REAL ESTATE MARKET REPORT

'21

BALTIC STATES CAPITALS
VILNIUS, RIGA, TALLINN

REALIA GROUP

OBER HAUS

OBER HAUS PART OF REALIA GROUP

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

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

Our services include:

- Brokerage services for consumerss
- Housing management
- Construction contracting and project management services
- Property management services for commercial properties
- Property management services for residential buildings
- Financial management services
- Energy and environmental services
- Valuation services
- Residential leasing

Realia Group consists of the business units Realia Isännöinti, Realia Management, Huoneistokeskus, and Huom! 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 1,800 professionals, and its turnover is approximately EUR 130 million (2020). 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:

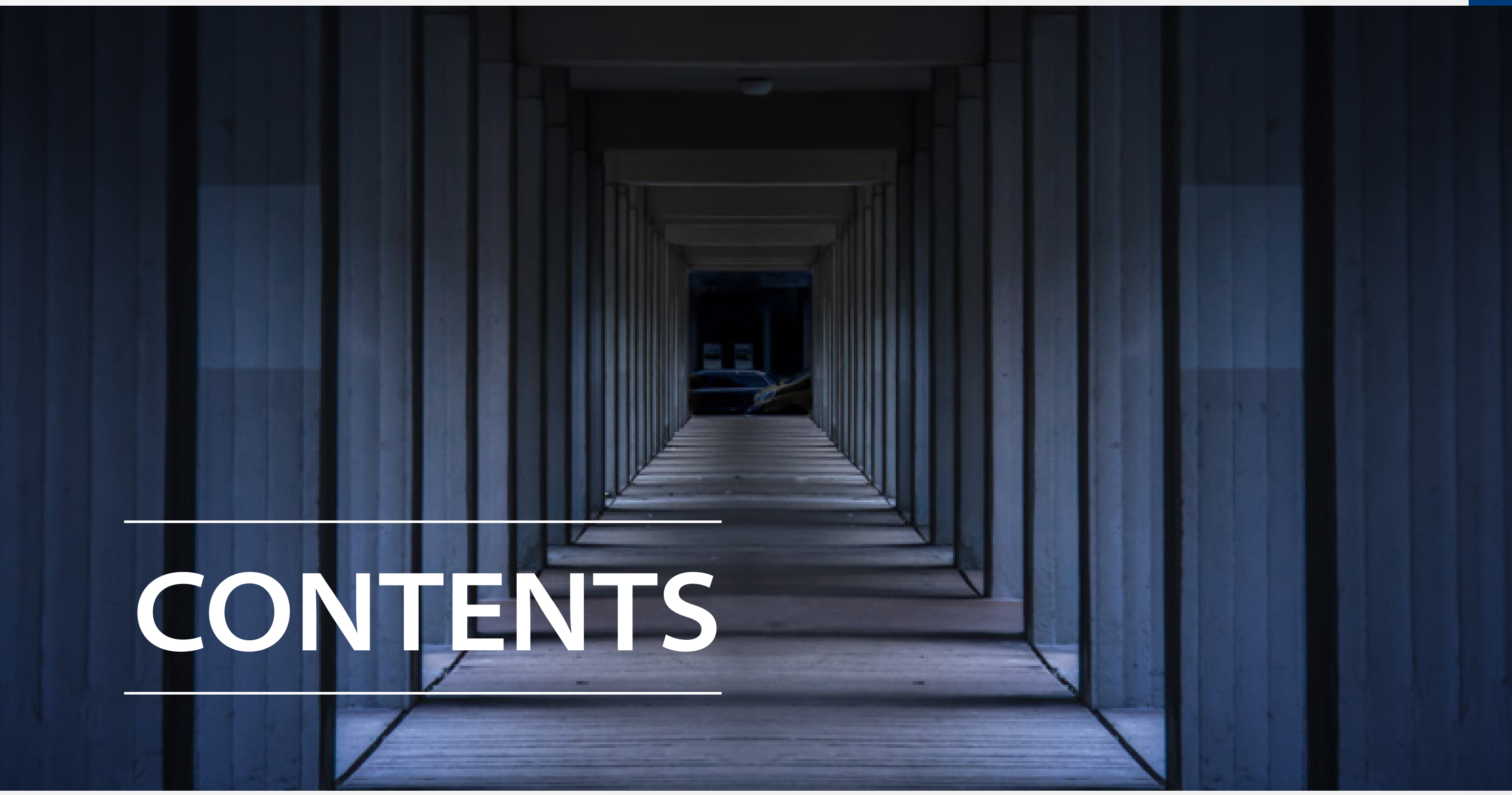
- residential and commercial real estate services;
- property management;
- investments advisory;
- property valuation services;
- market research;
- consultancy.

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:

REALIA ISÄNNÖINTI | HUOM! | REALIA MANAGEMENT | OBER HAUS | Huoneistokeskus | HESTIA



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FOREWORD

We very much hope that our clients, partners and anyone else interested in the real estate market did not experience extremely negative outcomes in 2020, although all of us were affected to a greater or lesser extent by the current circumstances. Global economies and individual economic sectors have suffered a major blow from the coronavirus pandemic, which also had an impact on the performance of the real estate market that was growing so rapidly before the pandemic. Although the Baltic countries experienced an economic downturn in 2020, the recession in Lithuania, Latvia and Estonia was among the lowest compared to other EU countries. Lithuania's GDP fell very slightly, the least among the Baltic countries, and probably among the countries of the EU.

The advantage of the Baltic countries in the current pandemic has been their comparatively minor dependence on international tourism, which accounts for only a very small part of the economy. The hotels oriented to international tourists have been the most affected during the pandemic, both in the Baltic States and globally. For example, the occupancy rates of international chain hotels in Lithuania, Latvia and Estonia shrank almost threefold in 2020 (compared to 2019). Therefore, this business and the real estate segment experienced the biggest falls in 2020, and with the pandemic continuing in 2021 they continue to stagnate. So it is not surprising that in 2020-2021 we witnessed some hotels being sold to new investors, who already plan other activities in those buildings (for example, conversion to apartments for long-term or short-term rental).

The retail property sector has also experienced a blow due to the pandemic. Fully or partially closed shops have significantly adjusted the turnover of major shopping centres, leading to considerably lower rental income for property owners in 2020. Depending on the structure of shopping centres tenants, occupancy changes and discounts granted to tenants, the total operating income of the companies operating such supermarkets has shrunk from a few to dozens of percentage points, let alone the owners and tenants of individual commercial premises who were forced to close or faced significantly reduced customer traffic due to the restrictions.

The office sector also experienced significant changes in 2020. The pandemic has forced businesses to change their work organization model, and a large proportion of their employees have been working remotely. Of course, although offices were physically empty, the companies did not terminate their lease contracts, and landlords of office buildings have been able to maintain a sufficiently stable stream of rental income. However, in 2020 a significant new office space appeared on the market in the Baltic countries, coinciding with the pandemic. This raises concerns for market players in terms of sustainable development and the prospects for this real estate segment. In 2020, developers built 186,000 sqm of office space in Vilnius, Riga and Tallinn together, or 30% more than in 2019. The possibility of working from home may lead to a slower expansion of the companies in the future, yet the construction of new offices has not stopped and significant amounts of new space will be offered to the market in the near future (for example, in 2021 the new office space to be completed to the Vilnius market will be the largest in history accounting for no less than 130,000 sqm of usable office space). So it is not surprising that a growing level of vacancies was recorded in Vilnius, Riga and Tallinn in 2020, and this will keep growing in 2021. We foresee that the office market will become a tenants' market in 2021.

If the commercial property sector in the Baltic countries saw larger or smaller losses and the prospects for individual segments remain vague, the residential property sector has easily withstood the challenges posed by the coronavirus pandemic and has even strengthened its position in some places. First of all, the residential property sector in Lithuania and Estonia has proven to be very solid and set an all-time record in 2020. The amount of money spent per year on housing last year was the largest in the history of these countries. Despite the fact that activity in the apartment market in the Baltic capitals decreased from 4% to 10% in 2020, this did not have a negative impact on sales prices. In Vilnius and Tallinn, apartment prices continued to increase and grew by almost 5% per year, while in Riga prices decreased slightly just for Soviet-era apartments in residential districts. Greater negative changes were recorded in the housing rental market, which in the first half of 2020 survived a momentary spike in supply. Travel restrictions and a fall in the numbers of international tourists made property owners engaged in short-term rental change their business model and switch to long-term rental. This led to a decrease in rental prices by a tenth in Riga and Tallinn during the year. Meanwhile, the rental prices of apartments in Vilnius fell slightly in the middle of the year but returned to their former level in the second half of the year, which shows a strong internal demand in this rapidly growing city.

In any case, the housing sector remains resilient to the challenges posed by the pandemic, since the main engines of the market – affordability, financing and expectations – remain at a high level. It should also be taken into consideration that the importance of housing in the current pandemic has further increased, as people who have been forced to spend more time at home understood the importance of housing in their lives and invested additional funds in improving their home space or quality. Therefore, the outlook for the housing sector in 2021 also seems promising.

However, the fight against the pandemic around the world is still ongoing and it is difficult to say when we will win the war against it, so the challenges that accompanied us in 2020 will remain in 2021. We therefore recommend to assess the risks and opportunities that have been brought by the changes in recent years objectively. Still, the real estate market can offer a variety of investment opportunities at all times. We hope that this annual review of the real estate market of the Baltic capital cities by Ober-Haus experts will become a guidance for your decisions. And 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.

Tarmo Kase
Ober-Haus Real Estate Advisors
CEO

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Ober-Haus has offices in Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai, Panevėžys and Druskininkai with over 120 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

2021 FORECAST

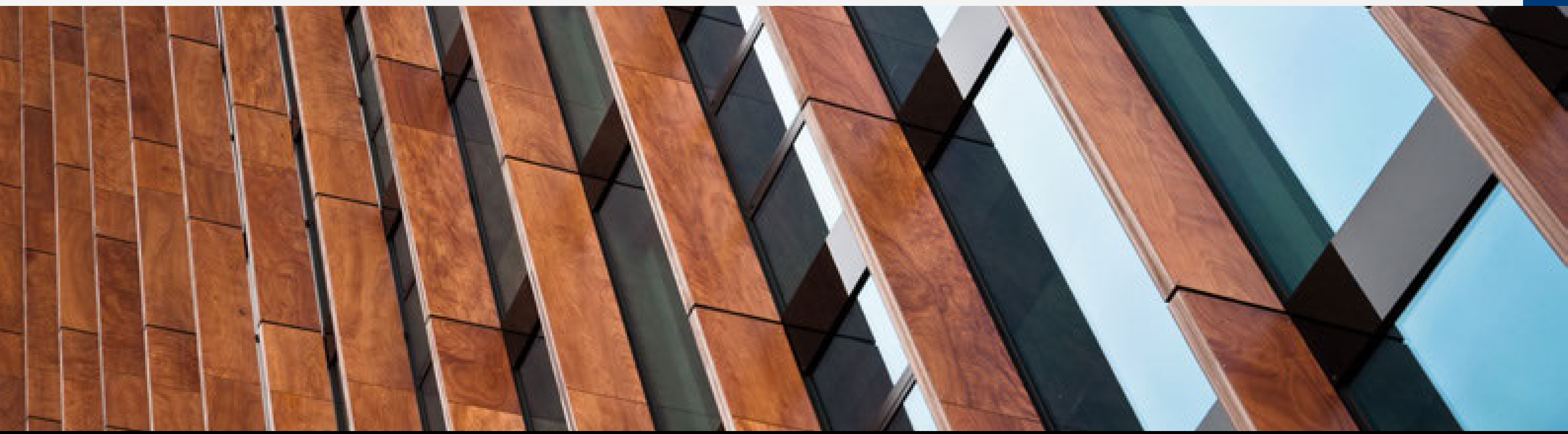
GDP growth, %	2.0 - 3.0
GDP per capita, €	18,000
Private consumption growth, %	3.0 - 4.0
Average annual inflation, %	1.5 - 2.0
Unemployment rate, %:	8.5 - 9.0
Average monthly net salary, €:	960
Average salary growth, %:	4.0 - 6.0

POPULATION [1]	2015	2016	2017	2018	2019	2020
Lithuania	2,888,600	2,847,900	2,808,900	2,794,200	2,794,100	2,795,200
Vilnius	543,500	545,300	547,500	552,100	561,800	569,700
Kaunas	297,800	292,700	288,400	286,800	289,400	293,300
Klaipėda	154,300	151,300	148,900	147,900	149,100	149,000
Šiauliai	103,000	101,200	100,600	100,100	101,500	101,900
Panevėžys	93,600	91,100	88,700	87,100	85,900	84,600

ECONOMICS	2015	2016	2017	2018	2019	2020
Real GDP growth, %	2.1	2.4	4.4	4.0	4.3	- 0.8
GDP per capita, €	12,900	13,600	14,900	16,200	17,500	17,500
Private consumption growth, %	4.1	5.1	3.4	3.9	3.3	- 3.4
Average annual inflation, %	-0.7	0.7	3.7	2.5	2.2	1.1
Unemployment rate, %	9.1	7.9	7.1	6.1	6.3	8.5
Average monthly net salary, €	563	609	665	725	828	916
Average salary growth, %	4.8	8.2	9.2	9.0	14.2	10.6
Retail sales growth, %	4.4	7.0	4.7	6.5	5.4	2.5
FDI stock per capita, €	5,100	5,400	5,800	6,100	6,600	6,800

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS

[1] (AT THE END OF THE YEAR)



DESPITE THE GLOBAL PANDEMIC THE LITHUANIAN ECONOMY FELL ONLY VERY SLIGHTLY IN 2020

Although the Baltic countries experienced an economic downturn in 2020, GDP in Lithuania dropped by just 0.8%, the least among the Baltic countries, and probably the lowest in the EU. Despite a symbolic annual economic downturn, there were different experiences across different sectors. In 2020, the accommodation, tourism, hospitality, and event organization sectors experienced a dramatic decline, while the operation volumes in the industrial, ICT, freight transport and healthcare sectors remained stable or even increased. Similar differences were also recorded among different real estate segments. The projected growth of the country's GDP for 2021 is 2.0-3.0%.

