REAL ESTATE MARKET REPORT 2020

BALTIC STATES CAPITALS

VILNIUS, RIGA, TALLINN

OBER HAUS

REALIA GROUP

OBER HAUS PART OF REALIA GROUP

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

Realia Group is the largest provider of expert services specialising in the brokerage and management services of apartments, properties and commercial facilities in the Nordic countries.

Our services include:

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

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

Our customers include apartment house companies and real estate companies, private and public owners and end users of apartments and properties, fund companies, banks and many other parties operating in the real estate sector as well as consumers.

All of our companies share the significance of customer experiences in the development of products and services. We are building a better customer experience by investing in customer-oriented service production, an active service culture and strong and competent operations. We want to be a customer experience driven pioneer in our field.

The Realia Group's competitiveness is based on strong brands, motivated and skillful personnel, and the ability and will to invest in working methods and processes of the future. Realia Group employs approximately 2,000 professionals, and its turnover is approximately EUR 134 million (2018). Realia Group is owned by Altor Fund IV, a Nordic private equity fund.

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

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

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

OBER-HAUS - ALL REAL ESTATE SERVICES!

REALIA GROUP MEMBERS:

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REALIA MANAGEMENT

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HESTIA

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FOREWORD

In last year's annual review, we forecasted that the year 2019–2020 in the real estate market of the Baltic countries would be eventful and far from boring. Our prediction was indeed accurate and 2020 arrived with two pieces of news: after yet another remarkable year in the real estate market of the Baltic countries, the world is now engulfed in the coronavirus disease (COVID-19). Our company, like all market players, was taken completely by surprise by the pandemic. This detailed annual review of the real estate market of the Baltic countries in 2019 and forecasts for the year to come were prepared and finalized by Ober-Haus experts before the virus became widespread. So, we ask readers to take this fact into account when assessing the real estate market forecasts for 2020 or subsequent years provided in this review.

As for 2019, the further impetus for the development of the real estate market in the Baltics was the significant economic growth of all three countries. The rapid increase in personal income, consumption and business development contributed to the development of both the commercial and residential real estate sectors. The situation in the real estate market in 2019 is well illustrated by at least two all-time records in Lithuania: investment volumes in core commercial property increased by almost 15% reaching an all-time high of €463 million, meanwhile total investments in the residential sector has reached a record €2.3 billion.

The capital cities of the three Baltic countries continue to show high development activity in both the residential and commercial sectors. The development in the multi-apartment segment in Vilnius and Tallinn was exceptional, with the highest volumes of construction since 2007–2008. Meanwhile, the level of confidence of developers in the prospects of the residential sector in Riga is much lower. In 2019–2020, developers will build about 17 apartments per 1,000 inhabitants in the city of Vilnius, meanwhile the figure in Tallinn is 14 apartments and in Riga the figure is half that, at 7 new apartments per 1,000 inhabitants. One of the important reasons limiting the confidence of developers in the housing market in Riga is the continuous decline in the number of permanent residents in this largest city of the Baltic countries. If the population in Tallinn and Vilnius has risen in the past five years by 6% and 3% respectively, so the population in Riga has fallen by almost 2%. It is clear that, among other indicators, the changing number of potential home buyers is essential for the assessment by investors of the further development prospects of the sector.

In the meantime, following intensive development in the office segment in 2018–2019, this sector is ready for a further significant leap in all Baltic capitals. In 2018–2019, a total of 290,000 sqm office space was built in Tallinn, Riga and Vilnius; in 2020–2021 over 300,000 sqm office space is scheduled for completion. The results in Riga are particularly promising as the lack of office supply previously prevented Riga from fully competing with Tallinn or Vilnius for the attention of international companies. It will therefore be very interesting to see how both domestic and foreign capital companies respond to the significantly increased volume of new office space in Riga.

The retail sector in the Baltic countries is going through a period of change determined by unfading competition and the growing market share of e-commerce. In recent years, managers of shopping centres in the Baltic capital cities have focused on upgrading existing shopping centres or even adapting them for other activities (e.g. increasing the space for leisure and entertainment or offering coworking spaces instead of retail spaces, etc.) rather than constructing new bigger schemes. Development of new large projects dominated in the city of Riga in 2019 which saw the opening of Akropolis, one of the largest shopping and leisure centres in this city. This €180 million project significantly increased the total retail area of shopping centres in Riga and on the opening day nearly all the spaces had been rented out. In 2019, international brands such as KFC, IKEA, and Deichmann arrived in the Estonian market and the German retailer Lidl is planning to open its first stores in 2020.

Activity in the industrial and warehousing sector shows that the demand for new and modern premises remains very high. If the majority of such premises are concentrated in and around the capital cities in Estonia and Latvia, in Lithuania there are at least three regions where industrial and warehousing projects are actively developed (Vilnius, Kaunas and Klaipeda). The development of this sector has been particularly active in the region of Kaunas in recent years, where the fastest relative overall growth in both the commercial and residential sector in 2017-2019 years was recorded. This second largest city of Lithuania can be proud of attracting such international companies as Continental, Hella, Hollister, and Hegelmann, which have significantly increased investment in the manufacturing and logistics sector in Kaunas region.

Looking at the various challenges facing the world today, the real estate market in the Baltic countries cannot remain immune from both negative and positive developments globally. Small and open markets in our countries offer a truly wide range of opportunities for both domestic and foreign capital investors. It is clear that in 2020, we will see a number of changes in the property markets, where every decision will be of major importance. We therefore urge you to seek advice from the market experts before taking any decision related to the real estate sector. During its long-standing operations, Ober-Haus has experienced both rises and lows of the real estate market and therefore can advise its clients responsibly and professionally.

We hope that this annual review of the real estate market of the Baltic capital cities by Ober-Haus experts will be useful not only to all real estate market players, but also to those in other sectors. Again, we are very grateful to our long-term partners, PricewaterhouseCoopers and Sorainen, who have contributed to the preparation of the quality content by providing sections on taxes and legal information.

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Ober-Haus has 9 offices in Lithuania (Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai, Panevėžys and Druskininkai) with over 130 real estate experts working there and lead the group in terms of the annual number of real estate operations. Major local and foreign companies, medium-sized and smaller companies, investment funds and private investors trust the quality of the services that Ober-Haus offers. A team of independent experts provide all real estate services: mediation in letting, selling and purchasing commercial and residential real estate, valuation of movable and immovable property, business valuation, market research and analysis.

LITHUANIA

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COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

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

CURRENCY

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

2020 FORECAST

GDP growth, %	2.0 - 2.5
GDP per capita, €	17,800
Private consumption growth, %	3.2
Average annual inflation, %	2.3 - 2.5
Unemployment rate, %:	6.5 - 7.0
Average monthly net salary, €:	875
Average salary growth, %:	6.5 - 7.0

POPULATION	2014	2015	2016	2017	2018	2019
Lithuania	2,921,300	2,888,600	2,847,900	2,808,900	2,794,200	2,794,300
Vilnius	542,600	543,500	545,300	547,500	552,100	562,000
Kaunas	301,400	297,800	292,700	288,400	286,800	289,400
Klaipėda	156,100	154,300	151,300	148,900	147,900	149,200
Šiauliai	104,600	103,000	101,200	100,600	100,100	101,500
Panevėžys	95,200	93,600	91,100	88,700	87,100	85,900

ECONOMICS	2014	2015	2016	2017	2018	2019
GDP growth, %	3.5	2.0	2.4	4.1	3.6	3.9
GDP per capita, €	12,500	12,800	13,600	14,900	16,200	17,300
Private consumption growth, %	4.6	4.1	5.1	3.4	3.9	3.7
Average annual inflation, %	0.2	-0.7	0.7	3.7	2.5	2.2
Unemployment rate, %	10.7	9.1	7.9	7.1	6.1	6.3
Average monthly net salary, €	527	554	602	660	720	822
Average salary growth, %	5.2	5.1	8.7	9.6	9.1	14.2
Retail sales growth, %	6.2	4.4	7.0	4.7	6.5	5.4
FDI stock per capita, €	4,700	5,000	5,300	5,800	6,100	6,500

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS

AFTER REMARKABLE ECONOMIC GROWTH - PANDEMIC SHOCK AND UNCERTAINTY

In 2019, the Lithuanian economy experienced one of the most active periods of development since the recent economic downturn in 2009-2010. Rapid growth was recorded in almost all sectors of the economy, furthermore, and some record performances were even achieved. The real estate sector was no exception.

However, at the start of 2020 coronavirus disease (COVID-19) shook the global markets and it is obvious that it will also have an impact for the Lithuanian economy and the real estate market. Therefore, the perspectives of the individual real estate sectors presented in this overview are based on the assumption that the spread of this virus will be brought under control in the course of the year and the situation in the Lithuanian economy will remain positive in general. Nevertheless, the probability of an economic downturn remains high, which could lead to noticeable consequences for the whole real estate market.

The Lithuanian economy showed solid growth once again in 2019. GDP grew by an additional 3.9% following on from growth of 3.6% in 2018. Analysts forecast a further 2.0–2.5% GDP growth in 2020.

In December 2019, the average annual inflation (HICP) rate was 2.2%. Forecasts are for inflation growth of 2.3-2.5% in 2020.

Foreign direct investment in Lithuania is becoming an ever-more important factor in the country's economic growth and an additional boost to the real estate market. Invest Lithuania achieved its best ever annual results by attracting 47 foreign direct investment projects into Lithuania in 2019, creating a total of over 4,600 new jobs. At the end of 2019, the Global Business Services (GBS) sector employed around 19,000 professionals in Lithuania. Strong growth was recorded in the Fintech sector, where the number of companies increased by 24% to 210 and the number of jobs increased by over 30% to 3,400 in 2019.

Due to the introduction of a new, reformed system of personal income tax from 1 January 2019, social security contributions were transferred for the most part from the employer to employees. Gross wages were adjusted by 28.9% to compensate employees for this shift in the tax burden. This wage recalculation had a positive impact on employee's net wages also.

The minimum wage in Lithuania was increased to €607 (€432 after taxes) starting 1 January 2020.

Net wages increased by 14.1% in Lithuania in Q4 2019 (compared to Q4 2018), to €858 per month after taxes. Salary growth in 2020 is expected to be around 6.5-7.0%.

Unemployment increased to 6.3% in 2019, compared with 6.1% in 2018. Analysts project average unemployment of 6.2-6.3% in 2020.

The consumer confidence indicator in December 2019 increased by two percentage points to 1 compared to December 2018. In December 2019, 26% of consumers believed that the country's economic situation would improve, but not significantly in the coming 12 months, 23% thought that the country's economy would deteriorate, but not significantly and 42% thought that the situation would not change.

Exports have shown solid growth in Lithuania again. Exports increased by 4.7% in 2019 after a 7.3% increase in 2018.

In December 2019, the annual increase in construction costs was 3.1%. The biggest increase in this period was recorded for residential buildings (3.9%). Construction costs of non-residential buildings increased by 2.8%.

As of September 2019, direct foreign investment totalled €18.2 bln (6.7% increase compared to September 2018), which is €6,509 per capita.

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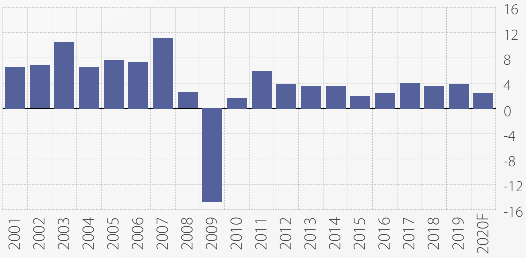
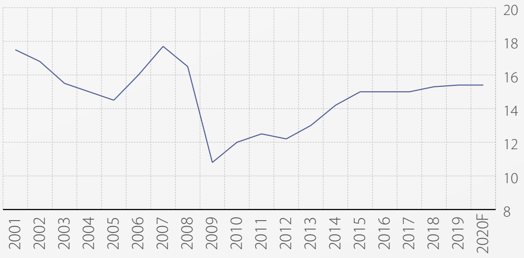
OFFICE MARKET

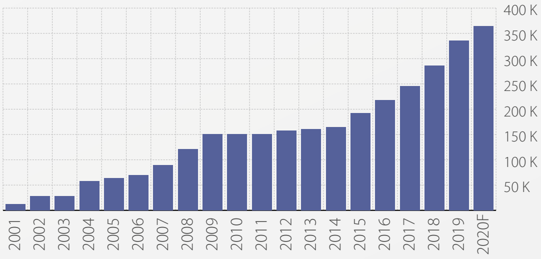
GDP GROWTH, %



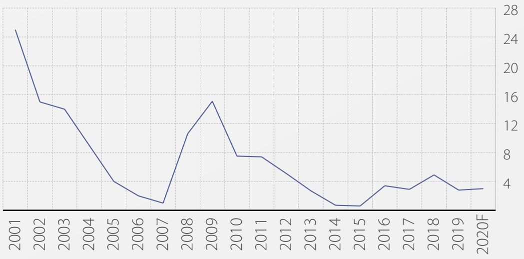
A CLASS OFFICE RENTS, €/SQM



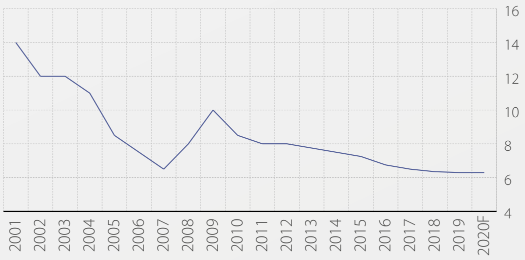
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2019)

TOTAL OFFICE SPACE	784,400 SQM
TOTAL OFFICE VACANCY RATE	3.0 %
VACANT OFFICE SPACE	23,600 SQM
A CLASS OFFICE VACANCY RATE	2.6 %
B CLASS OFFICE VACANCY RATE	3.3 %
TOP OFFICE RENTS (SQM / month)	€17.00
A CLASS OFFICE RENTS (SQM / month)	€14.00 - €16.70
B CLASS OFFICE RENTS (SQM / month)	€9.00 - €13.50
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €4.00

OFFICE TAKE-UP INCREASED BY 34% AND VACANCY RATE DROPPED TO 3%

SUPPLY

Driven by strong demand, the modern office sector continues to grow. In total eight new projects were completed in 2019 bringing 66,100 sqm of office space to the market. After completion of these projects, the total area of usable modern office space (A and B class) grew by 9% to 784,400 sqm at the end of 2019 (see all projects on OHMAP). Currently, Vilnius has 1.40 sqm of usable office space per capita. By floor space, A class constitutes 43% of the total modern office premises in Vilnius, and B class – 57%.

Increasing competition is forcing developers to keep following sustainable development practices and to aim for international certification of the environmental assessment of buildings (BREEAM and LEED schemes). At the end of 2019 there were over 20 completed office projects in Vilnius (36% of the total modern office space stock) either already certified or with a preliminary assessment status with one of the internationally recognised systems. Developers believe that certified sustainable buildings with cost-cutting solutions encourage greater competitiveness among other projects.

Although it was expected that 2019 would see a record number of offices built in the city, the completion of some projects was brought forward to 2020. In view of the progress of current projects under construction it can be concluded that during 2020 the new office space to be introduced to the Vilnius market will be the largest in history accounting for no less than 95,000 sqm.

In order to offer tenants not only a traditional long-term lease model but also other progressive solutions, landlords, serviced office operators and other investors continue to develop flexible and cost-effective work spaces. Since 2015 there has been more than a fivefold increase in stock and non-stock flexible office space in Vilnius, totalling almost 38,000 sqm by the end of 2019. This space covers any type of flexible workplaces ranging from micro coworking spaces to large-scale start-up campus models and traditional serviced offices.

It is worth mentioning a few of the operators, who have been to the forefront in offering flexible office space in the marketplace during 2019. At the start of 2019 Workland (part of BPT Real Estate Group) opened its second 1,200 sqm flexible offices in Vilnius in a historical building on Didzioji Street. Technopolis opened the 2,100 sqm UMA GO9 space on the top floor of the G9 shopping centre on Gedimino Avenue. After completion of the multi-functional project Live Square on Gedimino Avenue, flexible workspace provider Spaces (owned and operated by IWG), opened its first 2,500 sqm space in Lithuania. Another big space was opened at the end of 2019, when one of Europe's coworking networks, Talent Garden, launched a coworking space, Talent Garden Vilnius. A space of over 2,100 sqm was opened in a renovated building in Old Town on Vilniaus Street. BPT Real Estate Group opened a third Workland space in Vilnius in Quadrum business centre at the beginning of 2020.

The share of flexible office space located in modern buildings in total modern office stock in Vilnius has almost tripled in the last three years and at the end of 2019 had reached 1.6% (end of 2018 – 1.5%). In general, dedicated or hot desk rents in Vilnius in flexible workplace schemes vary from €100-€300 per month (depends on space provider, location, building, fit-out and services) up to €250-€500 for a workplace in private office.

DEMAND

The office sector was very active in 2019 – all the office premises completed in the year were fully leased or occupied by their own developers. Further development of services centres, new foreign capital investment companies arriving into the Lithuanian market and good performance indicators by local enterprises continued to bolster activities in the office sector. Although overall absorption indicators in 2019 did not reach the 2017 record, the 2019 outturn was the second best in the entire history of modern office development in Vilnius.

In 2019, 94,400 sqm of office premises were leased in Vilnius business centres, which is 34% more than in 2018 and just 3% less than the record in 2017. The vacancy rate of modern offices in Vilnius decreased from 3.7% to 3.0% in 2019, and total vacant office space decreased from 26,400 sqm to 23,600 sqm. At the end of 2019, the vacancy rate for B class buildings was 3.3%, while the vacancy rate for A class buildings was 2.6%.

Based on preliminary lease agreements concluded in 2019 and further active development of business centres, office take-up should remain at a high level in 2020.

Despite the significant volumes of office space projected and considering the pre-lease contracts concluded for projects under construction, the situation in the office sector is expected to remain fairly balanced in 2020. And while the situation in 2020 looks fairly balanced, it is much more difficult to project any longer-term perspective.

The volumes of construction projects in progress or planned show that developers intend to ensure an abundant supply not only in 2020 but also for the next few years, thus the major unknown in this situation remains the demand factor. An overview of the projects in progress and those still in the design stage and anticipated to be introduced to the market in 2021 and subsequent years shows that most of the projects were started without having any lease contracts with perspective tenants. Thus, if high occupancy rates are to be maintained, continuous rapid development of both local and foreign capital companies, and even decisions in the public sector are required.

RENTS

Despite the continued strong demand for office space and record high occupancy rates, the abundant supply of new premises injected into the capital's market every year has substantially stabilized office rents which have grown only marginally since 2015. The year 2019 was no exception, when the rents for offices increased on average by 1-2%. At the end of 2019 rents for B class offices were €9.0–€13.5 per sqm, and €14.0–€16.7 per sqm for A class offices in Vilnius. Top rents could reach €17.00 per sqm in the more exclusive projects in smaller-sized premises.

Depending on the building, additional costs to tenants (single, double and triple net costs) are from €2.50 to €4.00 per sqm. Newly developed business centres no longer provide free parking spaces for their tenants (this used to be common practice in the market previously) and they now make additional charges for parking places (€30-€100 per space).

It is hard to expect any faster increase in office rents, as despite the growth in construction costs, developers will be forced to make compromises in negotiations with potential tenants if they wish to maintain high office occupancy rates. Ober-Haus expects that office rents in general will remain at the same level during 2020.

INVESTMENT

The commercial property investment market in Lithuania is breaking new records again. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €463 million, reaching an all-time high in 2019. This represents an increase of almost 15% compared to 2018. In 2019, 79% of the total investment was made in the capital, Vilnius (Vilnius's share was 70% back in 2018).

Investment distribution by property type was largely decided by two closed major deals in the Vilnius office sector (S7 I & S7 II and Quadrum) and very stagnant investment in the industrial sector. Hence, the office sector saw the largest investment (71%) in 2019. The retail sector took a 27% share of investment and industrial investment a modest 2%.

As for the geography of investors, German investors were the biggest investors in 2019, with Deka Group being the main contributor (with the acquisition of the Quadrum business centre), and accounted for 35% of investment in Lithuania. Nordic and Baltic investors (Sweden, Denmark, Norway, and Estonia) were active as usual, accounting for 41% of all investment. The final 24% was shared by investors from Lithuania, France, and Russia.

In 2019, investment yield indicators for modern commercial property in Vilnius remained essentially unchanged and ranged from 5.75% to 6.5% for prime offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

Slightly increased yields and rents marginally raised the value of high-class offices in Vilnius in 2019. The capital value index for A class offices over the year increased by just 1.5%. Currently, prime property values are 83% higher than the levels recorded at the market low point in 2010 and are just 8% below all-time highs achieved at the end of 2007–start of 2008.

The impressive results of 2019 are essentially due to the two biggest investment deals ever in the office sector.

At the end of 2019, German Deka Immobilien bought the Quadrum business complex with an above ground area of around 44,000 sqm in Vilnius from Schage Real Estate, the Norwegian real estate development company, for €156 million. The complex, consisting of three buildings, was fully developed in 2019. The complex will be added to the portfolio of the open-ended real estate fund Deka-ImmobilienGlobal.

The second substantial deal was the acquisition of three office buildings, S7 in Vilnius. At the beginning of 2019, it was announced that Eastnine, a Swedish investment company, had agreed to acquire these buildings from their developers Galio Group (former M.M.M. projektai). It is reported that the total value of the deal concerning the three buildings with total above ground area of 42,500 sqm in Saltoniskiu Street is €128.3 million, representing a yield of 5.8%. In 2019, the ownership of the two buildings was transferred to Eastnine, and they now house Danske Bank Global Services Lithuania and Telia Lietuva. Finalisation of the acquisition of the third building (tenant – Danske Bank) is expected at the beginning of 2020.

In Q4 2019 Baltic Horizon Fund closed the acquisition of B class office building North Star in Zirmunai district on Ulonu Street. The 7-storey building with total leasable area of over 10,000 sqm was sold by Prosperus Strategic RE Fund, which acquired the property in early 2014. The purchase price was €20.7 million, which corresponds to an estimated entry yield of approximately 7.3%.

At the start of 2019, Baltic Horizon Fund has closed the acquisition of the second Duetto office building close to the new Western Bypass and Pilaites Avenue in Vilnius. The B class office building, which has a total above ground area of over 8,300 sqm, was acquired from its developer YIT. The purchase price is approximately €18.3 million, which corresponds to an entry yield of approximately 7.1%. The first Duetto building was acquired by Baltic Horizon Fund at the start of 2017.

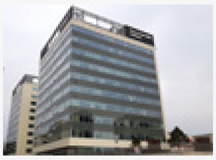
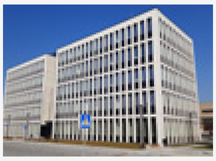
LEGAL NOTES BY SORAINEN

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

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

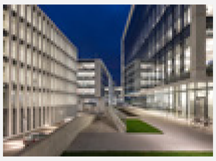
LIVE SQUARE

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**S7 II (TELIA LIETUVA)** – At the start of 2019, the investment company, Galio Group (former M.M.M. projektai), finished development of the second building of the office campus in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. The second 6-storey building with a total above ground area of 15,500 sqm and around 11,000 sqm of usable office space (excluding common areas) has been fully leased to the technological solutions company, Telia Lietuva. The second building, like the first one, achieved a BREEAM New Construction Excellent rating certificate. At the beginning of 2019, Eastnine, a Swedish investment company, had agreed to acquire three S7 buildings from the project developer for around €128 million.	11,000	Q1 2019
	**DUETTO II** – At the start of 2019, the construction and development company YIT Lietuva finished the construction of a second office building in the Virsuliskes district next to the new Western Bypass. The 10-storey A class energy efficiency office building with total above ground area of over 8,300 sqm has 8,000 sqm of usable office space. Office space was leased to the engineering consultancy and design company Sweco Lietuva, Rimi Lietuva, Vilnius municipal heating company. Both identical Duetto buildings were sold to the Baltic Horizon Fund for almost €33 million in 2017 and 2019.	8,000	Q1 2019
	**INHUS HQ** – In Q2 2019, design, manufacturing and construction company INHUS, which belongs to Concretus group, finished the construction of an A+ energy class office building in Paneriai district, on Zariju Street. The 5-storey building with total above ground area of 3,600 sqm is being developed for Inhus group. The total investments were over €5 million.	3,600	Q2 2019
	**LIVE SQUARE** – In Q2 2019, local real estate developer Eika completed the development of a multi-functional project in the very heart of the city, on Gedimino Avenue. The project consists of three residential blocks and a commercial complex. The commercial complex houses an A class business centre with a total area of 6,800 sqm and a 7,000 sqm Hilton Garden Inn hotel. The business centre with around 4,500 sqm of usable office space is fully leased to the law firm Sorainen and flexible workspace provider Spaces (owned and operated by IWG). The retail premises were leased to different retailers: Rimi, Narvesen, Vero Cafe, Benu and others. The office complex received a BREEAM In-Use Excellent rating certificate at the start of 2020.	4,500	Q2 2019
	**PARK TOWN (EAST HILL)** – In Q3 2019, real estate development company Darnu Group completed the development of an A class office project in the Konstitucijos business district, on Lvovo Street. The second building (East Hill), with a total area of 14,800 sqm and 12,000 sqm of usable office space has been leased to Yara International, KPMG Baltics, TIA Technology, MarkMonitor, Wint law firm, restaurants Lunch UP and Sugamour, sports club RE.Formatas and others. The developer is aiming to earn the BREEAM New Construction Excellent rating certificate.	12,000	Q3 2019
	**AVIA SOLUTIONS GROUP HQ** – In Q4 2019, an international aviation holding company, Avia Solutions Group, completed the construction of its business centre in the southern part of the city, on Dariaus ir Gireno Street. The 7-storey building with a total above ground area of around 9,300 sqm has commercial, meeting rooms and leisure premises on the first two floors and almost 6,000 sqm of office space on floors 3-7. An underground car park and a multi-storey car park provide almost 300 parking spaces. Total investment was €14.5 million.	6,000	Q4 2019

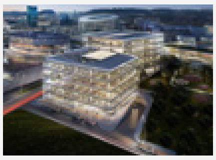
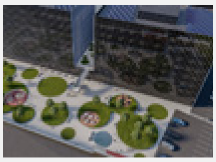
INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+370 5 210 97 00**

RECENT DEVELOPMENTS

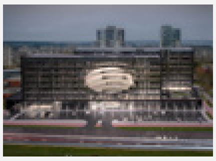
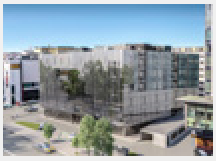
	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**QUADRUM (SOUTH)** – After completion of two office buildings (East & North) on Konstitucijos Avenue in 2016, Norwegian developer Schage Real Estate completed the construction of the third building (South) at the end of 2019. The 9-storey A class office building with 10,500 sqm of office space is already fully leased. The main tenants are World Courier, which provides specialized logistics services globally and flexible office space provider Workland. This biggest A class office project in Vilnius was sold to Deka Immobilien for €156 million at the end of 2019.	10,500	Q4 2019
	**S7 III (DANSKE BANK GSL)** – At the end of 2019, the investment company, Galio Group (former M.M.M. projektai), completed the development of the third building of the office campus in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. This building, with a total above ground area of 14,500 sqm and around 12,000 sqm of usable office space, has been fully leased to Danske Bank Global Service Lithuania. Danske Bank moved its 1,100 employees into the new building in early 2020. After achieving a BREEAM New Construction Excellent rating certificate for the first two buildings, the developer's aim is to repeat this for the current building. At the beginning of 2019, Eastnine, a Swedish investment company, had agreed to acquire three S7 buildings from the project developer for around €128 million.	12,000	Q4 2019

AVIA SOLUTIONS GROUP HQ

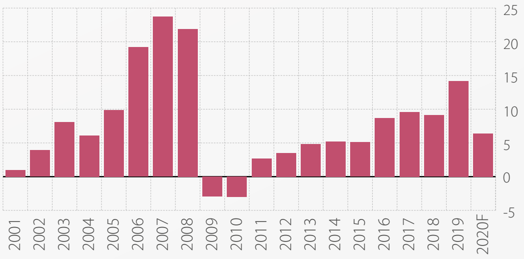
NEW PROJECTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**UPTOWN PARK** – Local development company Vilbra is developing an office building in Naujamiestis district, on Svitrigailos Street. The 5-storey office building with total above ground area of over 12,500 sqm will provide over 10,000 sqm of usable office space. Underground and above ground parking will provide 300 parking spaces. Total investments will reach €20 million. The project should be completed in Q2 2020. The global provider of software solutions, Bentley Systems, will lease 2,700 sqm and have 250 employees in this building. Another undisclosed tenant will occupy 6,600 sqm.	10,000	Q2 2020
	**NOVA** – The Finnish-based international company Technopolis is developing another B class office project in the Technopolis Ozas campus in the territory of Ozo Park. The Technopolis Ozas campus already has five office projects – Alfa, Beta, Gama, Delta and Penta. The new three-block and 5-8-9-storey complex will offer a total above ground area of 26,700 sqm and 20,500 sqm of usable office space should be completed in Q3 2020. The new project is designed and will be certified according to the international LEED green building certification system. Total investments will reach €51 million. SEB bank's service centre will occupy around 47% of the project when it moves 1,100 of its employees there. Asking rents for the remaining office premises start at €14.00 per sqm.	20,500	Q3 2020
	**ZALGIRIO 94** – Inreal Group is developing a B class office project in Snipiskes district, on Zalgirio Street. The office building with total above ground area of 3,300 sqm will provide around 2,700 sqm of usable office space. Small-sized office premises are available in the project, an option which is quite limited in most business centres. An underground and above ground car park will provide up to 80 parking spaces. The project should be completed in Q4 2020. Office space is available at rents from €13.00 per sqm.	2,700	Q4 2020
	**SEB HQ** – The fund managed by Lords LB Asset Management is developing an A class office building with total above ground area of 12,700 sqm next to Konstitucijos Avenue. 10,000 sqm has been leased to SEB bank, which will move its 1,100 employees into the new building in mid-2020. The developer is aiming to earn the BREEAM Outstanding certificate.	10,000	MID-2020
	**LVOVO 37** – The fund managed by Lords LB Asset Management is developing an A class office project in the Konstitucijos business district, on Lvovo Street. An 8-storey office building with total above ground area of over 15,000 sqm will provide around 12,600 sqm of usable office space. An underground car park will provide almost 250 parking spaces. The building should be completed in Q1 2021. The developer is aiming to earn the BREEAM Excellent certificate.	12,600	Q1 2021
	**MERAKI** – The company managed by investment fund Baltic Horizon Fund is developing an B class office project in Pasilaiciai district, next to Ukmerges Street. The 7-storey office building with total above ground area of almost 16,000 sqm will provide around 14,900 sqm of usable office space. The project will provide around 430 car parking spaces for tenants. The building should be completed in Q1 2021. The developer is aiming to earn the BREEAM Very Good certificate. Office space is available at rents from €12.00 per sqm.	14,900	Q1 2021
	**BUSINESS GARDEN VILNIUS** – The international real estate company Vastint is developing a large-scale office project in Lazdynai district, on Laisves Avenue. The project will consist of four office buildings with total above ground area of 60,000 sqm. In the first stage, two office buildings with total above ground area of over 40,000 sqm will be developed, which will provide around 36,000 sqm of usable office space. The first stage should be completed in the first half of 2021. The developer is aiming to earn the LEED Platinum certificate.	36,000 (I stage)	H1 2021 (I stage)

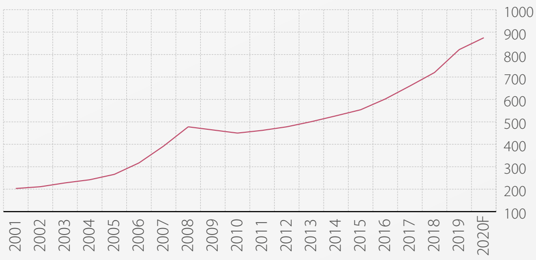
NEW PROJECTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**GREEN HALL 3** – After the successful completion of two office buildings in 2009 and again, in 2017, the development company Urban Inventors completed the third building in Q1 2020. The complete project and the third 4-storey A class office building with around 2,500 sqm of usable office space is located on the right bank of the Neris River in Upes Street. Almost 60% of the space has been leased to Moody's, the American business and financial services company, which has chosen Vilnius as the location for its newest European office. Asking rents for the remaining office premises are €16.50 per sqm.	2,500	Q1 2020
	**U219** – Local developer Seskines projektai, which belongs to construction company PST, is finishing the development of a business centre in Seskines district, on Ukmerges Street. The 7-8-storey office building with total above ground area of over 15,000 sqm (excluding above ground parking) will provide around 12,000 sqm of usable office space. Recreation zones, cafes and retail spaces are also being planned for the business centre. The project is being developed in compliance with BREEAM. The project should be completed in the first half of 2020. Asking office rents start at €12.80 per sqm.	12,000	H1 2020
	**PAUPYS (RIVERSIDE)** – At the end of 2017 real estate development company Darnu Group started a large-scale multi-functional project in Uzupis district. The 5-ha territory of the former Skaiteks factory was acquired by Darnu Group in 2016. The developer plans to establish an exceptional residential and commercial complex. The business complex with total above ground area of over 15,000 sqm will offer almost 12,000 sqm of office space and will be opened in the first half of 2020. The biggest tenants will be Ernst & Young Baltic and MV Group, which will move over 300 and 100 employees respectively into this business complex. Asking rents for the remaining office premises are €15.50 per sqm.	12,000	H1 2020
	**WAVE** – The investment company Galio Group (former M.M.M. projektai), is developing an office building in Naujamiestis district, on Savanoriu Avenue. The building with total above ground area of 9,700 sqm will offer some retail space on the ground floor and around 8,100 sqm of usable office space on the rest of the floors. The project should be completed in Q3 2020. Total investments will reach €18 million. The retail chain owner Maxima Grupe will occupy some space. Asking rents for the remaining offices are €13.50-€14.00 per sqm.	8,100	Q3 2020
	**BOKSTO SKVERAS** – Commercial real estate development and management company Baltisches Haus is finishing the development of a multifunctional complex in the heart of the Old Town, on Boksto Street. The complex with total above ground area of around 6,000 sqm will offer almost 2,900 sqm of office space. The remaining space is designed for a 1,500 sqm SPA centre, a restaurant, chapel with 150 seats for different events and apartments for rent. An underground car park will provide around 90 parking spaces. The first stage of the complex was completed in Q3 2019 and the final stage is scheduled to be completed in the second half of 2020.	2,900	H2 2020
	**BUSINESS STADIUM NORTH** – Following completion of the first office building in the abandoned territory of Zalgiris stadium at the end of 2018, local developer Hanner is developing a second A class business centre in the central part of the city on Rinktines and Seimyniskiu Street. The 8-storey building with a total area of around 16,000 sqm and around 14,000 sqm of usable office space should be completed in mid-2020. The first floor is designed for an attractive array of shops, restaurants and other services. Total investments will reach €25 million. Office space is available at rents from €15.00 per sqm.	14,000	MID-2020
	**S7 IV (DANSKE BANK GSL)** – The investment company, Galio Group (former M.M.M. projektai), is continuing its development of an A class office campus in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. The last and fourth building in this office campus, with almost 13,000 sqm of office space, has been fully leased to Danske Bank Global Service Lithuania. The building should be completed in mid-2021.	13,000	MID-2021

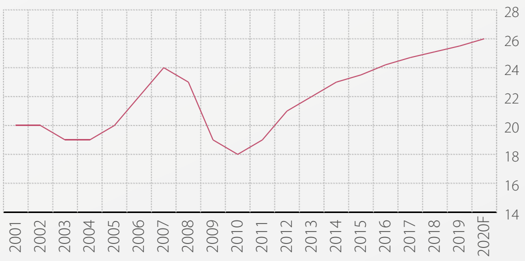
AVERAGE SALARY GROWTH, %



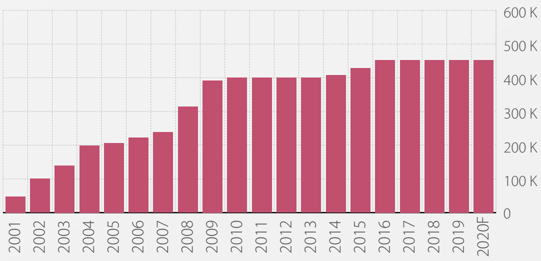
AVERAGE NET SALARY PER MONTH, €



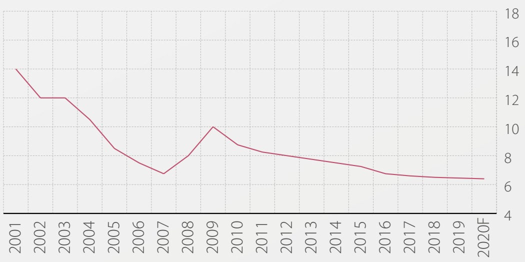
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



VILNIUS SNAPSHOT (END-2019)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	453,000 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	0.81 SQM
SHOPPING CENTRE VACANCY RATE	<1.0 %
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €14.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€15.00 - €40.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€50.00 - €75.00
HIGH STREETS RENTS (SQM / month)	€16.00 - €46.00

INVESTMENTS IN UPGRADING EXISTING SCHEMES, LARGER PROJECTS TO COME

SUPPLY

The development of traditional larger shopping centres both across the country and in Vilnius in recent years has been very slow. Greater developments in this segment are expected only in the country's capital, where the population growth is the fastest. Hardly any major changes in this segment can be anticipated in the rest of the country due to the demographic situation.

