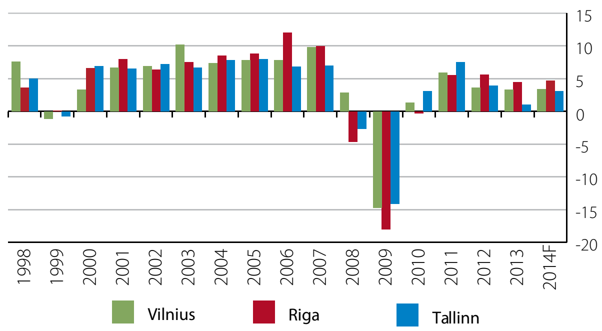
Average salary per month (brutto), €



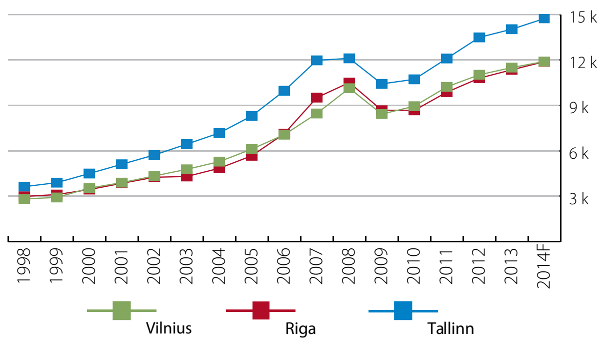
Average salary growth, %



GDP growth, %



GDP per capita, €



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The real estate market in the Baltic States and Belarus is recovering from a complete standstill. Many investors wish to benefit from low construction prices, developers are fighting for their assets, tenants want to exit their leases and in some sectors demand exceeds supply. This unique situation can benefit the knowledgeable and quick-witted.

The SORAINEN Real Estate Practice has been busy even in these times, which is a compliment to the team's abilities and strength. The lawyers of the SORAINEN Real Estate Practice advise leading players in all sectors of the real estate industry and in many of the most significant projects. SORAINEN has extensive experience in advising local and international investors, developers, tenants and financiers on buying, selling, letting, financing, developing and operating all types of real estate and in all transactional aspects.

The SORAINEN Real Estate Practice has in recent years been constantly ranked very high by all major legal directories, such as *The Legal 500* ("SORAINEN is a go-to counsel for heavyweight transactions and projects") and *Chambers Europe* ("Sources comment on its well-balanced and high-quality service, as well as its efficient and no-nonsense approach.").

SORAINEN offers expertise in all key real estate areas in the Baltic States and Belarus, including:

- due diligence of real estate and SPVs;
- sale and purchase, including foreclosures and portfolio sales;
- commercial leases;
- sale and leaseback;
- security (mortgages, guarantees);
- property development;
- design and construction;
- tax advice and tax structuring;
- planning and zoning;
- public private partnership (PPP);
- dispute resolution.

ESTONIAN GREEN BUILDING COUNCIL

In 2013, SORAINEN was one of the founding members of Estonian Green Building Council, the industry organisation representing sustainable development, construction, design and renewable energy in Estonia, and part of the global Green Building Council.

The regional head of the SORAINEN Real Estate Practice is **Ģirts Rūda**.
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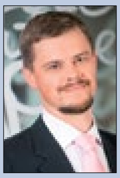

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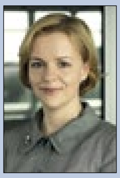

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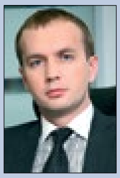

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