In March 2020, the government adopted an unprecedented economic stimulus package, focusing on incentives for the economy affected by the consequences of coronavirus: safeguarding jobs and retaining liquidity of companies. A total of 10% of the country's GDP (around €5 billion) was allocated for the implementation of all measures. It is clear that this has helped avoid major negative consequences for the country's economy and maintained stability in the face of the pandemic. Consequently, the total public debt increased by a third to reach €22.6 billion in 2020, accounting for about 46% of the country's annual GDP. In order to manage the impact of the pandemic, it is likely that the country will continue to borrow on favourable terms and at the end of 2021 public debt will amount to over 50% of GDP.

In December 2020, the average annual inflation (HICP) rate was 1.1% (2.2% in December 2019). Forecasts are for inflation growth of 1.5-2.0% in 2021 and 2.0-2.5% in 2022.

The minimum wage in Lithuania was increased to €642 (€456 after taxes) starting 1 January 2021.

Net wages increased by 12.8% in Lithuania in Q4 2020 (compared to Q4 2019), to €967 per month after taxes (€1.082 in Vilnius in Q4 2020). Salary growth in 2021 is expected to be around 4.0-6.0%.

Unemployment increased to 9.0% in Q4 2020, compared with 6.4% in Q4 2019. Analysts project average unemployment of 8.5-9.0% in 2021.

The consumer confidence indicator in December 2020 decreased by four percentage points to minus 3 compared to December 2019. In December 2020, 22% of consumers believed that the country's economic situation would improve, but not significantly in the coming 12 months, 19% thought that the country's economy would deteriorate, but not significantly and 53% thought that the situation would not change.

Exports decreased by 3.4% in 2020 in Lithuania after a 4.8% increase in 2019.

In December 2020, the annual increase in construction costs was 0.4%. The biggest increase in this period was recorded for residential buildings (0.9%). Construction costs of non-residential buildings increased by 0.6% and costs of civil engineering structures have not changed during the year.

Foreign direct investment in Lithuania is an important factor in the country's economic growth and an additional boost to the real estate market. Invest Lithuania attracted 34 foreign direct investment projects into Lithuania in 2020, creating a total of over 3,100 new jobs. At the end of 2020, the Global Business Services (GBS) sector employed around 22,000 professionals in Lithuania. Strong growth was recorded in the Fintech sector, where the number of companies increased by 21% to 230 and the number of jobs increased by over 18% to 4,000 in 2020.

As of September 2020, direct foreign investment totalled €19.1 bln (2.8% increase compared to September 2019), which is €6,827 per capita.

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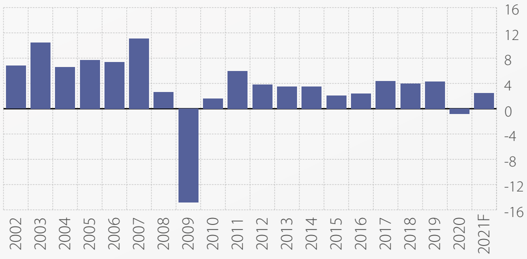
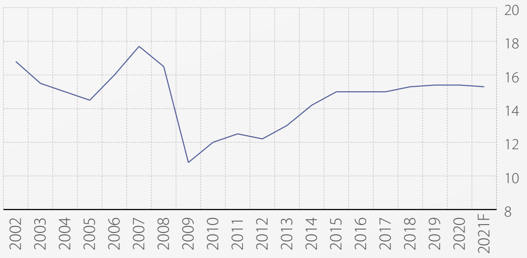
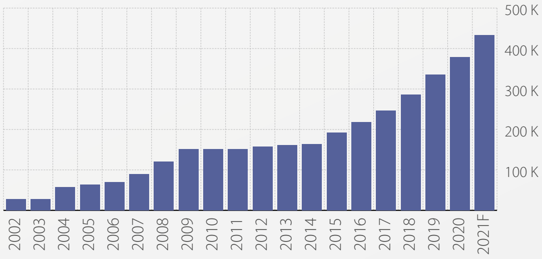
GDP GROWTH, %



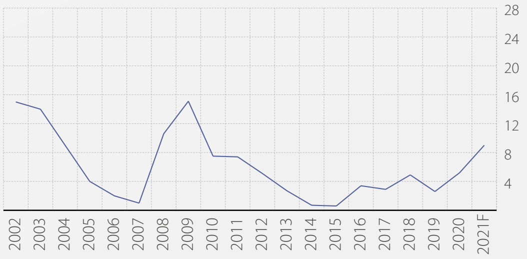
A CLASS OFFICE RENTS, €/SQM



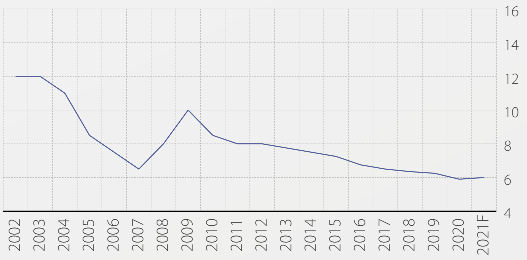
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2020)

TOTAL OFFICE SPACE	887,000 SQM
TOTAL OFFICE VACANCY RATE	6.1 %
VACANT OFFICE SPACE	54,400 SQM
A CLASS OFFICE VACANCY RATE	5.2 %
B CLASS OFFICE VACANCY RATE	6.8 %
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

RECORD NEW SUPPLY AND MORE TO COME

SUPPLY

Vilnius saw a record new office supply in 2020, which was driven by strong demand in the modern office sector in the previous years. In total, 11 new projects were completed in 2020 bringing 102,600 sqm of office space to the market. The previous record of new offices was in 2008. After completion of these projects, the total area of usable modern office space (A and B class) grew by 13% to 887,000 sqm at the end of 2020 (see all projects on OHMAP). Currently, Vilnius has 1.56 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 continues to force developers to follow sustainable development practices and to aim not only for international certification of the environmental assessment of buildings (BREEAM and LEED schemes), but also to implement health and well-being systems (WELL, Fitwel). At the end of 2020 there were 30 completed office buildings 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. At the start of 2021 the office project

Business Leaders Center (BLC) in Kaunas city became the first project in the Baltics, to receive Fitwel certification.

Looking at the supply of new offices in 2021, we can see developers may face considerable challenges. First of all, the Covid-19 pandemic, has forced companies to use a completely different work organization model than before. In 2020, the model of working from home led to the physical abandoning of office buildings and companies became more cautious in planning the expansion of office space. It is clear that a large number of companies are waiting for the end of the pandemic, and it is only then that they will be able to realistically assess the need of and further development of their office space. Since the pandemic is still ongoing, this is an unwelcome trend for the owners of both existing office buildings and buildings under construction. Furthermore, a record amount of office space will be built in Vilnius in 2021, and this will exceed the levels recorded in 2020. In view of the progress of current projects under construction it can be concluded that during 2021 the new office space to be introduced to the Vilnius market will be the largest in history accounting for more than 135,000 sqm of usable office space in 10 new office projects. These projects are already close to completion or are at an advanced stage of construction and their implementation is beyond doubt.

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 in Vilnius. Flexible office solutions could provide extra possibilities for companies to adapt in pandemic environment. Still, the development pace of felixible office space (coworking, serviced offices) in 2020 was noticeably slower than in 2019.

BPT Real Estate Group opened a third 1,600 sqm Workland space in Vilnius in Quadrum business centre at the beginning of 2020. In Q4 2020 the real estate developer Urban Iventors opened the second 460 sqm Monday Office flexible office space in its developed Green Hall valley office complex. Flexible office solution provider Tech Zity, opened its third project in Vilnius. In Q3 2020 reconstruction of a 2,200 sqm old building was completed in Naujamiestis district and a start-up center Tech Loft project was opened for IT and other companies developing technological innovation, including a coworking space for individuals or smaller-sized teams.

If in 2016-2019 period there has been a 24% average annual increase of stock and non-stock flexible office space in Vilnius, so in 2020 the total space increased by 12% to almost 43,000 sqm at the end of the year. This space covers any type of flexible workplaces ranging from traditional serviced offices, coworking spaces, start-up campuses, FinTech hubs and etc.

The share of flexible office space located in modern buildings in total modern office stock in Vilnius has not changed during the year - at the end of 2020 it was 1.6% or the same as it was year ago. In general, dedicated or hot desk rents in Vilnius in flexible workplace schemes vary from €100-€250 per month (depends on space provider, location, building, fit-out and services) up to €250-€450 for a workplace in a private office. Of course, the current pandemic has hit the operators of flexible work spaces hard, in particular, those who focused on individual tenants or new small businesses. Such tenants are sensitive to major economic changes and use a flexible opportunity to terminate or temporarily suspend their tenancy in any such rental space. This is particularly true for individual professionals who were attracted not only by a modern working space, but also by the opportunity to become part of a community. On the other hand, in the face of the pandemic, flexible work spaces have actually demonstrated their essential advantage over the traditional long-term rental model, specifically their flexibility.

DEMAND

Despite the challenges posed by the pandemic, 2020 was statistically the most productive year in the history of modern offices in terms of demand indicators. In 2020, 114,900 sqm of office premises were leased in Vilnius business centres, which is 22% more than in 2019. First of all, a record amount of office space was built in Vilnius in 2020 and companies had a huge choice. Secondly, most of the rental transactions were concluded before the pandemic hit.

The vacancy rate of modern offices in Vilnius increased from 3.0% to 6.1% in 2020, and total vacant office space increased from 23,600 sqm to 54,400 sqm. At the end of 2020, the vacancy rate for B class buildings was 6.8%, while the vacancy rate for A class buildings was 5.2%. If the increase in vacancy in Vilnius was usually instantaneous in the previous years, in 2020, a steady increase was recorded starting from Q2 2020, i.e. it continued trend of the previous three quarters. For example, if all the office space completed in 2019 were fully leased or occupied by their own developers at the end of 2019, so in 2020 new supply was occupied by 76% at the end of this year. In addition, the number of sub-lease offers increased in the market in 2020, when the circumstances changed and tenants were forced to look for tenants themselves. These offers are not included in the vacancy statistics.

Given that from H2 2020 companies have focused on finding the optimal working model (work from home vs work from office vs hybrid), vacancies under the conditions of growing supply did not come as a surprise. The ongoing coronavirus pandemic and the planned record supply of new offices in 2021 will contribute to an increase of vacant office space on the market. Depending on the progress of construction, in H2 2021, vacancy rates may be in double digits. The last time such a high figure was recorded was during the global financial crisis in 2008–2010.

As regards office lease transactions in 2020, the most compelling transaction of the year was the long-term agreement for the lease of about 10,000 sqm office space at the Business Garden Vilnius business centre signed between the Ignitis Group and Vastint Lithuania at the end of 2020. Historically, this is the largest public-sector transaction for a space in a modern office building. This indicates that the public sector is becoming an important player in the rental market. It is also an important transaction for Vastint Lithuania, which will complete the first stage of the Business Garden Vilnius development in H1 2021.