The total retail space in larger traditional shopping centres in Lithuania at the end of 2019 amounted to just over 1.1 million sqm or 0.40 sqm of shopping area per capita. Altogether 40% of the shopping space of traditional shopping centres are based in Vilnius. The retail space in such shopping centres in the past five years has increased by over 9% in Lithuania but the population of the country in the same period shrank by over 4%. Statistically, the retail space per capita indicator has increased by over 14% in the past five years.

In 2019, no large traditional shopping centres were opened in Vilnius (excluding expansion of existing ones); the capital has not seen any new such projects since mid-2016. At the end of 2019 there were 25 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable retail area of 453,000 sqm. As the population in Vilnius city in 2019 increased by 1.8%, shopping area per capita decreased slightly to 0.81 sqm.

The owners of traditional shopping centres and other retail schemes continue to steer investments towards the upgrade of already operational retail properties or even change the concept with the new tenant structure.

In Q3 2019, G9 shopping centre located in the very centre of the city, Gedimino Avenue, and managed by a local investment funds manager Lords LB Asset Management, was opened after reconstruction. During the reconstruction the previous food store operator was replaced by a branch of Lidl, a new food hall and sport club were opened. In addition, the Finnish real estate investment and management company, Technopolis, opened a 2,100 sqm flexible workspace – UMA GO9 – on the top floor of the shopping centre. The total investment in the reconstruction of the shopping centre was around €5 million.

In 2019, the Akropolis Group, which manages the largest shopping centre in Vilnius, invested €14 million in upgrading the Akropolis shopping centre. About half of the total area of the shopping centre was renovated or expanded by the existing tenants and new brands were attracted.

Following the departure of the Prisma retail chain from the market in 2017, its 10,000 sqm building in Virsuliskes was sold in 2018. In 2019, new investors opened a leisure and entertainment centre – MoonPlay. The largest such type entertainment centre in the Baltic States features a skate park, a trampoline park, a tennis academy, virtual reality and gaming machine spaces, a dance studio, a cocktail bar, a restaurant, etc.

In 2019, a building on Ukmerges Street which had previously been used as a furniture shop Berry was reconstructed to offer a new commercial concept. Today this three-storey building is shared by Lidl, Pepco and sports club Gym+.

The country has also seen a further expansion of supermarkets. The German supermarket chain, Lidl, has continued to expand in Lithuania in 2019. During the year, the retail chain opened another five stores in Lithuania and has ended the year with 47 stores in total (16 stores in Vilnius and 31 stores in other Lithuanian cities).

In 2020, no change in supply in the traditional shopping centres segment is expected. Currently one new large-scale project is under construction in Pilaites district, with completion expected in Q1 2021. Vilnius Outlet shopping centre with a total area of 60,000 sqm is being developed by the Ogmios group; this will be the largest outlet zone in Lithuania and will also offer other retail and entertainment space totalling around 35,000 sqm.

A large-scale project is planned by Akropolis Group. A second Akropolis shopping, entertainment and business centre in the capital will be developed next to Vingis Park; construction is scheduled to start in the second half of 2020. The complex with a total area of 120,000 sqm, will offer around 90,000 sqm of leasable area for shopping, services and cultural activities and over 30,000 sqm is planned for an office complex. The multifunctional complex will include a 2,500-seat concert hall and a space for various events. There will be space for 5,000 cars in the multi-storey car park. Completion is expected in 2023 and in terms of leasable area it could be the largest shopping and entertainment centre not only in Lithuania, but also in the Baltics.

DEMAND

In 2019 retail turnover in Lithuania grew by 5.4%, after growing by 6.5% in 2018. This continuous growth, year after year, has a positive effect on the real estate market and interest in retail premises in Vilnius continues to remain high. Growing sales volumes encourage retailers to look actively for new retail premises both in shopping centres and on high streets. Even so, finding any vacant premises in popular shopping centres remains a considerable challenge. Shopping centres in Vilnius are fully leased and a small vacancy rate is found only in a few of the less successful shopping centres. The vacancy rate of shopping centres in Vilnius has remained below 1% since 2013.

The rapidly increasing sales volumes of internet retailing signals a potentially significant change in the retail premises sector. To respond to the growing share of e-commerce, there have been more discussions lately about combining different sales channels, where the customer could be located or retained using both traditional physical and electronic commercial channels. According to official statistics, in 2019 retail sales via post and internet in Lithuania had a total turnover of €536 million, which is a 20% increase compared to 2018. Since 2010 such retailing increased almost 12 times in Lithuania.

The main shopping streets (Gedimino Avenue, Pilies Street, Didzioji Street, Vokieciu Street) have also been enjoying almost full occupancy for the last 5-6 years. Currently, there is a very limited choice of vacant retail premises in Vilnius high streets and retailers that close are replaced by new ones very quickly. Furthermore, small businesses keep expanding in the other zones of the Old Town or central part of the city. It is often the case that small shops or cafes are opening in locations which are far from heavy passing foot traffic.

The overall assessment of the situation of the past 5-6 years in the shopping streets in Vilnius shows that the situation has essentially changed. Retail outlets selling clothing and other products have been replaced with gourmet shops, cafes, pubs and other leisure activities so that popular streets have become places of leisure rather than for trade. In addition, food halls have become more widespread in the city not only in shopping centres, but also on separate premises. For example, in 2019 an over 1,000 sqm food hall – Gastronomas Food Hall – was opened on Gedimino Avenue where around 15 retailers offers different types of catering for food lovers.

RENTS

The continuing increase in the turnover of tenants in the most popular shopping centres in Vilnius continues to create conditions conducive to a further increase in rental income. For example, tenant turnover in the biggest shopping centre, Akropolis in Vilnius, decreased by 6.6% in 2019 (compared with 2018), but this was due to major reconstruction works, which were finished at the end of 2019. The second biggest shopping centre, Ozas, had a 24% increase in tenant turnover in the first half of 2019 (compared with the same period of 2018) and the third biggest shopping centre, Panorama, announced 9.5% increase in tenant turnover in 2019 compared with 2018.

In 2019, rents increased by a further 2–4% in most Vilnius shopping centres. Since the overall occupancy rates of shopping centres is almost 100%, new tenants have had to get used to higher rents than in the past, with the exception of those tenants who can bring a higher added value than the previous tenant (e.g. a new international brand in the country/city or a tenant with unique products/services). The negotiating position of such tenants is much stronger both in terms of rents and other conditions.

In the meantime, it is much more difficult for the managers of less attractive shopping centres (shopping centres with a poor image or in less attractive locations) to find and negotiate with tenants. In order to retain or improve the tenant structure, better conditions must be offered both to existing and new tenants in order to be competitive.

Rents for medium-sized (150–300 sqm) units in major shopping centres run from €15.00 to €40.00 per sqm and up to €50.00–€75.00 for small-sized units. Rents for anchor tenants are €9.00–€14.00 per sqm.

As was expected, rents in Vilnius high streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) remained stable in 2019. At the end of 2019, rents for medium-sized retail premises (100–300 sqm) in such streets were €16.00–€46.00 per sqm. Since the end of the last economic downturn, rents for retail premises in such locations increased by an impressive 70% and are only 10% lower than the previous peak in 2007. In recent years, the number of tenants with the same profile in the main retail streets have notably increased and have reached full capacity limits in terms of payable rent levels. Ober-Haus believes that retail rents in high streets will also remain stable in 2020.

INVESTMENT

The commercial property investment market in Lithuania is breaking new records again. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €463 million, reaching an all-time high in 2019. This represents an increase of almost 15% compared to 2018. In 2019, 79% of the total investment was made in the capital, Vilnius (Vilnius's share was 70% back in 2018).

Investment distribution by property type was largely decided by two closed major deals in the Vilnius office sector (S7 I & S7 II and Quadrum) and very stagnant investment in the industrial sector. Hence, the office sector saw the largest investment (71%) in 2019. The retail sector took a 27% share of investment and industrial investment a modest 2%.

As for the geography of investors, German investors were the biggest investors in 2019, with Deka Group being the main contributor (with the acquisition of the Quadrum business centre), and accounted for 35% of investment in Lithuania. Nordic and Baltic investors (Sweden, Denmark, Norway, and Estonia) were active as usual, accounting for 41% of all investment. The final 24% was shared by investors from Lithuania, France, and Russia.

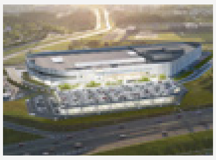
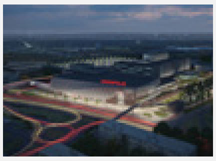
In 2019, investment yield indicators for modern commercial property in Vilnius remained essentially unchanged and ranged from 5.75% to 6.5% for prime offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

In the second half of 2019, the fund operated by French asset management company Corum Asset Management acquired two retail schemes in Vilnius and Kaunas from Latvian DIY store chain DEPO. These two DIY shopping centres, of almost equal size, (almost 22,000 sqm each) were developed in 2018-2019 and sold with sale-leaseback option. Details of the transactions have not been disclosed.

A sizable investment deal involving retail and office properties was concluded in the second largest Lithuanian city, Kaunas. In Q3 2019, one of the funds of EfTEN Capital, the Estonian commercial real estate fund manager, purchased the River Mall shopping centre and River Hall business centre from SIRIN Development, a real estate development company. The total area of the two buildings located on Jonavos Street is approximately 20,000 sqm and although details of the deal have not been disclosed, it is expected that the total value of the deal was more than €30 million.

As far as smaller deals are concerned, the smaller-sized retail property segment was prominent in 2019 in various Lithuanian cities. Buildings of between 2,000 sqm and 4,000 sqm were popular among investors, where supermarket chains are already operating. One of the most active buyers in 2019 was Baltic Sea Properties, the Norwegian real estate company, which now manages about 40 retail and other commercial properties in Lithuania.

NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**VILNIUS OUTLET** – Ogmios group is developing a shopping centre in Pilaites district, on V. Pociuno Street next to the new Western Bypass. The 4-storey building with a total area of 60,000 sqm will host above ground parking on the first two floors. Shops and entertainment will be on the first, third and fourth floors and will offer around 35,000 sqm of retail space in total. The third floor is planned for the outlet zone with around 17,000 sqm and will thus become the biggest outlet store in Lithuania. The fourth floor is planned for entertainment with a cinema, trampoline centre, sport club, restaurants, leisure zones and etc. Total investments could reach up to €75 million. Construction works are expected to be completed in Q1 2021.	35,000	Q1 2021
	**VILNIUS AKROPOLIS VINGIS** – A second Akropolis shopping, entertainment and business centre in the capital will be developed next to Vingis Park; construction is scheduled to start in the second half of 2020. The complex with a total area of 120,000 sqm, will offer around 90,000 sqm of leasable area for shopping, services and cultural activities and over 30,000 sqm is planned for an office complex. The multifunctional complex will include a 2,500-seat concert hall and a space for various events. There will be space for 5,000 cars in the multi-storey car park. Completion is expected in 2023 and in terms of leasable area it could be the largest shopping and entertainment centre not only in Lithuania, but also in the Baltics.	90,000	2023

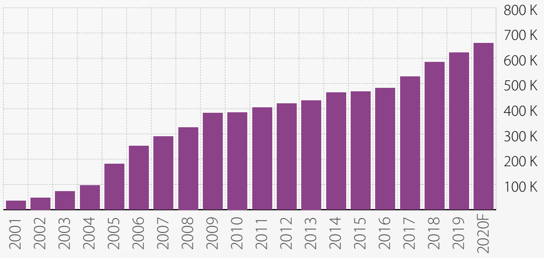
LEGAL NOTES BY SORAINEN

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

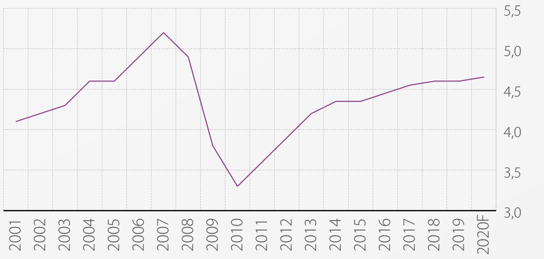
Lease agreements may be invoked against third parties only if registered with the Real Estate Register.

VILNIUS AKROPOLIS VINGIS

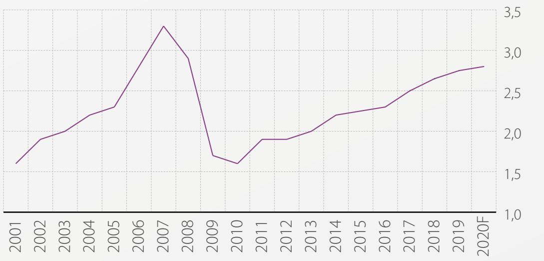
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



VILNIUS SNAPSHOT (END-2019)

TOTAL NEW WAREHOUSE SPACE	622,500 SQM
WAREHOUSE VACANCY RATE	4.1 %
ANNUAL WAREHOUSE RENTS CHANGE	0 - 4 %
NEW WAREHOUSE RENTS (SQM / month)	€3.90 - €5.30
OLD WAREHOUSE RENTS (SQM / month)	€1.90 - €3.60
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

STABLE RENTS AND INCREASING CONSTRUCTION COSTS DISCOURAGE DEVELOPERS

SUPPLY

After intensive expansion of the warehousing sector in 2017-2018, development in the sector was relatively moderate in 2019. The year was not marked by an abundance of new projects, but at least it was characterized by the development of one of the largest warehousing buildings in the Vilnius region by one of the leading industrial property developers.

Three new projects with a total warehousing area of 37,200 sqm were completed in Vilnius and its surroundings in 2019. These new projects were undertaken by SIRIN Development, Baltic Sea Properties and Elmoris. Recent projects increased the total leasable area of modern warehousing premises by over 6% to 622,500 sqm.

At the end of 2019, 82% of modern warehouse supply was located within city limits. Most of the new warehouses are located in the southwestern industrial zones of Vilnius (Kirtimai, Vilkpede, Aukstieji Paneriai and Zemieji Paneriai), as well as near the strategic highways: Vilnius–Kaunas and Vilnius–Minsk.

Warehouses with an area exceeding 10,000 sqm currently make up 56% of the current supply. Warehouses with an area from 5,000 to 10,000 sqm make up 26% of the supply, and the remaining 18% are warehouses of less than 5,000 sqm.

Unlike the other Baltic countries, Lithuania's warehousing sector is concentrated in three cities rather than in just one city (incl. its surroundings). The shares in the three cities are follows: Vilnius (50%), Kaunas (32%) and Klaipeda (18%).

At least four new industrial projects with a total warehousing area of over 47,000 sqm are planned for completion in Vilnius and its surroundings in 2020. The potential for expansion is much higher but the number of projects which are ready to begin construction are still awaiting potential tenants. In many cases this is crucial in order to ensure both financing of the project and for taking a strategic investment decision.

DEMAND

Transport-related, warehousing and storage activities reached record highs in Lithuania in 2019. According to Statistics Lithuania, in 2019, revenues of transport-related and warehousing services amounted to almost €4.7 billion (excluding VAT) or 10% more compared to 2018. In 2019 revenues only of warehousing and storage companies amounted to €191 million (excluding VAT) or 12% more compared to 2018.

As newly completed projects have attracted considerable interest from tenants and one project have been implemented for own use, the overall vacancy rate remained quite stable. The vacancy rate of modern warehouses in Vilnius region during 2019 increased from 3.9% to 4.1%.

On the one hand, the high occupancy rate shows that interest in modern warehousing space remains strong, however, project financing and specific requirements of tenants have not encouraged rapid development in the warehousing sector, especially when speaking about speculative projects. Stable rents and increasing construction costs also discourage many investors.

RENTS

After a slight increase in 2018, rents for new warehouses and industrial premises remained stable during 2019. Rents for older premises increased by 3-4% in 2019. At the end of 2019, rents for new modern warehouses closer to the central part of the city ranged from €4.70 to €5.30 per sqm, depending on size. Near or outside the city limits, rents range from €3.90 to €4.50 per sqm. Renovated premises are being offered at prices from €2.60 to €3.60 per sqm. Average and lower quality premises are offered from €1.90 to €2.30 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

In general, the Vilnius warehousing market looks very balanced at the moment, but increasing costs of construction, however, do not match the slow increase in rents; therefore, developers are continuing to be quite conservative in their investments. It should also be remembered that Vilnius region is in competition with Kaunas region (with its strategic location), which offers new projects for the market every year (both, build-to-suit and speculative projects).

The growing economy of the country, increasing consumption and strong results from the transport sector will continue to support a balanced development of the warehousing premises sector. Ober-Haus forecasts that rents of new and old construction premises will increase in the range of 1-3% in 2020.

INVESTMENT

The commercial property investment market in Lithuania is breaking new records again. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €463 million, reaching an all-time high in 2019. This represents an increase of almost 15% compared to 2018. In 2019, 79% of the total investment was made in the capital, Vilnius (Vilnius's share was 70% back in 2018).

Investment distribution by property type was largely decided by two closed major deals in the Vilnius office sector (S7 I & S7 II and Quadrum) and very stagnant investment in the industrial sector. Hence, the office sector saw the largest investment (71%) in 2019. The retail sector took a 27% share of investment and industrial investment a modest 2%.

As for the geography of investors, German investors were the biggest investors in 2019, with Deka Group being the main contributor (with the acquisition of the Quadrum business centre), and accounted for 35% of investment in Lithuania. Nordic and Baltic investors (Sweden, Denmark, Norway, and Estonia) were active as usual, accounting for 41% of all investment. The final 24% was shared by investors from Lithuania, France, and Russia.

In 2019, investment yield indicators for modern commercial property in Vilnius remained essentially unchanged and ranged from 5.75% to 6.5% for prime offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

In 2019, the biggest deal in the industrial sector was concluded in Vilnius. An industrial/warehousing building of almost 11,400 sqm in the industrial area of Vilnius on V. A. Graiciuno Street was sold for €6.5 million.

*LEGAL NOTES BY **SORAINEN***

Over the past few years, lease agreements of industrial real estate have become of better quality than used to be the case. Rents are usually indexed on the basis of local or European Union inflation (HICP) rates. Triple net leases are not universally used.

OBER HAUS

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**RHENUS** – At the end of 2019, Baltic Sea Properties, a Norwegian real estate company, completed the expansion of an existing warehouse in the vicinity of Vilnius next to the Vilnius–Druskininkai highway. The existing warehouse was expanded by 4,800 sqm and leased to the same tenant – logistics company Rhenus Logistics, which occupies all of the 18,200 sqm project.	+4,800 (expansion)	Q4 2019 (expansion)
	**ELMORIS** – In the second half of 2019, lug cap manufacturer, Elmoris, completed the construction of a new industrial facility next to Savanoriu Avenue. The total size of the project is almost 26,000 sqm and investment into construction was around €20 million. The project consists of two buildings, one of which is for production storage and covers almost 6,100 sqm.	6,100	H2 2019
	**LIEPKALNIS INDUSTRIAL PARK III** – After the completion of the first and second stages in 2017-2018, commercial property developer Sirin Development completed the development of the third stage of an industrial park in the southern part of Vilnius on Liepkalnio Street in Q4 2019. The third stage, with 26,300 sqm of warehousing and 3,500 sqm of office space, is one of the largest warehousing buildings in Vilnius region. The developer plans to develop the fourth stage with total area of over 26,000 sqm in the same location.	26,300	Q4 2019

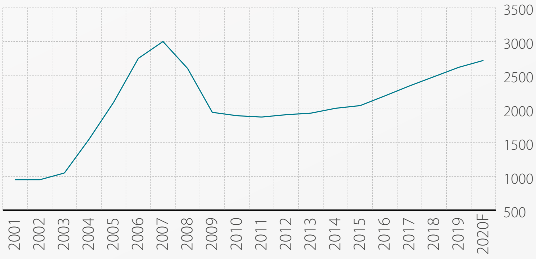
BALTIC SEA PROPERTIES (ORIBALT)

NEW PROJECTS

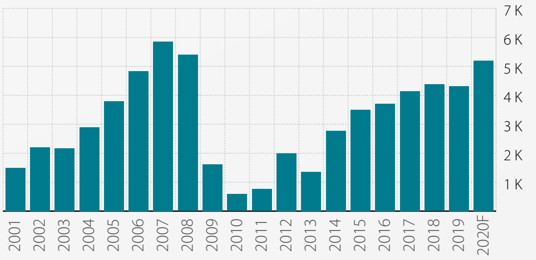
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**TRANSEKSPEDICIJA III** – After completion of two warehousing buildings close to the northern border of Vilnius city in 2012 and 2014, local transport-forwarding company Transekspedicija is developing a third stage in the same location next to Ukmerges Highway. The first warehouse with 19,800 sqm warehouse premises and 5,200 sqm office premises will be completed in Q2 2020. Asking warehouse rents start at €4.50 per sqm. The second building, with a total area of 9,400 sqm, will not be completed until 2021 at the earliest.	19,800 (I building)	Q2 2020 (I building)
	**LITHUANIA POST** – The construction of the new logistic centre for Lithuania post is under construction in the industrial zone in the southern part of the city. It is planned that construction of the more than 14,000 sqm centralised sorting facility, will be completed in Q2 2020, with the opening date scheduled for Q4 2020. Around 13,300 sqm is planned for warehousing space and the rest for offices. The construction works are estimated to cost almost €8.4 million and total investment in the project will reach €21 million.	13,300	Q2 2020
	**ORIBALT** – The Norwegian real estate company Baltic Sea Properties is developing a build-to-suit project with a 15-year lease contract for the pharmaceutical logistics company Oribalt. The project, with around 5,900 sqm of warehousing and 900 sqm of office space is close to Vilnius city, next to the Vilnius–Kaunas highway. Construction works should be completed in Q3 2020 with a total investment of €5.8 million. Also, next to the ongoing project is the possibility to build a 22,000 sqm sized warehouse.	5,900	Q3 2020
	**DELAMODE** – The Norwegian real estate company Baltic Sea Properties is developing a cross-dock build-to-suit warehouse for logistics company Delamode Baltics. The logistic centre with a total area of 8,300 sqm and 50 ramps is close to Vilnius city, next to the Vilnius–Kaunas highway. The project should be completed in Q3 2020.	8,300	Q3 2020

BALTIC SEA PROPERTIES (POTENTIAL DEVELOPMENT)

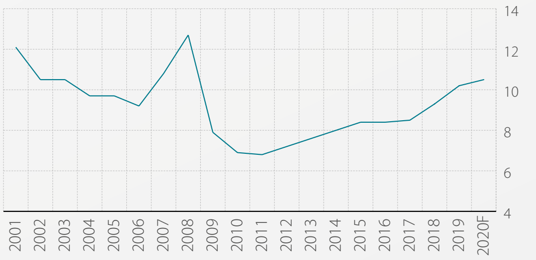
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



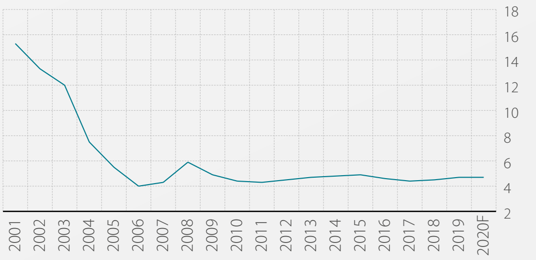
COMPLETED UNITS



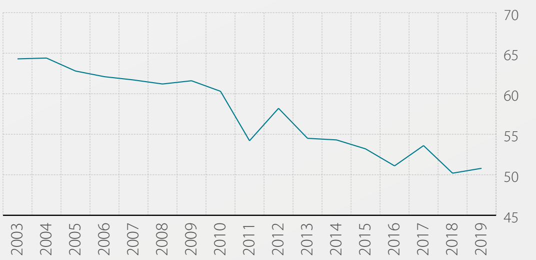
RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



NEW APARTMENT FLOOR AREA, SQM



VILNIUS SNAPSHOT (END-2019)

ANNUAL APARTMENT PRICE CHANGE	+ 6.9 %
NEW APARTMENTS BUILT	4,322
AVERAGE NEW APARTMENT FLOOR AREA	50.8 SQM
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (SQM/without final fit-out)	€1,150 - €1,750
NEW APARTMENT PRICES IN PRESTIGIOUS DISTRICTS (SQM/without final fit-out)	€1,850 - €4,000
NEW APARTMENT PRICES IN CITY CENTRE AND OLD TOWN (SQM/without final fit-out)	€2,100 - €4,500
FINAL APARTMENT FIT-OUT	€250 - €400
RESIDENTIAL INVESTMENT YIELD (city centre)	4.7 %

APARTMENT PRICES INCREASED AT A RECORD PACE

PRICES

The year 2019 saw one of the most active periods in the Lithuanian housing market in the history of independent Lithuania. Within a year, apartment prices in five major cities of Lithuania (Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys) prices increased on average by 7.2%; this is the largest annual price increase since 2007. Depending on the city, apartment prices increased from 6% to 13% in 2019.

Apartment prices in Vilnius increased by 6.9% in 2019, after an increase of 3.0% in 2018, according to the Ober-Haus Lithuanian apartment price index. At the same time, this is the largest annual increase (December compared to December last year) in apartment prices since 2007. The average price at the end of 2019 rose to €1,616 per sqm. From the lowest price level in May 2010 up to December 2019, apartment prices increased by 40.0% (by €462 per sqm). In 2019 prices for new construction apartments increased by 6.8% and for older apartments they increased by 6.9%.

The main reasons for residential market activity in Vilnius and continuing price growth remain the same as in previous years: increasing population (according to official data, the population in Vilnius city in 2019 increased by 1.8% or by 9,900 residents) and its fast-growing income, low mortgage interest rates and continuing positive expectations for the economy and housing price development in the near future.

Prices for new construction apartments in residential districts at the end of 2019 ranged from €1,150 to €1,750 per sqm without final fit-out. In Lithuania, new apartments are still generally sold as shells, i. e. without any fit-out at all. Apartments sold in a shell state require an average of €250–€400 per sqm to fit out with floors, painting, lights, bathrooms and kitchen (economy and middle class).

By the end of 2019, a standard two-room apartments (45–50 sqm) in a Soviet-era concrete block building located in a residential district cost from €54,000 to €68,000. Prices of apartments in old brick buildings are 10–20% higher. The lowest price for old construction, unrenovated apartments in typical Vilnius residential districts is €950-€1,000 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €1,400 to €2,400 per sqm for unrenovated and from €1,700 to €4,300 per sqm for renovated apartments. New construction apartments are now offered for €2,100 to €4,300 per sqm without final fit-out. Prices of new apartments in exceptional projects without final fit-out can reach €4,500–€5,000 per sqm.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas), old apartment prices range from €1,200 to €3,200 per sqm. Prices of newly built apartments range from €1,850 to €3,600 per sqm without final fit-out. Prices of new apartments in exceptional projects can reach up to €4,000-€4,500 per sqm.

Unlike in the apartment segment, the prices in the private house segment in Vilnius and its environs remained essentially unchanged and stable. The main reason for this was the huge number of private houses built for sale in recent years and a broad choice of plots of land for individual construction. Therefore, people who need larger residential spaces can choose between houses built for sale or purchase plots of land and build their own homes. There is a broad choice of parcels of land of various sizes in the suburbs of Vilnius where developers offer partial or complete engineering infrastructure (roads, water, electricity, gas, lighting, etc.) and then sell divided smaller plots for private development.

Detached houses (150–200 sqm with land plots of 600–1,000 sqm) located in new housing areas with full infrastructure in Vilnius district or near city limits (typically 10–20 km from the city centre) are sold as shell at prices ranging from €115,000 to €165,000. Prices for semi-detached houses (100–125 sqm with land plots of 250–400 sqm) range from €100,000 to €125,000. Full final fit-out generally costs €200–€300 per sqm or more.

The price for a fully finished 150–200 sqm detached house within the city limits (city residential districts) ranges between €170,000 and €390,000, and from €250,000 to €600,000 in the city's more prestigious neighbourhoods where a considerable share of the house price is represented by the high price of land in these districts. Prices for houses with a large area and in the most prestigious locations of the city can be as high as €1,000,000–€2,000,000.

Population surveys predict that in the most densely populated regions of the country, housing prices will continue on an upward path in the nearest future. A survey commissioned by SEB Bank at the end of 2019 showed that 56% of the respondents (compared to 69% in 2016, 64% in 2017 and 65% in 2018) thought that housing prices would increase in the Vilnius region and only 9% of respondents thought that housing prices would decline in 2020.

The outlook for 2020 gives reasons for being optimistic. In 2020, we can expect overall high activity in the housing market and an increase in sales prices, although the price growth rate is likely to be slower due to projected slowdown in the growth of the country's main economic indicators. If the country is not shaken by any negative external factors and the economy develops as projected, Ober-Haus believes that in 2020, residential prices in Vilnius will increase by around 4–5%.

SUPPLY

According to Ober-Haus data, 4,322 apartments (in 57 different projects) were built in Vilnius in 2019, which is 1% less than the number of apartments constructed in 2018. The number of apartments built in 2018 and 2019 in Vilnius is the highest since 2008 when 5,396 apartments were completed.

Although construction volumes did not reach those achieved in the 2006–2008 period, 2019 was exceptional in terms of the choice available to apartment buyers in Vilnius. In the 2003–2017 period, each year, buyers had a choice of under 50 apartment building projects, in 2019 they had a choice of 57 different projects completed in that year.

The abundant number of projects and apartments creates good conditions for balanced development in the housing market. Purchasers continue to have a particularly wide choice in completed and ongoing housing projects in almost all zones of Vilnius city. In 2019, developers built new apartment buildings in 13 out of 21 neighbourhoods of the city of Vilnius. Traditionally, the most popular and most rapidly expanding neighbourhoods were most attractive to developers and 55% of all apartments were built in just four urban neighbourhoods: Pasilaiciai (16.7%), Naujamiestis (15.6%), Pilaite (11.6%) and Snipiskes (11.2%).

Looking at apartment projects constructed in Vilnius during 2019, most of the supply is middle class apartments that sell at €1,600-€2,200 per sqm without fit-out and account for 40%

of total completed apartments. The supply of economy class apartments – the selling price of which (without fit-out) is up to €1,600 – accounts for 35% of total supply.

The supply of higher-class apartments showed a noticeable increase over the recent years in the capital city. Developers have become more daring in building higher-class apartments costing in excess of €2,200 per sqm (without fit-out). Traditionally, these projects are developed in the centre of the city, the Old Town or in prestigious areas. In 2013–2015 upper class apartments accounted for 6–8% of the total number of newly built apartments, while in 2016 their share increased to 13%, in 2017 – 18%, in 2018 – 19% and in 2019 this figure was 25%.

Over the past three years, many quantitative and qualitative changes have been taking place in the Lithuanian construction sector and the real estate market. Ober-Haus data shows that in 2015 apartments in A and A+ energy efficiency class multi-apartment buildings accounted for only slightly more than 9% of the apartments built in that year in Vilnius. The share of such apartments in 2016 was almost 11% and in 2017 it increased to 25%. In 2018, apartments in B class energy efficiency multi-apartment buildings dominated (55%), but a rapid growth in the number of apartments in higher energy efficient buildings was also observed. In 2018, the share of apartments in A and A+ class multi-apartment buildings accounted for almost 44% (A class – 39% and A+ class – 5%). According to preliminary data of Ober-Haus, apartments built in A, A+ and A++ class energy efficiency buildings in Vilnius in 2019 accounted for around 75%.