RENTS

Base rents in Vilnius in 2020 did not experience any major changes and remained stable. However, because of the pandemic and lockdown, physically empty buildings, increasing vacancy rates and the slowdown in business development encouraged some owners to be more flexible in negotiations with potential tenants. In particular, this has been observed since the end of 2020, when discounts such as rent-free periods, discounts on parking charge etc. were offered to tenants. At the end of 2020 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 on the top floors of exclusive projects or smaller-sized premises.

Depending on the building, additional costs to tenants (single, double and triple net costs) are from €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).

When assessing the current level of rents and the financial capabilities of companies to rent premises, historically office rent affordability is at a record high. It is not the cost of renting offices, but the wages of employees that contribute to the bulk of a company's costs. Therefore, it is not surprising that the majority of financially capable companies are looking for higher-class offices located in the central part of the city and can thus offer an attractive workplace to their employees. As for the rental trends in 2021, it is likely that we will see an increasing difference in rents between higher and lower class offices. Rents for A class business centres should remain stable and a moderate decline in rents is expected for B class offices. The main question is what will be the most common business organization model in the future and how fast will local and international companies in the capital city expand. One thing is clear, however, the record supply of new offices will provide tenants with far more expansion opportunities and bargaining power in negotiations with landlords.

INVESTMENT

The commercial property investment market in Lithuania saw a significant drop as some investment decisions were suspended or delayed due to the pandemic in 2020. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €345 million or 26% less compared to the record in 2019. If count investments by the number of strategic decisions (deals) in 2020, the market dropped by almost the same amount as the total volume – by 28%. In 2020, 72% of the total investments were made in the capital, Vilnius (Vilnius's share was 70% back in 2018 and 80% in 2019).

Investment distribution by property type was not typical in 2020. One of the largest retail property sectors dropped its share to just 10% in 2020. Typically the retail sector accounts for 44% of total investments in Lithuania, based on the figures for the 2015-2019 period. This is logical enough, as the retail premises sector has been one of the most affected during the pandemic (particularly larger traditional shopping centres or stand-alone premises). As a result, in 2020, investments in supermarkets occupied by the main food retail chains dominated in retail property investments.

Investments in the industrial sector accounted for a 22% share of total investments in 2020 (compared to 11% in 2015-2019 period) in Lithuania. This was driven by several significant deals in that property sector and decreased share in the retail sector in 2020. The office sector saw the largest investment with 68% share and largely decided by sizeable investments in A class offices.

As for the geography of investors, local investors were the biggest investors in 2020 and accounted for 39% of all investment in Lithuania. Estonia-based investors accounted for 27% of investments and the remaining 34% was shared by investors from Sweden, Luxembourg and Norway.

Investment yields for prime offices in Vilnius decreased by 10-20 bps throughout 2020. At the end of 2020 yields ranged from 5.5% to 6.5% for higher class offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

Stable rents, but decreased yields raised the value of high-class offices in Vilnius in 2020. The capital value index for A class offices over the year increased by 6.8%. At the end of 2020, prime property values reached the same all-time highs as at the end of 2007–start of 2008.

In March 2020 Lords LB Asset Management managed fund closed on the acquisition of the IBC office complex close to Konstitucijos Avenue. The complex with total area of over 20,000 sqm was sold by investment company INVL Baltic Real Estate. The purchase price was €33 million.

In Q2 2020, the real estate development company Darnu Group completed the sale of its second office building (East Hill) in the Park Town project in Konstitucijos CBD, on Lvovo Street. The A class office building, which has a total above ground area of almost 15,000 sqm and completed in 2019, was acquired by the investment company, which is managed by Zenith Family Office and Dao Family Office. Details of the current transaction have not been disclosed.

In August 2020, EfTEN Real Estate Fund III closed on the acquisition of a B class office building in Virsuliskes district, on J. Rutkausko Street (next to Pilaites Avenue). The office building with total area of almost 7,000 sqm was sold by its developer Sonex Consulting. The purchase price was €11.8 million, which corresponds to an entry yield of 7.1%.

In Q3 2020 the Swedish real estate company Eastnine acquired a 7,200 sqm commercial premises in the multi-functional complex Vilniaus Vartai on Gyneju Street. The acquired property mainly consist of offices and some retail premises on the ground floor. The purchase price was €20 million, which corresponds to an estimated entry yield (if fully let) of approximately 6.0%. The seller was investment company INVL Baltic Real Estate, which acquired and developed this property in 2015-2016.

In Q4 2020 a real estate special fund managed by Luxembourg-based investment company REInvest Asset Management acquired the new SEB Bank headquarters in Vilnius. This is the fund's first investment in the Baltics. The main investor of the real estate special fund is a major German insurance company. The office building with a total area of 12,900 sqm is located next to Konstitucijos Avenue (CBD) and was developed and sold by a local investment funds manager Lords LB Asset Management. Details of the transaction have not been disclosed.

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 and management. Payment of a security deposit or guarantee is usually agreed. Triple net leases are standard for "A" class offices. Double net leases are more common for other classes of property. As a rule, the owner (landlord) is responsible for fitting out leased premises up to a standard level set by the landlord. Typically, standard lease agreements are used for larger multi-tenant properties.

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

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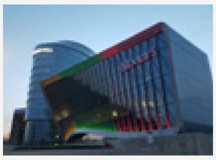
LVOVO

RECENT DEVELOPMENTS

DESCRIPTION



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, on 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. The remaining space was taken by Novartis, MSC Lithuania and Urban Inventors managed coworking space Monday Office.

U219 – In Q2 2020, local developer Seskines projektai, which belongs to construction company PST, completed the development of a business centre in Seskine district, on Ukmerges Street. The 7-8-storey office building with total above ground area of over 15,000 sqm (excluding above ground parking) has around 12,000 sqm of usable office space. The business centre has recreation zones, cafes and other retail spaces. The project was developed in compliance with BREEAM assessment method. Asking office rents start at €12.50 per sqm.

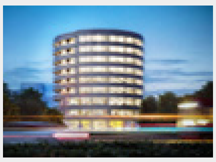
PAUPYS (RIVERSIDE) – At the end of 2017 real estate development company Darnu Group began developing a large-scale multi-functional project in Uzupis district. The 5-ha territory of the former Skaiteks factory was acquired by Darnu Group in 2016. The development consists of an exceptional residential area and modern business complex. The business complex with total above ground area of over 15,000 sqm and almost 12,000 sqm of office space was completed in the first half of 2020. The biggest tenants are Ernst & Young Baltic and MV Group, which moved over 300 and 100 employees respectively into this business complex.

SEB HQ – In Q2 2020, the fund managed by Lords LB Asset Management completed the development of an A class office building with total above ground area of 12,700 sqm next to Konstitucijos Avenue. All office space has been leased to SEB bank, which moved its 1,100 employees into the new building. The project received the BREEAM Outstanding certificate and was sold to a Luxembourg-based investment company at the end of 2020.

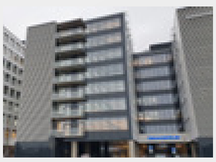
UPTOWN PARK – In Q2 2020, local development company Vilbra, completed construction of an office building in Naujamiestis district, on Svitrigailos Street. The 5-storey A+ class energy efficiency office building with total above ground area of over 12,500 sqm has over 10,000 sqm of usable office space. Underground and above ground parking has 300 parking spaces. Total investments reached €20 million. Around 75% of the office space was leased to the Lithuania-based online marketplace company, Vinted, with the remaining space being taken by the global provider of software solutions, Bentley Systems.

BUSINESS STADIUM NORTH – Having completed the first office building in the derelict territory of Zalgiris stadium at the end of 2018, local developer Hanner finished 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 was completed in Q3 2020. Total investments reached around €25 million. Office space is available at rents from €15.50 per sqm.

WAVE – In Q3 2020, the investment company Galio Group, completed an office building in Naujamiestis district, on Savanoriu Avenue. The building with total above ground area of 9,700 sqm has some retail space on the ground floor and around 8,000 sqm of usable office space on the remaining floors. Total investments reached €18 million. Office space was leased to the retail chain owner Maxima Group, Swedbank, Nordcurrent Group, DB Schenker and other tenants. Asking rents for the remaining office premises are €13.50 per sqm.



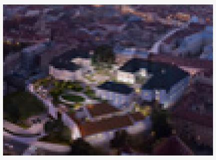
LAISVES 78B – In Q4 2020, a local developer completed the development of a B class office building in Justiniskes district, on Laisves Avenue. The 9-storey building with total above ground area of 3,600 sqm offer offices for rent and for sale. Asking rents for the remaining office premises are €10.00 per sqm and sale prices are from €1.100 per sqm.



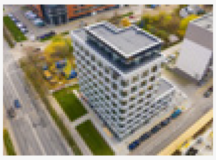
NOVA – At the end of 2020, the Finnish-based international company Technopolis, completed another office building in the Technopolis Ozas campus in the territory of Ozo Park. The Technopolis Ozas campus with six office projects is the biggest office campus in Lithuania. The new 7-8-9-storey A+ class energy efficiency office building with total gross leasable area of 26,800 sqm has 23,500 sqm of usable office space. The new building has received the LEED Gold certification. The anchor tenant is SEB bank's service centre which will occupy more than half of the building. The first floor will have a 600 sqm gastronomic space MIN Food Market with different food suppliers. At the end of 2020, almost 90% of the office space had been leased and asking rents for the remaining office premises are €13.50-€14.20 per sqm.

RECENT DEVELOPMENTS

DESCRIPTION



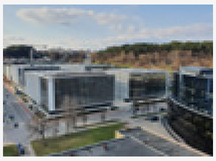
BOKSTO SKVERAS – At the end of 2020, commercial real estate development and management company Baltisches Haus completed the development of a multifunctional complex in the heart of the Old Town, on Boksto Street. The complex with total above ground area of around 6,000 sqm offers around 2,900 sqm of 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 provides around 90 parking spaces.



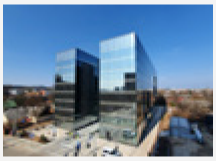
ZALGIRIO 94 – At the end of 2020, Inreal Group completed the development of a B class office project in Snipiskes district, on Zalgirio Street. The office building with total above ground area of 3,300 sqm has around 2,700 sqm of usable office space. Small office premises are available in the project, an option which is quite limited in most business centres. An underground and above ground car park has up to 80 parking spaces. Office space is available at rents from €13.50 per sqm.

NEW PROJECTS

DESCRIPTION

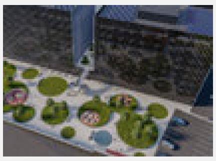


S7 IV (DANSKE BANK GSL) – At the start of 2021, the investment and development company Galio Group, completed an A class office campus next to Konstitucijos CBD, on Saltoniskiu Street. The last and fourth office building in this office campus, with total above ground area of 13,000 sqm, has been fully leased to Danske Bank Global Service Lithuania.



LVOVO – In Q1 2021, the fund managed by Lords LB Asset Management completed an A class office project in the Konstitucijos business district, on Lvovo Street. The 8-storey office building with total above ground area of over 15,000 sqm has around 12,600 sqm of usable office space. An underground car park has over 240 parking spaces. The developer is aiming to earn the BREEAM Excellent certificate. The total investments were €40 million. Most of the office space will be occupied by Telia Global Services Lithuania. Asking rents for the remaining office premises are from €16.00 per sqm.

BUSINESS GARDEN VILNIUS – The international real estate company Vastint is finishing the first stage of a large-scale office project in Lazdynai district, on Laisves Avenue. 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 Q2 2021. At the end of 2020, the state-controlled energy holding company Ignitis Group, signed a long-term agreement for the lease of around 10,000 sqm office space. The total project will consist of four office buildings with total above ground area of 60,000 sqm. The developer is aiming to earn LEED Platinum certification. Asking rents for the remaining office premises are €14.00 per sqm.



MERAKI – The company managed by the investment fund, Baltic Horizon Fund, is developing a 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 the second half of 2021. The developer is aiming to earn the BREEAM Very Good certificate. Office space is available at rents €12.00 per sqm.

FREEDOM 36 – The investment company Galio Group, is developing a 5-7-storey office building with total above ground area of 14,300 sqm in Karoliniskes district, on Laisves Avenue. The ground floor of the building will accommodate a restaurant, conference hall and premises suitable for commercial activity. The remaining floors will offer around 10,500 sqm of usable office space. The project should be completed in Q3 2021. Total investments will reach around €30 million and the developer is aiming to earn BREEAM certification. Office space is available at rents from €13.00 per sqm.

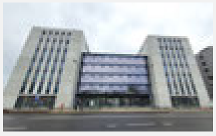
INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+370 5 210 97 00**

NEW PROJECTS

DESCRIPTION

CLOUD OFFICES – A local development company is developing a multi-functional project with office building in Snipiskes district, next to Zalgirio Street. The 9-storey office building with total above ground area of over 5,000 sqm will offer 4,200 sqm of usable office space on floors 2-9. The ground floor of the building will offer smaller sized commercial premises. The project should be completed in Q3 2021. Office space is available at rents from €13.25 per sqm.