Looking at the development of multi-apartment buildings in the city of Vilnius over the past five years, it is evident that the city continues to be urbanised in the north-western direction, but the focus is on making the centre of the city and adjacent areas more densely built up. According to Ober-Haus, this was the highest relative floor area of apartments per one square kilometre in 2015–2019 by neighbourhoods: Pilaite (8,456 sqm/sqkm), Zirmunai (11,437 sqm/sqkm), Pasilaiciai (14,342 sqm/sqkm), Zverynas (15,900 sqm/sqkm), Old Town (18,562 sqm/sqkm), Naujamiestis (24,511 sqm/sqkm) and the obvious leader Snipiskes (36,063 sqm/sqkm).

The average floor area of newly built apartments increased by 0.5 sqm and reached 50.8 sqm in 2019. A rapid decrease in the average floor area of apartments in Vilnius has been recorded since the last economic downturn, when developers began to design and build increasingly smaller apartments and increase the number of apartments in a building. There has been an increase in apartments with fewer rooms, but with a more rational layout (by eliminating/reducing inefficient spaces or spaces which are seldom used) and rooms with a smaller floor area. This is an economical approach, because developers want to offer a product to the market at a lower final price. From 2003–2009, the average floor area of newly constructed apartments was reduced by around 12 sqm, i. e. by almost 20%.

Developers in Vilnius do not envisage reducing the scale of construction in the short term and will certainly aim to satisfy market needs for the near future. According to Ober-Haus data, around 5,200 new apartments should be built in Vilnius in 2020. In addition, a leading residential developer in northern Europe, Bonava, has entered the Lithuanian property market and will start to develop its first residential project in Vilnius in 2020.

Increasing incomes and a growing desire by those who can afford it for a larger living area (in the light of the decreasing size of new apartments) have pushed developers to increase their investment in the development of houses in the last 2-3 years.

The supply of new detached and semi-detached houses hit a new record in Vilnius region in 2019. According to Ober-Haus data, almost 820 detached and semi-detached houses were built by developers (in projects with over 5–6 units) in and around Vilnius in 2019, which is a 4% increase compared to 2018 and a 39% increase compared to 2017.

Current trends in housing project developments are dominated by row houses, i. e. attached houses with relatively small areas. While a typical project in the last decade consisted of detached houses and semi-detached houses connected by means of garages, today developers normally offer attached row houses, which normally do not have indoor parking facilities. Parking spaces are normally provided outside. The total area of houses is decreasing not only because of the lack of garages but also in terms of living area; it is now normal to design houses with a living area of approximately 80–120 sqm. Some row house projects offer even smaller-sized units.

While in the 2000–2010 period the average total area of houses built in Vilnius region was 172 sqm, in 2011–2017 the average area dropped to 122 sqm and reached an all-time low of 99 sqm in 2019.

DEMAND

After a record 2018, the year 2019 will be marked as the most active year in the housing market. The year saw record activities in the residential sector, which exceeded the previous record of overall number of housing transactions (apartments and houses), set in 2018, by almost 9%.

In 2019 Vilnius saw an 8% increase in apartment sales and an almost 15% increase in house sales. In 2018, on average 1,000 apartment sales and over 80 house sales were made each month in Vilnius. According to official statistics, transaction volume in the Vilnius city residential property market reached €1.1 billion in 2019 and increased by 15% compared to 2018.

Record purchasing activity was also recorded in the primary apartment market. According to Ober-Haus data, over 5,700 apartments in newly built buildings or buildings under construction were purchased (incl. presales) directly from developers in 2019 in Vilnius. This is 37% more than in 2018 and 45% more than in 2017.

VYTAUTO 35

High activity in the apartment sector led to the decrease of unsold apartments in the primary market during 2019. According to Ober-Haus data, the number of unsold new apartments on the Vilnius primary market decreased by almost 26% during 2019. At the end of 2019 there were almost 1,100 unsold newly built apartments in finished apartment buildings. Looking at the past 5-7-year period it is clear that the demand for new apartments essentially matched the supply and most developers did not encounter any sales problems.

Looking at the demand factor everything seems to be very good. First of all, the year 2019 saw a record increase in the population in Vilnius, which caused significant additional demand both for rented and purchased housing. Secondly, there was rapid growth in the personal income of the population and accessibility to financing. These internal factors show that all conditions for the overall high housing market activity remain. The greatest threats are external factors, which, as history shows, have a significant impact on the housing market in Lithuania.

THE MORTGAGE MARKET

Due to the rising demand for mortgage loans, interest rates in Lithuania continued to increase slightly during the year. According to data from the Bank of Lithuania, the average annual interest rate on new mortgage loans in 2019 was 2.40% (this figure was 2.04% in 2017 and 2.26% in 2018). In December 2019, the average mortgage annual interest rate was 2.37%. In general interest rates have returned to the 2013 level.

The volumes of new mortgage loans and the total mortgage loan portfolio in Lithuania have reached new heights. According to data from the Bank of Lithuania, at the end of 2019 the total value of outstanding residential loans stood at almost €8.4 billion, a historic high. Currently in Lithuania, the value of mortgage loans is around 17.5% of GDP. This rate is one of the lowest compared to other EU countries (EU-28 average in 2018 – 45.7%).

Mortgage loan volumes increased very slightly in 2019. According to data from the Bank of Lithuania, new mortgage loans worth €1.33 billion were provided in 2019, an increase of over 2% compared to 2018. In the 2018–2019 period, new mortgage loans of €109 million were provided per month on average, which is almost 50% more than compared to the 2015–2016 period.

Despite notable apartment price growth, people's income increased at a double pace in 2019 and housing affordability has reached a record level. In 2019 an inhabitant of Vilnius could purchase 7.2 sqm in a medium-class apartment for their average (net) annual salary (an 0.6 sqm increase compared to 2018). The current price to income ratio is at a historic high point.

RENTS

Apartment rents increased by an average 8% in 2019, after rising 4% in 2018 in Vilnius. The rapid increase in the urban population and the growing number of economic immigrants contribute to the increasing activity in the housing rental market. Employees from neighbouring countries usually work in the construction and transport sectors and are very active clients in the least expensive housing segment. Often the employers arrange housing for employees by renting private houses or premises of various size for their employees. Meanwhile local inhabitants who cannot afford to buy their own housing or do not want to be attached to a specific location actively rent the apartments and thus contribute to the overall activity in this sector. Ober-Haus expects that overall residential rents in Vilnius will follow the sales prices pattern, i. e. will increase by around 4–5% in 2020.

A typical two-room, old construction apartment in Vilnius residential districts rents for €270 to €330 per month at the end of 2019. The same size new construction apartment rents start from €350 up to €460 per month. Maintenance costs are additional.

Rents for equipped two-room apartments (old or new) in the city centre and its surrounding areas (inc. prestigious districts) range from €330 to €670 per month, and for three-room apartments from €420 to €950 per month. Rents for bigger and well-equipped apartments in the Old Town can range up to €1,000-€1,200 per month. Maintenance costs are additional.

Fully equipped houses of 100–200 sqm on the outskirts of Vilnius are usually offered for rent at €650 to €1,400 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and the city centre or Old Town are higher and vary from €1,000 to €3,000 per month. Maintenance costs are additional.

In recent years, there was a trend where, in the hope of higher revenues, some private investors (themselves or with the help of companies working in the area) decided to engage in the short-term rental business, which at least in theory ensures higher rental income than long-term lease. However, rapidly growing competition in the short-term rental sector (according to AirDNA, the number of short-term rental offers in Vilnius on the Airbnb and other smaller platforms between 2015 and 2019 increased 3.8 times) and the management costs incurred by home owners brought some of those investors back to the long-term rental sector. Furthermore, developers are entering the rental sector in Vilnius and are building or plan to develop projects exclusively for rent. For example, in the second half of 2020 the largest home rental project is scheduled for completion. It will offer about 240 units of 20-40 sqm in a coliving concept project in an attractive area of the city.

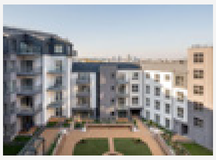
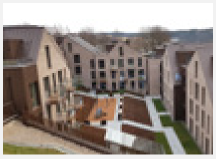
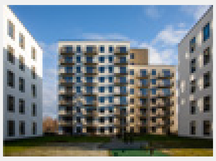
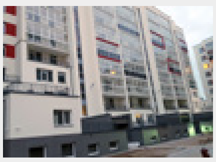
As rents increased at a higher pace than the selling prices, the overall gross rental yield increased by 10-20 basis points in Vilnius in 2019. In 2019, the average gross rental yield in Vilnius for two-room apartments was 5.2% or 10 basis points higher than in 2018. Average gross rental yield in central part of the city increased from 4.5% to 4.7% during the year.

LEGAL NOTES BY SORAINEN

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


ANTAKALNIO KRANTAS

RECENT DEVELOPMENTS

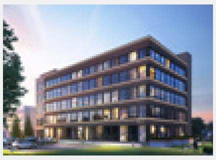
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**SALTINIU NAMAI / ATTICO** – In Q2 2019, the real estate development company Pro Kapital, finished the residential project in Old Town, on Aguonu Street. The 5-6-storey project comprise over 110 apartments ranging in size from 37 to 135 sqm. At the end of 2019 almost 90% of the available apartments had been sold. Asking prices of the apartments without fit-out are between €3,000 and €5,000 per sqm.	€3,000 - €5,000	Q2 2019
	**BISTRYCIOS NAMAI** – In the second half of 2019, a local construction company finished the A+ class energy efficiency residential building project in Antakalnis district, on Bistrycios Street. The 4-storey storey building comprise 19 apartments with size from 33 to 105 sqm. At the end of 2019 around 50% of the apartments has been sold. The prices of the available apartments without fit-out are from €2,200 to €3,000 per sqm.	€2,200 - €3,000	H2 2019
	**UZUPIO TERASOS** – In Q4 2019, local real estate development company LJB Property, finished construction of residential project in Uzupis district. The 3-4-storey project comprise 58 apartments ranging in size from 43 to 125 sqm. At the end of 2019 over 30% of the apartments had been sold. The prices of the available apartments without fit-out are between €2,300 and €3,500 per sqm.	€2,300 - €3,500	Q4 2019
	**PETELISKIU PARKAS** –In Q2 2019, local construction company Constra, finished the first in Lithuania A++ class energy efficiency multi-apartment building in Rasos district, on Peteliskiu Street. The 5-storey building has 30 apartments ranging in size from 36 to 75 sqm. At the end of 2019 around 70% of the apartments had been sold. The prices of the available apartments without fit-out are between €2,200 and €3,000 per sqm.	€2,200 - €3,000	Q2 2019
	**VYTAUTO 35** – In Q3 2019, local development and construction company Eika, finished the construction of multi-functional project in Zverynas district, on Vytauto Street. The 3-storey project comprises 10 apartments and commercial premises. Apartments of 1-4 rooms range in size from 40 to 112 sqm. At the end of 2019 around 80% of the apartments had been sold. The prices of the available apartments without fit-out start at €3,500 per sqm.	from €3,500	Q3 2019
	**LINKMENU EZERAI (III STAGE)** – At the end of 2019 real estate development company Realco completed the final stage of a large residential project in Snipiskes, on Linkmenu Street. The last stage with four residential buildings comprises around 260 apartments ranging in size from 33 to 80 sqm. At the end of 2019 around 95% of the apartments from the final stage had been sold. The prices of the available apartments without fit-out start at €1,750 per sqm. The entire project which took over 3 years to develop (2016-2019), now has over 800 apartments.	from €1,750	Q4 2019
	**LEICIU KIEMAS** – In the second half of 2019, local real estate company Anreka finished the construction of two 9-storey residential buildings in Pasilaiciai, on Leiciu Street. The buildings comprise 225 apartments, ranging in size from 28 to 100 sqm. At the end of 2019 almost 80% of the apartments had been sold. The prices of the available apartments without fit-out are between €1,100 and €1,600 per sqm.	€1,100 - €1,600	H2 2019

RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**LAISVES 77** – At the end of 2019, local development company Homa finished construction of a residential project in Pasilaiciai district, on Laisves Avenue. The 6-storey building comprises 81 apartments and some commercial premises on the ground floor. Apartments of 1-3 rooms range in size from 26 to 58 sqm. At the end of 2019 around 85% of the apartments had been sold. The prices of the available apartments without fit-out are between €1,300 and €1,700 per sqm.	€1,300 - €1,700	Q4 2019
	**GRIGALAUKIO DOMINIJA (III STAGE)** – At the end of 2019, the real estate development company Omberg Group, finished the third stage of a residential project in Pasilaiciai district. The two 5-storey buildings comprise 156 apartments ranging in size from 22 to 65 sqm. At the end of 2019 all apartments were fully sold. The prices of the apartments without fit-out were between €1,350 and €1,750 per sqm.	€1,350 - €1,750	Q4 2018
	**FIZIKU NAMAI (II STAGE)** – In the second half of 2019, construction and real estate development company Merko finished an A class energy efficiency residential project in Verkiai district, on Fiziku Street. The 4- and 5-storey building has 70 apartments ranging in size from 32 to 87 sqm. At the end of 2019 around 70% of the apartments had been sold. The prices of the available apartments without fit-out start at €1,650 per sqm.	from €1,650	H2 2019
	**ANTAKALNIO KRANTAS** – In Q3 2019, a local developer finished the construction of a residential project in Antakalnis district, on P. Vileisio Street. The 4-storey buildings comprise 43 apartments. Apartments of 1–3 rooms range in size from 36 to 102 sqm. At the end of 2019 over 85% of the apartments had been sold. Asking prices of the apartments without or with full fit-out range between €2,600 and €3,000 per sqm. Ober-Haus is the exclusive selling agent.	€2,600 - €3,000	Q3 2019
	**AJERU NAMAI** – In 2019, a local developer finished the construction of a semi-detached house project in Antakalnis district, on Ajeru Street. The project comprise eight A class energy efficiency 2-storey houses. The houses are 112 sqm with land plots of 410 sqm and without fit-out are priced at €110,000–€140,000.	€110,000 - €140,000 (for a house)	2019

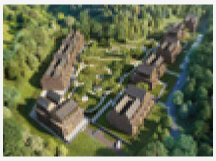
AJERU NAMAI

NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**GEDIMINO 22** – In 2019, a local company started to reconstruct a historical building in the city centre, on Gedimino Avenue. The project in the heart of the city will offer around 70 apartments in the first half of 2020. Two-three room apartments will range in size from 50 to 200 sqm. At the end of 2019 around 70% of the apartments had been sold. Asking prices of the apartments without fit-out are between €3,000 and €6,000 per sqm.	€3,000 - €6,000	H1 2020
	**BASTEJA LIFE** – In 2018, construction and real estate development company Merko started development of a residential project in Old Town, on Sv. Dvasios and Strazdelio Street. The 4-storey A class energy efficiency project will be completed in the first half of 2020. The project has around 80 apartments of 1-5 rooms ranging in size from 35 to 110 sqm. At the end of 2019, almost 60% of the apartments had been sold. Asking prices of the apartments without fit-out are up to €4,500 per sqm.	up to €4,500	H1 2020
	**RENESANSO** – In 2019, local real estate developer Hanner, started the development of a residential project in Old Town, on Sodu Street. The A+ class energy efficiency 3- and 4-storey project with almost 150 apartments is located close to Vilnius central station. The apartments of 1-4 rooms, range in size from 20 to 130 sqm. The project will be completed in Q1 2021. At the end of 2019 almost 40% of the apartments had been sold. Asking prices of the apartments without fit-out are between €2,500 and €4,000 per sqm.	€2,500 - €4,000	Q1 2021
	**SIERAKAUSKO 25** – At the end of 2018, real estate development company Realinija started the development of residential project in Naujamiestis district, on Z. Sierakausko Street (close to Vingis Park). The A+ class energy efficiency project with 56 apartments will be completed in Q1 2020. Apartments of 1-4 rooms range in size from 44 to 140 sqm. At the end of 2019 almost 95% of the apartments had been sold. Asking prices of the apartments without fit-out start at €3,000 per sqm. Developer plans to develop a second stage in the same location by offering another 12 apartments.	from €3,000	Q1 2020
	**FREIHEIT LOFTS** – In 2019, the real estate development and management company, Baltic Asset Management, started the big loft project development in Vilkpede district, on Savanoriu Street. The project with over 200 units is located in the former territory of the meat processing factory and will be completed in the first half of 2020. Units range in size from 12 to 94 sqm and have ceiling heights of 4.5 meters. Asking prices of the units without fit-out start at €900 per sqm. Final fit-outs are offered from €350 per sqm.	from €900	H1 2020
	**SAPIEGU 19** – The real estate development company Eriadas is developing a residential project in Antakalnis district, on L. Sapiegos Street. The fully reconstructed 6- and 7-storey project will offer around 100 apartments. Apartments of 1-3 rooms range in size from 25 to 85 sqm. The residential project will be completed in the first half of 2020. Asking prices of the apartments without fit-out start at €2,100 per sqm.	from €2,100	H1 2020
	**NAUJASIS SKANSENAS** – At the end of 2019, construction and real estate development company YIT Lietuva, started a large-scale residential project in Snipiskes district, on Linkmenu Street. The project will be developed in stages and will comprise nine 4- and 6-storey A+ class energy efficiency residential buildings with around 560 apartments. The first stage with over 200 apartments will be completed in Q1 2021. Apartments of 1–4 rooms range in size from 30 to 100 sqm. Asking prices of the apartments without fit-out are between €2,100 and €2,900 per sqm.	€2,100 - €2,900 (I stage)	Q2 2021 (I stage)

OBER HAUS

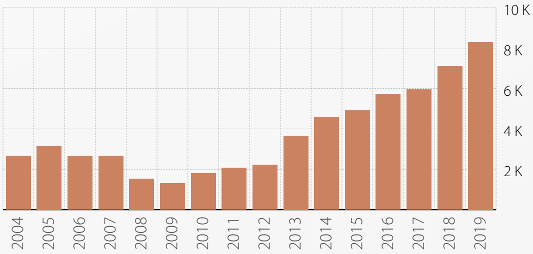
NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**KERNAVES AVENIU** – In 2019, real estate development and construction company Infra Group, started the construction of a residential project in Snipiskes district, on Kernaves Street. The A+ class energy efficiency residential project with 110 apartments and commercial premises on the ground floor will be completed at the end of 2020. Apartments of 2-4 rooms range in size from 37 to 98 sqm. At the end of 2019 over 50% of the apartments had been sold. Asking prices of the apartments without fit-out start at €1,800 per sqm.	from €1,800	Q4 2020
	**HORIZON** – After finishing its first residential building in 2019, local development company Recus is developing a second building in Virsuliskes district, on Spaudos Street. The 16-storey A+ class energy efficiency residential building with over 100 apartments will be completed in Q4 2020. Apartments of 1–4 rooms range in size from 28 to 81 sqm. At the end of 2019 around 25% of the apartments had been sold. Asking prices of the apartments without fit-out start at €1,600 per sqm.	from €1,600	Q4 2020
	**TRINAPOLIO NAMAI** – A 9-storey residential project in Verkiai district, on Trinapolio Street. The A class energy efficiency residential project with 115 apartments will be completed at the start of 2020. Apartments of 1-4 rooms range in size from 36 to 91 sqm. At the end of 2019 over 70% of the apartments had been sold. Asking prices of the apartments without fit-out are between €1,550 and €2,000 per sqm. The developer plans to develop another multi-apartment building in the same location.	€1,550 - €2,000	Q1 2020
	**MISKO ARDAI** – In 2019, construction and real estate development company Citus, started a large residential project on a 1 ha territory in Naujininkai district, on Burbiskiu Street. The project with over 300 apartments will be developed in stages and will comprise seven 4-storey A+ class energy efficiency residential buildings. The first stage with around 220 apartments will be completed in the second half of 2020. At the end of 2019 around 70% of the apartments from the first stage had been sold. Asking prices of the apartments without fit-out are between €1,800 and €2,400 per sqm.	€1,800 - €2,400 (I stage)	H2 2020 (I stage)
	**JAZMINU NAMAI** – A local developer is developing a semi-detached house project in Kairenai district (Vilnius region). The project will offer 16 A+ class energy efficiency single storey houses. The houses of 90-100 sqm with land plots of 500 sqm are priced at €105,000–€115,000. The project will be completed in the second half of 2020. Ober-Haus is the exclusive selling agent.	€105,000 - €115,000 (for a house)	H2 2020
	**LIV_IN VILNIUS** – Eriadas, the real estate development company, is developing a coliving concept project in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark – the largest such project in Vilnius. The project will offer about 240 units of 20-40 sqm for rent. Some apartments will be equipped with kitchens, while other tenants will have access to the common-use kitchen and other leisure areas. Total investments will reach €17 million. The project will be completed in the second half of 2020.	N/A	H2 2020

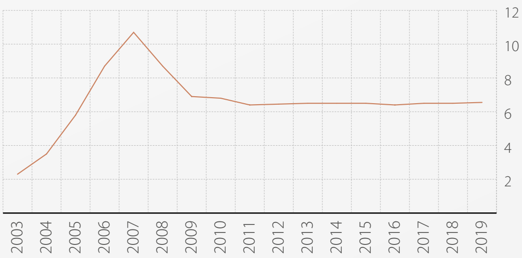
INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+370 5 210 97 00**

BASTEJA LIFE

LAND TRANSACTIONS IN VILNIUS CITY



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 (eg ownership, lease right) must be transferred to the buyer along with the building.

An individual or legal person together with related persons cannot acquire (own) more than 500 ha of agricultural land. Besides the 500 ha limit, some other limitations apply.

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

VILNIUS SNAPSHOT (END-2019)

TOTAL LAND TRANSACTIONS CHANGE (Vilnius city)	+ 17 %
TOTAL LAND TRANSACTIONS CHANGE (Vilnius district)	+ 23 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€400 - €1,500
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€80 - €250
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€20 - €80

DEVELOPERS TARGET PLOTS OF LAND IN CENTRAL PART OF THE CITY

PRICES

Interest in plots of land suitable for both residential and commercial development in the capital city has reached new heights. Particularly good residential and commercial real estate market indicators along with the growing purchasing power of the population and businesses have created all the conditions for developing higher-class projects. Therefore, it is no surprise that major developers have been particularly interested in the plots of land located in the centre of the city or the adjacent areas. In the meantime, plots of land located further away from the city centre were not of as much interest to developers. In these zones of the city, the rather tight range of sale prices and rents both in residential and commercial properties prevent faster sale or rent increase opportunities, so buyers are sufficiently conservative in assessing the prices of such plots of land.

The sales prices of the most attractive plots of land, as a rule, located in the centre of the city or in adjacent areas, increased by as much as 5-10% in 2019. Asking prices for plots in the central part of the city or other prestigious districts suitable for residential and commercial development (with detail plans or construction permit) are now €400–€1,500 per sqm of land, or roughly €300–€1,000 per gross buildable square metre of residential or commercial space.

Plots in residential suburbs for multi-apartment developments (with detail plans or construction permit) now range from €80 to €250 per sqm, which works out at roughly €70 to €200 per gross buildable square metre of residential space.

The sufficient supply of land parcels for individual construction on the outskirts of Vilnius city has kept prices stable during 2019. Land parcels suitable for the construction of individual houses are offered both by private persons and developers which prepare entire packages of land parcels for sale (communications are installed, access roads are built and any other infrastructure is ensured). Purchasers have a broad choice of any land suitable for individual constructions – from a basic plot to land with full infrastructure. At the end of 2019, prices for plots for private homes with partial or full infrastructure were €20–€30 per sqm in the cheaper suburbs, to as high as €40–€80 per sqm in Visoriai, Riese, Bajorai, Kalnenai, Gulbinai.

Prices for agricultural land depending on location, land productivity and size, in Lithuania range from €1,000-€1,500 per hectare for poor quality and smaller-sized land plots in less desirable locations to €6,000-€8,000 per hectare for highest productivity mid and large-sized land plots.

DEMAND

Total land transactions in Lithuania increased by almost 10% in 2019, according to the data of the Central Registry. Activity in the land market in Lithuania in 2019 was very high and just 2% lower than the record activity recorded in 2007 and 2013 (the record land market activity in 2013 is attributed to the extremely active sale of state-owned land and the changes in legal acts that came into effect in 2014, which significantly hamper the acquisition of agricultural land).

There was a huge increase in the number of transactions of land parcels in Vilnius region in 2019. Total land transactions increased by 17% in Vilnius city and by 23% in Vilnius district.

Like in 2018, the market of larger parcels of land for development was very active in Vilnius in 2019.

The biggest land transactions which took place in 2019 were characterized by a broad geographic spread with the biggest focus on the central part of the city. In the past 4-5 years, the bigger developers have been mostly interested in sites located in the centre of the city or in the vicinity of the centre (Snipiskes, Zverynas, Naujamiestis, Old Town) where untapped development and increased potential value exist. The increasing spending capacities both of businesses and of individual residents have encouraged developers to develop higher-class commercial and residential projects in Vilnius.

According to Ober-Haus data, in the districts of Snipiskes, Naujamiestis and Old Town, which occupy only slightly more than 3% of the total area of Vilnius city, during the period of 2015-2019 as much as 31% of the total constructed residential space in multi-apartment buildings in Vilnius was built for sale. The share of office construction in these districts is even higher – 45% of the office space from total new supply was built in these districts during the same period. However, the supply of land plots or larger areas suitable for conversion in the central part of the city is declining rapidly and developers need to look more broadly at the map of further development.

A leading residential developer in northern Europe, Bonava, entered the Lithuanian property market by acquiring a 0.7 ha land plot in Pasilaiciai district in 2019. Bonava will begin by developing an apartment building with around 130 apartments on this land plot in Vilnius. Construction works will start in the second half of 2020.

In mid-2019, the real estate developer Merko acquired a 4.7 ha parcel of land for €13 million next to the Old Town, in Markuciai district. Merko plans to develop a large-scale residential project with around 1,100 apartments.

In the first half of 2019, the real estate developer YIT Lietuva acquired a 0.35 ha land plot in Virsuliskes district. The developer plans to build an office building with a total area of over 8,000 sqm. YIT Lietuva has previously developed different commercial and residential projects in this location.

In mid-2019, the real estate developer Hanner acquired old buildings on a 0.6 ha land plot for €4.1 million on Sodu Street, next to Vilnius railway station. Currently Hanner is developing a residential project with almost 150 units.

In the second half of 2019, a subsidiary company of the real estate developer Hanner acquired old buildings on a plot of around 2 ha in Zirmunai district. At the beginning of 2020 Hanner started to develop a residential project with over 500 apartments.

In 2019, a subsidiary company of real estate developer Galio Group (former M.M.M. projektai) acquired a 0.45 ha parcel of land for €3.5 million close to the city centre, on T. Kosciuskos Street. Galio Group plans to develop a residential project on the site.

At the end of 2019, a subsidiary company of real estate developer Realco acquired a 1.8 ha parcel of land in Pasilaiciai district and another land plot in Markuciai district close to Old Town. Realco plans to develop two residential projects on these sites and total investments will reach €33 million.

In the second half of 2019, Eika Residential Fund, managed by Eika Asset Management, acquired two 1.1 ha land plots in the southern part of the city in Vilkpedes district (next to Naujamiestis district). The developer plans to develop multi-apartment buildings on this site.

At the end of 2019, a subsidiary company of Baltic Petroleum acquired a 1.2 ha parcel of land in Zirmunai district. The new owners have not yet disclosed their development plans.

OBER HAUS

LITHUANIAN REAL ESTATE TAXES AND LEGAL NOTES

REAL ESTATE TAXES

ACQUISITION

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

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

- Notary fees are 0.45% on the value of real estate. However, the fees shall not be less than EUR 28.96 or exceed EUR 5,792.40 for one transaction;
- State duties imposed upon the registration of a transfer of real estate are typically not material and vary depending on the real estate value (up to EUR 1,448.1).

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

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

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

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

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

RENT

VALUE ADDED TAX (VAT):

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

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

CORPORATE INCOME TAX (CIT):

For local Lithuanian entities income from rent of real estate is considered as taxable income which is in general subject to 15% CIT under regular taxation rules of company business activities (i.e. only profit is taxed). Reduced CIT rate applies for small companies - entities with fewer than ten employees and less than EUR 300,000 in gross annual revenues can benefit from a reduced CIT rate of 5% (0% rate for the first year of operation) if certain conditions are met. All income of Real Estate collective investment funds (e.g. rent, capital gains) are exempt from CIT if certain conditions are met.

WITHHOLDING TAX (WHT):

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

PERSONAL INCOME TAX (PIT):

For local and foreign individuals, income from the rent of real estate located in Lithuania is subject to 15% PIT on gross income for the income amounts (not including employment related income) not exceeding EUR 148,968 per calendar year of 2020, and 20% PIT rate is applied on the part exceeding this threshold. 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 rented to individuals and not to legal entities. In such case individuals should obtain a business certificate for rent of residential premises.

SALE

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

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

Sale of shares of a Lithuanian company holding real estate is subject to general taxation rules for sale of shares (i.e. there is no specific taxation due to the real estate being the main assets of the company). The actual taxation generally ranges from 0% to 15% and depends on a number of various criteria and circumstances, e.g. the seller (i.e. corporate or individual and local or foreign tax resident), shareholding proportion (i.e. percentage of total shares held and shares to be sold), holding period, etc. Therefore, in case of a share deal a detailed tax analysis may disclose material tax differences between various options available.

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

VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

For local Lithuanian entities income from sale of real estate is considered as taxable income which is in general subject to 15% CIT under regular taxation rules of company business activities (i.e. only profit is taxed). Reduced CIT rate applies for small companies - entities with fewer than ten employees and less than EUR 300,000 in gross annual revenues can benefit from a reduced CIT rate of 5% (0% rate for the first year of operation) if certain conditions are met. All income of Real Estate collective investment undertakings is exempt from CIT if certain conditions are met.

WITHHOLDING TAX (WHT):

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

PERSONAL INCOME TAX (PIT):

For local and foreign individuals, income from the sale of real estate located in Lithuania is subject to 15% PIT on gross income for the income amounts (not including employment related income) not exceeding EUR 148,968 per calendar year of 2020, and 20% PIT rate is applied on the part exceeding this threshold. 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 rented to individuals and not to legal entities. In such case individuals should obtain a business certificate for rent of residential premises.

EXIT TAX

Starting from FY2020 new exit taxation rule is established in Lithuania. When transferring assets (in other form than sale) from a Lithuanian tax payer (local legal entity, branch or a permanent establishment of a foreign entity) to a foreign tax payer for a period that is over 12 months and those assets are not used as advanced payment or collateral, exit taxes can apply. Such transfer can be considered as an asset sale at market price, thus subject to 15% CIT.

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.5% to 3% depending on municipalities. In Vilnius, the RET rates established for 2019 were:

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

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

- 0.5% RET rate is applied on taxable value exceeding EUR 150,000 but not exceeding EUR 300,000;
- 1% RET rate is applied on taxable value exceeding EUR 300,000 but not exceeding EUR 500,000;
- 2% RET rate is applied on taxable value exceeding EUR 500,000.

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

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

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

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

LAND TAX

Land tax applies on land owned by companies and individuals, except for the forest land. Land tax rates range from 0.01% to 4% depending on local municipalities.

In Vilnius, the Land tax rates established for 2020 are:

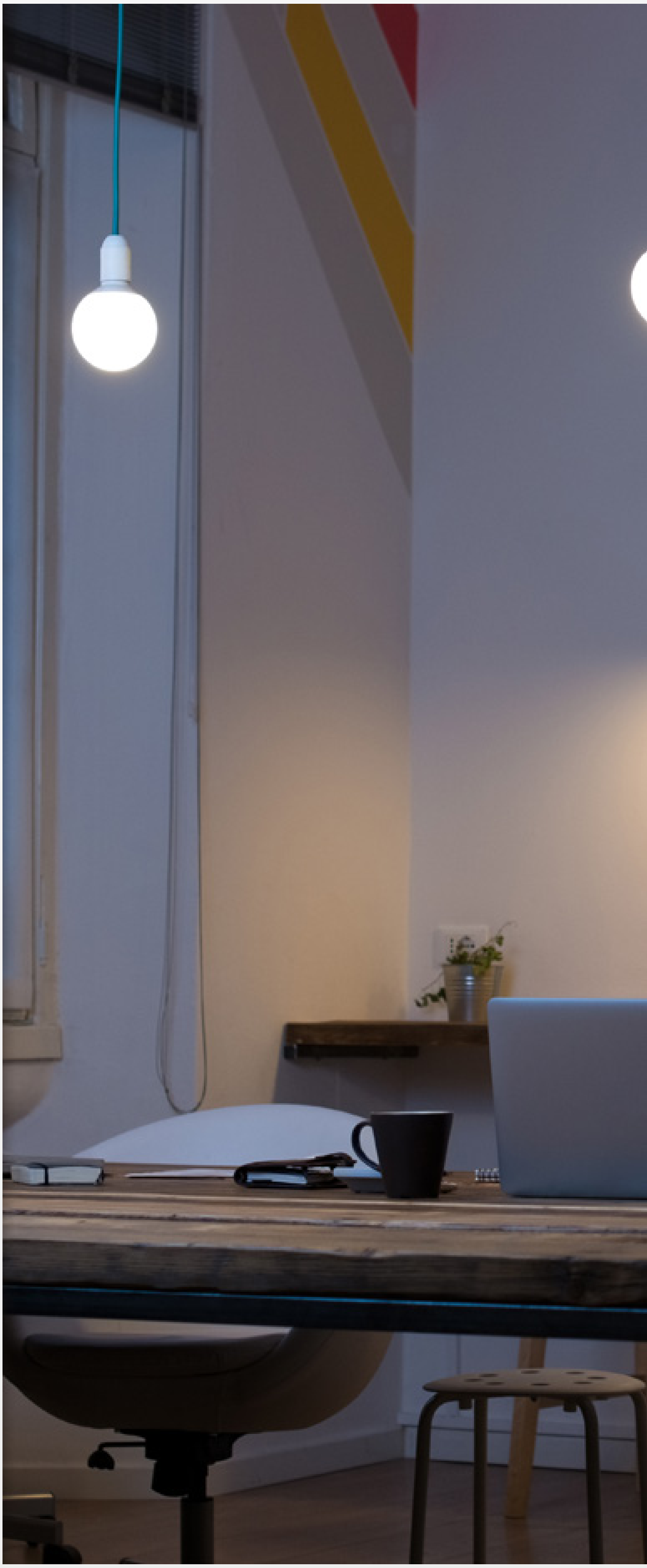
- 0.12% - standard tax rate for individuals and companies;
- 4% - increased tax rate for the land that is not used and for the land with buildings recognized as unauthorised construction.

Exemption from land tax is available in some cases.

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

LAND LEASE TAX

Users of state-owned land are subject to land lease tax. The tax rate ranges from 0.1% to 4% of the value of the land. The actual rate is established by municipalities. In Vilnius the land lease tax varies from 0.5% to 4%.



INTRODUCTION

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

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

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

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

ACQUISITION OF REAL ESTATE

GENERAL

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

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

LETTER OF INTENT AND HEADS OF TERMS

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

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

CHANGE OF OWNERSHIP

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

LEGAL STRUCTURES OF REAL ESTATE TRANSACTIONS

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

PRINCIPAL LEGAL STRUCTURES

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

SHARE DEAL

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

Note that a share sale-purchase agreement needs to be notarised when more than 25% of the shares are transferred or the price of the share transfer exceeds EUR 14,500 (not applicable to shares in a public limited liability company). This requirement is mandatory except for a private limited company where shareholders' personal securities accounts are transferred to a a professional firm entitled to manage personal accounts for financial instruments (eg a financial brokerage firm).

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

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

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

A share sale-purchase agreement need not be publicly registered, unlike an agreement on sale-purchase of real property. A list of new shareholders must be filed with the Register of Legal Entities; however, failure to do so has no impact on ownership rights to shares.

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

ASSET DEAL

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

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

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

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

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

SALE-LEASEBACK

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

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

FORWARD PURCHASE

Projects under development have more often been structured as forward purchase transactions. In these cases the investor undertakes a forward commitment to purchase the property along with (or without) project financing commitments. The developer usually acts as developer until completion of the project or may act as project developer under a development contract while title to the target property under construction goes directly to the investor.

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

JOINT VENTURE

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

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

PUBLIC-PRIVATE-PARTNERSHIP PROJECTS (PPP)

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

FORM OF AGREEMENTS

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

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

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

LANGUAGE REQUIREMENTS

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

DUE DILIGENCE

Legal due diligence 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, environmental and zoning compliance issues – all information including material facts related to real estate. It should be noted that a general statutory principle exists that if an encumbrance of property is not registered with the Real Estate Register, Mortgage Register or Register of Acts of Property Seizure it does not exist until proven otherwise in court.

PRE-EMPTION RIGHTS

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

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

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

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

MERGER CONTROL

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

Irrespective of whether it is a share or an asset deal, an anticipated concentration must be notified to the Lithuanian Competition Council, whose consent to a concentration is required where the combined total income of the undertakings concerned (received from the Lithuanian market) is over EUR 20 million for the financial year preceding the concentration and the aggregate income of each of at least two undertakings concerned (received from the Lithuanian market) is over EUR 2 million for the financial year preceding concentration.

RESTRICTIONS

RESTRICTIONS ON ACQUIRING REAL ESTATE

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

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

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

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

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

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

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

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

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

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

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

GENERAL

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

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

DURATION AND EXPIRY OF LEASE AGREEMENT

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

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

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

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

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES AND SERVICE CHARGE)

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

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

REAL ESTATE FUNDS

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

MORTGAGE

A mortgage is established by a contractual agreement between the parties, which may be executed as a separate agreement or be part of the other (main) agreement. A contractual mortgage requires only the approval of a notary and subsequent registration with the Mortgage Register. Mortgage registration with the Mortgage Register is an administrative process (rather than a judicial one, as used to be the case) which is usually done by a notary. Under the amendments, the requirement to execute the mortgage in a standard form is cancelled.

Foreclosure of mortgage is done by applying to a notary for an enforcement record. The possibility to foreclose on a mortgage by transferring the title to a mortgaged immovable property to the creditor is foreseen by the Civil Code. Moreover, it is also possible to mortgage a property to be acquired or constructed in the future.

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

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Based on regulation of territorial planning, the right to build in urbanised territory and territory under urbanisation may be exercised without preparing a detailed plan if construction complies with the master plan. As a result, construction on a land plot may be carried out according to a master plan.

Other key planning provisions are as follows:

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

CONSTRUCTION

According to existing regulations, erecting, modifying and demolishing buildings and other structures (depending on the complexity of intended works) require either documents authorising construction activities or design approval (if obligatory). The State Territorial Planning and Construction

Inspectorate under the Ministry of the Environment has been authorised to issue a document permitting construction where a municipal administration fails to issue it within established time limits and does not indicate reasons for not issuing it.

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

The key provisions of the Construction Law are as follows:

- Special requirements for building design (ie special architectural, heritage or protected areas requirements) do not need to be obtained (to be issued only at the request of the client).
- Conditions for connection and special requirements for building design remain valid for five years if a construction permit has not been obtained.
- Mandatory insurance of construction works (replacing mandatory insurance of the contractor's civil liability) and mandatory third party civil liability insurance of the contractor for expert examination of the building project are required.
- The contractor is required to provide security for performance of its obligations to the client, the amount of which cannot be less than 5 (five) per cent of the construction value, valid for at least three years.
- A developer must also provide security to the buyer of real estate against improper performance or non-performance of the contractor's obligations during the construction warranty period (eg due to the contractor's insolvency or bankruptcy), which must comply with the same terms and conditions as prescribed for the contractor as noted above.

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

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

There is no obligation for the main construction participants (designers, contractors, technical supervisors) to participate in completion of construction. A certificate of energy efficiency of a building should be obtained before issuance of the certificate of completion of construction or confirmation of compliance. Moreover, the certificate of energy efficiency of a building should be obtained before sale or lease of the property. The certificate should be placed in a visible location in hotel, administrative, commercial, service, catering, transport, cultural, educational, sports, medical treatment and recreational buildings (when the area used is more than 250 m2). A certificate of energy efficiency of a class 'A+' building is required for newly constructed buildings where the construction permit is obtained after 1 January 2018. Note that the new legislation (which will enter into force on 1 January 2021) establishes a requirement for newly constructed buildings to meet the requirement of energy efficiency of a class 'A++' building.

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

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

INSOLVENCY

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

RESTRUCTURING

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

BANKRUPTCY

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

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Ober-Haus has 6 offices in Latvia which are located in Rīga, Liepāja, Ventspils, Jelgava, Valmiera, Daugavpils and two representative branches in Ogre and Jēkabpils. In all, over 60 real estate experts are working in the country. Major local and foreign companies, medium sized and smaller companies, investment funds and private investors trust the quality of the services that Ober-Haus has to offer.

LATVIA

OBER HAUS

COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

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

CURRENCY

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

2020 FORECAST

GDP annual growth, %	2.4 - 2.6
GDP per capita, €	15,300
Private consumption annual growth, %	3.3
Average annual inflation, %	2.4
Unemployment rate, %	6.6
Average monthly net salary, €	850
Average salary growth, %	6.0

POPULATION	2014	2015	2016	2017	2018	2019
Latvia	2,001,500	1,986,100	1,968,900	1,950,000	1,934,000	1,920,000
Riga	643,400	641,000	639,600	641,500	638,000	632,000
Daugavpils	87,400	86,400	85,900	86,100	83,300	82,600
Liepaja	71,900	71,100	70,600	69,400	69,200	68,900

ECONOMICS	2014	2015	2016	2017	2018	2019
GDP growth, %	1.9	3.0	2.1	4.6	4.8	2.3
GDP per capita, €	12,000	12,300	12,800	13,900	15,300	14,900
Private consumption growth, %	4.8	3.5	3.5	3.1	4.3	3.7
Average annual inflation, %	0.6	0.2	0.1	2.9	2.5	2.8
Unemployment rate, %	10.8	9.9	9.6	8.7	7.4	6.2
Average monthly net salary, €	560	603	631	676	742	800
Average salary growth, %	8.5	6.8	4.6	7.1	9.8	7.7
Retail sales growth, %	3.6	4.9	4.0	4.9	4.0	2.3
FDI stock per capita, €	6,000	6,300	6,900	7,400	7,300	8,300

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

LATVIA'S ECONOMY GROWTH DECELERATED IN 2019, MODERATE GROWTH IS EXPECTED IN 2020

Like the global economy, Latvia's economy slowed in 2019. Following strong, investment driven growth of 4.8% in 2018, GDP growth in Latvia cooled down considerably to stand at 2.3% in 2019. With weaker demand from Latvia's major trading partners, both exports and investment are growing at a slower pace, and domestic consumption remains central to sustaining GDP growth. The Bank of Latvia and other official institutions forecast 2.4-2.6% growth in GDP in 2020.

Regarding the business environment, Latvia ranks 19th out of 190 economies in the World Bank's 2019 Doing Business report (stable compared to the previous edition). The ease of starting a business and the simplicity of the tax payment and import-export processes allow the country to be among the top 20. Latvia can also count on a skilled and relatively inexpensive workforce and a strategic geographical location. However, the country has a small-sized market, and it has room for improvement in the protection of minority shareholders and on resolving insolvency.

Income convergence is reflected in Latvia`s inflation which is slightly higher than the euro area average. According to Latvijas Banka`s projections, inflation is expected to decelerate from 2.8% in 2019 to 2.4% in 2020.

Despite the economic deceleration high demand for labour and limited supply remain the main drivers of labour market development. Consequently, unemployment continues to shrink and wage growth remains high.

Unemployment had fallen to 6.2% at the end of 2019 from 6.4% in 2018. Analysts project average unemployment of 6.6% for 2020. Unemployment is forecast to fall further over the coming years, mainly because the labour supply is expected to continue falling. As a result, labour market conditions should remain tight and maintain pressure on wage growth.

The minimum wage is €430, and it has been announced that it will remain at this level for 2020. In order to improve competitiveness and reduce the informal economy, an increase in the minimum wage to €500 by 2021 is proposed. At the end of 2019, the average gross salary had risen to €1,091, a 8.3% rise y-o-y. Net wages increased by 7.7% in Latvia in Q3 2019 (compared to Q3 2018), to €801 per month after taxes. The Ministry of Finance forecasts average gross salary growth of 6% in 2020, and 5% in 2021.

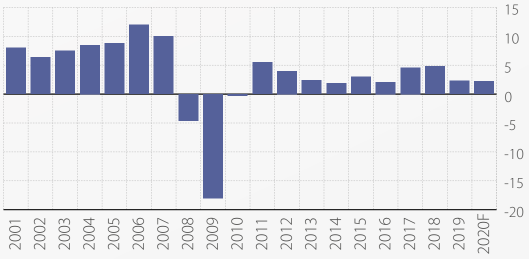
The consumer price index was 2.3% for the 2019 calendar year, a rather stable indicator for the economy. The CPI in 2018 was 2.6%, and in 2017 was 2.2%.

Construction industry costs in all categories increased 4.1% y-o-y by the end of 2019. This change in prices was mainly due to the 7% increase in wages and salaries. Construction output grew by 5.9% (according to calendar adjusted data at constant prices). Growth of construction output was observed in almost all sectors: building construction rose by 11.7%, civil engineering – by 2.1% (of which, an increase of 3% was observed in the construction of roads and railways, 24% – in construction of other civil engineering projects. The construction of utility projects, however, negatively affected development of the sector – there was a drop of 4.6%). Taking into account the active phase of the investment period of the EU funds as well as overall growth of the economy, construction costs are expected to continue to grow in 2020, although at a slower pace.

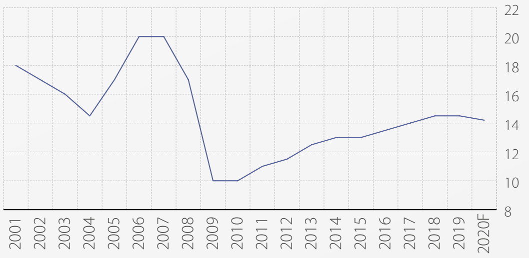
Retail trade turnover increase at constant prices (year-on-year) was 1.7% in November 2019.

Foreign direct investment in Latvia (net flows) at the end of Q3 2019 was 4.9% of GDP, or €397 million. This is well above the average for the last few years and is particularly unusual due to the continuing uncertainty over the global economic.

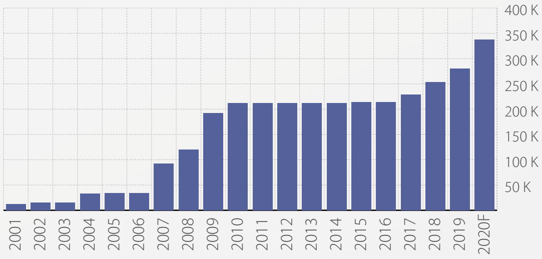
GDP GROWTH, %



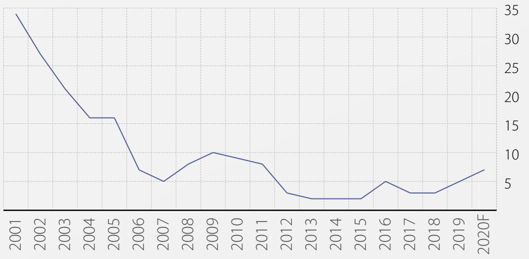
A CLASS OFFICE RENTS, €/SQM



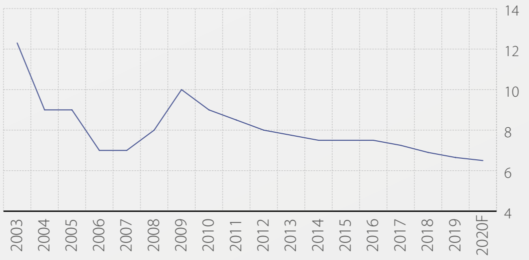
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



RIGA SNAPSHOT
(END-2019)

TOTAL OFFICE SPACE	749,200 SQM
TOTAL OFFICE VACANCY RATE	8.5 %
A CLASS OFFICE VACANCY RATE	5 %
B CLASS OFFICE VACANCY RATE	9 %
TOP OFFICE RENTS (SQM / month)	€17.00 - €18.00
A CLASS OFFICE RENTS (SQM / month)	€13.00 - €16.00
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €13.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.00 - €4.00

SIGNIFICANT GROWTH OF NEW OFFICE SPACE

SUPPLY

Completion of eight new office projects in 2019 added 55,800 sqm of office space to the market in Riga. Total office area at the end of 2019 stood at 749,200 sqm. Newly built projects raise the bar of modern office quality in general, so some older construction projects, built 15-20 years ago can no longer be considered as modern ones (A or B class).

In the course of 2020–2021, six new projects are scheduled to come to market in Riga, with a total office space of more than 70,000 sqm.

In Europe and worldwide, the number of full-time employees is shrinking, and many are working from home using virtual offices or coworking space, and these are increasingly being marketed in Latvia as well.

At the same time a large number of small and medium-sized companies expect the same stable sales in 2020 and are optimistic when planning to expand their business. In addition, international companies see investment opportunities in Latvia and plan further expansion.

Increasingly, companies are making decisions for more energy efficient and modern office buildings with company-specific planning.

DEMAND

The vacancy rate of modern offices in Riga increased from 4.5% to 8.5% in 2019. At the end of 2019, the vacancy rate for B class buildings was 9%, while the vacancy for A class buildings was 5%.

Ober-Haus forecasts that vacancy rates will increase during 2020 for both A and B class offices, as a large number of new office buildings with an estimated size of 100,000 sqm will be coming to the market.

RENTS

High demand for modern office space led to a slight increase in rents during 2019. At the end of 2019 rents for A class offices ranged from €13.00 to €16.00 per sqm and from €8.00 to €13.00 per sqm for B class offices. Several exclusive office buildings are even asking top rents of €17.00–€18.00 per sqm with additional charges for utilities and services.

Depending on the building, additional total costs in A class buildings range from €2.50 to €4.00 per sqm per month and in B class buildings from €2.00 to €3.50 per sqm per month. In general, business centres no longer provide free parking spaces for their tenants and they now make additional charges for parking places ranging from €30 to €60 per space, and to €80 per space in city centre, underground parking.

Ober-Haus forecasts that if the total vacancy rate increases during 2020, office rents will remain at the same level or even experience a slight drop.

INVESTMENT

Expected and asked for yield for A class office centres (as well as shopping centres) ranged from around 6.0% to 7.25% in 2019.

There was one significant investment deal in the first half of 2019. Norwegian Linstow bought a 4,400 sqm office building, located in Elizabetes Street in Riga, for €6.15 million.

The second half of 2019 began with the sale of the Luminor headquarters building, located in Kr. Valdemara Street in Riga, to investment company Colonna, with a total area of 15,150 sqm.

Swedish Investment Company Eastnine bought the office building Valdemara Center, located in Kr. Valdemara Street in Riga, for €25 million, with an area of 8,500 sqm.

In December 2019 VIG Fund (part of Vienna Insurance Group AG) acquired three historical office buildings with total area of 20,000 sqm in Riga on Kalku Street and Brīvības Boulevard from Baltic RE Group.

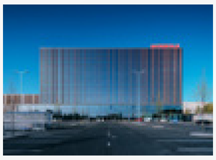
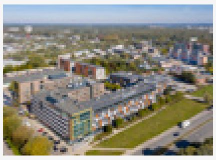
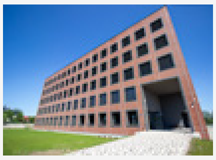
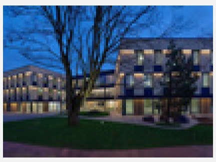
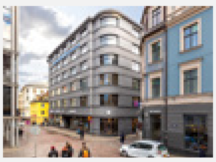
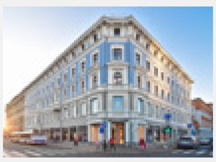
LEGAL NOTES BY SORAINEN

Rents are paid in advance, usually monthly, sometimes quarterly, and are indexed to local or EU inflation. In addition to rent, tenants usually pay a maintenance fee and cover their own utility costs, invoiced by the owner or supplier after consumption. Security deposits of two to three months' rent are generally required by the owner or lessor. Real estate tax payments are made by the owner and are subsequently charged to and compensated by the tenants.

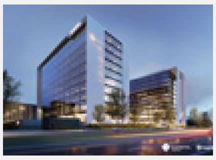
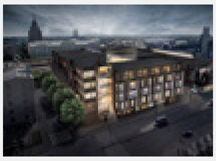
Lease agreements for both business centres and office space are of rather good quality, though typically the owner prepares a standard lease agreement that favours the owner. On transfer of title, only lease agreements registered with the Land Register are binding on the new owner of real estate. Change of ownership of leased real estate does not entitle the tenant to terminate a lease agreement. A lease agreement can be terminated at the discretion of the new owner of real estate if the lease agreement is not registered with the Land Register.


CAPITAL CITY

RECENT DEVELOPMENTS

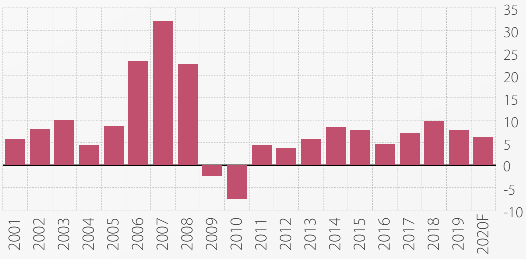
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**RED LINE** – A modern B class office building located close to the centre on Bukultu Street was completed in Q3 2019. The building was built in line with the latest energy efficiency and quality standards. Offices located on floors 1-5 range in area from 50 sqm to 800 sqm. The total area is just under 6,000 sqm. At the start of 2020, about 60% of the office space had been leased.	6,000	Q3 2019
	**AKROPOLE OFFICE CENTRE** – The new shopping and entertainment centre Akropole with an office building was opened on Maskavas Street in the first half of 2019. The 9-storey B class office building with around 9,000 sqm of office space offers over 1,100 sqm per floor, which can be divided into separate parts starting from 550 sqm. A total of 2,300 parking spaces are provided in free on-site parking in the territory of this project. The office building has received the BREEAM certificate. The developer of the project is Akropolis Group, a Lithuanian shopping and entertainment centre development and management company.	9,000	H1 2019
	**SKANSTES CITY** – The existing project with separate buildings was sold to SG Capital Partners Fund at the end of 2018. After renovation and expansion, 12,000 sqm of modern office space was added in Q3 2019, providing a total of 40,000 sqm of A and B class offices.	+12,000 (expansion)	Q3 2019 (expansion)
	**P83** – Modern 5-storey B class office complex with a total leasable area of almost 4,600 sqm completed in Q1 2019, developed by Starjt. During the design and construction of the object, special attention was paid to the quality of construction works and materials used, using modern construction technologies, which provide additional comfort and reduce operating costs.	4,600	Q1 2019
	**BUSINESS GARDEN RIGA** – In Q3 2019, the developer Vastint Latvia commissioned the first phase of Business Garden Riga, two office buildings with a total leasable area of 14,500 sqm, 200 bicycle parking spaces, 109 underground and 504 surface parking lots. The office building is in an excellent location, with easy access and a spacious green garden. The open-floor layout allows for the creation of an office from 1,250 sqm to 2,700 sqm in size on one floor.	14,500	Q3 2019
	**MEŽAPARKA REZIDENCES** – Developer Domuss in Q4 2019 commissioned the office building Mežaparks office which is part of the large-scale real estate development project Mežaparka Rezidences. The new A class office building consists of 3 floors with a total leasable area of 3,300 sqm. Modern office spaces are located on the 2nd and 3rd floors with leasable area of 2,200 sqm.	2,200	Q4 2019
	**TELEGRAPH** – In Q1 2019 Nordic & Baltic Property Group opened a reconstructed historic telegraph building located in Old Town, on the corner of Audēju and Kalēju Streets. The new office centre is designed in accordance with the concept of coworking in mind. The renovation brought 1,100 sqm of retail space in the first two floors and around 3,000 sqm of A class offices on the other floors. The main tenant is Workland, which provides full service private offices as well as coworking spaces.	3,000	Q1 2019
	**BRĪVĪBAS BULVĀRIS 21** – In Q1 2019, the Baltic RE Group put into operation a historic Art Nouveau building with the status of a state-protected cultural monument in Old Riga. The property was renovated, significantly increasing the retail and office space of 6,800 sqm. Office spaces are located on the upper floors with a leasable area of around 4,500 sqm.	4,500	Q1 2019

NEW PROJECTS

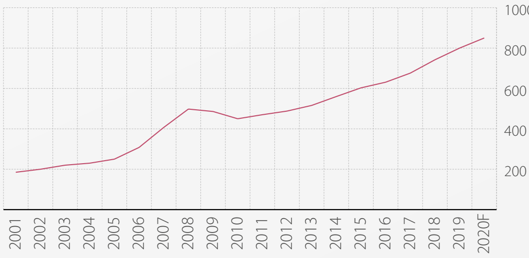
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**JAUNĀ TEIKA (HENRIHS)** – In addition to the Teodors office centre, a new office building Henrihs with total leasable area of 22,000 sqm, is currently being developed by Hanner in the neighbourhood with completion expected in 2020.	22,000	2020
	**Z-TOWERS** – On-going since 2006, two 30-storey towers for residential and office use officially commissioned in Q1 2020. There are 336 apartments, 10,000 sqm of office space, parking spaces for up to 700 cars and more than 4,000 sqm for fitness and SPA.	10,000	Q1 2020
	**SALAS BIROJI** – Developer Bauplan Nord plans to build a new A class office centre, Salas Biroji, comprising 4,650 sqm, in the neighbourhood of their existing Upmalas biroji centre, on Mūkusalas Street. The project is expected to be completed in 2021.	4,650	2021
	**ELEMENTAL SKANSTE** – In Q3 2019 SIA Kapitel (former E.L.L. Real Estate) started construction of the office complex Elemental Skanste, in the new Skanste CBD, where a total of five buildings will be erected with NLA of 41,400 sqm. The first stage will have twin buildings of 10 floors, with more than 20,500 sqm of leasable office space and parking for 367 cars. Expected commissioning is in 2021.	20,500 (I stage)	2021 (I stage)
	**ORIGO ONE** – Origo One office centre, developed by Linstow will supply 11,500 sqm of A class offices (the upper three floors will be given over to retail) in 2020 in the very centre of Riga, near the railway station. The new building is being built according to BREEAM standards, the world's leading assessment method for building sustainability. The first tenants of the new office centre are Narvesen Baltija and Hili Properties, as well as media companies LETA and TVNET.	11,500	2020
	**RIVERSIDE OFFICES** – Renovation of an office building with fantastic views of the river Daugava and the city skyline is expected to be finished at the start of 2020. When complete, the modern, spacious B+ class office and retail space twill be handed over to the tenants, with the option of adapting the premises and layout to the tenant's needs. On the top floors there are spacious communal terraces, a conference room, areas for networking. The total area of the building is 9,000 sqm, with office area of 6,000 sqm.	6,000	Q1 2020
	**CAPITAL CITY** – In 2018 Capital Mill plans the development of a 32,000 sqm office complex of three 13-storey buildings near the southern bridge, at Krasta Street. A 4-level underground car park will provide 775 parking spaces. The project could be completed no earlier than 2022.	32,000	N/A

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

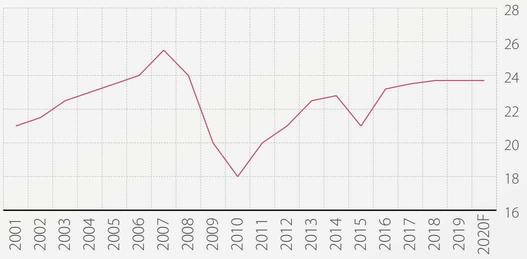
AVERAGE SALARY GROWTH, %



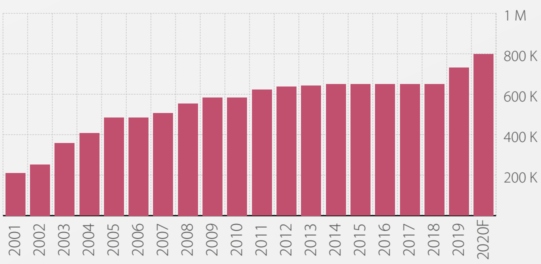
AVERAGE NET SALARY PER MONTH, €



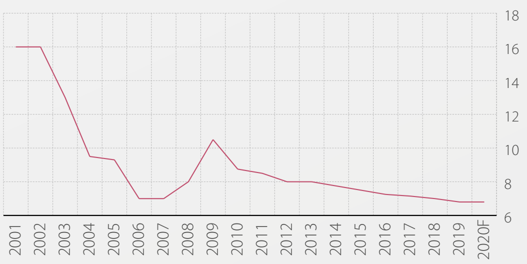
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



RIGA SNAPSHOT (END-2019)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	730,000 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.16 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€6.00 - €10.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€15.00 - €35.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€25.00 - €50.00
HIGH STREETS RENTS (SQM / month)	€20.00 - €55.00

THE OPENING OF AKROPOLE HAS SIGNIFICANTLY INCREASED THE RETAIL SPACE IN RIGA

SUPPLY

2019 has been quite active for the development of the retail segment. According to Ober-Haus data, there were almost 81,000 sqm newly opened retail space in Riga. At the end of 2019, Riga had 730,000 sqm of total leasable space in shopping centres or 1.16 sqm of shopping area per capita (counting those over 5,000 sqm of GLA with over 10 tenants).

The largest multifunctional retail and office project Akropole was opened in Q2 2019. Located in Riga, Salaspils Street, 5 km from Old Town, it comprises 60,000 sqm of shopping area and around 9,000 sqm of office space.

Expansion of the largest existing shopping park Alfa finished in Q3 2019. With the completion of these works, Alfa is considered to be the largest shopping centre in Latvia, providing its visitors with services from 210 different tenants and parking for 1,750 cars. The centre's total area has increased from 99,000 sqm to 154,000 sqm.

In Q4 2019, the new concept shopping centre Ozols was opened on the site of the former Galerija Azur shopping centre, with a total area of 29,500 sqm, with its largest tenants K-Senukai and RIMI. The building and territory were reconstructed and expanded by the Lithuanian company KS Holding, which invested €35 million in the project.

The major retail chains RIMI and MAXIMA have also continued their expansion throughout Latvia. RIMI still has 4 concepts (RIMI Hyper, RIMI Super, RIMI Mini and RIMI Express) and at the end of 2019 there are 128 stores, 5 new ones opened in 2019. Maxima at the end of 2019 had 168 and opened 13 stores in 2019. MAXIMA also has 4 store concepts: X, XX, XXX and Express.

2019 saw an increase in the number of households that purchased various food products and household goods on the internet. In November 2019, RIMI's new online shopping site was launched; the company also launched the RIMI Drive in shopping centre Ozols, where shoppers pre-order their good and complete the purchase directly from their car. Although such a shopping habit is gaining popularity, it is still a niche ripe for development, as only 5% of the population in Latvia regularly used such services in 2019.

DEMAND

Overall economic growth, salary and consumption increases influenced higher activity in the retail market during 2019. Retail trade turnover in Latvia increased by 2% in 2019. However, online shopping activity continues to have a negative impact on high-street retail market turnover. Every year more and more people turn to online shopping.

The vacancy rate of shopping centres in Riga decreased from 4.0% to 3.2% in 2019.

RENTS

In 2019, rents for retail premises in the centre of the city remained almost intact. Rent levels varied from €10.00 to €33.00 per sqm per month for small-sized premises up to 100 sqm.

In high traffic areas in the Old Town, most rents are between €20.00 and €40.00 per sqm per month reaching €55.00 per sqm for exclusive premises. In small cross streets in the city centre and the Old Town rents are between €10.00 and €20.00 per sqm per month.

In 2019 there was no significant change in rents in shopping centres: starting from €8.00 per sqm per month (for premises over 1,000 sqm), from €15.00 to €35.00 for medium-sized premises (150–300 sqm), and €25.00–€50.00 (less than 100 sqm). Anchor tenants pay between €6.00 and €10.00 per sqm per month.

INVESTMENT

Expected and asked for yield for well-performing shopping centres was 6.5–7.0% in 2019.

The 20,000 sqm Galleria Centrs shopping centre, located in the Old Town of Riga, on Audēju Street, was purchased in Q1 2019, by the Baltic Horizon Fund from Linstow, for €75 million.

The 5,300 sqm Anniņmuižas centre, located in Anniņmuižas Boulevard in Riga, was purchased in Q2 2019 by Lumi Capital, an Estonian investment company. Details of the transaction have not been disclosed.

LEGAL NOTES BY SORAINEN

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

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

ORIGO

OBER HAUS

RECENT DEVELOPMENTS

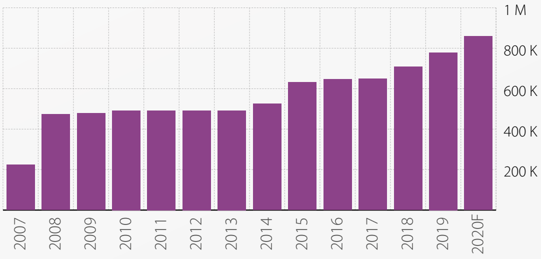
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**AKROPOLE** – In Q2 2019 a subsidiary of the Lithuanian Akropolis Group opened one of the largest multifunctional retail and office projects in Latvia. Located in Riga, Salaspils Street, 5 km from the Old Town, it comprises a 60,000 sqm shopping area and around 9,000 sqm of office space. There are approximately 220 tenants with Maxima XXX, the Lithuanian food retailer being the anchor tenant. Other tenants include the new multi-brand retailer Van Graff, among others and a wide café and restaurant network. The mall also has a year-round skating rink, a cinema, a modern fitness centre, and indoor and outdoor children's playgrounds. O'Learys, a US amusement complex, featuring bowling, sport games simulators, laser equipment and a restaurant is a central part of the mall.	60,000	Q2 2019
	**ALFA** – The Alfa shopping park next to the Cinnamon cinema was expanded in Q3 2019. As a result of the expansion, the total area of the shopping park, including multi-storey and underground parking lots, has been increased from 99,000 sqm to 154,000 sqm and shopping area increased from 55,000 sqm to 71,000 sqm. The new building has three floors: two for shopping and the third for entertainment and restaurants, providing its visitors with services from 210 different tenants and parking for 1,750 cars.	+16,000 (expansion)	Q3 2019
	**OZOLS** – Shopping centre Galerija Azur was opened in 2006, in 2016 it was bought by KS Holding, which invested in expansion and reconstruction and rebranded the shopping centre as Ozols. The expansion stage of the shopping centre was commissioned in Q3 2019 and the shopping area was expanded by 4,500 sqm. The fully renovated and expanded shopping centre Ozols offers a shopping area of 27,100 sqm with spacious parking for 750 cars, electric car charging stations and bicycle parking.	+4,500 (expansion)	Q3 2019

NEW PROJECTS

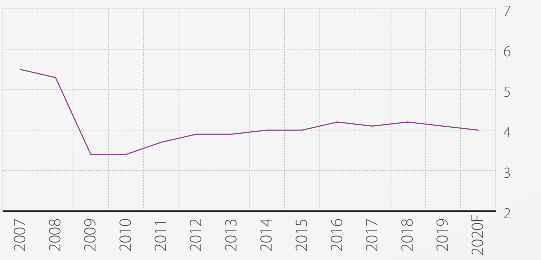
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**ORIGO** – The Scandinavian retail centres management company Linstow is expanding the Origo shopping centre in the heart of Riga, adjacent to the central train station. A 6-storey multifunctional complex, next to the current building, will include office space on the upper floors and a shopping centre on the first floors. The present retail area of 18,300 sqm will be expanded to 34,800 sqm of retail space. Additional underground parking for 144 cars will be added. The project is scheduled to be completed in Q2 2020.	+16,500 (expansion)	Q2 2020
	**VIA JURMALA OUTLET VILLAGE** – Construction work is continuing at the Via Jurmala Outlet Village in Piņķi, where the first phase of the project, with an area of 13,500 sqm is scheduled to open in spring 2020, bringing about 70 different shops and cafes within the project. The completion of the second phase and the full opening of the outlet centre is scheduled for 2022 and the total retail space of the project is estimated at 24,000 sqm.	13,500 (I phase) 24,000	Q2 2020 (I phase) 2022
	**SAGA** – Construction of a new lifestyle shopping centre has started next to Ikea shopping centre in Stopiņi municipality, on the edge of Riga. The new centre is scheduled to be commissioned in Q3 2020. It will have a total leasable retail area of 52,000 sqm. Shopping centre Saga is being developed by VPH Latvia together with Estmak Capital. This shopping centre will have several segments, as well as a pond with a facilitated recreational area.	52,000	Q3 2020

AKROPOLE

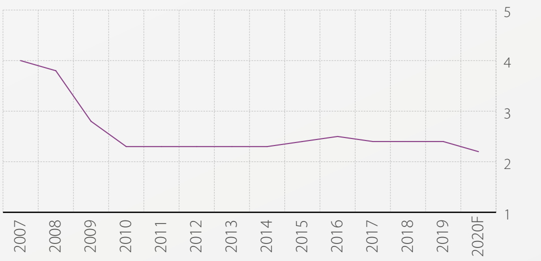
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



RIGA SNAPSHOT
(END-2019)

TOTAL NEW WAREHOUSE SPACE	778,900 SQM
WAREHOUSE VACANCY RATE	2.5 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €4.80
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.20
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€0.50 - €1.00

LOW VACANCY RATE EXPANDS THE WAREHOUSING SECTOR

SUPPLY

Three new projects with a total warehousing area of 70,100 sqm were completed in Riga and its surroundings in 2019. These new projects were undertaken by VGP, Piche and Sirin. Recent projects increased the total leasable area of modern warehousing premises in Riga and its surroundings by 10% to 778,900 sqm.