CORE – The development and management company Baltijos gildija is developing a large A class office project next to Konstitucijos CBD, on Ukmerges Street. The two 6-7-storey buildings with with total above ground area of 35,000 sqm will offer almost 32,000 sqm of usable office space. A total of 750 parking spaces will be provided in the underground car park. Total investments will reach around €60 million and the developer is aiming to earn the BREEAM and Fitwel certificates. The project should be completed by the end of 2021. Asking rents for office space is from €17.50 per sqm.



OFFICE 100 – Local company, Skraidenis, is developing a 5-7-storey B class office building with total above ground area of 9,500 sqm in Naujamiestis district, on Naugarduko Street. The ground floor of the building is suitable for all types of commercial activity and the remaining floors will offer around 6,800 sqm of usable office space. The project should be completed in Q2 2021. Total investments will reach around €12 million and the developer is aiming to earn BREEAM certification.

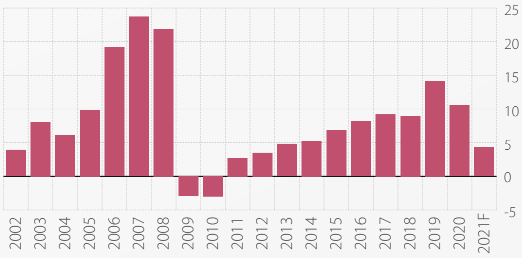
NAUJASIS SKANSENAS Z – The construction and development company YIT Lietuva is developing a B class office building with total above ground area of over 7,300 sqm in Snipiskes district, on Zalgirio Street. The ground floor will offer space for commercial activity and the remaining floors will offer around 6,600 sqm of usable office space. In Q4 2020, the U.S. headquartered software company Devbridge signed a lease agreement for 5,000 sqm and will occupy this building on completion – at the end of 2021. Asking rents for the remaining office premises are €14.00 per sqm.

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

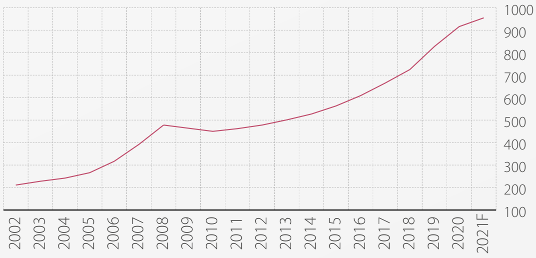
BOKŠTO SKVERAS

OBER HAUS

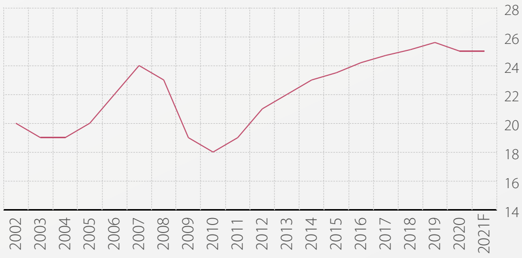
AVERAGE SALARY GROWTH, %



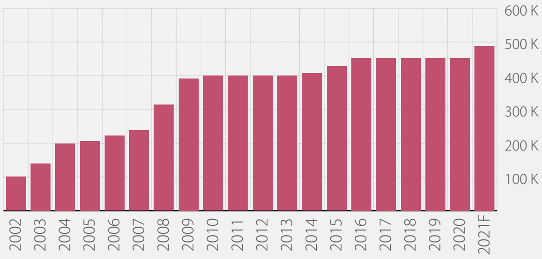
AVERAGE NET SALARY PER MONTH, €



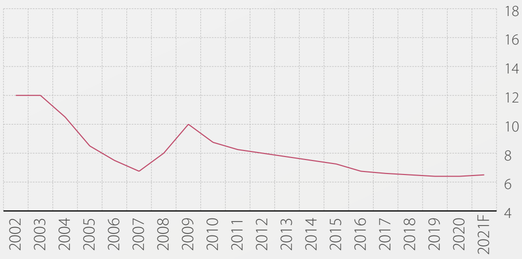
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



VILNIUS SNAPSHOT (END-2020)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	453,000 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	0.80 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €14.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€15.00 - €40.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€50.00 - €75.00
HIGH STREETS RENTS (SQM / month)	€15.00 - €40.00

RETAIL PROPERTY SECTOR HAS BEEN HIT HARD BY THE CORONAVIRUS PANDEMIC

SUPPLY

The global pandemic and its control measures led to a number of changes in the Lithuanian retail premises sector in 2020. However, the situation in individual segments of this real estate sector varied: from fully or partially closed large shopping centres or stand-alone premises to further successfully operating supermarkets. Therefore, in 2020, investors focused on the development of specialized facilities (DIY, supermarkets), and the managers of existing shopping centres were most preoccupied with existing tenants. The current pandemic has become a considerable challenge for the owners and managers of major shopping centres, as it was necessary to adapt quickly to the changed situation and to discuss with each tenant the conditions for further cooperation (e.g. temporary or long-term rent discounts), replacement of tenants or ensuring the overall functioning of the shopping centre (work organization, safety, etc.). It should also be noted that no new major traditional shopping centres were built in Lithuania in 2020.

The total retail space in larger traditional shopping centres in Lithuania at the end of 2020 amounted to just over 1.1 million sqm or 0.40 sqm of shopping area per capita and has not changed during 2020. Altogether 40% of the shopping space of traditional shopping centres is in Vilnius. While the retail space in such shopping centres has increased by just 7% in the past five years, Lithuania's population shrank by over 3% in the same period. Statistically, the retail space per capita indicator has increased by almost 11% in the past five years.

In 2020, no large traditional shopping centres were opened in Vilnius; the capital has not seen any new such projects since mid-2016. At the end of 2020 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 2020 increased by 1.4%, shopping area per capita decreased slightly to 0.80 sqm.

The country has seen a further expansion in the number of supermarkets. The German supermarket chain, Lidl, is strengthening its position in Lithuania. During 2020, the retail chain opened another six stores and has ended the year with 53 stores in total (17 stores in Vilnius and 36 stores in other Lithuanian cities). Other big supermarket chains (Maxima, Rimi, Iki and Norfa) opened 25 new stores in Lithuania in 2020.

The Russian hard-discount retail chain Svetofor, which operates in the EU under the name Mere, opened its first store in Lithuania in mid-2020. At the end of 2020 Mere had 9 smaller-sized stores in Kaunas, Klaipeda, Siauliai, Panevezys, Alytus, Marijampole and Mazeikiai city.

At the end of 2020, the global fast food company, Burger King, opened its first restaurant in Lithuania in Vilnius' biggest shopping centre, Akropolis.

Currently two new large-scale projects are under construction in Vilnius. Vilnius Outlet shopping centre with a total area of 60,000 sqm is being developed by the Ogmios group in Pilaites district; this will be the largest outlet zone in Lithuania and will also offer other retail and entertainment space totalling around 35,000 sqm in the first half of 2021. Another shopping centre with total area of 32,000 sqm is being developed in Pasilaiciai district with expected opening in Q1 2022.

A large-scale project is planned by Akropolis Group. A second Akropolis shopping, entertainment and business centre is planned next to the capital's Vingis Park. However, the project's final concept has not yet been disclosed and there is no confirmation on when construction will start. Based on a previous earlier concept, it could be the largest shopping and entertainment centre not only in Lithuania, but also in the Baltics.

There are plans to develop further types and sizes of shopping centres in the western and northern part of the city, but these schemes are currently only at the planning stage.

DEMAND

Since the first quarantine was declared on the 16th of March 2020 in Lithuania, it was very obvious what challenges the entire trade and retail space sector was facing in Lithuania: essential closure of the major shopping centres, empty city streets with closed operations of small retailers. The biggest drops in retail sales in Lithuania were registered in Q2 2020 and Q4 2020, which correspond to tightened quarantine restrictions, but nevertheless the annual change was positive. In 2020 total retail and wholesale sales in Lithuania grew by 2.5%, after growing by 5.4% in 2019.

With the official end of the lockdown in mid-June 2020, most retail space occupiers rushed to resume their operations. However, depending on the area of their activity, some delayed restarting their operations or were forced to close down altogether. As a result, the owners of the premises had to look for new tenants for the vacated premises. According to Ober-Haus, in mid-2020, the vacancy rate in the main shopping streets of Vilnius (Gedimino Avenue, Pilies Street, Didzioji Street and Vokieciu Street) stood at 11.0%. The last time similar moods prevailed was at the peak of the global financial crisis in 2010, when 15–20% of the premises in these streets were closed. However, as the country's economy began to recover, businesses returned to the shopping streets of Vilnius and within two years (in mid-2012) the vacancy rates of the retail space in these streets fell to 7.6%.

Although the vacancy rate in mid-2020 was higher than eight years ago, the number of retail units in these streets (located on the ground floor of the building, with at least one window facing the street and suitable for commercial activities) has increased by almost 11%. In mid-2012 there were 264 such units, in mid-2020 – 292. The number of retail premises has increased as new buildings were built or old buildings were reconstructed on these streets or some of the premises were divided into smaller units over the past 8 years.

The most interesting and noticeable changes in these streets are however the structural changes. The large shopping centre development boom in the country's capital prior to 2009 changed the face of shopping streets. Since then, the number of stores selling clothing, footwear or accessories has decreased and they are being replaced by tenants providing entertainment, hospitality and other services. Since 2012, the share of tenants selling clothing and footwear on these streets has fallen from 20.1% to 18.3%, while the share of restaurants, cafes, bars and fast food outlets has risen from 28.9% to 38.6%. In mid-2020, there were just over 100 units providing various food and drink services on these four streets. There is currently a global debate about what typical shopping streets will look like in the future, but there is general consensus that such streets will increasingly need to focus on a variety of services and experiences (hospitality, entertainment, education, leisure and cultural activities, flexible workplaces, pop-up shops, etc.) rather than on traditional trade.

However, looking at the short-term perspective, we can expect significant changes in the main retail streets of Vilnius in 2021. Even if the pandemic is largely under control by mid-2021 and retailers are able to open their shops again, some of them may not have survived. This means that the owners of the premises will have to look for new tenants, and this might not be as easy as before. Uncertainty about the pandemic makes potential tenants much more conservative in their approach to their business development opportunities in the most expensive areas of Vilnius.

Before the start of the current pandemic, Vilnius shopping centres enjoyed full occupancy and it was almost impossible for potential tenants to find space (especially at the biggest most successful shopping centres). In 2020, meanwhile, the owners or managers of shopping centres had to communicate individually with each tenant to try and find a mutually acceptable solution. At the same time, a number of shopping centres had to search for new tenants, because the ongoing pandemic forced them to change their plans and to look for new business models by changing their trading location, size of space or discontinuing physical trading altogether. Therefore, it will only be possible to get an accurate picture of changes in the shopping centres during this period, both in terms of the structure of the tenants and the vacancy rates, after the pandemic is fully under control.

Year-on-year the rapidly increasing sales volumes of internet retailing were boosted by the pandemic and changes in the retail premises sector. According to official statistics, in 2020 retail sales via post and internet in Lithuania had a total turnover of almost €814 million, which is a 52% increase compared to 2019. In December 2020 sales via post and internet in Lithuania reached record heights. For example, the average annual increase of internet retailing in Lithuania in 2015-2019 was 28%. It is obvious that e-commerce has all the conditions for further growth as its share in 2020 in Lithuania accounted for just 6.6% of total retail sales.

RENTS

The 2020 performance of operators of the major shopping centres in the capital city shows that annual net operating income (NOI) has decreased from a few percent to a few dozen percent. As most tenants had to close their businesses during the lockdowns, and were offered rent reductions, the total loss of income for shopping centre operators in 2020 should certainly not come as a surprise. The overall decrease in NOI in the shopping centres depended on the structure of tenants, the number of lease contracts terminated and the decisions taken by the shopping centre managers. As a result, some shopping centres coped with the challenges posed by the pandemic more easily and made minor adjustments, while others suffered greater losses.

The only retail premises sector that did not experience a decline in 2020 were supermarket type stores. Since the sale of food was not prohibited, the turnover of such shops did not decrease and rents for the tenants were further increased based on inflation.

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.