In 2020, implementation of at least four major projects in Riga and its vicinity (within 20 km) – including expansion stages – with total area of around 80,000 sqm, are scheduled. These projects are being developed by Lidl, Sirin Development, Piche and LNK Properties.

DEMAND

The industrial segment has seen significant activity in 2019. There is a demand for modern warehouse space in the Riga region. The largest demand is for premises of 1,000 to 2,000 sqm, but demand is also growing for smaller sized premises below 1,000 sqm.

The construction of industrial parks is topical in Riga vicinity, where convenient access to main roads and public transport infrastructure is provided.

With the growth of e-commerce, there is increasing activity from parcel delivery companies looking for professional, modern warehouse space.

Despite significant growth in new industrial space in 2019, the vacancy rate of modern warehouses in Riga region during 2019 is only about 2.5% – quite far from the healthy vacancy rate of 5-7%, which would ensure healthy competition in the market.

RENTS

Due to sufficient new supply, rents for new warehouses decreased slightly during 2019. At the end of 2019, rents for new warehouses in Riga city and its surroundings ranged from €3.50 to €4.80 per sqm. Rents for old construction warehouses (from poor quality to fully renovated) range from €1.50 to €3.20 per sqm. Additional costs for tenants are from €0.50 to €1.00 per sqm on average.

For small and older warehouses, factories and service facilities up to 500 sqm, the selling price is on average between €350 and €400 per sqm. Sales prices for hangars built in the 80s-90s starting at 500 sqm range from €70 to €250 per sqm.

INVESTMENT

East Capital Baltic Property Fund III purchased industrial Airport Park, 23,000 sqm logistics complex of warehouse, production and office spaces, located in Marupe parish, an area near the Riga-Liepaja/Ventspils motorway, near RIGA International Airport RIGA. The transaction price was €19 million. The industrial park was developed by PICHE and was fully rented.

Mariner Capital Limited Investment company bought a modern business and logistics centre BLC ELIPSE built in 2009 on 4.6 ha of land in a highly prominent location in the territory of the business park of RIGA International Airport RIGA. The logistics centre was constructed as three separate warehousing complexes, each warehouse being approx. between 8,000 sqm and 9,500 sqm. The total area of the warehousing complex is around 27,000 sqm.

Lumi Capital bought the logistics complex of Plienciema Centrs, located near RIGA International Airport RIGA together with Estonian private investors. The area is highly valued by logistics companies. The complex is rented out to two international logistics companies – Inter Cars Group and Deutsche Post DHL Group. The logistics complex was built in 2006 according to international standards. The total area of the complex is 9,100 sqm.

LEGAL NOTES BY ***SORAINEN***

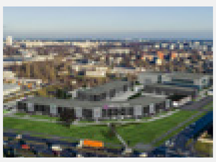
Industrial leases are rather simple and for such leases finance and construction opportunities are readily available. Rents are indexed to local or EU inflation. Usually, the parties conclude triple net lease agreements where the tenant pays all maintenance costs. Industrial projects are usually built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

SIRIN LOGISTICS PARK

RECENT DEVELOPMENTS

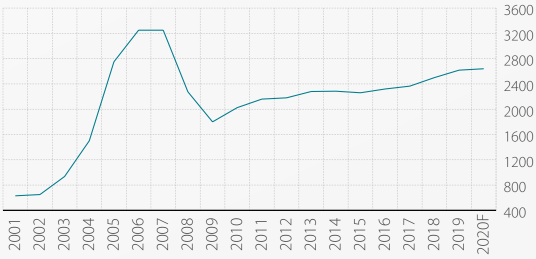
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**VGP PARK KEKAVA** – The second stage of the modern warehouses complex with 25,000 sqm was completed in Q2 2019 and was fully let by the end of the year. The project is located near the Riga ring road and A7 motorway (Lithuania, Poland and other EU directions), 20 km from Riga. Total area of the first and second stages is 60,000 sqm.	25,000 (II stage)	Q2 2019 (II stage)
	**AIRPORT PARK** – Piche completed the first and second stages of industrial Airport Park in Q2 and Q3 in 2019, with total leasable area of 23,000 sqm.	23,000	Q3 2019
	**SIRIN LOGISTICS PARK I** – A Lithuanian developer SIRIN Development completed the first stage of a 22,100 sqm an A class warehouse and logistics centre in Rumbula in Q4 2019. They are close to signing rent agreements with tenants.	22,100 (I stage)	Q4 2019 (I stage)

NEW PROJECTS

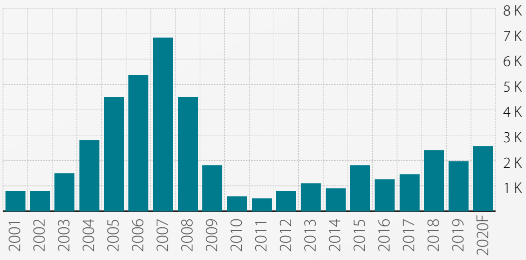
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**LIDL** – The German supermarket chain is preparing to start active operations in Latvia and has started building a logistics centre on Ulbrokas Street, in Riga, with a total area of 47,000 sqm; completion is foreseen for 2020. Lidl has also bought several plots for its shops in Riga, as well as in the cities of Liepaja and Jekabpils. It has started submitting projects to the respective construction authorities and is looking for opportunities in other cities of Latvia.	47,000	2020
	**GREEN PARK** – After successfully selling the P5 Industrial Park and Airport Park, the developer Piche announced their third industrial Park which is bordered by RIGA International Airport - Green Park. Land plot 100,000 sqm, warehouse 50,000 sqm and office 7,000 sqm. It is expected that the warehouses will be commissioned in Q3 2020.	50,000	Q3 2020
	**SIRIN LOGISTICS PARK II** – After completion of the first stage in Q4 2019, a Lithuanian developer SIRIN Development plans to build another stage of 27,000 sqm A class logistic Park in Q3 2020. In three years the park will have a total of 80,000 sqm of modern logistics and storage facilities.	27,000 (II stage)	Q3 2020 (II stage)
	**DIENVIDU VĀRTI (SOUTHERN GATEWAY)** – A class industrial park, where construction started at the beginning of 2019. It will house a multifunctional warehouse, office, trading and production spaces with highly developed infrastructure on a four-hectare site. The Southern Gateway industrial park is located in Riga, 5a Rezeknes Street in the quarter between Piedrujas and Darzciema Street close to the Southern Bridge (Dienvidu tilts) in Riga. The 10,500 sqm project has already begun and the park is expected to open at the beginning of 2020.	10,500	Q1 2020

GREEN PARK

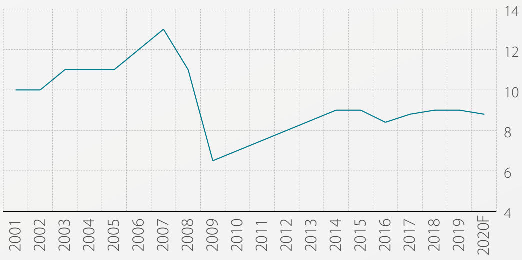
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



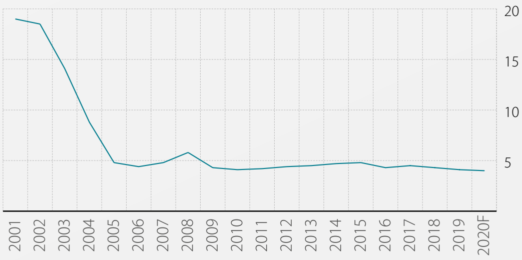
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



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RIGA SNAPSHOT
(END-2019)

ANNUAL APARTMENT PRICE CHANGE	+ 2.3 %
NEW APARTMENTS BUILT	1,975
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,550 - €2,100
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€1,800 - €4,000
PRICES FOR EXCLUSIVE APARTMENTS IN CITY CENTRE & OLD TOWN (€/SQM)	€5,000 - €7,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.1 %

THE LARGEST SUPPLY OF UNSOLD NEW APARTMENTS

PRICES

Apartment prices in Riga increased by 2.3% in 2019, after an increase of 2.5% in 2018. In 2019, prices slightly increased both in old construction buildings as well as in new construction apartments located in residential districts.

Prices for apartments in Soviet-era buildings increased by 3.3% and stood at an average of €808 per sqm at the end of 2019. Prices per sqm in old Soviet-era buildings are usually 40–50% cheaper than prices in new projects in the same locations.

Prices for new construction apartments saw a 2-3% increase in Riga, while older construction apartment prices in the central part of the city stayed level during 2019.

Prices of new apartments in the city centre and the Old Town ranged from €1,800 to €4,000 per sqm at the end of 2019, and prices of apartments in luxury newly developed projects can top €5,000-€7,000 per sqm.

New apartments in the suburbs were selling from €1,550 to €2,100 per sqm at the end of 2019. New apartments are usually sold with final fit out except for kitchens.

Nevertheless, in many cases the asking new apartment prices are higher than buyers are paying.

SUPPLY

According to Ober-Haus data, in 2019 1,975 apartments were constructed in Riga, which is an 18% decrease compared to 2018 (2,411 in 2018). Ober-Haus expects around 2,500-2,600 new apartments to be completed in 2020.

The completed projects were located in different locations of Riga – both in the centre and in the suburbs. However, there is still demand for economy and middle-class apartments and a lack of adequate supply due to high construction costs. Some of the biggest developers, such as Bonava, YIT and Hanner achieved up 80% apartment reservations before final completion of a building.

To support the energy efficiency of multi-apartment buildings, a total of €155 million, representing 95% of the total grant, must be certified through 662 project applications. The State Aid programme for Improvement of Energy Efficiency of Apartment Houses is implemented by ALTUM, the Development Finance Institution, with financing from the European Regional Development Fund. Continuing the pace of project submission so far, it is expected that all grant funds in the programme will be reserved in the first quarter of 2020.

DEMAND

In 2019 Riga saw a 3.5% increase in apartment sales; on average 788 apartments were sold in Riga each month.

At the end of 2019 there were almost 1,800 unsold apartments available in the primary market in completed projects and projects under construction.

Many buyers of residential property have problems with financing or are unable to prove the origin of the money if they do not use a mortgage. But as the incomes of the population become more transparent, there are increasing numbers of potential buyers in the market.

The Ministry of Economy and the Government have allocated around €7 million to the Development Finance Institution ALTUM to extend support to families with children for housing or construction in 2020. From February 2020, support will also be available for persons with one or more children who are pregnant, and the guarantee is to be increased to 30% (instead of the current 20%) of a loan for families with four or more children. It is also intended to give families the opportunity to apply for the guarantee again, provided that the guarantee obligations previously granted have expired. In 2020, ALTUM will also continue to provide state support for the purchase of housing under the guarantee programme for young professionals under the 35 with higher or secondary education.

THE MORTGAGE MARKET

According to data from the Bank of Latvia, the average annual interest rate on new mortgage loans in 2019 was 2.77% (this figure was 2.82% in 2018 and 2017, 3.21% in 2016). Since 2008, the annual average interest rate of new residential loans has decreased from a record 7% to approximately 2.8% in 2019. Clients can borrow up to 70% of a property's value with a standard mortgage, and up to 90% if they qualify for the government's housing guarantee programme.

Borrowers are growing in wages and liabilities, and banks are reporting increasing demand for home loans. However, despite sustained economic growth, lending in Latvia remained sluggish. Domestic credit to GDP ratio in Latvia has fallen to its lowest level in the last 15 years – 40%. The low level of commitments indicates untapped lending potential.

The lending rate of non-financial corporations has slowed in 2019 and their annual loan portfolio growth was 3.5% at the end of 2019. These dynamics are mainly driven by long-term loans for large investment projects.

Households' loan portfolio increased by 0.8% at the end of 2019, largely driven by a 1.8% increase in home loans. For lenders, one of the major obstacles to credit is the high share of the shadow economy, which is directly responsible for the security of financial services.

Lack of transparency of the potential borrower and inability to provide a formal source of income are cited as major barriers to access to credit for both entrepreneurs and households. Only then is the next limiting factor followed by insufficient cash flow and non-financial corporations' income. Continuing work on comprehensive measures to reduce the informal economy and looking for new initiatives and solutions can be expected to boost lending growth.

The government guarantee programme has played a significant role in household lending: in the last two years, about half of new home loans have been covered by government guarantees, bringing the share of such loans to 18%. This finding requires an evaluation of the original purpose of the programme and its current use.

The substantial rebate on the State fee for land registration provided for in the scheme provides a significant incentive for borrowers who do not require government guarantees by their nature and whose financial situation allows them to make their first instalment.

Recalling the tremendous struggle of the banks for market shares in the pre-crisis period, which exacerbated the real estate bubble expansion and overheating of the economy, the situation is now the complete reverse with banks being very slow to lend and only ready to lend to the safest customers.

RENT

Riga rental market has undergone changes over 2019. At the end of 2019 the highest rents for apartments were in the city centre, Old Town and other prestigious districts and new construction buildings across Riga. Two-room apartments in such locations and projects are available for €400–€800 per month. A three-room apartment costs €550–€1,500 per month, four- and five-room apartments from €1,100 to €2,100. With the decreased external demand for rental apartments, rents dropped by around 10-20% during 2019. The reduction of rents for more expensive apartments has not affected the rents in the suburbs and for small city centre apartments up to €350 per month, for which the price remains stable, in some cases even increasing.

Currently the highest demand in the city centre is for well-renovated three-room apartments, with areas from 70 to 90 sqm and rents between €500 and €700.

Rents for old construction one-room apartments in popular residential districts range from €180 to €300; two-room apartments rent for between €220 and €400 and three-room apartments for €300–€550 per month. Demand is constant throughout the year. It is noted that owners sometimes give discounts in order to stimulate faster rental deals, in exchange both parties agree not to have the apartment refurbished thus saving time and money.

Rents in new construction residential buildings in residential neighbourhoods are usually about 30% higher and usually two-room apartment monthly rents range between €350 and €550 and three-room apartments from €500 to €750.

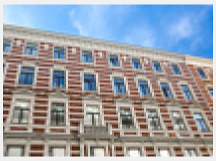
The most popular apartments in demand by investors, are those with a return of 8% per annum, one- and two-room apartments with areas up to 50 sqm needing repairs with prices in the €55,000 to €60,000 range, or large apartments, up to 200 sqm apartment without repairs, which can be divided into small apartments with prices up to €1,000 per sqm. But due to the reduction in rent prices, it is more realistic to find investment apartments with a gross yield of 5-7%.

LEGAL NOTES BY SORAINEN

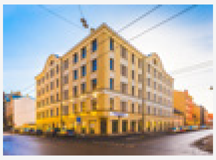
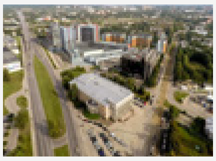
Residential leases are regulated by Latvian law more strictly than commercial leases. However, the amount of rent may still be agreed upon freely. Residential leases are binding on new owners regardless of whether they are registered with the Land Register. Currently a draft law on Residential tenancy is under review in the parliament. If passed, this law will require that all residential lease agreements are registered with the Land Register and only when registered will they be binding on the new owner of the apartment. This law will also promote more effective mechanisms for eviction of bad tenants.


ANNAS PARKS

RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**CLUB CENTRAL RESIDENCE II** – An elegant and modern new development with high quality bright and spacious apartments located at the intersection of Baznicas (Baznīcas) and Lacplesa (Lāčplēša) Streets – in the heart of Riga. Apartments are offered with full interior finish – sustainable wood flooring, Italian tile flooring and high-quality fixtures. There is underground parking and storage space. The 27 apartments range in size from 47 to 278 sqm. Prices are around €3,500 per sqm. Construction began in 2017 with completion in 2019.	~€3,500	2019
	**PARK ALEY 2** – An innovative and modern residential area located at Pulkveža Brieža Street – in the historical centre of the city, which is included in the UNESCO list of places of world cultural and natural heritage. The project developer is Park Lane. Each apartment building has 86 apartments over 7 floors, 88 parking spaces and 34 bike-stands. Each apartment has a terrace or a balcony. Apartment areas range from 31 to 222 sqm. Prices start from €2,000 per sqm. The project was completed in 2019.	from €2,000	2019
	**BIBLIOTĒKAS NAMS** – Renovated building in the centre, both the history and architecture of the building permeate it with elegance – the luxurious facade, staircase paintings and stained glass windows, small and seemingly small details. All the historic features have been preserved and restored as this is what adds value to the house. The house offers apartments with one, two or three rooms ranging from 19 to 80 sqm. Prices range from €2,000 to €3,100 per sqm. By the end of 2019, 90% of the apartments had been sold. The project developer is Bibliotekas nams.	€2,000 - €3,100	2019
	**PARK RESIDENCE** – A building with a unique location, Kr. Barona Street – is in the centre and in the outskirts of the city at the same time, between the developed infrastructure and the green area, completed in Q3 2019. It offers contrasts and a wide range of modern and lively city activities at your fingertips. Surrounded by two busy centre streets, Park Residence is like an oasis of peace suitable for those seeking a peaceful and calm environment and active lifestyle enthusiasts. The project has 109 apartments ranging in area from 11 to 35 sqm. Prices start from €2,150 per sqm.	from €2,150	Q3 2019
	**AUSEKĻA 14** – As a result of the restoration work, the building on Ausekļa Street has been reconstructed in 2019, transforming it into a luxury residential building with 16 apartments, 2 penthouse apartments on the top floor and commercial premises on the first floor. The project offers apartments ranging from 65 to 232 sqm, the penthouses have 2 and 3 bedrooms with areas of 180 and 236 sqm, with spacious roof terraces and panoramic windows. Prices start from €3,250 per sqm.	from €3,250	2019
	**PHILOSOPHERS RESIDENCE** – Project located on Raņķa Dambis, and developed by R.EVOLUTION CITY was completed in Q3 2019. There are 114 apartments located in two buildings (20- and 21-storey), connected via underground garage which will accommodate around 122 vehicles. Apartments range from 37 to 258 sqm with prices from €1,900 to €5,300 per sqm. All technical and designed parameters exceed anticipated/projected European Union Construction Guidelines.	€1,900 - €5,300	Q3 2019

RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**PROMENĀDE II** – After completion of the first loft type project Promenāde in Pārdaugava on Mūkusalas Street in 2018, the second building was completed in 2019. The range of residential apartments has been complemented by the unusual and exciting project, located on the left bank of the River Daugava. On the six floors of the second building, there are 65 apartments ranging from 29 to 171 sqm. The project has a standard apartment layout but uses different finishing materials to make them unique. Prices are about €1,800 per sqm.	€1,800	2019
	**DZIRCIEMA NAMS** – The project is located in Dzirciems, Eiženijas Street, developed by YIT Latvija. The project is located in one of the most charming and greenest districts of Riga, where the rhythm of the city meets the proximity of nature, making the neighbourhood ideal for a peaceful and comfortable life. There are 74 apartments ranging from 39 to 97 sqm. Prices start from €1,600 per sqm. Project completed in Q2 2019.	from €1,600	Q2 2019
	**BIŠUMUIŽA** – The second and third stages of the premium class project cover eight buildings with 112 apartments with a full and high-quality finish completed in Q2 2019. The project is located in a scenic location in Pārdaugava district, next to the forest, just a 10-minute drive from the city centre. The apartments range in size from 65 to 140 sqm. Prices start from €1,400 per sqm.	from €1,400	Q2 2019
	**TALLINAS IELA 86** – On the corner of Tallinas and Krasotaju Streets, in this dynamically developing area in Riga city centre, is a reconstructed magnificent building from the early 1900s. Reconstruction is being carried out by Baltic Investment Group. There are 48 apartments catering to a wide range of potential buyers ranging from 24 to 70 sqm. Every apartment is fully decorated. Prices are €2,000 per sqm. Construction completed in Q1 2019.	€2,000	Q1 2019
	**JAUNĀ TEIKA** – The buildings complex is located in Teika, Ropažu Street and developed by HANNER. The third construction phase consists of three buildings with 360 apartments. Apartments range from 43 sqm to 87 sqm. Prices of apartments will start at €1,700 per sqm. Construction works are on-going with completion dates from 2019 to 2020. On completion of the third phase, the project will have more than 800 apartments. The completed building at Ropažu Street consists of 127 apartments.	from €1,700	2019/2020
	**EZERPARKA NAMI 2** – The multifunctional Ezerparks project is located on Rusova Street in Čiekurkalns and is being developed by New Europe Real Estate. The unique advantage of the project is the well-maintained and integrated environment that will develop around the residential complex in the coming years. The second phase of the project consists of three 5- 6- and 10- storey buildings with 184 apartments ranging in size from 31 to 73 sqm. Prices start from €1,750 per sqm. Construction works finished in 2019.	from €1,750	2019
	**LEGATO** – Residential building with 18 apartments is a contemporary 3-storey building with natural wood finishes, like a sweet flowing melody blending in with the surrounding structures of Baložu Street, developed by Hepsor. The yard with a playground for children gives the impression of living in a private house, while the nearby Kalnciema Street brings you back to urban reality whenever you feel like it. Apartments range from 40 to 80 sqm, and prices start from €2,250 per sqm. Project completed in Q4 2019.	from €2,250	Q4 2019

RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**PŪCES 19** – The new project on Pūces Street 19 consists of a 5-storey high-rise residential building with 65 apartments. It is this district of Riga that is considered to be the most convenient in terms of infrastructure. The project has 1 to 4 room apartments with well-planned layouts ranging from 26 to 55 sqm. Prices start from €1,800 per sqm. Construction completed in Q4 2019.	from €1,800	Q4 2019
	**ANNAS PARKS** – YIT apartment complex ANNAS PARKS is located in a forest surrounded by Imanta, only 15 minutes from the centre of Riga. It is a residence that combines Scandinavian quality with thoughtful comfort combined with the presence of nature. Imanta's neighbourhood provides its residents with all the benefits of a capital that makes life more enjoyable. Each of the two 4-storey buildings has 44 apartments ranging from 33 to 86 sqm. The apartments are sold with full finish, selling at an average price of €1,900 per sqm. Construction of the first building was completed in Q4 2019.	~€1,900	Q4 2019
	**AKĀCIJAS** – This apartment complex is located in Imanta on Akāciju Street and is being developed by SIA KBO. The project consists of 4 nine-storey apartment buildings with a total of 216 apartments with full interior trim and equipped with every convenience for modern-day living. Each apartment is provided with a storage unit in the basement. Within the territory of the apartment buildings, there is a playground, car and bike parks and a green courtyard. Apartments range from 39 to 78 sqm, and prices start from €1,900 per sqm. Project completed in Q4 2019.	from €1,900	Q4 2019
	**GAIĻEZERA NAMI 2** – The project is located in Mežciems on Gaiļezera Street. The project is being developed by the construction company Merks – one of the largest construction companies in Latvia. In total, the project involves six 9-storey buildings. The second stage with three 9-storey buildings is located closer to the lake with 96 apartments, completed in Q4 2019. Next to the existing three buildings, three more buildings are being built and the surrounding area is being landscaped down to the lake shore. Apartment areas range from 60 to 109 sqm. Prices start from €1,750 per sqm.	from €1,750	Q4 2019

PARK ALLEY 2

OBER HAUS

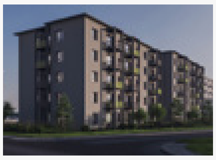
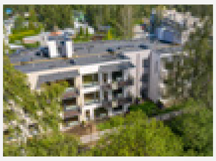
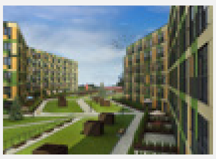
NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**HOFT** – Located in the heart of Riga's quiet centre, Strēlnieku Street, this project is a combination of historical architecture, nature, technology and art. The project is developed by R.EVOLUTION CITY. A unique hovering oasis is positioned over the carefully preserved and restored historic facade like a glass showcase built for design objects, but nature itself is its creator. There will be a total of 42 apartments. Apartments will range in size from 76 to 232 sqm, prices from €2,000 to €3,400 per sqm for a fully finished apartment. It is expected that construction will be completed in Q2 2020.	€2,000 - €3,400	Q2 2020
	**LOFTS & ROSEGOLD** – Located on Strēlnieku Street, the Lofts & Rosegold residential development is a prime example of synergy between the architectures of two different periods, in which the historic building is a gemstone, and the newly built one is a marvellous rose gold frame, bringing out the beauty of Lofts. The project is being developed by R.EVOLUTION CITY. There will be 75 apartments complete with terraces, balconies and private gardens in the Rose Gold residential building, ranging in size from 57 to 170 sqm and prices start from €2,300 per sqm. It is expected that construction will be completed in Q1 2020.	from €2,300	Q1 2020
	**KRASTA RAJONA TREND** – The project is located in the Krasta neighbourhood on Maskavas Street and developed by Bonava Latvia. This ambitious new project will be located near the historic Krīdenera Dam. The Krasta District, as part of the new Moscow Fortress, began to develop during the construction of the Salu Bridge in the 1970s, but it became the most lived in neighbourhood in Riga only after Latvia regained its independence, with intensive construction of commercial, office and residential buildings in the area. In the enclosed area it is planned to build six 9-storey buildings with 500 apartments, as well as planting and landscaping around the house. It is planned to complete the first stage of 94 apartments ranging in size from 31 to 73 sqm in first half of 2020. Prices start from €1,600.	from €1,600	H1 2020
	**MEŽAPARKA REZIDENCES** – Mežaparka Rezidences is located in a location that successfully combines all the necessities for modern living – at Kokneses prospekts 1A. The project concept includes the creation of exclusive villas, twin-villas, terraced houses, and premium apartments in low rise buildings. Penthouse-type apartments with terraces and exclusive designs are created in a subdued decorative style, observing proportions and carefully thought-out details ranging in size from 60 to 145 sqm. Completion is planned for 2020. Price starts from €1,900 per sqm.	from €1,900	2020
	**SENTIMENTO** – Project of 28 apartments in Riga, Agenskalns, developed by Hepsor. The apartment building on 24 Agenskalna Street will bring back childhood memories of when your neighbours' doors were always open and the backyard was full of exciting and unforgettable adventures. Functional and well thought-out apartments range from 24 to 84 sqm. High energy efficiency building with storage and enclosed parking spaces in the yard. Price starts from €2,200 per sqm. Commissioning of the project is planned for Q1 2020.	from €2,200	Q1 2020

NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**FJORDI** – Fjords is a northern nature greatness that has settled in the centre of Riga. The opportunity to create and enjoy your own life in a modern home ideally located between the Daugava, the expanse of historic meadows and the quiet centre. The new project includes three 6-storey apartment houses, a total of 133 apartments with balconies, ranging from 49 to 89 sqm. Prices start from €1,900 per sqm. The completion of the first house is planned for Q4 2020.	from €1,900	Q4 2020
	**DIZSKABARDIS** – Residential building with 16 apartments is located in Riga, Kapseļu Street 25A, in Agenskalns, developed by Tapat Grupa. All apartments will be offered with high quality full decoration, balconies or green area. In the basement of the building, there are auxiliary rooms for the convenience of the residents. Underground and surface parking are also available. Apartments range in size from 59 to 165 sqm and prices start from €1,800 per sqm.	from €1,800	N/A
	**PAGALMS 2** – One of the trump cards of the new project is its location – Teika. The area has long been regarded as extremely respectable and popular by people, which can be inferred from the high demand for real estate. In total, the project has three five-story houses – 189 apartments, most of which will be two-room. Construction was started in 2019 and will be commissioned in 2020/2021, by Bonava. Apartment area ranges from 40 to 66 sqm, prices start from €1,700 per sqm.	from €1,700	2020/2021
	**STABU 100** – Modern building located in the heart of Riga, in the historic centre of Riga, Stabu Street. It is both an ideal place to live and a good investment. The project consists of seven floors with 33 apartments and two retail spaces. The yard has space for 16 cars, bicycle storage facilities and a children's playground. The project will be commissioned in summer 2020. The project is developed by Baltic Investment Group (BIG). The apartment areas will range from 39 to 121 sqm. Prices range from €1,950 to €2,600 per sqm.	€1,950 - €2,600	Q3 2020
	**GREEN CITY** – The project is located in Purvciems, Stirnu Street. Project developer is YIT Latvija. Two more apartment blocks are planned in the project. There will be 100 apartments in each 8-storey building ranging in size from 40 to 102 sqm. Prices start from €1,530 per sqm. Construction of the first building was finished in Q4 2019.	from €1,530	N/A
	**MERKS VIESTURDĀRZS** – The project is located in the quiet centre on Rūpniecības Street and developed by MERKS. The project Merks Viesturdārzs will be realized in three stages, with the construction of 350 different sized apartments, all of which are combined with high-quality construction and modern designs. Three 5–7 storey buildings will be built within the project. The first building, which will be closest to the park, will have 96 apartments and will be available in the first half of 2020. Apartment sizes range from 36 to 123 sqm. Prices start from €2,100 per sqm.	from €2,100	H1 2020 (I building)

NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**DREILINGA MĀJAS TREND** – The project is located in Dreiliņi, Robežu Street and is being developed by Bonava Latvia. The project consists of sixteen 5-storey residential buildings and will be developed in six stages. New dwellings in this ambitious project will certainly appeal to young families and young professionals who are looking for their first home. The first two completed project houses are characterized by low-rise buildings with 116 well-planned 2 to 4-room apartments with spacious balconies and gardens on the ground floor, ranging from 41 to 92 sqm. Prices start from €1,600 per sqm. The final phase of construction is expected to be completed in 2023.	from €1,600	2023
	**TREBŪ HOME** – The project is located on the right bank of the River Daugava in Riga, in a quiet, green area between Lubānas, Salnas and Kupriču Streets. The developer is AFI Europe. Modern technological solutions are used to provide classical home values to residents, including comfort, energy efficiency, and safe environment. There will be 1,400 apartments in total. The first stage with 108 apartments was completed in 2018. Apartments range from 36 to 80 sqm and prices start from €1,500 per sqm for a fully finished apartment. The whole project is expected to be completed in 2028.	from €1,500	2028
	**DIVI KRASTI** – Estonian developer Kaamos has begun construction of two new homes on the Divi Krasti project, which will eventually enable the neighbourhood to become richer with new, high-quality affordable housing. Two practical and long-lasting buildings with total of 132 apartments with areas range from 33 to 74 sqm. Each apartment has its own balcony and a terrace on the ground floor. All apartments have a high quality full interior finish, enclosed area with parking, children's playground and video surveillance. Prices start from €1,600 per sqm. The project is scheduled to be completed by the end of 2020.	from €1,600	Q4 2020
	**IRIS SHAMPETERIS** – IRIS is a unique residential building complex in the ecologically clean, green and luxurious housing area of Riga – Shampeteris, located between the Riga and Jurmala. The total area of the residential building complex is 2.5 hectares. Several three-floor multi-apartment buildings are planned within the framework of the project. The first stage building was completed in Q3 2019 with 72 apartments. The other two first-phase buildings of the complex are expected to be completed at the beginning of 2020. It is planned to implement the project in four stages, with the construction of several residential buildings with approximately 300 dwellings, with areas ranging from 55 to 130 sqm, prices range from €1,700 to €2,000 per sqm.	€1,700 - €2,000	Q1 2020
	**LIEPZIEDI** – Liepziedi is a new and accessible apartment building project in the Mīlgrāvis, neighbourhood of Riga. The second Liepziedi building will have six floors and will feature 179 one to four-room apartments ranging from 22 to 68 sqm. The first Liepziedi building was commissioned for use in the summer of 2017. Apartments will range from 22 to 68 sqm, prices start from €1,600 par sqm. The second building is scheduled to be completed in Q3 2020.	from €1,600 (II building)	Q3 2020 (II building)

MERKS VIESTURDĀRZS

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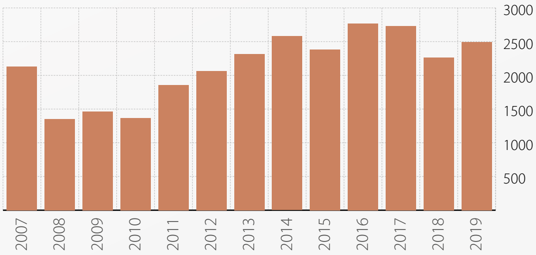
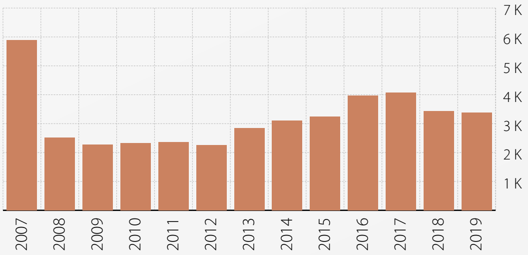
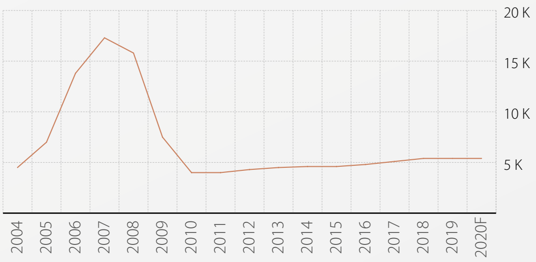
LAND TRANSACTIONS IN RIGA CITY



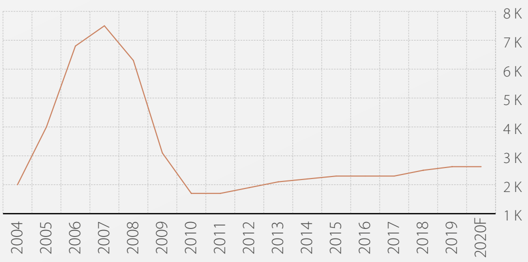
LAND TRANSACTIONS IN RIGA DISTRICT



LAND PRICES IN RIGA CITY, €/100 SQM



LAND PRICES IN RIGA DISTRICT, €/100 SQM



RIGA SNAPSHOT (END-2019)

TOTAL LAND TRANSACTIONS CHANGE (RIGA CITY)	+ 10 %
TOTAL LAND TRANSACTIONS CHANGE (RIGA DISTRICT)	- 1 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€300 - €1,000
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€50 - €300
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€20 - €80

STRONG DEVELOPERS SHOWING THE INTEREST IN BIGGER LAND PLOTS IN RIGA

PRICES

Prices for plots for residential development (multi-apartment buildings) are generally in the range of €50–€300 per sqm in Riga neighbourhoods and for mixed commercial and residential development €300–€1,000 per sqm in Riga central areas. Commercial land, near highways, range from €15 to €20 per sqm, commercial land in Riga neighbourhoods €20–€80 per sqm. In general land prices in Riga and its vicinity remained stable in 2019, except for land for commercial use in Riga neighbourhoods, where prices increased by 5-10% on average.