The lockdown and clear decline in tenants' expectations for the future have also adjusted rents and business developments in Vilnius retail streets in 2020. Tenants and owners of retail premises were the first in the commercial real estate market to experience the consequences of the current pandemic and quarantine on their business. The abrupt closure of the business and vague prospects for the future forced many tenants to request significant discounts from property owners, and some were even forced to close down altogether during the year. Potential tenants of retail premises are much more cautious about their future prospects and see much higher risks than before the pandemic. As a result, private property owners are also forced to reconsider their pricing and negotiate with long-term tenants on more flexible terms than before. Since the tenants lived through very changeable situations during the year (suspension of activities in the first half of 2020, continuation of business during the summer, and suspension of activities again at the end of 2020), it was extremely difficult for owners to find new tenants. Firstly, there was little interest in vacant premises and the conclusion of new contracts was under totally different conditions to those before the pandemic. As regards the expectations of tenants and owners of premises, it can be said that new lease contracts signed in 2020 were at rents that were 25-50% lower than they were in 2019. However, such rents would apply only for the first year of the lease (e.g. in 2021) and going forward the terms would be adapted to the current market situation. Therefore, it is difficult to assess the real changes in rents, because there were no real decisions regarding rental deals in 2020.

At the end of 2020, rents for medium-sized retail premises (100–300 sqm) in high streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) were €15.00–€40.00 per sqm. As the virus and the various business constraints associated with the pandemic have not disappeared during 2020 and the beginning of 2021, and the situation may quickly change for the better or for the worse, the retail property segment may face further challenges during 2021 also.

INVESTMENT

The commercial property investment market in Lithuania saw a significant drop as some investment decisions were suspended or delayed due to the pandemic in 2020. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €345 million or 26% less compared to the record in 2019. If count investments by the number of strategic decisions (deals) in 2020, the market dropped by almost the same amount as the total volume – by 28%. In 2020, 72% of the total investments were made in the capital, Vilnius (Vilnius's share was 70% back in 2018 and 80% in 2019).

Investment distribution by property type was not typical in 2020. One of the largest retail property sectors dropped its share to just 10% in 2020. Typically the retail sector accounts for 44% of total investments in Lithuania, based on the figures for the 2015-2019 period. This is logical enough, as the retail premises sector has been one of the most affected during the pandemic (particularly larger traditional shopping centres or stand-alone premises). As a result, in 2020, investments in supermarkets occupied by the main food retail chains dominated in retail property investments.

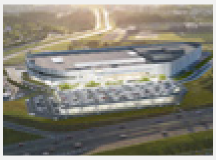
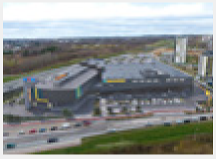
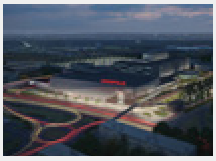
Investments in the industrial sector accounted for a 22% share of total investments in 2020 (compared to 11% in 2015-2019 period) in Lithuania. This was driven by several significant deals in that property sector and decreased share in the retail sector in 2020. The office sector saw the largest investment with 68% share and largely decided by sizeable investments in A class offices.

As for the geography of investors, local investors were the biggest investors in 2020 and accounted for 39% of all investment in Lithuania. Estonia-based investors accounted for 27% of investments and the remaining 34% was shared by investors from Sweden, Luxembourg and Norway.

Investment yields for prime offices in Vilnius decreased by 10-20 bps throughout 2020. At the end of 2020 yields ranged from 5.5% to 6.5% for higher class offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

The biggest investment deal in the retail property sector in Lithuania in 2020, was the acquisition of a supermarket portfolio. Baltic Sea Properties, a Norwegian real estate company, sold 13 properties in different Lithuanian cities to Rivona (the company belongs to Norfa group, which operates a Lithuanian food retail chain). The total area of the portfolio is over 23,000 sqm and is leased to Norfa. Other details of the deal have not been disclosed.

NEW PROJECTS

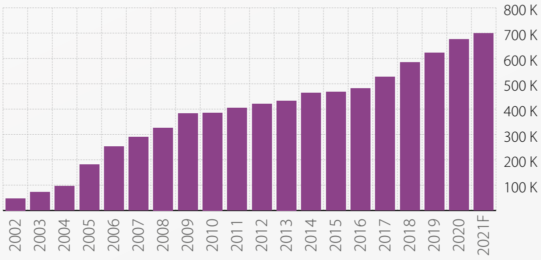
	DESCRIPTION
	**VILNIUS OUTLET** – Ogmios group is developing a shopping centre in Pilaites district, on V. Pociuno Street next to the new Western Bypass. The 4-storey building with a total area of 60,000 sqm will have above ground parking on the first two floors. Shops and entertainment will be on the first, third and fourth floors and will offer around 35,000 sqm of retail space in total. An outlet zone with around 17,000 sqm is planned for the third floor and will thus become the biggest outlet store in Lithuania. It is planned that the fourth floor will be 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 the first half of 2021.
	**PAVILNIONIU STREET** – A local company, Dakus, is developing a shopping centre in Pasilaiciai district, on Pavilnioniu Street next to the new Western Bypass. The 3-storey building with a total area of over 32,000 sqm will have above ground parking. Total retail area will cover over 22,000 sqm and will accommodate two anchor tenants (Maxima and Ermitazas) and 10 smaller tenants or more. Total investments could reach up to €35 million. Construction works are expected to be completed in Q1 2022.
	**VILNIUS AKROPOLIS VINGIS** – A large project is planned by Akropolis Group. The group plans to develop a second Akropolis shopping, entertainment and business centre next to Vilnius' Vingis Park. The final concept of the project has not yet been revealed and the final figures of the project or start of construction is not clear yet. Based on the earlier revealed concept, 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, with over 30,000 sqm designated 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. The new Akropolis could be the largest shopping and entertainment centre not only in Lithuania, but also in the Baltics.

LEGAL NOTES BY SORAINEN

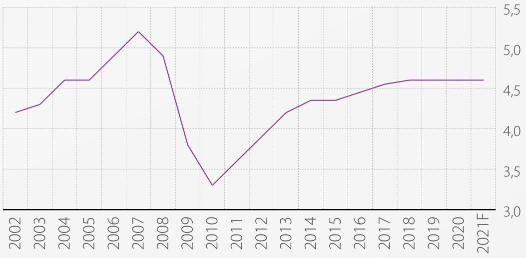
Typically, 3-5 year lease agreements are common. Triple net leases are not universally used, except in the largest and professionally managed shopping centres. Double net leases are more common. Marketing costs are either fixed or covered by a service charge. As a rule, contributions to a sinking fund 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.

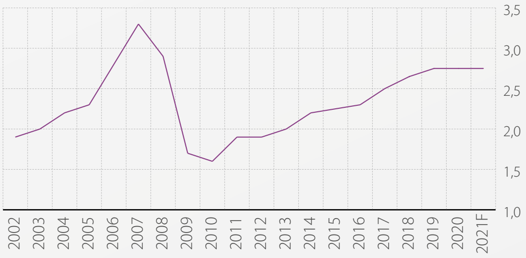
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



VILNIUS SNAPSHOT
(END-2020)

TOTAL NEW WAREHOUSE SPACE	675,800 SQM
WAREHOUSE VACANCY RATE	3.8 %
NEW WAREHOUSE RENTS (SQM / month)	€3.90 - €5.30
OLD WAREHOUSE RENTS (SQM / month)	€2.00 - €3.60
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

STOCK-OFFICE PROJECTS ON ITS WAY

SUPPLY

After moderate expansion of the warehousing sector in Vilnius region in 2019, development in the sector was more active in 2020. Six new projects with a total warehousing area of 52,800 sqm were completed in Vilnius and its surroundings in 2020 and this is 42% more than was completed in 2019. These new projects increased the total leasable area of modern warehousing premises by over 8% to 675,800 sqm.

At the end of 2020, 78% 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 57% of the current supply. Warehouses with areas from 5,000 to 10,000 sqm make up 26% of the supply, and the remaining 17% are warehouses of less than 5,000 sqm.

Unlike the other Baltic countries, Lithuania's warehousing sector is concentrated in three cities (incl. its surroundings) rather than in just one city/region. The shares in the three cities (incl. its surroundings) are as follows: Vilnius (48%), Kaunas (31%) and Klaipeda (21%).

At least two warehousing projects with a total warehousing area of 25,700 sqm are planned for completion in Vilnius and its surroundings in 2021. And the major part of this space will by developed by commercial property developer Sirin

Development, which will complete its fourth large warehouse in Liepkalnis Industrial Park. 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. The Law of the Republic of Lithuania on Infrastructure Development that came to effect at the beginning of 2021, defines new infrastructure tax rates for newly built buildings in Vilnius. It will obviously not contribute to the more active development of warehousing projects in the city. A tariff of €50 per sqm for newly planned buildings built in non-priority development zones was introduced. The tax burden on developers in such zones may represent a significant part of the costs of developing warehousing buildings.

In addition to the development of traditional warehouses, developers are keen on launching the development of stock-office concept buildings. The real estate development company, Darnu Group, in 2022 plans to develop a 24,000 sqm commercial complex that will offer tenants a variety of premises (offices, retail, storage and production) in one place on Ukmerges Street. A few other companies are planning similar larger-scale projects in different parts of Vilnius. Developers of traditional and larger warehousing projects usually face the challenge of finding major tenants, therefore such projects start only where at least some of the tenants have been found. In contrast, projects offering smaller floor area and multiple use in one place can attract a much wider range of potential tenants, thus allowing for more flexibility in planning such projects. In the context of rapidly growing e-commerce, demand for and supply of multi-functional projects should grow steadily as projects of this type that are closer to urban areas can improve the delivery of goods to end users.

In terms of the development of manufacturing operations in Lithuania, positive trends can be observed. Foreign and local companies continue to invest in the construction of new factories in various regions of the country and to offer a significant number of new jobs.

DEMAND

Transport-related, warehousing and storage activities again reached record highs in Lithuania in 2020. According to Statistics Lithuania, in 2012, revenues of transport-related and warehousing services amounted to €4.71 billion. After 10% increase in 2019, 2020 saw just a 0.6% increase compared to 2019. Taking into account the impact of the current pandemic, it is hard to expect a better result. Meanwhile, revenues of warehousing and storage companies in 2020 dropped by 19.2% and totalled over €154 million.

The new warehouse space in 2020 did not fill the market with vacant premises. A total of 75% of the new premises were built for own use, including the third-party logistics services (3PL) and the rest of the premises were either directly offered for rent or had been leased before construction was started. The overall vacancy rate dropped a bit during the year as new annual supply was almost fully occupied with tenants. The vacancy rate of modern warehouses in Vilnius region at the end of 2020 was 3.8%.

The high occupancy rate shows that interest in modern warehousing space remains strong, however, project financing, specific requirements of tenants, increasing construction costs and flat rents have not encouraged rapid development in the warehousing sector, especially when speaking about speculative projects. On the other hand, warehouses, the more active development of which started in Lithuania 15 years ago, do not always meet the needs of today's tenants. For operational efficiency many tenants tend to renew storage facilities looking for more convenient transport or more modern building engineering infrastructure, bigger heights of the premises, etc. The rapid growth of e-commerce brings a demand for efficient and rapid delivery of goods to end users, which may lead to a more active development of compact and multifunctional projects located closer to consumers. According to Statistics Lithuania, the retail sale via mail order houses or via internet in Lithuania in 2015–2019 grew on average by 28% annually. Meanwhile in 2020, a 52% growth compared to 2019 was recorded.

RENTS

Rents for new warehouses and industrial premises remained stable during 2020. Rents for older premises increased slightly during the year. At the end of 2020, rents for modern new 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 €2.00 to €2.40 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

The prevailing strong domestic consumption and sufficient supply of warehousing space (taking into account not only Vilnius, but also other Lithuanian regions, like Kaunas and Klaipeda) should keep rents stable in the short term. One of the more significant changes taking place is the gradual implementation of the provisions of the EU Mobility Package, which may have an impact on both the Lithuanian transport sector and the country's overall economy. The development of warehouses depends to a large extent on the operations of transport and logistics companies, which, having assessed the impact of the changes in practice, may in the future reduce investment not only in vehicle fleets, but also in this property segment. But at the moment, the Vilnius warehousing market looks very balanced.

INVESTMENT

TThe commercial property investment market in Lithuania saw a significant drop as some investment decisions were suspended or delayed due to the pandemic in 2020. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €345 million or 26% less compared to the record in 2019. If count investments by the number of strategic decisions (deals) in 2020, the market dropped by almost the same amount as the total volume – by 28%. In 2020, 72% of the total investments were made in the capital, Vilnius (Vilnius's share was 70% back in 2018 and 80% in 2019).