DEMAND

Total land transactions in Latvia decreased by about 3% in 2019, according to the data of the Central Registry. Meantime, land transactions in Riga city increased by almost 10% compared to 2018. Total land transactions were around 2,356 in the city, averaging 196 transactions per month. Total land transactions decreased by 1% in 2019 in Riga district, to around 264 transactions per month.

INVESTMENT

The market has been active throughout 2019 in Riga, with purchases of land plots suitable for commercial and residential developments. The activity in the land market is complemented by more intensive development of apartment houses.

Vastint Latvia has registered ownership of a 19-ha large building area in the territory of Ezerparks, in Riga. The acquired property consists of 13 separate plots located between Rusova, Kisezera, Talejas and Ungura Streets and is part of the Ezerpark territory. Land plots were purchased from New Europe Real Estate.

Gustava Parks projekti and Brīvības Parks projekti, owned by M.M.M. projektai, acquired two properties from RE Property in Riga, Gustava Zemgala Street and Brīvības Street. Land plots of 2.32 ha and 5.59 ha were acquired for the purpose of developing an office and residential complex. It is planned to develop this area by 2026 by building an office building of up to 50,000 sqm on land in G. Zemgala Street, and up to 100,000 sqm of residential housing on Brīvības Street. The total planned investment is over €200 million over seven years.

Eastnine acquired a land plot of approximately 1.15 ha in central Riga, for €9.5 million. The property, which originally housed the Kimmel brewery, constitutes almost an entire block along the main Krisjana Valdemara Street. Eastnine already owns three additional properties along the same street. The property contains approximately 4,000 sqm of cultural heritage area that must be preserved but can be developed. Another 34,000 sqm of new development of mainly offices can be added, other activities such as restaurant or retail are also permitted.

Maxima acquired a 1.33 ha land plot from New Europe Real Estate in Riga, Kisezera Street, for €2.4 million.

LEGAL NOTES BY SORAINEN

Investments by foreigners from the EU and countries that have agreements on mutual promotion and protection of investments with Latvia are generally unrestricted. Restrictions on foreign (non-EU) entities exist for acquisition of agricultural and forestry land (except if construction is permitted there) as well as land plots in border areas and special protection zones.

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LATVIAN REAL ESTATE TAXES AND LEGAL NOTES

ACQUISITION

- Upon acquisition of land or land and buildings, or a building property which includes a residential building (including function-related buildings) or non-residential buildings and related engineering structures, a 2% stamp duty is levied on the property value. In case of acquisition of a residential property (an apartment) by a legal person, which carries out business activities, a 6% stamp duty is charged on the value of the residential property.
- If legal title is transferred under a deed of gift, a 3% stamp duty is levied on the property value.

The reduced rates may apply in following cases:

- In all three cases described above, if legal title is transferred to spouses, children, parents, siblings, stepsisters/stepbrothers, grandchildren, great-grandchildren and grandparents, for registration of legal title in Land Register, a 0.5% stamp duty is charged on the value of a real estate (RE).
- As of July 2016, the reduced rate of 0.5% is applied to registration of the rights to the property with the land register for a RE, which is obtained through statutory government assistance and the value of which does not exceed EUR 100,000; in case the value of such RE exceeds EUR 100,000, the stamp duty is EUR 500 plus 2% of amount exceeding EUR 100,000.
- If a RE is invested in the share capital of a company, a 1% stamp duty is payable on the investment value.

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

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

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

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

RENT

VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

Rental income is tax exempt until company's profits are distributed in dividends or deemed dividends. When profits are distributed, the effective CIT rate is 25% (the statutory rate of 20% is applied to a tax base that is calculated as distributed dividends divided by coefficient of 0.8).

PERSONAL INCOME TAX (PIT):

Rental profit for individuals is taxed at a progressive rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 62,800), 31.4% (annual income above EUR 62,800). A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filled. Expenses can be deducted for up to 80% of the rental income (certain exceptions apply). Thus, PIT would be paid for at least 20% of the rental income.

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

If a person has not registered the lease agreement with the Latvian tax authorities, nor has it registered for commercial purposes with the tax authorities, the income from lease will be subject to progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 62,800), 31.4% (annual income above EUR 62,800) with no deduction for expenses associated with rental activities.

SALE

VALUE ADDED TAX (VAT):

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

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

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

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

The applicable rate of VAT is 21%.

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

The taxpayer may recover input VAT paid on the acquisition if the property is used to make taxable supplies. VAT-registered traders may opt to charge VAT on supplies of used real estate (generally exempt) if the sale is made to VAT registered person.

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

CORPORATE INCOME TAX (CIT):

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

Sale of RE by non-residents would be subject to 3% CIT on gross proceeds. This tax must be either withheld by the Latvian purchaser or, in case the transaction is between two non-residents, declared and paid by the non-resident seller. CIT Act allows non-residents from EU or Double Tax Treaty (DDT) countries to pay 20% on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence.

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

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

Re-evaluation of RE

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

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

PERSONAL INCOME TAX (PIT):

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

The capital gains tax return must be submitted once per quarter (if the gain exceeds EUR 1,000.00) or once per year (if the gain is below EUR 1,000.00).

The exemptions:

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

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

A person selling RE for commercial purposes must register with the tax authorities and such income is subject to progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 62,800), 31.4% (annual income above EUR 62,800).

REAL ESTATE TAX (RET)

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

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

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

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

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

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

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

Unused agricultural land is taxable:

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

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

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

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

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

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

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

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

- Income arising from the transaction exceeds €14,229 in a taxation year except for sale of private property,

- The economic nature of the activity or the amount of property owned by the individual indicates a systematic action to obtain remuneration.

INTRODUCTION

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

During 2019, investments were mostly in non-residential, commercial properties; investments in residential properties by foreigners from non-EU states have decreased. In addition, due to rather unclear regulation on acquisition of agricultural land, practical difficulties arise with investments in the agricultural (and consequently the forestry) sector.

TITLE TO REAL ESTATE, LAND REGISTER

Title to real estate is transferable and must be registered with the Land Register. In addition to land plots, buildings can also be registered with the Land Register. In general, buildings are considered to be a part of the land beneath them. However, as a result of land reform in the 90's and due to formation of long-term lease relations, a land plot and a building on it may belong to different owners. Additionally, the so-called "building right" was introduced back in 2017. The building right allows construction of a non-residential building on another person's land with the right to use the building as a separate property during the term of the building right. Construction of residential buildings is prohibited under the building right set-up. The building right is a transferable right with a minimum term of 10 years and must be registered with the Land Register in the name of the person entitled to construct a non-residential building or an engineering structure on a land plot encumbered by a building right.

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

The Land Register keeps a record of any information regarding the legal status of real estate, including the composition of real estate, its area, history of ownership, encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations. The Land Register is a public register: information it contains is publicly available and is binding on third parties. Land Register data can be accessed on a digital online database for a set fee. For convenience of users, the Land Register and State Land Service continue to increase their mutual cooperation, thus reducing information overlap and the number of documents to be filed in order to register any changes in relation to property. As of December 2019, the Land Register will keep only those records whose basis is either an agreement, will, court judgement or otherwise where the law specifically requires registration of such records. Other records, such as encumbrances arising from the law, will be kept by the State Land Service. Please, however, keep in mind that both Land Register data and State Land Service data in respect of the same real estate may still sometimes not match and any differences in the data kept by both registers might burden further action with real estate, including transfer of title.

ACQUISITION OF REAL ESTATE

GENERAL

Real estate in Latvia may be acquired in one of the following ways – as an individual land plot, as an individual building, as a land plot together with buildings situated thereon as an apartment or an engineering construction.

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

LETTER OF INTENT AND HEADS OF TERMS

In practice, a letter of intent (LOI) or preliminary agreement may be used in order to bind negotiating parties to a contemplated large-scale real estate transaction. Under such agreements, each party can require (insist on) conclusion of a purchase agreement.

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

CHANGE OF OWNERSHIP

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

LEGAL STRUCTURE OF REAL ESTATE TRANSACTIONS

ASSET TRANSFER VS SHARE TRANSFER

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

When contemplating a share transfer involving a company holding target real estate, note that:

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

Asset transfer involves the following benefits and drawbacks:

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

PORTFOLIO DEALS

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

FORM OF AGREEMENT

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

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

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

LANGUAGE REQUIREMENTS

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

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

DUE DILIGENCE

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

RIGHTS OF FIRST REFUSAL

Local authorities have the right of first refusal in respect of acquisition of real estate (land and buildings) located in their territory. Only after the municipality has decided not to exercise its rights of first refusal can a purchase agreement be registered with the Land Register and ownership transferred to the buyer. In addition, specific regulation covers execution of rights of first refusal to agricultural land, whereby the Latvian Land Fund and the lessee of a particular land plot have rights of first refusal. Rights of first refusal are not limited to municipalities exclusively. Under specific circumstances rights of first refusal may exist in relation to property located in a special economic zone, a nature protection zone, a harbour territory, or where the property is a cultural monument of state significance. Rights of first refusal may be also agreed upon between the parties or established by law in other cases. Should the building and the land plot have different owners, the owner of the building situated on the land plot to be sold has a right of first refusal to the land plot, and vice versa. Additionally, co-owners of real estate have rights of first refusal to the undivided share of immovable property being sold.

Generally, rights of first refusal are exercised within 2 months after the purchase agreement is delivered to the persons entitled to those rights. However, local authorities must decide on exercising their right of first refusal within five to twenty business days (depending on the type of real estate) after receiving the purchase agreement.

A person with a right of first refusal, such as a co-owner of real estate, who is not given the chance to exercise their right, acquires a buy-out right against the new owner. This right entitles a person denied the possibility to exercise the right of first refusal to acquire the property from the new owner on the same terms.

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

Sharing of costs incurred during real estate purchase is a matter of agreement between the parties. It is common practice that the buyer pays for state and stamp duties, whilst notary and escrow account fees are shared equally between the parties.

Generally, state duty amounts to 2% (with no ceiling) on either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. However, if an apartment property (including non-residential premises in apartment buildings) is purchased by a legal person engaged in commercial activities, state duty is 6%.

In addition, an index of 1.5 is applied to the state duty if registration of title is delayed by over 6 months from the moment a registration application is signed. Stamp duty for title registration is EUR 14.23. The notary fees may vary depending on the structure of the transaction, but if only two parties are involved, these costs amount to approximately EUR 100.

MERGER CONTROL

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

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

The Competition Council may review mergers falling below these thresholds within twelve months after implementation if the parties' combined market share exceeds 40% of the relevant market and a significant impediment to effective competition is likely to be created. In case of uncertainty, the parties can file a voluntary notification or obtain a waiver from the Competition Council.

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

In transactions involving assets, note that several mergers among the same parties within a two-year period that result in one party obtaining some or all of – or the right to use – the assets of two or more other undertakings are treated a single merger occurring on the day the last merger takes place.

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

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

Restrictions on real estate acquisition in Latvia apply to land plots. Foreigners from non-EU states should be aware of restrictions on acquisition of land in Latvia. Acquisition is restricted to certain areas such as coastal areas and heritage protection zones. Restrictions pertaining to use of real estate should also be checked beforehand.

ACQUISITION OF AGRICULTURAL LAND

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

- is registered as a performer of economic activity in Latvia;
- has no tax debt over EUR 150 in Latvia or their country of domicile;
- confirms in writing that after purchase of the land he or she will commence agricultural work on the land within one or three years depending on whether the particular land in the previous or current year has been a subject of direct payments;
- holds an EU citizen registration certificate and a certificate of Latvian language skills of at least level B2, if the person is a citizen of the EU, the EEA or Switzerland.

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

- it is registered as a taxpayer in Latvia and has no tax debt over EUR 150 in Latvia or its country of domicile;
- all shareholders are either EU, EEA or Swiss citizens or citizens of other countries that have concluded agreements on protection of investments with Latvia;
- it can identify all its true beneficiaries, all of whom must be EU, EEA or Swiss citizens;
- confirms in writing that it will commence agricultural work on the land within one or three years depending on whether the particular land in the previous or current year has been a subject of direct payments;
- the owner of the share capital or owners of at least 50% of the share capital with voting rights and all those entitled to represent the legal person, being citizens of the EU, the EEA or Switzerland, hold an EU citizen's registration certificate and a certificate of Latvian language skills of at least level B2.

None of these restrictions apply to acquisition of agricultural land in rural areas whose permitted use is set as construction land under the territorial plan of the relevant municipality. Moreover, such land can also be acquired by non-EU citizens and legal entities without restrictions. Additionally, no specific restrictions apply to "forest land" as Latvian laws do not separately recognize such land.

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

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

In late 2019 a draft law was proposed, which, when passed, will also allow natural and legal persons from OECD countries (such as Canada, the USA, Japan etc.) to purchase land and agricultural land in rural areas without additional restrictions, provided that other conditions are met.

ACQUISITION OF A LAND IN URBAN AREAS

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

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

Unlike with rural land, no similar draft law has been proposed to allow persons from OECD countries to purchase land in urban areas without additional restrictions.

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

ENCUMBRANCES

Real estate may be encumbered with servitudes, rights of first refusal, lease rights registered with the Land Register, mortgages, protection zones, and other encumbrances. Any encumbrances should be considered prior to acquisition of real estate. Depending on the intended use of the property (eg construction) legal, technical and environmental due diligence may also have to be performed beforehand.

MORTGAGE

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

In order to register a mortgage on real estate, a loan and mortgage agreement must be concluded. As of mid-2019, for registration of a mortgage it is sufficient to submit only the mortgage agreement to the Land Register if it contains all of the main aspects of the loan agreement. An application to register the mortgage with the Land Register must be signed in the presence of a notary public and state duty of 0.1% of the loan value must be paid as a registration fee. The Land Register registers the mortgage within 10 days as of filing the necessary documentation.

PROPERTY MANAGEMENT

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

MANAGEMENT OF RESIDENTIAL BUILDINGS

Maintenance and management of a residential building is an obligation of the owners of the building, namely, apartment owners. In comparatively small buildings, maintenance is usually performed by the owners themselves. In larger buildings, maintenance and management tasks are usually outsourced. The Law on Management of Residential Housing provides minimum requirements for management of residential buildings. The law also regulates the legal relationship between those involved in the management process, such as managers, owners of residential buildings, and others.

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

LEASE AGREEMENTS

GENERAL

General terms for lease and tenancy agreements are laid down in the Civil Law and the Law on Residential Tenancy. Other contents of lease and tenancy agreements are freely agreed upon by the parties. Lease agreements involving non-residential real estate remain binding on new owners only if registered with the Land Register. If the lease is not registered, the new owner has the option to unilaterally terminate the agreement. Should the new owner exercise the option, the tenant is entitled to compensation from the previous owner for premature termination of the lease agreement.

At the same time, the Law on Residential Tenancy protects the rights and interests of tenants. Residential tenancy agreements are binding on new apartment owners under the Law on Residential Tenancy without registration in the Land Register. Nevertheless, only permanent residents of Latvia and individuals who reside in Latvia based on a temporary residence permit may claim protection under this rule. If the draft law on Residential tenancy is passed, then only registered tenancy agreements will be binding on the new owner. However, due to the legislative process the final wording of the draft law and its approximate adoption date cannot be predicted with much certainty.

DURATION AND EXPIRY OF LEASE AGREEMENT

The term for lease or tenancy agreements is usually set in the agreement. Latvian law allows the lease to be set for either a specified or unspecified term. As for termination of a commercial lease agreement, Latvian law lays down only general rules. More specific provisions on termination are prescribed under the Law on Residential Tenancy, which aims to protect the interests of tenants. Hence, options for unilateral termination by the owner of a residential tenancy agreement are limited as unilateral termination is allowed only in cases explicitly stated by law, for example, when the tenant is damaging the apartment or the apartment building, the tenant owes rent or payments for basic services, or if the tenant sub-leases residential space without the owner's consent. Unilateral termination of the tenancy agreement does not entitle the owner to arbitrarily evict the tenant. Unilateral termination of the tenancy agreement is also allowed if capital repairs or demolition of the building are necessary. However, in that case the owner must offer the tenant equivalent residential premises.

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES)

Latvian law sets no specific procedure for payment of security deposits or for payment of rent under lease relations. As regards residential tenancy, there are regulations that govern calculation of rent payments; however, the existence of these regulations does not preclude parties from freely agreeing the amount of rent.

Accessory expenses include payments for maintenance and utilities, such as water, gas, electricity and heating. The tenant usually pays these in addition to rent. In practice, a security deposit in an amount of one to two months' rent is often required by the owner. The owner uses the security deposit for instances when the tenant is in breach of the agreement, for example, by failing to pay the rent. A security deposit that is not used due to breach of the agreement is applied to the rental payment for the last months of the tenancy or returned to the tenant after expiry of the tenancy agreement. Obligations of the tenant may likewise be secured by a bank guarantee.

PPP & INFRASTRUCTURE

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

INVESTMENT FUNDS AND REAL ESTATE

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

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

Real estate owned by an AIF can be managed by the AIFM, provided the AIFM is authorized by the Financial and Capital Market Commission of Latvia to provide this ancillary service. In the alternative, the real estate will probably be managed by a professional real estate management company.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Municipalities in their territorial planning documents set the permitted use of each land plot located in their territory. The permitted use sets forth the possible ways in which the land plot can be used (i.e. for construction of residential buildings or factories). Territorial planning documentation also specifies the requirements for construction. Certain territories must have a detailed plan produced (this takes 6-12 months) before they can be developed.

CONSTRUCTION

A construction permit is issued right at the beginning of the construction process. In order to obtain a construction permit, the applicant must develop a building design meeting minimum requirements and file it with the local construction board. If construction of the proposed building is feasible, the construction board issues requirements and conditions for design. However, the building permit itself does not serve as a basis for carrying out construction works. Construction itself can start only when all the design and construction requirements and conditions in the construction permit are fulfilled and accepted by the construction board.

ACQUISITION OF DISTRESSED ASSETS

Distressed real estate can be acquired on the basis of a voluntary agreement between the parties, during proceedings for compulsory enforcement or during insolvency proceedings concerning the owner of real estate. In any case, acquisition of distressed real estate is more complex, which means that thorough due diligence is necessary as the possibility of finding various issues with the target real estate is much higher. For example, where an owner is in financial difficulties, their real estate may be managed and maintained poorly or the validity of construction documentation might have expired.

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

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

OBTAINING A TEMPORARY RESIDENCE PERMIT

A temporary residence permit can be obtained for up to five years if a third-country national acquires one real estate object with a value of at least EUR 250,000 in Riga, Jurmala, and surrounding regions, or acquires no more than 2 real estate objects outside those territories with a total value of at least EUR 250,000 (assuming that the total cadastral value is not less than EUR 80,000 or not less than EUR 40,000 for each real estate object if two real estate objects are purchased outside Riga, Jurmala and their surrounding regions). If the cadastral value is lower, then a certified real estate appraiser must confirm that the market value of the real estate(s) is at least EUR 250,000. In order to obtain a temporary residence permit, the third-country national must pay a state fee of 5% of the real estate purchase value.

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

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

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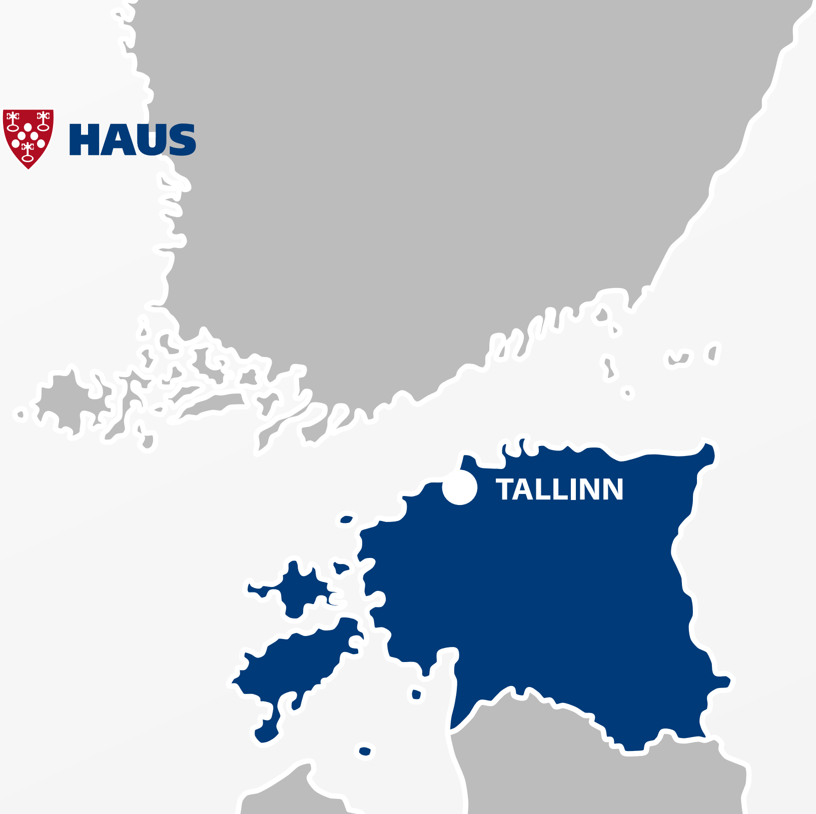
Ober-Haus was established in 1994 and has now three offices in Estonia located in Tallinn, Tartu and Jõhvi with more than 61 real estate experts working across them. Our professional team provides a wide range of real estate services such as residential and commercial real estate mediation and advisory services, property valuation, real estate consulting, property management and market research and analysis.

ESTONIA

OBER HAUS

COUNTRY OVERVIEW



GEOGRAPHY & SOCIAL

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

CURRENCY

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

2020 FORECAST

GDP annual growth, %	2.4
GDP per capita, €	22,500
Private consumption annual growth, %	2.3
Average annual inflation, %	2.0
Unemployment rate, %	4.9
Average monthly net salary, €	1,223
Average salary growth, %	6.5
Retail sales growth, %	3.0
Exports annual growth, %	3.0
Imports annual growth, %	3.0

POPULATION	2014	2015	2016	2017	2018	2019
Estonia	1,314,500	1,315,000	1,315,900	1,315,700	1,319,100	1,324,800
Tallinn	411,000	414,000	423,500	426,500	433,000	435,000
Tartu	98,500	97,500	94,000	95,700	96,500	97,000
Narva	59,000	58,600	58,200	57,130	56,100	55,250

ECONOMICS	2014	2015	2016	2017	2018	2019
GDP growth, %	2.9	1.5	2.1	4.9	3.9	4.3
GDP per capita, €	15,400	15,800	16,500	18,000	19,700	21,300
Private consumption growth, %	4.8	4.7	4.4	2.6	4.6	2.6
Average annual inflation, %	-0.1	-0.4	0.1	3.4	3.4	2.3
Unemployment rate, %	7.4	6.6	6.9	5.8	5.6	4.4
Average monthly net salary, €	799	859	924	986	1,098	1,163
Average salary growth, %	5.5	7.5	7.6	6.7	7.1	5.9
Retail sales growth, %	6.5	7.0	5.0	1.5	1.0	4.0
Exports annual growth, %	3.1	-0.6	4.1	3.5	4.3	5.4
Imports annual growth, %	2.1	-1.4	5.3	3.6	6.1	4.5
FDI stock per capita, €	12,916	13,269	13,537	14,604	15,924	17,775

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

INFLATION DECELERATES BUT WAGES ARE STILL RISING RAPIDLY

The Estonian economy grew by 4.3% in 2019 and is expected to grow by 2.4% in 2020.

The economy will grow more slowly than in 2019. Reduced loan burdens and increased savings of companies and households mean that there is unlikely to be any sharp downturn in the Estonian private sector. At the same time though, the economy cannot run at full power for a long time without losing competitiveness since rising wage costs will force companies to raise prices. It is notable that companies are no longer assessing their own competitiveness as positively as previously. Economic growth of 4.2% in Q3 2019 was a positive surprise, but it was boosted by a few one-off factors.

Changes in the economy are not reflected in the labour market immediately. When the last economic cycle ended in 2007, growth only began to stutter when unemployment started to rise, and wages reacted even later. The unemployment rate indicated by surveys was 3.9% in Q3 2019, which is the lowest rate ever, but the rise in registered unemployment and the decline in unfilled vacancies indicate that demand for labour has become less intense. And businesses confirm this.

Demand for additional labour will decline in the coming years, but wage pressures will remain. Under these circumstances the yearly rise in the average wage will decline to 5%-6%. Unemployment will rise as the economy cools, while more people than before will enter the labour market not all of them will find work. Labour market activity will be increased by the gradual rise in the retirement age, improving health, and the general growth in the level of wages, which encourages people to work.

Despite the slower growth in the economy, government revenues from taxation will be higher than usual. Tax revenues will be boosted over the next few years by several important factors, because the largest share of the population ever is in employment, the unemployment rate is low even as it rises a little, and the growth in wages remains high and consequently so does growth in consumption.

The budget deficits built up during the good times should be eliminated faster than has been planned. The government's plan is to reduce the structural deficit that has deepened in recent years by only the minimal permitted amount of 0.5 percentage points of GDP a year. This means that fiscal policy will remain too loose in the years ahead. Estonian Bank finds that the general government budget should be returned to structural balance as soon as possible while revenues are still higher than usual.

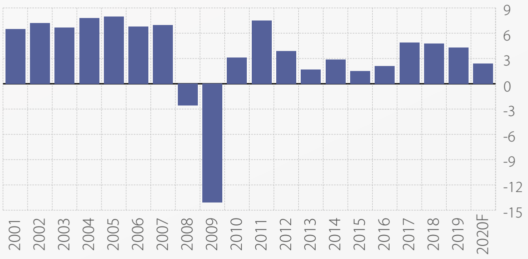
The minimum wage in Estonia was increased to €584 starting 1 January 2020. The minimum wage has increased by over 8% since the beginning of 2019.

Gross wages increased by 7.5% in Estonia in 2019 (compared to 2018), to €1,408 per month before taxes. The average net monthly after-tax wages in 2019 was around €1,163. Salary growth in 2020 is expected to be 6.5%.

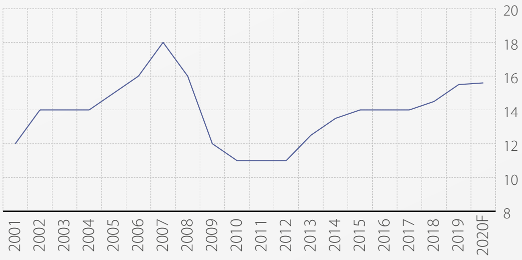
Unemployment was 4.4% in 2019 and it is expected to increase to 4.9% by the end of 2020.

In 2019 inflation was 2.3% and is expected to be 2.0% in 2020 and 2.1% in 2021.

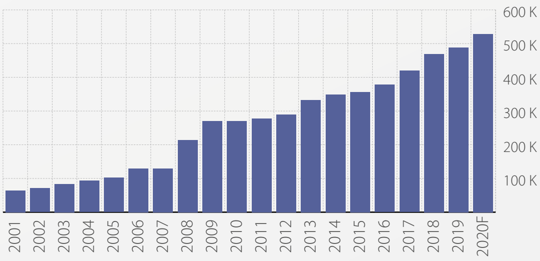
GDP GROWTH, %



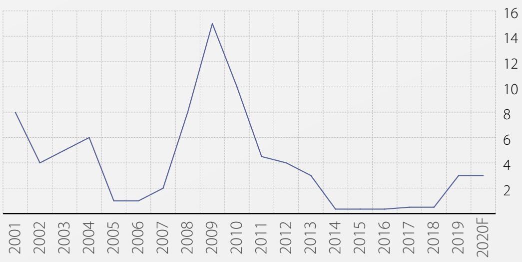
A CLASS OFFICE RENTS, €/SQM



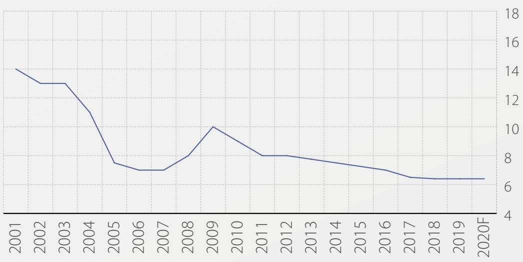
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2019)

TOTAL OFFICE SPACE	1,050,000 SQM
A CLASS OFFICE VACANCY RATE	3 %
B CLASS OFFICE VACANCY RATE	5 %
TOP OFFICE RENTS (SQM / month)	€18.00 - €20.00
A CLASS OFFICE RENTS (SQM / month)	€13.50 - €17.50
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €11.50
ADDITIONAL OFFICE COSTS (SQM / month)	€2.00 - €4.50

MANY NEW PROJECTS IN THE PIPELINE

SUPPLY

Only 2 new bigger projects and a few spaces in mixed-use buildings were completed in 2019 bringing almost 20,000 sqm of office space to the market. This is the smallest amount in recent years. The reason is high construction prices, labour shortages and the expectation of a recession.

After completion of these projects, the total area of modern office premises grew by 2% to 1,050,000 sqm at the end of 2019.

It is expected that in 2020-2022, at least 15 new office projects should be completed in Tallinn; this will add up to 130,000 sqm of new office space to the market. Design of one of the largest office complexes in Estonia has started –28,000 sqm of A class office space. The gross surface area of the complex will be 77,000 sqm, including apartments, parking and business retail spaces. The plot is located in the CBD, opposite the Radisson Hotel Olümpia. Construction is planned to start in Q2 2020, and the complex should be completed in 2023. The planned investments will be around €100 million. Merko is the developer.

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

DEMAND

The vacancy of A class spaces is around 3%, and for B class spaces it is around 5%. Most of the potential customers for A class office spaces are linked to foreign companies and their representative firms, IT, medicine, financial companies. The vacancy rate in lower quality and less desirable locations is rising, and owners are being obliged to invest in their properties in order to retain their tenants or to amend the functionality of their buildings.

The function of the first old office buildings has already been changed and converted into living space such as hostels or apartments.

The sale and purchase market in office space is more fluid in the centre of the city, as in secondary locations companies prefer to rent. Deals have been done depending on the location, with prices commonly ranging from €1,000 to €2,200 per sqm. In a few projects in the centre of Tallinn, prices have been between €2,200 and €3,500 per sqm.

RENTS

The growing demand for modern offices has raised the A class rents in Tallinn by 5-10%, but B class rents did not change in 2019.

At the end of 2019 rents are €13.50–€17.50 per sqm for A class offices and €8.00–€11.50 per sqm for B class offices. The asking rents of single smaller exclusive A class offices are up to €18.00–€20.00 per sqm, on the upper floors of the Maakri 19/21 tower €25.00–€30.00 per sqm. In the suburbs, rents for offices in less desirable locations and in older buildings are €5.00–€7.00 per sqm per month. Ober-Haus expects that the rents will remain steady during 2020, as supply increases.

INVESTMENTS

In 2019, investors in general were interested in properties in Tallinn with a good location and solid tenant structure, which guarantees a stable cash flow. In general investors are looking for prime properties with yields of at least 6.5-7.0%.

In Q4 2019 Estiko bought a Danske Bank building, located in the central part of Tallinn city on Tallinn's busiest Narva Street. The approx. 7,800 sqm office building was built in 1997. The property served as the headquarters of Estonian Danske bank. The new owner of the building, Estiko group, is engaged in manufacturing, real estate development and accommodation services businesses and the alternative-energy business. The transaction price was ca. €7.5 million.

In Q4 2019 LHV Pension Funds in cooperation with Lumi Capital acquired the office building formerly known as the Skype Building in Tallinn in Mustamäe district. The building lies within the TalTech campus in close proximity to TalTech's School of Information Technologies, IT College, Science Park Tehnopol and at the heart of the start-up community. The main tenant is the Estonian branch of Microsoft's Development Centre. LHV Pension Funds, in cooperation with Lumi Capital, bought the building from its developer Arealis. The approx. 6,900 sqm office building was built in 2006. The transaction price was around €11.0 million with an approximate yield of 6.75%.

In Q4 2019 LHV Pension Funds bought a 16,400 sqm office building called Valge Maja in the central part of Tallinn on Tartu Road. The biggest tenants are IT companies. The transaction price was around €14.6 million with yields of ca. 7%. The property was sold by investment company Laurus s.a.r.l.

LEGAL NOTES BY SORAINEN

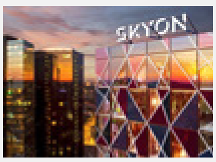
Rents are usually payable monthly in advance. Payment of rent in advance for more than one month is not customary. Tenants generally pay for their own utilities, invoiced by the owner after use. Rents are typically indexed to local inflation. Triple net leases are common for commercial properties but not universally used and there are often variations. The concept of the sinking fund (amortization) is rare. Generally normal wear and tear is allowed and is at the risk of the landlord. Quite commonly, payment of rent and costs is secured, eg by rent deposit, bank or parent company guarantee. Leases survive transfer of property title. However, unless the lease is registered with the Land Register, the new landlord obtains the right to terminate the agreement upon becoming the owner by terminating the lease within three months as of becoming the owner, provided the new owner shows that there is a pressing own need to use the premises – so an intention to re-let at a higher rent is not sufficient grounds). In recent years, asset deals have become more common than share deals.