Investment distribution by property type was not typical in 2020. One of the largest retail property sectors dropped its share to just 10% in 2020. Typically the retail sector accounts for 44% of total investments in Lithuania, based on the figures for the 2015-2019 period. This is logical enough, as the retail premises sector has been one of the most affected during the pandemic (particularly larger traditional shopping centres or stand-alone premises). As a result, in 2020, investments in supermarkets occupied by the main food retail chains dominated in retail property investments.

Investments in the industrial sector accounted for a 22% share of total investments in 2020 (compared to 11% in 2015-2019 period) in Lithuania. This was driven by several significant deals in that property sector and decreased share in the retail sector in 2020. The office sector saw the largest investment with 68% share and largely decided by sizeable investments in A class offices.

As for the geography of investors, local investors were the biggest investors in 2020 and accounted for 39% of all investment in Lithuania. Estonia-based investors accounted for 27% of investments and the remaining 34% was shared by investors from Sweden, Luxembourg and Norway.

Investment yields for prime offices in Vilnius decreased by 10-20 bps throughout 2020. At the end of 2020 yields ranged from 5.5% to 6.5% for higher class offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

In 2020, one of the biggest deals in the industrial sector was concluded in Klaipeda region. In Q4 2020 a newly built warehousing and industrial complex in SBA Industry Innovation Valley with total area of 44,000 sqm was sold to EfTEN Real Estate Fund 4 for €28.6 million. SBA Industry Innovation Valley is developed by SBA Group subsidiary company Urban Inventors.

In Q4 2020, BCP Logistic Property III, a company managed by the Norwegian investors, sold its logistic centre near Vilnius (on the Vilnius-Kaunas-Klaipeda highway A1) to current tenant Vinges terminalas for almost €10 million. The logistic centre with over 18,000 sqm was developed in 2007.

LEGAL NOTES BY SORAINEN

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

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

RECENT DEVELOPMENTS

DESCRIPTION

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 completed a third building in the same location next to Ukmerges Highway – the building with 19,800 sqm warehouse premises and 5,200 sqm office premises was completed in Q2 2020. Asking warehouse rents start at €4.50 per sqm. It is not expected that planned fourth building, with a total area of 9,400 sqm, will be completed before 2022.

LITHUANIA POST – The construction of the new logistic centre for Lithuania post in the industrial zone in the southern part of the city was completed in Q2 2020. The more than 14,000 sqm centralised automated sorting facility began operations at the end of 2020. Total investment in the project will reach €24 million.

ORIBALT – In Q3 2020, Baltic Sea Properties, a Norwegian real estate company, completed 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. The total investment reached around €5.8 million. Next to the current project there is the possibility to build a 22,000 sqm sized warehouse.

RECENT DEVELOPMENTS

DESCRIPTION

DELAMODE – In Q3 2020, Baltic Sea Properties, a Norwegian real estate company, completed 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.

JUNG – In Q3 2020, JUNG Vilnius completed a new 3,000 sqm commercial building for own use in the northern part of the city, on the Old Ukmerges Road. In addition to the administrative and other premises, it contains a 2,000 sqm warehousing area for the company's production.

VILPAK – At the end of 2020, Vilpak, a packaging production company finished construction of a warehouse in Zemieji Paneriai district, on Savanoriu Ave. The new warehouse with a total area of 3,600 sqm will be used for the company's supply and material storage.

NEW PROJECTS

DESCRIPTION

LIEPKALNIS INDUSTRIAL PARK IV – After the completion of three stages in 2017-2019, commercial property developer Sirin Development plans to complete the fourth stage in industrial park in the southern part of Vilnius on Liepkalnio Street in Q4 2020. After completion of the fourth stage, with 22,800 sqm of warehousing and 3,400 sqm of office space, Liepkalnis Industrial Park will become one of the largest industrial parks in Lithuania with almost 90,000 sqm of total area.

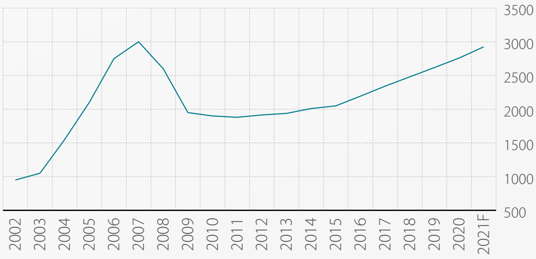
TERMINALO STREET – Local industrial property developer and production storage service company Arvydo paslaugos is developing a 2,900 sqm warehouse in the southeastern part of the city next to Minsko Road, on Terminalo Street. The warehouse will be completed in Q2-Q3 2021. Asking warehouse rents are €5.00 per sqm (for premises from 350 sqm in size).

DHL – The fund management company Eika Asset Manegement plans to develop a build-to-suit parcel terminal in the territory of Vilnius Airport for logistics company DHL Lietuva. A 4,700 sqm terminal is planned to be completed in Q3 2022 with a total investment of €6.3 million.

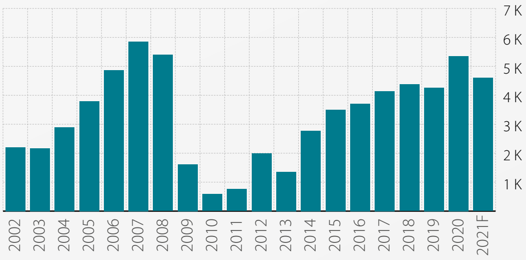
VILNIUS BUSINESS PARK – In 2018 the real estate development company Darnu Group completed development of the first stage of a modern business park in the northern part of Vilnius next to the main transport arteries – the intersection of Ukmerges Street and the new Western Bypass. Next to the first stage, the company is developing a multifunctional stock office type complex with warehouse, retail and office space. A 24,000 sqm complex will be separated into 42 blocks (450–700 sqm in size), which will be offered for sale. Construction works should be completed in Q1 2022 with a total investment of €20 million.

MYKOLO LIETUVIO STREET – A local development management company Bolds Property Partners is developing a multifunctional stock office type project in the northern part of Vilnius next to the main transport arteries – the intersection of Ukmerges Street and the new Western Bypass, on Mykolo Lietuvio Street. The 4,300 sqm building is planned to be completed in Q4 2021 / Q1 2022 and total investment will reach €6.0 million.

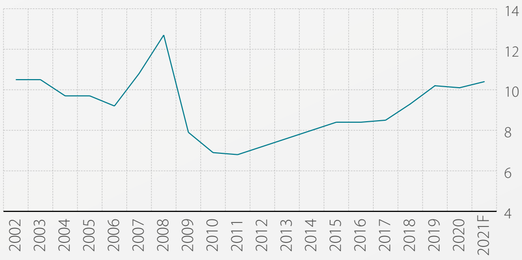
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



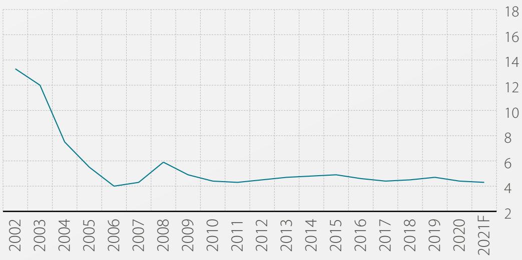
COMPLETED UNITS



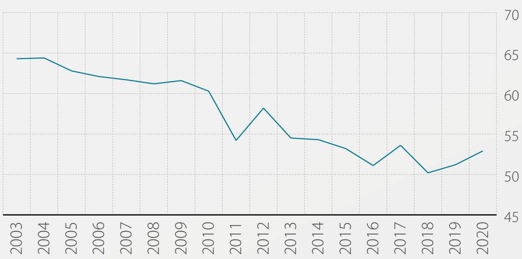
RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



NEW APARTMENT FLOOR AREA, SQM



VILNIUS SNAPSHOT (END-2020)

ANNUAL APARTMENT PRICE CHANGE	+ 4.8 %
NEW APARTMENTS BUILT	5,360
AVERAGE NEW APARTMENT FLOOR AREA	52.9 SQM
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (SQM/without final fit-out)	€1,200 - €1,850
NEW APARTMENT PRICES IN PRESTIGIOUS DISTRICTS (SQM/without final fit-out)	€2,000 - €4,000
NEW APARTMENT PRICES IN CITY CENTRE AND OLD TOWN (SQM/without final fit-out)	€2,300 - €4,800
FINAL APARTMENT FIT-OUT	€300 - €450
RESIDENTIAL INVESTMENT YIELD (city centre)	4.4 %

HOUSING MARKET LOOKS VERY STRONG

PRICES

After the end of the first lockdown in mid-2020 and a period of uncertainty, real estate market players felt more relaxed. In the second half of 2020, the Lithuanian housing market did not hesitate and started to move upwards. This largely compensated the market activity losses and pushed frozen prices further up.

The significant decline in housing market activity during the lockdown in Q2-Q3 2020 only slowed down the increase of apartment sales prices, but no negative changes were recorded. Still, the year 2020 saw smaller apartment price increases compared to 2019. Within a year, apartment prices in five major cities of Lithuania (Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys) increased on average by 4.1%; this was noticeably lower compared to the 7.2% growth in 2019. Depending on the city, apartment prices increased roughly from 3% to 5% in 2020.

Apartment prices in Vilnius increased by 4.8% in 2020, after an increase of 6.9% in 2019, according to the Ober-Haus Lithuanian apartment price index. The average price at the end of 2020 rose to €1,693 per sqm. From the lowest price level in May 2010 up to December 2020, apartment prices increased by 46.7% (by €539 per sqm). In 2020, prices for new construction apartments increased by 5.1% and for older apartments they increased by 4.4%.

Despite the big uncertainty due to the pandemic in mid-2020, there were fundamental factors that drove both demand and prices in the residential property market in Vilnius. According to official data, the population in Vilnius city in 2020 increased by 1.4% or by 7,900 residents (in 2019-2020 the total increase was 3.2%). In addition, rising incomes, low mortgage interest rates and quickly recovered confidence in the country's economy and personal financial situations shielded the residential property market from any negative consequences

Prices for new construction apartments in residential districts at the end of 2020 ranged from €1,200 to €1,850 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 €300–€450 per sqm to fit out with floors, painting, lights, bathrooms and kitchen (economy and middle class).

By the end of 2020, a standard two-room apartment (45–50 sqm) in a Soviet-era concrete block building located in a residential district cost from €58,000 to €72,000. 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 €1,000-€1,100 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €1,550 to €2,600 per sqm for unrenovated and from €1,850 to €4,400 per sqm for renovated apartments. New construction apartments are now offered for €2,300 to €4,800 per sqm without final fit-out. Prices of new apartments in exceptional projects without final fit-out can reach €5,500–€6,000 per sqm.

In prestigious districts (Antakalnis, Snipiskes, Naujamiestis, Zverynas), old apartment prices range from €1,300 to €3,500 per sqm. Prices of newly built apartments range from €2,000 to €4,000 per sqm without final fit-out. Prices of new apartments in exceptional projects can reach up to €4,500–€5,000 per sqm.

The prices of houses in Vilnius and its environs increased only very slightly in 2020. The large number of private houses built for sale in recent years and a broad choice of plots of land for individual construction kept prices stable. 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 (100–200 sqm with land plots of 500–1,000 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 €120,000 to €170,000. Prices for semi-detached houses (100–125 sqm with land plots of 250–400 sqm) range from €100,000 to €130,000. 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 €400,000, 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.

The outlook for 2021 gives reasons for being more optimistic. Population surveys predict that in the most densely populated regions of the country, housing prices will continue on an upward trajectory in the nearest future (after the opposite survey results at the start of 2020). A survey commissioned by SEB Bank at the start of 2021 showed that 60% of the respondents thought that housing prices would increase in the Vilnius region in 2021.

The indicators of the beginning of 2021 show that there is no decline in market activity and prices are increasing. Of course, the situation and prospects of individual sectors and employees of these sectors (tourism, accommodation, hospitality, events) are of major concern. The opportunities for employees in these sectors to purchase housing were most affected by the pandemic. However, if the pandemic does not take a new form and is largely contained, the most affected sectors of the economy will start to recover and this will contribute to faster economic recovery and a sufficient number of potential buyers in the market.

Overall, high market activity, the volume of newly issued loans, rising prices for apartments and increased expectations regarding the further price development show that the population does not overestimate the threat of the pandemic in the long term. If the country's economy develops as projected, Ober-Haus expects that in 2021, apartment prices in Vilnius will increase by around 7–8% on average, and prices for new construction apartments could increase even more.

SUPPLY

According to Ober-Haus data, developers built 5,360 apartments for sale (in 51 different projects) in Vilnius, which is almost 26% more than the number of apartments constructed in 2019. The number of apartments built in 2020 in Vilnius is the highest since 2008 when 5,396 apartments were completed.