OVAL HOUSE

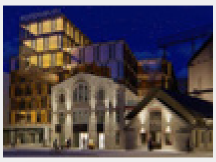
RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**TARTU ROAD 80A/80B** – An A class office building with total leasable area of 13,000 sqm, of which 8,000 sqm is offices, was built close to one of the largest traffic junctions in the centre of Tallinn and the emerging multifunctional Fahle Park (former Zelluloosi Quarter), whose anchor tenant is Eesti Meedia. The construction works meet the LEED Platinum standard. The rents range from €13.00 to €15.00 per sqm. Additional costs €1.7–€1.9 per sqm. The quarterly development volume is more than 120,000 sqm. The building was developed by Fausto Grupp and completed in Q4 2019.	8,000	Q4 2019
	**OVAL HOUSE** – An 8-storey A class office building will be constructed in a fast-developing area near the city centre of Tallinn. The ground floor will be given over to parking, the first floor will be given over to retail premises and floors 2 to 8 will provide office space. The total area of the building is 8,900 sqm, of which 6,100 sqm is office space. The rents range from €11.00 to €12.50 per sqm. The building was completed in Q3 2019. Developed by Fund Ehitus.	6,100	Q3 2019

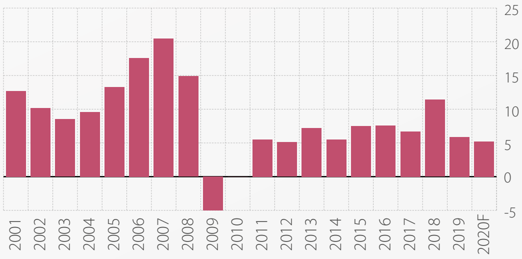
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**ELLIPSE HOUSE** – An 8-storey A class office building will be constructed in a fast-developing area near the city centre of Tallinn next to the Oval House project. The ground floor will be given over to parking, the first floor will be given over to retail premises and floors 2 to 8 will be office spaces. The total area of the building is 6,900 sqm, of which 4,800 sqm is office space. Rents start from €12.50 per sqm. The building will be completed in 2020. Developed by Fund Ehitus.	4,800	2020
	**PORTO FRANCO** – Next to the so-called Admiralty pool located in the immediate vicinity of both the harbour of Tallinn and the Old Town, Porto Franco is a business and commercial complex with a seaside promenade, a unique glass roof and an internal street. There will be around 30,000 sqm of office space. The offices will have panoramic views and high ceilings. It is also planned to have various commercial outlets, cafés and restaurants in the centre. In addition, there will be an underground parking facility for 1,250 cars. Rents range from €14.00 to €18.00 per sqm. Total cost of the project is €190 million. The office complex should be completed by 2021. Developed by Porto Franco.	30,000	2021
	**SKYON** – 26-storey Skyon will be erected at Maakri Street, in Tallinn CBD. Skyon's architecture follows the Scandinavian examples, combining the grandeur of the city centre with functionality and practicality. GLA of the building is 8,200 sqm. The total rental space of the largest, 2nd-4th floors is 1,800 sqm and these are more suited to larger companies. Starting from the 5th floor, the building is in the shape of a tower and the standard rental area of a floor starts from 300 sqm. The building will be completed in Q2 2021. Developer is Capital Mill.	8,200	Q2 2021
	**VIKTOR PALM BUILDING (SEPAPAJA 1)** – Ülemiste City is investing €25 million in a new 12-storey A class office building in this area. The rentable area of the office space is 10,800 sqm. The new parking garage was completed in Q4 2019 and the office building will be completed in Q2 2020. Developer is Technopolis Ülemiste AS.	10,800	Q2 2020

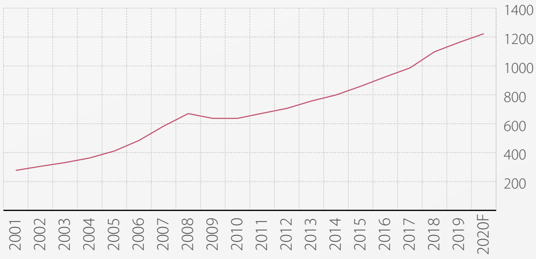
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**AVALA QUARTER** – Avala quarter is a unique business park in the city centre of Tallinn in the immediate vicinity of all the major connecting roads. The airport and the bus station are only a few minutes away by car. In the first stage, an A class office building named Electra on Veskiposti Street will be completed by autumn 2020; the network operator Elektrilevi will be an anchor tenant on nearly 6,000 sqm. The building of the second stage named Polaris will be completed in autumn 2021. The construction works meet the LEED Gold standard. Rents range from €11.5 to €14.50 per sqm and office spaces from 250–10,000 sqm. Additional costs €2.0 per sqm. Developed by Kaamos.	6,000 (I stage)	Q4 2020 (I stage)
	**MAURUSE HOUSE, TAMMSAARE ROAD 92** – An 8-storey B class office building with total leasable area of 7,700 sqm, of which 6,870 sqm will be offered as offices. Good location and well-established living environment – there are many potential tenants in the neighbourhood, a university of technology and several shopping centres. In the same building there are parking floors for the surrounding residents. Rent prices depend on the floor and surface area and are ca. €11.0–€12.00 per sqm plus additional costs ca. €1.6 per sqm. The building will be completed in Q2 2020. Developed by Fund Ehitus.	6,870	Q2 2020
	**BÜROO 113** – Hepsor is building the first high-rise following the green thinking concept on Pärnu Road close to the heart of Tallinn. The A class 13-storey office block to go up at 113 Pärnu Road will have a total of 3,900 sqm of rental space. In addition to offices, there are commercial premises, a restaurant and ample room for parking. The sunny roof terrace on the fifth floor will be open to all users of the building. This will be the first high-rise in Tallinn to be heated in winter and cooled in summer using geothermal energy. Rents from €15.5 and the building will be completed in 2021. Developed by Hepsor.	3,900	2021
	**GRÜNE** – The building is located by the Haabersti–Mustamäe road for non-motorised transport modes and will have all the facilities for people using bicycles to get to work – both indoors and outdoors parking for bikes, as well as changing rooms and showers. Rooms in the A+ energy class Grüne building are heated and cooled using geothermal energy, smart sensors regulate the distribution and storage of thermal energy through the ceilings. GLA of the building is 4,000 sqm and the rents are from €12.5 per sqm. The building will be completed in 2020. Developed by Hepsor.	4,000	2020
	**R6** – A 7-storey A class business building will be constructed in the city centre of Tallinn in the Rotermanni quarter next to the port and the Old Town. A new building volume varying in height is planned on the facade of the old office building and the bread factory. Business, restaurant and cafe spaces with direct access from outside have been designed on the ground floor, while the other floors have business and office areas. In addition, the R6 commercial building will have a connecting gallery to the Rotermanni 8 building. An underground car park with 2 floors has been incorporated and these are accessible by car through existing Rotermanni properties. The total area of these buildings is 11,600 sqm, of which 5,200 sqm is office space. The rents are €15.6 per sqm, estimated utilities €2.5 per sqm. The whole project will cost €15.8 million and will be completed in Q1 2021.	5,200	Q1 2021

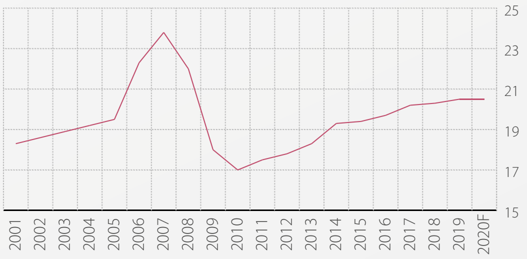
AVERAGE SALARY GROWTH, %



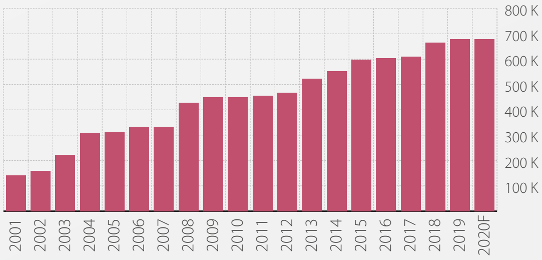
AVERAGE NET SALARY PER MONTH, €



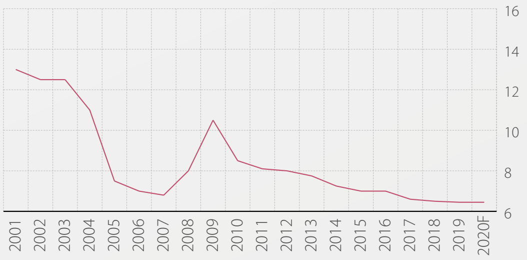
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELD, %



TALLINN SNAPSHOT (END-2019)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	678,300 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.56 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€8.50 - €13.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€13.00 - €20.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€35.00 - €70.00
HIGH STREETS RENTS (SQM / month)	€20.00 - €40.00

COMPETITION TIGHTENS

SUPPLY

In 2019, no large shopping centres were opened in Tallinn. At the end of 2019, there were 42 traditional shopping centres (including those with over 5,000 sqm of GLA and over 10 tenants) with a total leasable area of 678,300 sqm. Tallinn currently has 1.56 sqm of shopping centre per capita.

All the biggest retailers – Coop, Selver, Maxima, Rimi and Prisma have continued the development of their supermarket-type schemes in populated areas.

Construction of the Porto Franco shopping centre continued in 2019 and in 2020 Silikaat Group plans to start reconstruction of the Järve shopping centre.

In addition, existing centres like Tallinna Kaubamaja Group and Rocca-al-Mare are planning expansions. Tallinna Kaubamaja plans to demolish the old building and build a new one twice the size of the old one and Rocca-al-Mare plans to expand the retail space by 20,000 sqm.

The German supermarket chain, Lidl, which has bought land plots in Tallinn and elsewhere in Estonia, is planning to open its first stores in 2020. The first store with a total area of 2,400 sqm is under construction in the suburbs in Lasnamäe district in Tähesaju City, close to Prisma, Selver, Rimi, Bauhaus, Coop and Hortes.

The international chains KFC, IKEA, Deichmann entered the Estonian market in 2019. The first Burger King restaurants will open during Q1 2020 in the Rocca-al-Mare and in Ülemiste shopping centres.

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

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

DEMAND

Private consumption continued to grow in 2019. The annual growth rate was 4% and the effect of this growth on the economy was substantial. The main reason behind this was the growth of real income (salaries). Wholesale volumes have been increasing since 2010.

In 2019, the shopping centre sector continued to display the same trends as in previous years. Due to high demand there were almost no vacant premises in the largest and most popular shopping centres in Tallinn, with a vacancy rate near zero at the end of 2019. Still, the newest T1 Mall shopping centre has not been able to fill all retail spaces in the first year and has to look for other options, like entertainment.

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

RENTS

In 2019 no significant rents changes were recorded in the shopping centre sector overall. At the end of 2019 rents for medium-sized premises (150-300 sqm) in shopping centres ranged from €13.00 to €20.00 per sqm, smaller units – €35.00-€70.00 per sqm. Rents for anchor tenants run from €8.50 to €13.00 per sqm.

There were also no significant changes in high street rents during 2019. On streets next to popular pedestrian zones the rents for retail premises were from €20.00 to €40.00 per sqm.

INVESTMENTS

In 2019, there was growing interest in investing in retail spaces in Tallinn, mainly due to the increasing volume of retail trade and favourable interest levels. However, investment has been limited by the lack of properties for sale. Investors are increasingly interested in middle and larger sized shopping centres with a stable cash flow and which are located in a desirable area where they can expect yields of at least 6.5%.

In Q1 2019 EfTEN Real Estate Fund III bought a 2,400 sqm auto service and sales centre on Paldiski Road in Tallinn. ABC Motors will continue the sales and servicing of Renault and Dacia vehicles on the same premises as before. The seller was ABC Vara. The purchase price of the property was €3 million, the entrance yield is 8%.

In Q3 2019 local Estonian investors bought two new moto-centres; one of 2,300 sqm in Lasnamäe district and the second of 3,850 sqm in Peetri. The total price was €7.4 million, and yield was undisclosed. The seller was YIT, a development and construction company.

LEGAL NOTES BY ***SORAINEN***

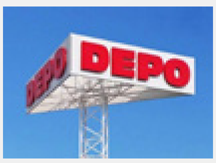
Even in the case of investment grade properties there is no standard approach as to the set-up and use of marketing funds. Turnover-based rent is widely used. Rents are typically indexed to local inflation, although indexation is not always enforced. Distribution of maintenance and renovation obligations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

PRISMA ROCCA-AL-MARE

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**ÜLEMISTE CENTRE** – Located in the vicinity of the new T1 shopping mall, the centre was enlarged by an extra 13,000 sqm, with the main objective being the provision of entertainment. New tenants will include Apollo Cinema, O'Learys, Pet City, three restaurants and cafés, and several new stores. With the expansion, Ülemiste Centre is Estonia's largest and most modern shopping and entertainment centre with 73,000 sqm of leasable retail area. The extension was completed in Q2 2019 and total investments will reach €36 million. Developed by Linstow International.	+13,000 (expansion)	Q2 2019 (expansion)
	**PRISMA ROCCA-AL-MARE** – The Finnish operator Citycon completed extension works in the Rocca-al-Mare shopping centre for Prisma in Q4 2019. The Prisma extension was 2,500 sqm and now the Prisma Rocca-al-Mare hypermarket is the biggest in Estonia.	+2,500 (expansion)	Q4 2019 (expansion)
	**IKEA** – IKEA Estonia launched its online store as well as its first brick-and-mortar location, a limited showroom and pickup point, in the Lasnamäe district of Tallinn in Q3 2019. Located at Peterburi Road 66 in Lasnamäe, IKEA Tallinn includes a 1,500 sqm showroom featuring dozens of realistically furnished rooms for inspiration. Ikea bought a 20-hectare plot of land on the Tallinn ring road for a retail outlet of 25,000 sqm.	1,500	Q3 2019
	**HORTES TÄHESAJU** – EfTEN Tähesaju tee OÜ, a 100% subsidiary of EfTEN Real Estate Fund III AS, acquired a plot registered at Tähesaju 5, Tähesaju commercial area in Lasnamäe, Tallinn for the construction of Hortes Gardening Centre, AS Hortes will be the only tenant. The total area of the building is 4,250 sqm and the total investment is €5.5 million. The Gardening Centre was completed in Q4 2019. According to the lease agreement signed with Swedbank AS the net yield of the investment, without bank leverage, is 8.5% per annum on completion of the centre.	4,250	Q4 2019

NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**PÄRNU ROAD 186** – Located near the city centre and Järve shopping centre. This is a new commercial building with six storeys for offices and retail and a two-storey car park for 300 cars. Gross area 23,900 sqm, of which 3,500 sqm will be offered as offices and 12,000 sqm as retail. The main anchor tenant will be Ehituse ABC. The building will be completed in 2020. The developer of the commercial building is Silikaat Group.	12,000	2020
	**PORTO FRANCO** – The complex will have a seaside promenade and a unique glass roof and will be located near Tallinn Harbour, through which more than 10 million people pass every year. There will be about 35,000 sqm of retail space. The complex will have fashion shops, gourmet food, cafés, restaurant areas and a large hypermarket. There will also be an underground parking facility for 1,250 cars. The anchor tenant will be Prisma. The whole project will cost €190 million and is expected to open in 2020/2021. Developed by Porto Franco.	35,000	2020/2021
	**DEPO TALLINN** – The first store of Latvia's DIY chain Depo will be constructed in a fast-developing area near the city centre of Tallinn in Avala Business quarter. The total area of the building is 24,400 sqm. Depo building will be completed in the summer of 2020. Developed by Kaamos Group.	24,400	MID-2020

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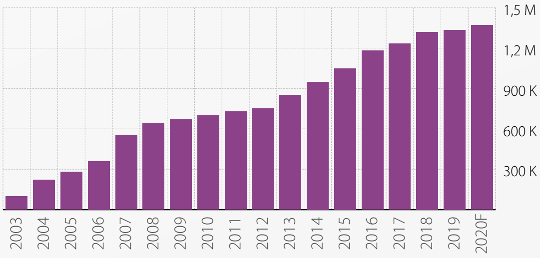
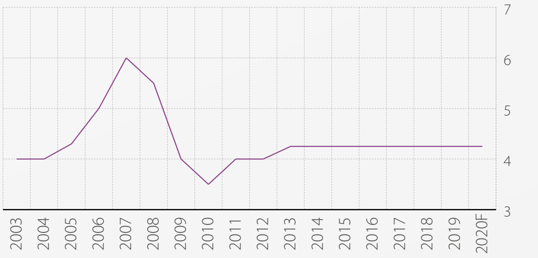
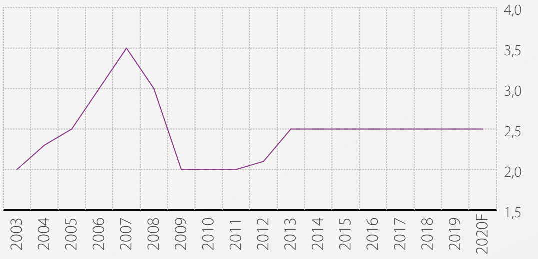
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



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TALLINN SNAPSHOT
(END-2019)

TOTAL NEW WAREHOUSE SPACE	1,335,000 SQM
WAREHOUSE VACANCY RATE	4 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €5.00
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

CONSTRUCTION OF THE BIGGEST DATA-CENTRE IN THE BALTICS BEGINS

SUPPLY

Only one bigger warehouse projects, with a total warehousing area of 14,900 sqm, was completed in Tallinn and its surroundings in 2019. However, around 100,000 sqm could be completed in the next 1-2 years.

Most of these projects were developed for own use. These projects increased the total leasable area of modern warehousing premises in Tallinn and Harju County to 1,335,000 sqm.

The very active development of stock office premises continued in 2019, but the time taken to find customers is longer. While 7 projects of 20,000 sqm were completed in 2019, a further 16 projects and 45,000 sqm will be completed by 2020.

So-called stock office type premises, 250–600 sqm in size, in logistically attractive locations in the suburbs continued to be popular, because they allow businesses to combine their warehouse, office and retail needs.

In 2020, at least four new projects with a total warehousing area of over 35,000 sqm should be implemented in Tallinn and the vicinity.

DEMAND

In 2019, customers showed growing interest in spaces located near Tallinn in Tänassilma, in Rae parish next to Tartu Road and in Tallinn in Lasnamäe district. So-called stock office type spaces available at various locations in Tallinn were also popular, especially in Lasnamäe, Mustamäe district and next to Tallinn in Rae parish.

Smaller wholesalers and small logistics companies currently require warehouse space of 1,000-3,000 sqm. Larger premises are needed for production spaces.

The greatest demand is for stock office space, where there is a warehouse, production, office as a representative office for the supply of goods or service. Usually 65-85% of the building surface is a warehouse or shop, 20-30% an office, some companies need a separate showroom.

In the case of stock-offices, smaller units of between 200 and 500 sqm are required. The location is very important, high-density roads inside and outside the city are preferred.

In Estonia, the development of storage and production facilities is closely related to external demand and exports. The vacancy rate of warehousing premises in Tallinn region was 4% in 2019.

In 2019, most typical industrial and warehouse spaces were developed mainly for own use, but in the very popular stock office segment there is a lot of speculative space.

RENTS

During 2019 rents for warehousing premises were stable in the Tallinn region. At the end of 2019, rents for new modern warehouses at the most attractive locations ranged from €4.50 to €5.00 per sqm. Near or outside the city limits, rents range from €3.50 to €4.50 per sqm. Renovated premises are being offered at prices from €2.50 to €3.00 per sqm. Average and poor-quality premises range from €1.50 to €2.00 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

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

The country's economic growth and improving company performance indicators are predicted to underpin the vitality of the industrial sector. Ober-Haus forecasts an increase of up to 5% in warehousing rents in 2020 because the supply of new premises is decreasing, at the same time, e-commerce and logistics are developing rapidly.

INVESTMENTS

Over the past several years, investors have been actively looking for suitable properties to purchase but the continuing expectations of owners to achieve high sale prices have served to constrain the market during 2019. In the current market situation, investors are expecting a yield of at least 7.5% from storage and production facilities in and near Tallinn.

In Q1 2019 French real estate fund Corum bough a Harmet factory building approximately 25 km from Tallinn's city centre in Kumna. The industrial building is fully leased to Harmet OÜ for 15 years under a sale and leaseback transaction. The building's total surface is over 28,000 sqm and was built in 2017. Harmet specialises in manufacturing modular homes, modular on-site facilities and various metal structures, offering their clients complete solutions from design engineering to final assembly of the buildings. The seller was ITT Capital, the transaction price almost €29 million, yield ca. 7.5%.

In Q1 2019 United Partners Property bought an Onninen Logistics Centre and DPD stock complex approximately 15 km from Tallinn's city centre in Rae Parish in Lehmja. The building's total surface is almost 12,300 sqm plus open storage areas of around 35,000 sqm. The seller was Korso Holdings, the transaction price ca. €11.6 million, yield ca 8%.

LEGAL NOTES BY SORAINEN

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

STOCK101

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**KÕRTSI STREET 9** – Custom-built storage facilities were constructed next to Tartu Road in Rae parish near Tallinn. Rentable spaces range from 500 sqm, and will be outfitted according to customers' requirements, for either office or leisure use. The building is being constructed according to modern European standards, ensuring high energy efficiency and significant savings on running costs when compared to older buildings of the same class. This modern building is heated by gas, includes a sprinkler system, drive-in ramps, a smoke removal system and electronic loading bays. The rents for storage areas are €4.50 per sqm plus additional costs. The 14,900 sqm building was completed in Q4 2019.	14,900	Q4 2019
	**STOCK101** – A two-storey stock office-concept commercial building located near Tallinn city centre at Peterburi Road. Rental spaces include showrooms, offices and storage rooms — all under one roof with unit sizes from 280 to 400 sqm. The units can be easily linked to offer rental spaces of different size and shape from 280 up to 2,000 sqm. The building of 2,040 sqm was completed in Q3 2019. Rents for warehouses €6.80 per sqm and for office premises €8.80 per sqm. Developed by Favorte.	2,040	Q3 2019
	**SÄRA ROAD 11** – So-called stock office type premises will be built in in the vicinity of Tallinn in Mõigu industrial park. The building being developed has a total 4,000 sqm of multifunctional office premises that allow office reception and warehouse premises to be combined under one roof. The rents are €5.90 per sqm plus additional costs of €1.60 per sqm. The 4,000-sqm building was completed in Q4 2019.	4,000	Q4 2019

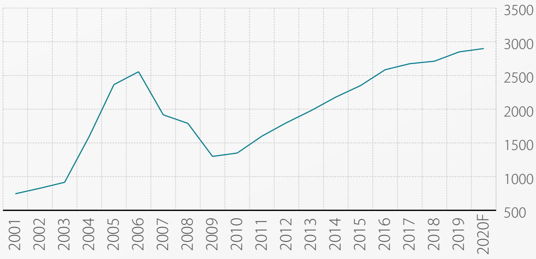
KADAKA ROAD 3

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

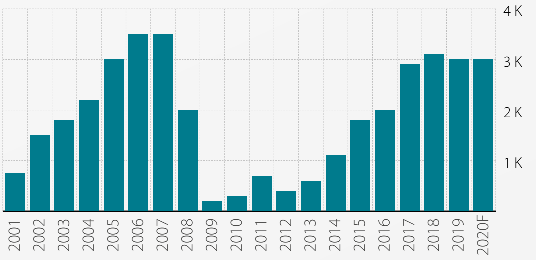
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**PÄHKLIMÄE ROAD 1** – Built-to-suit-storage facilities are being constructed next to Tartu Road in Rae parish near the new Omniva logistic centre. Rentable spaces range from 1,500 sqm. This modern building is heated by gas, includes air-conditioner, climate control, compulsory ventilation, industrial power supply, meeting room. The rents for storage areas are €4.90 per sqm plus additional costs of €1.40 per sqm. The 13,000 sqm building will be completed in 2020.	13,000	2020
	**SMARTEN LOGISTICS** – The well-known logistics company built a logistics centre in stages in Rae parish, near the Tallinn–Tartu Road and Tallinn Ring road, in Rukki Technical Park. The fourth stage with 7,500 sqm of warehousing space will be completed in Q3 2020 and the total space of the complex after the expansion will be 50,000 sqm.	7,500 (IV stage)	Q3 2020 (IV stage)
	**EUGESTA LOGISTIC CENTRE** – The well-known distribution company is building a logistics centre in Rae parish, near the Tallinn–Tartu Road and Tallinn Ring road, in Rukki Technical Park. The 10,000 sqm logistics centre will be completed in Q3 2020.	10,000	Q3 2020
	**MCF DATA** – Next to Tallinn, Saue municipal government has signed off on the building permit for the Baltics' biggest data centre, which will be built in three stages for a total cost of over €100 million. Designed in cooperation with Finnish specialists in the field, the data centre will be modular in design, meaning that it will be possible to provide each client with the specific solutions they need. The centre will be 14,000-35,000 sqm in size. The buildings will be completed in Q2 2021 and the developer is MCF Group Estonia.	14,000 - 35,000	Q2 2021
	**ACE LOGISTIC** – Custom storage facilities are being built near Tartu Road in Rae parish in Lehmja, near Tallinn. The logistics centre of 6,150 sqm will be completed in 2020. The plot has been purchased with reserves so that an additional 4,000 sqm can be added if necessary. The cost of the project is €5.0 million.	6,150	2020
	**TAEVAKIVI** – Taevakivi commercial building with a total area 5,600 sqm is a stock office building. The location near major highways such as St. Petersburg Road and Tallinn Ring Road allows convenient access from Maardu, Via Baltica and Paldiski directions. Available stock office booths start at 330 sqm and add up to 5,600 sqm of commercial space. The rents are €7.2 per sqm plus additional costs. The buildings will be completed in 2020.	5,600	2020
	**TÄHETORNI TEHNOPARK** – The Tähetorni Technology Park in the suburbs of Tallinn next to Paldiski road on Härgmäe Street is expanding rapidly. In June 2019, the first stock office building with 6,300 sqm was completed and another stock office building with 4,400 sqm will be completed in Q1 2020, the developer is currently looking for suitable tenants. Around 60,000 sqm of commercial premises are planned for this technology park. The average rents are €7.2 per sqm plus additional costs. Developed by Favorte.	4,400	Q1 2020
	**KADAKA ROAD 3** – A new multifunctional stock office type complex with retail, warehouse and office space will be completed in Mustamäe at Kadaka Road in 2020/2021. The total area of buildings is 6,900 sqm of which ca. 3,500 sqm is warehouse. The specialty of the building is that at the street level there are comfortable retail spaces with parking in front of the shop windows. On the second floor, however, there is a large selection of mini warehouses that can also be reached by car lift. Rents are €6.0–€9.0. Developed by Hammerhead.	3,500	2020/2021

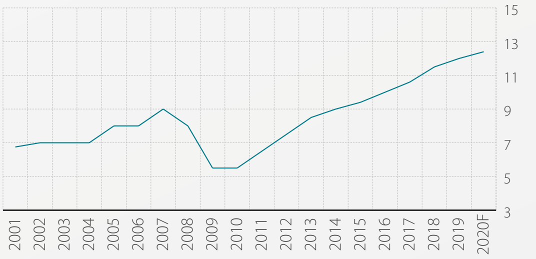
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



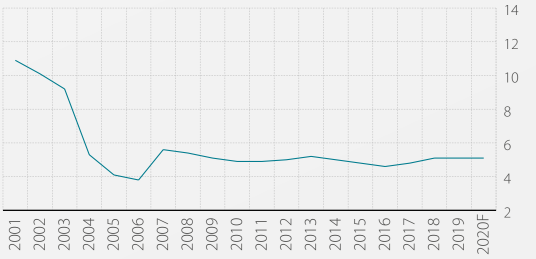
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2019)

ANNUAL APARTMENT PRICE CHANGE	+ 9.7 %
NEW APARTMENTS BUILT	3,000
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€1,300 - €2,100
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,800 - €3,000
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€2,500 - €5,000
RESIDENTIAL INVESTMENT YIELD (city centre)	5.1 %

AVERAGE PRICE IS AN ALL-TIME-HIGH

PRICES

The average sqm price for an apartment in Tallinn increased by 9.7% in 2019 reaching €2,024 per sqm in December 2019. Reasons behind the increased prices for apartments include: low interest rates, rising income levels, and the purchase of apartments for investment purposes. Altogether 40% of the deals took place without a bank loan and overall 10-20% of the apartments were bought as investments.

The new trend is mini-apartments of 12-25 sqm, priced between €4,000 to €6,000 per sqm in the city centre, for short term rent.

At the end of 2019, the average cost of a new 2-room, 50 sqm apartment in Tallinn was €129,500 (€2,600 per sqm). The average cost of a secondary market 2-bedroom apartment in Tallinn was €87,550 (€1,750 per sqm).

New apartments cost €2,500-€5,000 per sqm in the city centre and €1,800–€3,000 per sqm in the residential districts.

Prices for apartments vary mainly according to location. Most transactions were in the city centre and involved apartments in good condition in modern or fully renovated buildings, with prices from €2,500 to €3,100 per sqm.

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

In residential districts, most of the sales were for cheaper one or two-room Soviet-era apartments in need of renovation. These flats cost from €1,300 to €1,500 per sqm. Apartments in excellent condition situated in popular locations in residential districts cost from €1,500 to €2,100 per sqm. Apartments in less sought after locations are much less marketable, even if they are in good condition. In popular suburban locations like Pirita, Nõmme and Kakumäe, prices for modern apartments range from €1,900 to €3,000 per sqm.

RENTS

In 2019, rents for apartments in Tallinn increased by around 3% on average, while the average asking price per sqm in Tallinn was 7% higher compared to the end of 2018 and the number of listings has grown 20% during the last 3 months of 2019 and the period for finding tenants has somewhat increased. Compared to sales prices, rental increases were lower due to the increased supply of new apartments for rent on the market.

At the end of 2019, the asking price was €10.5–€12.00 per sqm for rental apartments in the suburbs of Tallinn and €12.00-€14.00 per sqm in the city centre for old construction apartments.

The price of a new rental apartment in the city centre is €13.00–€18.00 per sqm, in the suburbs €13.00–€17.00 per sqm.

Average micro apartment rents can exceed €20 per sqm.

The price of a parking place may be included in the rental price of an apartment.

In the centre of the city, demand is highest for one or two-room furnished apartments, which rent for €450 to €550 per month, preferably with parking. Tenants pay their own utilities on top of the rent.

The most active rental market in Tallinn is in the city centre, as well as in Lasnamäe and Mustamäe districts. Usually the average rent term is 1 year. Contracts for longer than 3 years are not usually available.

There are no restrictions on the lease of apartments. Residential rents are usually fixed and not indexed; therefore, the term of a lease is relatively short. Costs for electricity, heating, etc are customarily excluded from the rent and have to be paid by the tenant. The renovation fund is usually also paid by the tenant, although according to the law it should be paid by the landlord.

The gross rental yield of apartments in Tallinn in 2019 was around 5-6% depending on the location and the property. Owners generally negotiate rental agreements of short duration (up to one year) and check tenant backgrounds very carefully.

The demand for new apartments is high, as most of Tallinn's apartments were built between 1960 and 1990 and these apartments have high utility costs, especially heating. The growing rental market in Tallinn is driven by domestic migration, as due to unemployment elsewhere in Estonia, people converge on Tallinn. The population in Tallinn has grown by 50,000 during the last 10 years.

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

The majority of rental customers are students, young people, employees from other parts of Estonia and foreigners. Over the last few years, the market has been heavily influenced by migrant workers, especially from Ukraine. Business customers account for around 20%. The popularity of rental apartments has grown, especially among young people. The reason is greater mobility of people and movement of jobs, and in this regard, unwillingness to assume long-term financial commitments.

Lumi Capital and LHV Pension Funds started investing in rental apartment buildings in Tallinn. The first project was in the Manufaktuuri quarter of Põhja – Tallinn, a popular residential district. There are 127 one-, two- and three- bedroom apartments with a car park and a large courtyard. The project was completed during 2019. At the end of 2019 the vacancy rate was zero. The longer investment strategy of Lumi Capital and LHV is to build 500 rental apartments in different residential areas in Tallinn.

The first micro rental apartment projects have been completed from old office buildings in high demand locations, like Narva Road 40, Laki 24, Ehitajate 60.

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

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

SUPPLY

In 2019, around 3,000 new apartments were completed in Tallinn, compared to 3,100 new apartments in 2018. It is expected that developers will finish construction of 3,000 apartments in Tallinn in 2020 as well. Residential development is also growing near the centre of Tallinn.

At the start of 2020, there were apartments for sale in around 120 newly developed projects in Tallinn and in another 40 projects in the immediate vicinity of the city.

The largest apartment development project developed by Merko in Tallinn in the New Veerenni Quarter with a capacity of 1,600 apartments was started in 2018. The first stage with 137 apartments was completed at the end of 2019. The second biggest project developed by Merko in Tallinn is Lahekalda, which started in Q3 2019. The first phase of construction, with 144 apartments, will be completed by the end of 2020. The total volume of the project is more than 1,000 apartments.

At the same time, most projects are small, and the development of larger projects takes place in stages. Clients primarily value smaller development projects located in or near the city centre. Kalamaja district which is located both near the sea and the city centre is a very popular district.

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

DEMAND

In 2019, the number of apartment deals in Tallinn increased 0.9%, but the total financial volume rose by 6.6%.

In 2019, 213 new apartments on average were sold each month, which is 26% of all apartment transactions in Tallinn. Demand and supply are balanced; most apartments were booked and sold during the course of construction. However, apartments in some projects have been for sale for years and developers have been obliged to lower prices to attract buyers.

The most expensive apartment transactions in Tallinn took place in Kalamaja by the sea in Q4 2019 with selling prices of around €1.5 and €1.0 million.

PRIVATE RESIDENCES

In 2019, the average price of private houses in Tallinn and Harjumaa rose 5.9%, the number of transactions increased by 4.3% and the transaction volume increased by 10.5%.

The most desirable are new or up to five-year-old 120-160 sqm houses with modern technical solutions and economic heating systems. Prices range between €190,000 and €270,000. The increase in the price of such houses, depending on their exact location, has been 5-10% in 2019.

The new trend is the construction of smaller than average houses (75–95 sqm, price €120,000 to €160,000) near Tallinn.

The most expensive deal in Tallinn was €1.1 million in the Pirita district near the sea.