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. Developers built new flats in multi-apartment buildings in 18 out of the 21 neighbourhoods of the city of


VYTENIO 4

Vilnius during 2020. Most of the investments were in seven neighbourhoods of the city and accounted for 66% of the total number of new flats: Pilaite (11.7%), Old Town (11.0%), Zirmunai (9.4%), Snipiskes (9.4%), Verkiai (9.2%), Seskine (8.3%) and Naujamiestis (7.3%).

Looking at apartment projects constructed in Vilnius during 2020, most of the supply is middle class apartments that sell at €1,700-€2,200 per sqm without fit-out and account for 43% of total completed apartments. The supply of economy class apartments – the selling price of which (without fit-out) is up to €1,650 – accounts for 26% of total supply.

The supply of higher-class apartments showed a noticeable increase over recent years in the capital city. Developers have become more daring in building higher-class apartments costing in excess of €2,300 per sqm (without fit-out). Traditionally, these projects are developed close to or in the centre of the city, the Old Town or in other prestigious areas. In 2017–2019 upper class apartments accounted for 18–25% of the total number of newly built apartments, while in 2020 their share jumped to 31%.

An increasing number of higher energy performance class multi-apartment buildings is constructed in Vilnius annually. Data collected by Ober-Haus shows that out of all apartments built in the capital city in 2020, 5.7% of multi-apartment buildings were found to be energy performance class A++, 48.2% were energy performance class A+, 34.2% were energy performance class A, and 10.6% of flats – in multi-apartment buildings – were energy class B. The remaining share of apartments (1.3%) was in multi-apartment buildings of energy performance with lower than class B or there were no details on the energy performance class of such buildings available. Data of the last five years shows that construction of higher energy performance class buildings is taking place faster and at an even pace. For example, almost 88% of the apartments built in Vilnius in 2016 were of energy performance class B, whereas the share of flats in energy class B buildings in 2020 was just more than 10%.

The average area of apartments in multi-apartment buildings constructed in Vilnius in 2020 was 52.9 sqm and, in comparison to 2019, had increased by 1.7 sqm. Nonetheless, regardless of the increase in the average area, the change is not significant and historically remains one of the smallest. Between 2003 and 2020, the smallest average flat area was recorded in 2018, when it was 50.2 sqm. Looking at newly designed and projects already under construction – two-room apartments with an area of 40-50 sqm still dominate. For this reason, it is unlikely that the average area of apartments will grow in the capital city in the next few years, but it should not decrease either. Developers and architects have already learned how to build functional flats; therefore, further contraction of apartments in terms of their size would be, in principle, possible only at the cost of the comfort of potential buyers.

As many as 36 different companies developed multi-apartment projects in Vilnius in 2020. Traditionally, most apartments for sale are built by developers that have extensive experience and are well known in the market. The most experienced real estate developers which have developed five or more different residential projects constructed 74% of the apartments in Vilnius in 2020. But the main developers of multi-apartment buildings were: Hanner, Merko, Darnu Group, Realco, Vilmesta, YIT and Anreka, which constructed half of all apartments in 2020. The other half was built by other companies, including developers with extensive experience as well as companies that were new in the market and developing their first projects.

Estimating ongoing constructions of multi-apartment buildings and the course of completed works, Ober-Haus forecasts that about 4,500-4,700 apartments or 12–16% less than in 2020 should be built in Vilnius in 2021. The smaller developments might signal that developers are facing certain challenges in Vilnius. The major hindrance remains fairly conservative traditional funding from banks and the choice of land plots attractive for the development of multi-apartment buildings. As in the previous years, developers are mostly interested in smaller land parcels or bigger territories suitable for construction in the central part of the city, or areas nearby in which purchasers could be offered middle or higher class projects. Taking into consideration the fact that in the last 5 or 6 years the development of multi-apartment buildings in such parts of the city was extremely active, the supply of land plots (especially bigger ones) has decreased considerably. For this reason, it is no surprise that developers are looking further from the city centre at other territories attractive for residential construction and they are being actively urbanised.

After hitting record highs in 2018-2019, the supply of new detached and semi-detached houses dropped in Vilnius region in 2020. According to Ober-Haus data, almost 680 detached and semi-detached houses were built by developers (in projects with over 5–6 units) in and around Vilnius in 2020, which is an almost 17% decrease compared to 2019. As market activity of the house market reached record highs, the new drop in supply could be explained by lack of access to financing, especially for smaller developers, who are the main players in this residential property segment.

Current 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 96-102 sqm in 2018-2020.

DEMAND

In 2020, the activity levels in the apartment segment in Lithuania and the capital city varied significantly, but basically were in a V-shaped curve. Due to the pandemic in March 2020, the lockdown in Lithuania restricted the activities of notaries. Negative economic forecasts caused the expectations of the population to drop to record low levels. This led to a 30% decline in the total number of transactions for the sale and purchase of apartments in Q2 2020 in Vilnius compared to Q1 2020. In June 2020, the quarantine was officially lifted and the increased economic activity in the country boosted the confidence of the population in the prospects of the country's economy and their personal financial situation. In Q3 2020, the total number of transactions of apartments increased by 30% compared to Q2 2020. Despite the second wave of coronavirus at the end of 2020 and the introduction of restrictions, the number of transactions of apartments in the capital city continued to grow rapidly and even exceeded the 2019 level (Q4 2020 compared to Q4 2019). Meanwhile, in the segment of private houses, a smaller decline in the number of transactions was observed than in the apartment segment in mid-2020, and overall activity reached record highs.

In 2020, Vilnius saw a 3% decrease in apartment sales and a 22% increase in house sales. In 2020, on average, 980 apartment sales and over 100 house sales were made each month in Vilnius city. According to official statistics, total turnover in the Vilnius city residential property market reached an all-time high of €1.25 billion in 2020 and increased by 11% compared to 2019. The total number of housing transactions (apartments and houses) in Lithuania decreased by almost 5% in 2020.

After the rock-bottom sales in Vilnius' primary apartment market (new construction) in April 2020, the activity in the primary market showed a very rapid recovery in the second half of 2020. According to Ober-Haus data, over 4,800 apartments in newly built buildings or buildings under construction were purchased (incl. presales) directly from developers in 2020 in Vilnius. Nevertheless, this is 15% less than in 2019, but 15% more than in 2018. Generally speaking, losses incurred during the first lockdown were greatly compensated in September-December of 2020. It was not only the activity of buyers, but also that of developers which contributed to the positive performance in the second half of 2020. Developers had noticed an improvement in the housing market and, after the lifting of the lockdown, resumed project development thus increasing apartment supply and improving the overall market indicators.

According to Ober-Haus data, the total number of unsold new apartments on the Vilnius primary market increased by almost 11% during 2020. At the end of 2020 there were a little over 1,200 unsold newly built apartments in finished apartment buildings. But 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 specifically at the newest projects – 84% of all apartments built over 2020 were sold or reserved at the end of the year. The figure is similar to that recorded in 2019 but is bigger (i.e. better) than in 2015-2018, when this figure was 73-82%. At the end of 2020 almost half of the apartments, which will be completed in 2021 in Vilnius, were already sold or reserved.

The main indicators of the housing market recorded in 2020 demonstrate that the fundamental drivers (affordability, funding and expectations) of the residential property market function at full capacity even during the pandemic.

THE MORTGAGE MARKET

Mortgage loan volumes increased slightly in 2020. According to data from the Bank of Lithuania, new mortgage loans worth €1.39 billion were provided in 2020, an increase of over 4% compared to 2019. In the 2018–2020 period, new mortgage loans of €111 million were provided per month on average in Lithuania, which is almost 37% more than the 2015–2017 period.

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 2020 the total value of outstanding housing loans stood at more than €9.1 billion, a historic high. As nominal Lithuanian GDP decrease very slightly and the value of total outstanding housing loans increased by 8.5% in 2020, the debt to GDP ratio increased by 1.5 percentage point to 18.7%. This rate is one of the lowest in the EU (EU-27 average in 2019 – 44.1%).

Despite some fluctuations during the year, the annual average interest rate for new mortgage loans in Lithuania remained stable in 2020. According to data from the Bank of Lithuania, the average annual interest rate on new mortgage loans in 2020 was 2.36% (this figure was 2.40% in 2019). In December 2020, the average mortgage annual interest rate was 2.19%.

As apartment price growth has slowed down and people's income increased at almost double-digit rates in 2020 in Vilnius, housing affordability has reached a record level. In 2020 an inhabitant of Vilnius could purchase 7.5 sqm in a medium-class apartment for their average (net) annual salary (an 0.3 sqm increase compared to 2019). The current price to income ratio is at an historic high.

RENTS

The apartment rental sector in the country's major cities, especially in Vilnius, felt the impact of the lockdown, yet it bounced back in the second half of 2020. Due to the consequences of the pandemic, the housing rental market in Vilnius came under greatest pressure because of the largest number of properties for long-term and short-term rent located in this city. Some property owners applied significant discounts on the short-term rent of apartments, while other owners decided to offer them to local residents for a longer period of time. This resulted in additional volumes of long-term rental apartments on the market, which slightly adjusted the overall price level in the market.

While the sudden sharp decline of tenants in the short-term rental property segment caused anxiety and problems to property owners, this had little impact on the long-term rental properties in general. The strong domestic demand was able to compensate for the increased supply resulting from diminished flows of foreign tourists in the city. In Q2 2020, rents in Vilnius decreased by around 2–3% on average, but in the second half of 2020 rents bounced back to the same level as they were a year previously.

There was significantly more activity in the residential rental property market in Q3-Q4 2020. This was due not only to the resumption of economic activity and improved confidence, but also due to the usual seasonality in this sector. The total number of residential rental property transactions completed by Ober-Haus in Vilnius in Q3 2020, compared to Q2 2020, increased by 87%. If compare the Q3-Q4 2020 figure with the number of transactions in the same quarter in 2018–2019, it is up by 19% on average. The optimistic outlook in the entire real estate market and the increased activity of the residential property rental segment essentially meant that rents for apartments returned to early 2020 levels.

A typical two-room, old construction apartment in Vilnius residential districts rents for €270 to €330 per month at the end of 2020. Rents for the same size new construction apartment start from €350 up to €470 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 €320 to €660 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-€1,400 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. Rents for bigger houses in the best locations could be as high as €4,000-€6,000 per month. Maintenance costs are additional.

As rents in general stayed flat in 2020, the overall gross rental yield decreased by 10 basis points in Vilnius in 2019. In 2020, the average gross rental yield in Vilnius for two-room apartments was 5.1%. Increased sale prices of apartments decreased average gross rental yield in the central part of the city from 4.7% to 4.4% during 2020.

Ober-Haus expects that residential rents in Vilnius will increase much less than sale prices, i. e. rents in Vilnius could increase by around 2–3% in 2021.

Despite a growing city, property owners face increasing competition in the rental market. In addition to private investors supplying the market with properties for long and short term lease each year, developers are also entering the rental sector. For example, in 2020 developers completed two projects in Vilnius, in which they have offered more than 300 units in total for rent. In 2021 two more projects will be completed, where over 60 units will be offered for rent. But this is just the start of the development of rental projects in Vilnius, as developers could supply the market with many more units. At the start of 2021, it was known about ten different projects with around 2,500 units for rent that were on planning stage. Of course, the development pace of these projects will depend on the situation of the real estate market, financing accessibility and other factors. But it can be assumed that developers could significantly increase the supply of rental housing in the capital city in the nearest future.

LEGAL NOTES BY SORAINEN

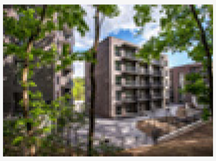
Residential leases are regulated by Lithuanian law more strictly than commercial leases. Lithuanian legislation establishes specific rules related to the condition of leased residential premises, the right of family members to reside with the tenant, termination of the lease agreement (eg a tenant may 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.

JOMANTO PARKAS

RECENT DEVELOPMENTS

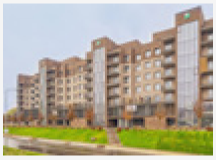
DESCRIPTION

BALTAS LAPAS (MINDAUGO) – At the start of 2020, local development and construction company Eika, completed construction of the first stage of a residential project in Naujamiestis district. Three 3-5-storey buildings comprise almost 100 apartments ranging in size 27 to 65 sqm. At the end of 2020 all apartments from the first stage were sold. The prices of the last vacant apartments without fit-out started at €2,500 per sqm. Eika is developing further stages of this project and plans to complete the whole project in 2022.

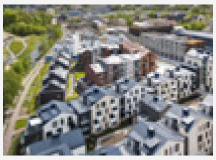


KANSO – In Q2 2020, a local company, finished construction of a residential project in Uzupis district, on Polocko Street. The 5- and 6-storey buildings comprise 72 apartments ranging in size from 24 to 85 sqm. At the end of 2020 around 95% of the apartments had been sold. The prices of the available apartments without fit-out range from €2,200 to €3,000 per sqm.