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

Increasing prices can be noted based on location, especially in the highly priced and well-established private residential boroughs of Tallinn (Nõmme, Kakumäe and Pirita) and in the parishes bordering Tallinn.

THE MORTGAGE MARKET

Loans are offered in euros and have maturities up to 30 years. The average mortgage interest rate for new borrowers at the end of 2019 was 2.42% (depending on the customer's financial standing). During the year average interest rates were between 2.4-2.6%. Clients can borrow up to 85% of a property's value with a standard contract structure and up to 90%, if they qualify for the housing guarantee programme.

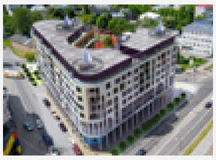
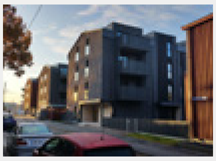
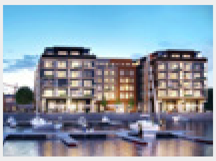
The volumes of new mortgage loans and the total mortgage loan portfolio in Estonia have reached new heights. According to data from the Bank of Estonia, at the end of 2019 the total value of outstanding residential loans stood at €8.1 billion, the highest point historically. Currently in Estonia, the value of household loans is around 28.8% of GDP. This rate is one of the lowest compared to other EU countries (EU-28 average in 2016 – 47.1%).

Estonians increasingly take out mortgage loans, and loan volumes continued to grow in 2019. According to data from the Bank of Estonia, new mortgage loans worth €1.4 billion were provided in Estonia in 2019, an increase of almost 6.4% compared to 2018. In 2017–2019, new mortgage loans for an average of €109 million were provided per month, which is 26% more than in 2016.

LEGAL NOTES BY SORAINEN

Residential leases are not subject to rent control. Some residential properties owned by local government enjoy subsidised rent. Evicting delinquent tenants can be problematic. Possession of property is protected and even if termination is valid, it is prohibited to summarily evict tenants if they do not leave voluntarily. In that case, a claim must be filed with the court for recovery of the premises from illegal possession and eviction is possible only by bailiff based on court decision. The process can take a couple of years, although in most cases matters can be resolved in a more reasonable timeframe.

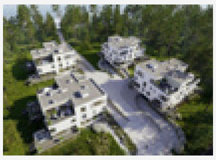
RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**KADRIORU PLAZA** – This development project consisting both of commercial and residential areas making it the largest and the best-located complex in the centre of Tallinn. Located at the junction of Vilmsi and Gonsiori Streets, the Kadrioru Plaza is located within easy reach of every part of the city. It has 4 floors of commercial space with 6,200 sqm leasable space and 5 floors of residential space with 97 apartments. Apartments on the top floors offer views to the city centre and the sea. There are 2 underground parking floors with 133 parking spaces and storage rooms for residents. Prices for the apartments range from €2,300 to €3,500 per sqm. The price of a parking space in the underground parking is €15,000; the price of a storage room is €3,000. This project was completed at the end of 2019 and the developer was Bariot Group. Ober-Haus is the selling agent.	€2,300 - €3,500	Q4 2019
	**HAVEN KAKUMÄE** – Haven Kakumäe Residence is a perfect place for people who would like to live by the sea in harmony with nature, to enjoy a healthy and active lifestyle in an atmosphere of comfort and developed infrastructure. Located in the green eco-friendly district of Kakumäe, it offers comfortable seafront apartments next to the marina and only 10 km from Tallinn city centre. The sizes of the apartments range between 59 and 178 sqm, and the price per sqm is between €2,800 and €4,300. The price of a parking space in the basement is €15,000; the price of a storage room is €5,000–€9,000. The whole project with 55 apartments was completed in 2019. Developed by Haven Kakumäe.	€2,800 - €4,300	2019
	**NEW VEERENNI** – The New Veerenni Quarter is the largest single residential development area. The buildings are located in the Veerenni subdistrict. Over the next ten years, ca. 50 new residential buildings with more than 1,600 apartments will be contructed. The residential buildings will be energy class B. There will be an underground car park and intra-quarter roads will be constructed. Courtyards in the quarter will be landscaped and play and recreation areas established. The first phase of construction, which is due to be completed by the end of 2019, comprises 12 buildings with 137 apartments and 8 commercial premises. The sizes of the apartments range between 35 and 118 sqm, and the price per sqm is between €2,150 and €3,250. Developed by Merko.	€2,150 - €3,250	Q4 2019
	**MÜNDRIKU RESIDENTS** – A residential project, consisting of 7 houses with underground parking facilities. The homes has been built near the sea between Jahu and Väike–Patarei Street in Kalamaja district, which is becoming an increasingly popular neighbourhood. In between the houses there will be leisure areas, a playground and private courtyards. The whole project with 94 apartments was completed in 2019. Prices range from €2,850 to €4,050 per sqm; the price of a parking space is €15,000. Developed by YIT.	€2,850 - €4,050	2019
	**NOBLESSNER HOME PORT** – An exclusive, centrally located, seafront multifunctional project where all motorised traffic in the estate is underground. A marina, beach promenades, playgrounds, and light traffic routes will be built. There will be a total of 187 apartments and commercial premises. The price range for apartments is €1,700-€4,800 per sqm, and €16,000-€20,000 for a parking space in the underground car park. The complex was completed in 2019. The developers are Merko and BLRT Grupp.	€1,700 - €4,800	2019
	**AURORA NOVA** – A residential project built near Lake Harku in the suburbs of Tallinn. Rocca-al-Mare Shopping Centre and Tallinn Zoo are in the vicinity. In total, 3 apartment buildings comprising 170 residential units will be built. The price range for apartments is €1,600-€3,300 per sqm including parking spaces and storage rooms. The whole project was completed in 2019. Developed by Endover.	€1,600 - €3,300	2019

NEW PROJECTS

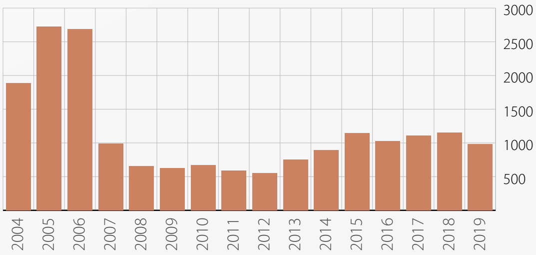
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**UUS-MUSTAMÄE** – Bonava will create a new neighbourhood with parks and green areas in the Tallinn area of Mustamäe with 750 apartments. It will be one of the biggest and most modern housing projects in Mustamäe. The selling prices of apartments range from €2,050 to €2,600 per sqm and the prices of parking spaces range from €3,000 to €6,000. Total investment in the project is €60 million, with the first stage of 99 apartments due to be completed by the end of 2020. At the end of 2019 almost 80% of the apartments from the first stage had been sold or reserved.	€2,050 - €2,600	Q4 2020
	**TOOM-KUNINGA 15** – A project consisting of 8-storey energy efficient (B class) residential buildings located between the popular Uus–Maailma district and Tallinn city centre. There will be 109 apartments with balconies, terraces, high ceilings, storage rooms and underground parking. The prices range from €2,400 to €4,100 per sqm. This project is developed by Metro Capital and will be completed in Q3 2020.	€2,400 - €4,100	Q3 2020
	**DAS HAUS** – An 8-storey building complex with 131 apartments, 26 offices and 9 retail spaces currently under construction next to one of the most desirable locations in Tallinn city centre. Apartments on the top floors offer views of the Old Town and the sea. Prices of apartments are from €2,000 to €5,500 per sqm, of offices €2,300–€4,000. The most expensive, exclusive apartment costs €1.5 million. The price of a parking space in the basement is €24,000; the price of a storage room is €5,100. At the end of 2019 more than 60% of the apartments had been sold. The complex is developed by Novira Capital and will be completed in Q2 2020.	€2,000 - €5,500	Q2 2020
	**LAHEKALDA** – Lahekalda is a rapidly developing new residential district where over the next 10 years modern new buildings with more than 1,000 comfortable apartments will be constructed. Situated on the nearly 70 hectare naturally beautiful Maarjamäe limestone bank, these apartment buildings rise to just the right height above sea level to provide for amazing views of the sea and city centre towers. The residential buildings will be energy class B. The first phase of construction, which is due to be completed by the end of 2020, comprises 3 buildings with 144 apartments. The sizes of the apartments range between 31 and 93 sqm, and the price per sqm remains between €2,000 and €3,150. Developed by Merko.	€2,000 - €3,150	Q4 2020
	**TISKREOJA** – Thanks to the newly finished Haabersti intersection, the people of Tiskreoja will have a good connection to every part of the city. Over the next four years, the project comprising ca. 400 new apartments will be contructed. Prices range from €1,650 to €2,400 per sqm; the price of a parking space is €1,900. Construction of the first residences will be completed by autumn 2020. Developed by Invego.	€1,650 - €2,400	Q4 2020
	**KADAKA METSAPARK** – A residential project, consisting of 4 houses with 280 apartments. The first building will have 60 apartments. The smaller apartments will be cosy nests under 30 sqm, while the larger ones will be four-room family apartments of up to 72 sqm. Prices range from €2,150 to €3,700 per sqm with a parking space included. The whole project will be completed in 2020/2021. Developed by Hepsor.	€2,150 - €3,700	2020/2021
	**RAND VILLAS** – A total of 3 exclusive buildings consisting of 30 apartments with sea views. Prices for apartments range from €2,700 to €4,500 per sqm. Every apartment comes with a storage room, which is included in the price of the apartment, in the heated underground car park. Parking spaces cost €18,000. The whole project will be completed in 2020. Most apartments have already been sold or booked. Developed by Merko.	€2,700 - €4,500	2020

NEW PROJECTS

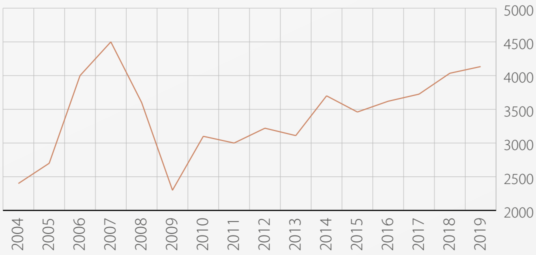
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**MERIRAHU VILLAS** – A residential project, consisting of 4 houses with 24 apartments and underground parking facilities. This project is unique thanks to its apartments, which are the size of private houses (95 to 125 sqm), and the complementing 50 sqm terrace and spacious lawn area. Prices range from €3,200 to €4,100 per sqm; the price of a parking space is €15,000 and of storage rooms €3,000–€5,000. The project will be completed in 2020. Developed by Novira.	€3,200 - €5,000	2020

MERIRAHU VILLAS

LAND TRANSACTIONS IN TALLINN CITY & DISTRICT



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



TALLINN SNAPSHOT
(END-2019)

ANNUAL LAND PRICE CHANGE (TALLINN AND HARJUMAA)	+ 3.2 %
TOTAL LAND TRANSACTIONS CHANGE (TALLINN AND HARJUMAA)	- 16 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (SQM)	€350 - €1,950
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€70 - €330
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€60 - €110

IKEA ACQUIRED LARGE SIZED LAND PLOT FOR ITS FIRST FULL-SIZE STORE

In 2019, the number of transactions involving residential land in Tallinn and Harju County decreased by 16%, but the average price per sqm increased by 3.2%.

In the most popular residential areas in Tallinn the average price of land was €70-€105 per sqm and, near the city, €25-€40 per sqm.

The increase in prices was biggest in Rae, Saku, Kiili, Harku and Saue parish, which are located in the immediate vicinity of the city of Tallinn and are increasingly popular.

The prices of 1,000–1,500 sqm plots are €90,000–€170,000 in popular locations in Tallinn (Kristiine Pirita, Haabersti and Nõmme), €50,000–€90,000 near the city, and €20,000–€40,000 in other locations.

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

A local municipality, Rae parish, outside Tallinn sold under 21 hectares of land to Swedish furniture giant IKEA for €2 million. The contract agreed makes the purchaser responsible for establishing a retail outlet of 25,000 sqm. The plot of land is alongside the Tallinn ring road in Kurna village. Kurna is about 12 kilometers from Tallinn. The opening date of the store is currently unknown.

Finnish developer SRV sold ca. 20 ha of land in Harkujärve, near the Tallinn border to one of the biggest local developers, Liven, for €3.2 million. The land comprises 63 plots with building rights for 70,000 sqm.

Kaamos bought 5.2 ha of land in the suburbs of Tallinn at a state auction for €4.8 million with potential to develop apartment buildings.

LEGAL NOTES BY ***SORAINEN***

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

Construction requires a construction permit issued by local municipality. Construction must generally comply with local spatial planning, in particular detail plans. In dense population areas a detail plan is usually required. Local municipalities often require developers to undertake to construct infrastructure as a condition for adopting a detail plan. Some municipalities also require payments to social funds. When buying land for construction, the existing detailed plan must be thoroughly investigated to ensure its applicability.

OBER HAUS

ESTONIAN REAL ESTATE TAXES AND LEGAL NOTES

ACQUISITION

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

The transfer of shares in a property holding company is not generally subject to VAT (unless the property is a building land or a new or significantly improved construction works).

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

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

Transfer of real estate is generally exempt from VAT, but there are certain significant exceptions. Transfer of a new or significantly renovated apartment or building or a building land, is subject to 20% VAT. Parties can also opt to add VAT on a voluntary basis, provided that it is not a dwelling. In case of a VAT exempt supply of the real property, the adjustment period for input VAT is 10 years. Estonian has also implemented a domestic VAT reverse charge mechanism on certain sales of property between VAT liable companies.

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

RENT

VALUE ADDED TAX (VAT):

As a rule, rent of real estate is VAT exempt. Parties may opt to add VAT on rent, provided that the Estonian Tax Authorities are respectively notified in advance and in such case the notification is valid for at least 24 months. In practice the option is widely used by owners of commercial property since this grants the right to deduct input VAT incurred upon development of property. Rent of residential property is always VAT exempt, optional taxation is not available.

CORPORATE INCOME TAX (CIT):

Due to the specifics of the Estonian corporate tax system, rental income received by Estonian companies only becomes subject to 20% corporate tax upon distribution of profits (calculated as 20/80 on the net amount of profit distribution). As of 2019, corporate income tax rate of 14% (14/86 on the net amount) is applied to regularly distributed profit. In case the recipient of the dividend is an individual, additional 7% withholding tax applies. The year 2018 was the first calendar year that was taken into account for the calculation of the average taxable distributed profit of the three preceding years. Permanent establishments of non-residents are taxed similarly to Estonian companies, i.e. only upon making formal or deemed profit distributions.

WITHHOLDING TAX (WHT):

Generally, non-residents without a permanent establishment in Estonia are subject to 20% income tax on the gross rental income by way of withholding, in case the rental payment is done by a company. If a company pays rent to resident and non-resident individuals, 20% income tax should also be withheld.

PERSONAL INCOME TAX (PIT):

Estonian resident individuals pay 20% income tax on gross rental income. The taxpayer is allowed to deduct 20% of rental income received from a dwelling for covering the expenses related to the property, no source documents are needed. Therefore, the effective tax rate for individuals on rental income is 16%. Non-resident individuals are allowed to use the same deduction by way of self-assessment to reduce the tax payable.

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

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

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

SALE

VALUE ADDED TAX (VAT):

Transfer of real estate is generally exempt from VAT, but certain exceptions are in place. Transfer of a new or significantly renovated apartment or building or a building land, is subject to 20% VAT. Parties can also opt to add VAT on a voluntary basis, provided that the real estate is not a dwelling. In case of a VAT exempt supply of the real property, the adjustment period for input VAT is 10 years. There is also a domestic VAT reverse charge mechanism implemented on certain property sales. Transfer of shares in a real estate company is also generally exempt from VAT. However, transfer of shares in a real estate company could be subject to VAT in case the real estate owned by the company is a new or significantly renovated apartment or building, or a building land.

CORPORATE INCOME TAX (CIT):

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

SPECIAL RULES FOR DOMESTIC INVESTMENT FUNDS

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

PERSONAL INCOME TAX (PIT):

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

REAL ESTATE TAX (BUILDINGS/PREMISES)

There is no real estate tax in Estonia.

LAND TAX

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

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

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

INTRODUCTION

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

TITLE TO REAL ESTATE, LAND REGISTER

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

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

Title to real estate is considered transferred on registration of ownership with the Land Register, not on signing the agreement. The notary who certifies the transaction will file a notarised registration application together with the transaction documents with the Land Register. This is done electronically – usually on the same day. In the case of a simple transaction, ownership is often registered within one week from filing an application with the Land Register, along with the signed and notarised agreement. In the case of a complex transaction, the Land Register has up to one month to process the application. Entries in the Land Register are made in the order of submission and therefore parties to a transaction often agree to act as though the ownership has already transferred as of submitting the application to register the change to the Land Register.

ACQUISITION OF REAL ESTATE

GENERAL

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

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

- Real estate consists of land and things permanently attached to it, such as buildings and standing timber. In general, transfer of a building separately from the underlying land is not permissible, except if building title is established and so transferred. Building title provides its owner a transferable and inheritable right for a specified term up to 99 years to erect and/or own a construction permanently attached to a land plot. In that case, the building forms an essential part of the building title, not of land. Building title can be transferred separately from the land plot.

LETTER OF INTENT AND HEADS OF TERMS

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

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

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

ASSET TRANSFER

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

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

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

Existing lease agreements remain valid after the transaction.

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

SHARE TRANSFER

A share transaction can be made instantaneously, through electronic sale of shares in the Estonian Register of Securities, accessed via the buyer's and seller's internet bank accounts. No state duties apply, and no notary fees apply if the transaction is done electronically. If the shares are not registered with the Register of Securities, the share transfer must be notarised. Increasingly stringent Know Your Client and Anti-Money Laundering rules have forced banks to limit opening bank accounts to foreign investors which can sometimes make the use of the Register of Securities and the benefits it incurs impossible.

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

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

PORTFOLIO DEALS

Considering a portfolio deal requires bearing in mind the following:

- Portfolios may include flawed or unwanted properties. Here, due diligence is of utmost importance in order to ensure marketability and resale after closing.

- A number of non-real estate assets are often acquired or need to be acquired together with the portfolio. These might include eg employment contracts, property-related rights, access arrangements and management operations.

- In a multiple jurisdiction portfolio deal, simultaneous closing of the transaction in all countries involved may be difficult to achieve due to differences in local laws and regulations.

SALE-LEASEBACK

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

This arrangement requires the following checks:

- Existence of a solid tenant/guarantor with a strong business track record to ensure stable cash-flow during the lease.

- The lease agreement should be tied to the asset purchase agreement as this is the main reason for the deal.

- The long-term nature of the arrangement requires the lease to be "waterproof". Adequate security on both sides that the other party will duly perform is also required (eg guarantee, surety).

- Closing under the asset purchase agreement should coincide with lease commencement date (book-keeping issues, reconciliation of costs) irrespective of the actual title transfer date.

FORM OF AGREEMENTS

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

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

LANGUAGE REQUIREMENTS

The sales agreement and real right agreement are drafted and verified by a notary in Estonian. Legally, the agreement can also be in English, although in practice only a few notaries are comfortable with attesting English language agreements.

DUE DILIGENCE

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

PRE-EMPTION RIGHTS

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

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

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

TAXES

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

The owner of real estate is liable to pay land tax for the property for the full year. The land tax is 0.1 to 2.5 % of the land value per year. The tax rate is established by the local municipality. In practice the land value assessment is usually significantly out of date and thus properties are significantly undervalued for tax purposes.

CONCENTRATION CONTROL

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

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

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

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

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

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

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

Other persons may own such land but on limited grounds and on approval of the local government.

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

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PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

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

ENCUMBRANCES

The following rights, which are entered in the Estonian Land Register, may encumber real estate: servitudes, usufruct, personal right of use, real encumbrances, building title, pre-emptive rights and mortgages. In general, these rights may be used in real estate transactions and are entered in the Land Register on notarised agreement to secure the interest of the purchaser, seller, third persons, or neighbouring real estate. Establishing and amending an encumbrance by transaction requires a notarised agreement. Removal of an encumbrance is also possible using digital signatures.

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

MORTGAGE

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

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

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

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

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

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

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

Service charges generally cover most of the costs. The more tenant friendly double-net lease is more common today as the market has shifted to a tenant's market. Tenants are usually required to pay the pro-rata share of utilities for common space. Requiring the tenant to also pay pro-rata share of rent for common space is rare.

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

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

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

LANDLORD'S LIEN

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

PPP & INFRASTRUCTURE

GENERAL

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

CONCESSIONS

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

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

SALE-LEASEBACKS

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

REGULATED REAL ESTATE FUNDS

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

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

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

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

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

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

CONSTRUCTION

Under the Construction Act, construction means the erection, construction, installation and demolition of a building and any other operations in relation to the building that lead to the creation of that building or to a change in the physical properties of the building. Construction work also means shifting soil or paving layers to a degree that has a significant and permanent impact on the surrounding environment and is functionally related to construction work.

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

Construction work has to be carried out in line with building design documentation and building norms. The building design should be drafted by a professional architect or engineer. The intended purpose of the building cannot differ from the intended purpose of the land plot (eg it is not possible to erect residential buildings on commercial land and vice versa). If no detailed plan is in place or required, construction works must be performed in line with design specifications issued by the local government - normally this occurs within 30 days from submission of the application. Usually the principles of open proceedings (public hearings and discussions) do not apply.

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

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

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

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

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

DISTRESSED ASSETS

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

During enforcement proceedings the asset is sold by the bailiff, usually at public auction. Auctions are usually conducted through an online portal created for this purpose.

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

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

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

OBER HAUS

We have helped our clients succeed in the following noteworthy real estate transactions

Buyer's Legal Adviser
Technopolis

Full scale advice on acquisition, development and lease of Ozas campus in Vilnius, one of the largest office campuses in the Baltics, comprising over 100,000 m² GLA and 6 office buildings.

Buyer's Legal Adviser
Nepi Rockcastle

Advice on acquisition from the ECE group of one of the largest shopping centres in the Baltics – Ozas shopping and entertainment centre in Vilnius.
EUR 124.6 million

Buyer's Legal Adviser
Hili Properties-McDonald group

Assistance in due diligence and acquisition of Dole shopping mall in Riga.

Buyer's Legal Adviser
East Capital

Advice on acquisition of Mustamäe Keskus shopping centre in Tallinn.

Legal Adviser
Deka Immobilien

Full scale advice on acquisition of Quadrum business centre in Vilnius from Norwegian-owned real estate developer Schage Real Estate.
This is the largest investment transaction in the Baltic office real estate market to date.
EUR 156 million

Legal Adviser
Citycon

Advice on acquisition of Kristiine and Rocca al Mare shopping centres in Tallinn and on acquisition and sale of Mandarinas Shopping Centre in Vilnius. These transactions were then cited as major property M&A and benchmark transactions in Estonia and Lithuania.

Legal Adviser
Lords LB Asset Management

Advice on hotel management contract for Radisson RED hotel in Vilnius and on hotel management agreement for Holiday Inn in Riga with InterContinental Hotels Group (IHG) and on acquisition of 9,670 m² 'EU House' office building in central Tallinn.

Legal Adviser
Nelja Energia

Sale of 100% shareholding to Enefit Green, a subsidiary of state-owned energy producer Eesti Energia. Most of the assets of Nelja Energia consisted of wind parks in Estonia, Latvia and Lithuania and other real estate.
EUR 488 million

Legal Adviser
Luminor Bank

Advice on sale of Head Office building in Riga, Latvia.

Legal Adviser
Tesonet

Advice on the largest office lease deal of 2019 with an area of 15,000 m².

Legal Adviser
Hesburger

Assistance on a wide range of real estate legal matters – due diligence, acquisitions and lease transactions, development, design and construction issues.

Buyer's Legal Adviser
Eastnine

Acquisition of three class A business centres in Vilnius meeting the highest environmental standards.
EUR 128.3 million

Seller's Legal Adviser
Linstow

Advice on sale of Galerija Centrs – a unique historic shopping centre building in Riga Old Town.
EUR 75 million, making it the largest real estate transaction in Latvia.

Developer's Legal Adviser
Lidl

Providing full range advice on property development matters involving legal due diligence, structuring transactions for property purchase, construction, planning and zoning.

Buyer's Legal Adviser
Northern Horizon Capital

Advice on acquiring Vainodes 1 office building in Riga, at a total purchase price of approx EUR 21.3 million.

Legal Adviser
Aldaris

Advice on sale and lease-back of real estate consisting of a land plot with buildings, including offices, production and warehouse buildings, as well as a brewery museum.

SORAINEN

Contact our team for full-scale legal and tax advice

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OFFICE

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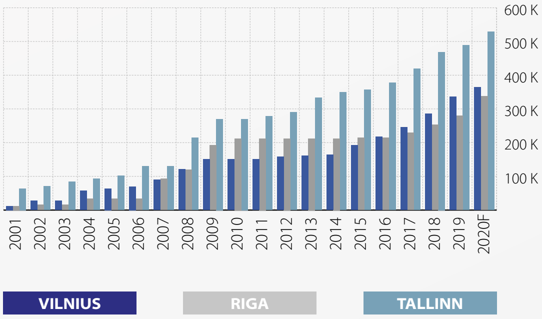
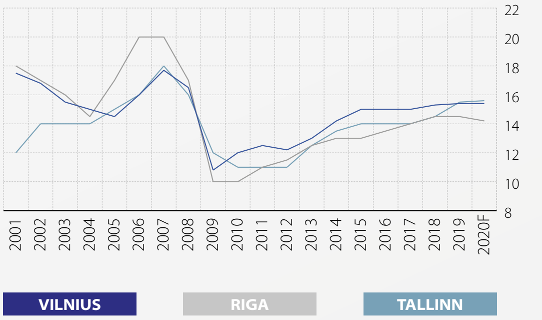
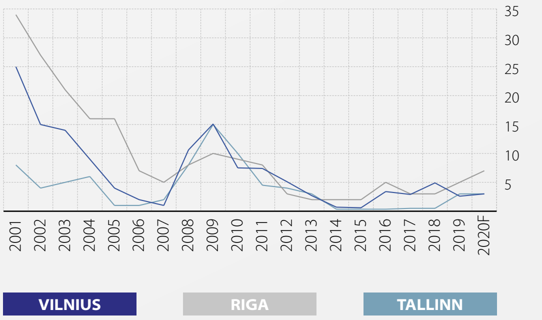


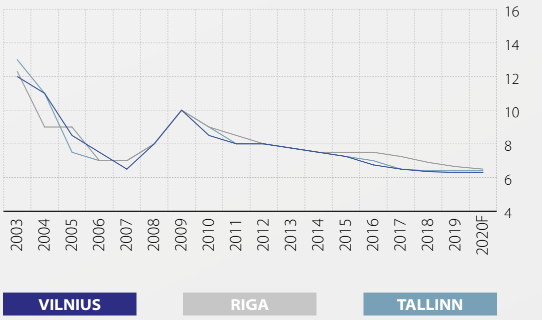
A CLASS OFFICE RENTS, €/SQM



A CLASS OFFICE VACANCY RATE, %

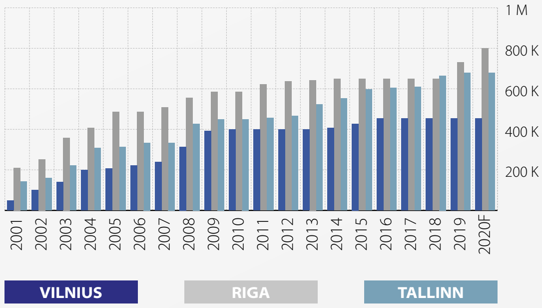


A CLASS OFFICE INVESTMENT YIELDS, %

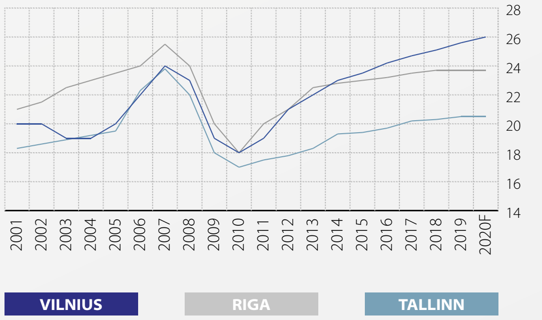


RETAIL

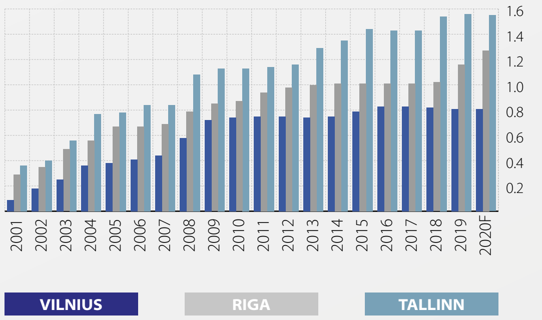
TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



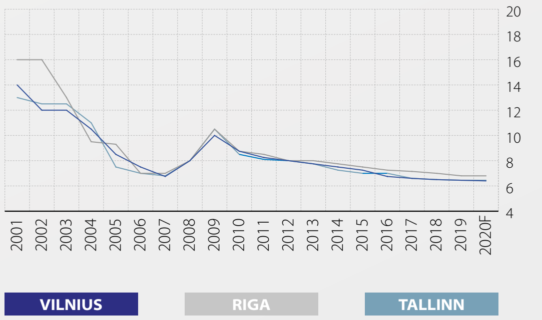
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL SHOPPING CENTRE SPACE PER CAPITA, SQM

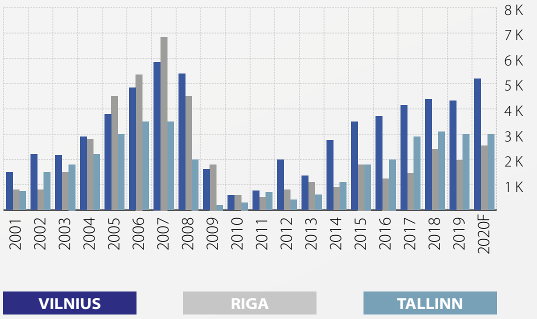


RETAIL INVESTMENT YIELDS, %

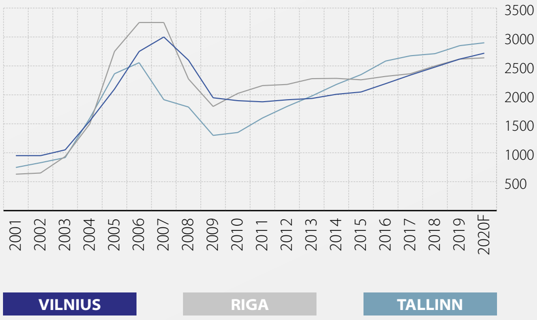


RESIDENTIAL

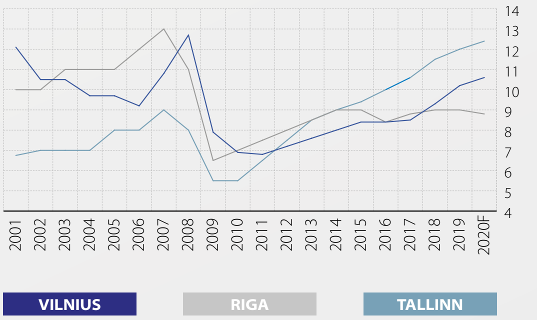
COMPLETED APARTMENTS



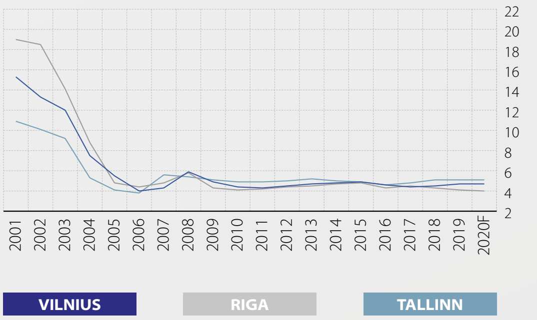
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM

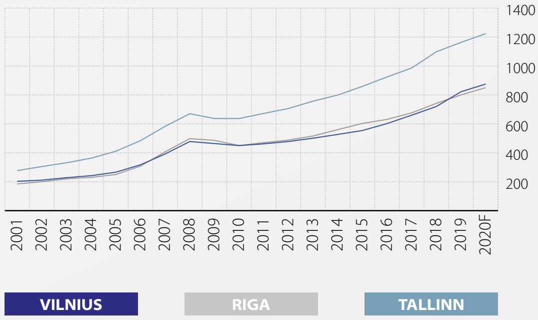


CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

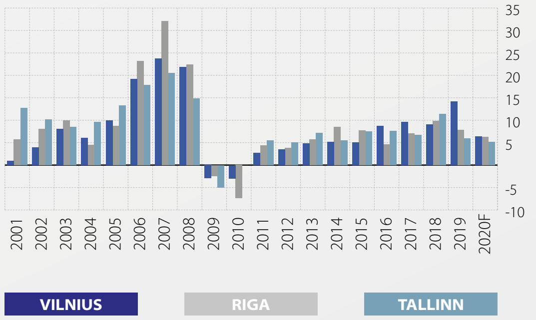


ECONOMICS

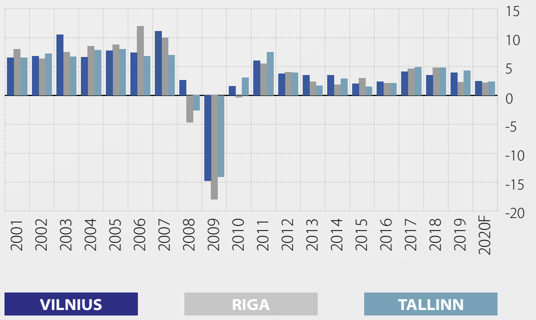
AVERAGE NET SALARY PER MONTH, €



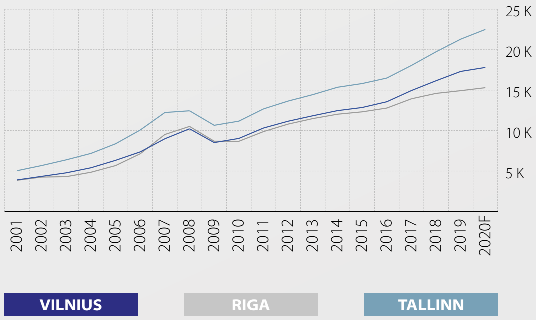
AVERAGE SALARY GROWTH, %



GDP GROWTH, %



GDP PER CAPITA, €



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