LIVE UP – At the end of 2020, real estate developer Hanner, finished the first stage of a residential project in Naujamiestis district, on Naugarduko Street. The two 7-storey buildings comprise 120 apartments, ranging in size from 27 to 77 sqm. At the end of 2020 around 95% of the apartments had been sold. The prices of the available apartments without fit-out range from €1,850 to €2,400 per sqm.



LUCKY HOMES – At the end of 2020, real estate development company Savo Group, completed construction of a residential project in Vilkpede district, on Gerosios Vilties Street. The 6-storey buildings comprise 128 apartments, ranging in size from 33 to 89 sqm. At the end of 2020 around 70% of the apartments had been sold. The prices of the available apartments without fit-out start at €1,700 per sqm.

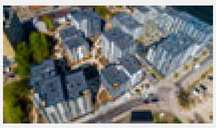


PAUPYS – In 2020, local real estate development company Darnu Group, completed construction of the first apartments in a multi-functional project in Uzupis district, on Aukstaiciu Street. This project was started in 2017/2018. Over 400 apartments have been completed and at the end of 2020 over 90% of the apartments had been sold. The prices of the available apartments without fit-out range from €2,500 to €4,400 per sqm. More than 300 are planned to be completed by 2022.

VILNELE VALLEY – In 2020, real estate development and construction company Merko, completed construction of a residential project in Markuciai district, on Manufakturu Street. The project consists of six residential buildings with over 210 apartments. The first two buildings were completed in 2019 and the remaining four buildings were completed in Q2 2020. Apartments of 1-4 rooms range in size from 35 to 107 sqm. At the end of 2020 almost all the apartments had been sold. The prices of the available apartments without fit-out start at €2,900 per sqm.

ZVERYNO VAKARAI – At the start of 2020, a local company, completed an A+ class energy efficiency residential building in Zverynas district, on Saltoniskiu Street. The 10-storey building has almost 70 apartments ranging in size from 36 to 75 sqm. At the end of 2020 all the apartments had been sold.

ZVERYNO PANORAMOS – At the start of 2020, local real estate development company Realco completed construction of a large residential project in Seskine district. The project consists of seven residential buildings with almost 400 apartments ranging in size from 30 to 140 sqm. This is the first multi-storey residential project in Seskine district in 14 years. At the end of 2020 over 95% of the apartments had been sold. The prices of the available apartments without fit-out range from €2,000 to €3,500 per sqm.



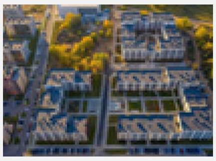
RINKTINES URBAN – The real estate development and construction company Merko, completed the second stage of a residential project close to the city centre, on Celkiniu Street. The project consists of six residential buildings. The first stage with three buildings and 120 apartments was completed in 2018 and the second stage with three buildings and over 180 apartments was completed in Q2 2020. At the end of 2020 all the apartments had been sold.

RECENT DEVELOPMENTS

DESCRIPTION

VERKIU SODAS – At the end of 2020, real estate developer Hanner, completed the first stage of a residential project in Zirmunai district, on Verkiu Street. The two 9-storey buildings comprise over 160 apartments ranging in size from 28 to 96 sqm. At the end of 2020 almost 85% of the apartments had been sold. The prices of the available apartments without fit-out range from €1,800 to €2,400 per sqm.

GRIGALAUKIO DOMINIJA – In Q3 2020, the real estate development company Omberg, completed the development of the final stage of a residential project in Pasilaiciai district. The final stage consists of two 5-storey buildings with 150 apartments. At the end of 2020 over 85% of the apartments from the final stage had been sold. The prices of the available apartments without fit-out range from €1,500 to €1,700 per sqm.



12 & 13 KVARTALAS – In 2020, local development company Vilmestos projektai, completed construction of two residential buildings in Pilaite district, on Tolminkiemio Street. The two 5-storey buildings comprise over 360 apartments ranging in size from 30 to 90 sqm. At the end of 2020 over 70% of the apartments had been sold. The prices of the available apartments without fit-out range from €1,550 to €1,750 per sqm.

LAZDYNELIU 30 – In the start of 2020, local real estate development company Rinvest, completed the construction of a residential project in Lazdyneliai district, in Lazdyneliu Street. The three 4-storey buildings comprise almost 130 apartments ranging in size from 26 to 67 sqm. At the end of 2020 almost all the apartments had been sold. The prices of the available apartments without fit-out start at €1,800 per sqm.

NAUJOSIOS SANTARISKES – This residential project is being developed on the northern outskirts of Vilnius in a 5.3 ha territory. It will comprise of 25 4-storey buildings of equal size with a total of around 350 apartments. In 2020, the company completed the construction of the first four residential buildings with 60 apartments. In Q1 2021, the company completed another five buildings with 75 apartments. The 2-3 room apartments range from 57 to 74 sqm in size. At the end of 2020 over 85% of the apartments had been sold from the first stage. The prices of the the available apartments without fit-out range from €1,350 to €1,550 per sqm.

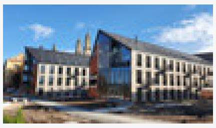
KAPSU 11 – A local construction company Constra, completed an A++ class energy efficiency residential building in Naujinikai district, on Kapsu Street. The 7-storey building with 54 apartments and some commercial premises on the ground floor was completed at the end of 2020. The apartments range in size from 32 to 83 sqm. At the end of 2020 around 50% of the apartments had been sold. The prices of the available apartments without fit-out start at €2,000 per sqm.

AKMENVILIS – In 2020, a local company, completed construction of a single-family residential project in the western suburbs of Vilnius, on Saltalankiu Street. The project comprises just over 30 houses of 178 sqm and land plots of over 1,000 sqm. At the end of 2020 around 70% of the houses had been sold. The prices of the houses without fit-out start at €950 per sqm.

PAVILNIO PARKAS – In mid-2020, real estate development company Rinvest, completed a row house project in the southeastern part of Vilnius, on S. Narutaviciaus Street. The 59 row houses range in size from 85 to 100 sqm and are on three levels and have land plots of 100-300 sqm. At the end of 2020 almost 95% of the houses had been sold. Asking prices of the available houses without fit-out start at €1,050 per sqm.

NEW PROJECTS

DESCRIPTION



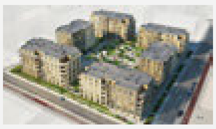
MISIONIERIU SODAI – The 3- and 4-storey luxury class residential project in the Old Town, on Subaciaus Street will be completed in the first half of 2021. The residential project with around 80 apartments offers different size units up to 400 sqm. At the end of 2020 almost 70% of the apartments had been sold. In terms of the total purchase price and price per square metre of apartments, this project became the most expensive multi-apartment project in 2020. The biggest apartment was sold for €2.4 million and best apartment selling prices was between €5,000 and €7,000 per sqm.

ANDRUM RENESANSAS / UZUPIS – Local developer Andrum Group is completing the development of a residential project in Uzupis district, on Kreivasis Lane. The project with 30 apartments will be completed in Q2 2021. At the end of 2020 almost 85% of the apartments had been sold. The prices of the available apartments without fit-out start at €3,000 per sqm.

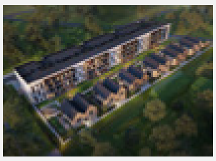
RENESANSO – A local real estate development company Hanner, completed the development of a residential project in the Old Town, on Sodu Street (next to city railway and bus station). The A+ class energy efficiency up to 4-storey buildings will offer over 150 apartments and commercial premises. Apartments of 1-4 rooms range in size from 20 to 130 sqm. The residential project will be completed during the first half of 2021. At the end of 2020 over 70% of the apartments had been sold. Asking prices of the available apartments without fit-out start at €2,500 per sqm.

VILNIAUS MONMARTRAS – A local developer is completing a residential project in Uzupis district, on Polocko Street. The project consists of two 4-storey residential buildings with 46 apartments. The project will be completed in the first half of 2021. At the end of 2020 over 60% of the apartments had been sold. Asking prices of the available apartments without fit-out start at €3,400 per sqm.

VYTENIO 4 – A local real estate development company Homa is developing a 5-storey residential building in the Naujamiestis district, on Vytenio Street. The A+ class energy efficiency residential project with over 40 apartments and commercial premises on the ground floor will be completed in Q4 2021 / Q1 2022. Apartments of 1-4 rooms range in size from 38 to 127 sqm. Asking prices of the available apartments without fit-out start at €3,000 per sqm.

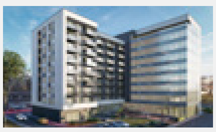


VILNELES SKVERAI – In 2020, real estate development and construction company Merko began development of a large residential project in Markuciai district, on Manufakturu Street. The multi-apartment residential project will be developed in stages and will offer over 1,000 apartments. The first four 5-6-storey buildings with over 150 apartments will be completed by the end of 2021. At the start of 2021 around 50% of the apartments had been sold. Asking prices of the available apartments without fit-out start at €1,900 per sqm.



NAMAI KINTAI – The real estate development company Galio Group is developing a residential project in Snipiskes district, on Kintu Street. The A+ class energy efficiency residential project with 123 apartments and 12 semi-detached houses will be completed in Q4 2021. Apartments of 1-4 rooms range in size from 25 to 73 sqm and the size of the semi-detached houses are from 108 sqm. At the end of 2020 almost 85% of the apartments and houses had been sold. Asking prices of the available apartments and houses without fit-out start at €2,200 per sqm.

PAUKSCIU TAKAS – The local real estate development company Homa is completing a residential project in Seskine district, on Ozo Street. The residential project with over 100 units will be completed in mid-2021. Apartments of 2-3 rooms range in size from 38 to 64 sqm. At the end of 2020 almost 65% of the apartments had been sold. Asking prices of the available apartments without fit-out are up to €2,000-€2,500 per sqm.



CLOUD NAMAI – A local development company is developing a 9-storey residential project in Snipiskes district, on Kalvariju Street. The project with 80 apartments will be completed in mid-2021. Apartments of 1-2 rooms range in size from 27 to 54 sqm. At the end of 2020 over 60% of the apartments has been sold. The prices of the available apartments without fit-out start at €2,000 per sqm.

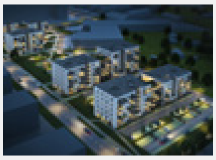
NEW PROJECTS

DESCRIPTION

TAIKOS ALEJA – The real estate development company Lithome is completing the construction of a residential project in Justiniskes district, on Taikos Street. The 4-storey residential building with almost 60 apartments will be completed in Q1 2021. At the end of 2020 almost 85% of the apartments had been sold. Asking prices of the available apartments without fit-out start at €1,650 per sqm.

KAVOLIUKO 14 – After completion of the first stage in 2020, a local company is developing the second stage of a residential project in Karoliniskes district, on A. P. Kavoliuko Street. The three block 5-storey residential project with over 100 apartments will offer 1-4 room apartments, ranging in size from 35 to 78 sqm. The second stage is scheduled for completion in Q3 2021. At the end of 2020 around 25% of the apartments had been sold. The prices of the available apartments without fit-out start at €1,850 per sqm.

VAKARU LENAS – A new entrant in the residential property development market, the Swedish company Bonava, is developing its first project in Vilnius, with the construction of a residential project in Pasilaiciai district, on Giruliu Street. Two A+ class energy efficiency 6-storey buildings with 140 apartments will be completed at the start of 2022. Apartments of 1-3 rooms range in size from 33 to 66 sqm and are sold with final fit-out (without kitchen equipment). At the end of 2020 almost 50% of the apartments had been sold. Asking prices of the available apartments with final fit-out range from €1,700 to €2,300 per sqm.

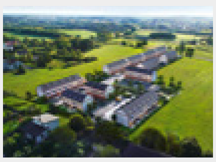


7 VAKARAI –The local real estate development company Realco is developing a residential project in Pasilaiciai district, on Budiniskiu Street. The first two 4- and 6-storey A+ class energy efficiency buildings with almost 120 apartments will be completed in the second half of 2021. Another two buildings with over 170 apartments will be completed in the first half of 2022. At the end of 2020 almost 25% of the apartments from the first two buildings had been sold. Asking prices of the available apartments without or with final fit-out range from €1,600 to €2,200 per sqm.

BUK CIA – The local real estate development company Citus is completing a residential project in Lazdynai district, on Bukciu Street. The A+ class energy efficiency residential project with around 100 apartments and 5 row houses will be completed in Q2 2021. Apartments of 1-4 rooms range in size from 25 to 99 sqm. At the end of 2020 over 90% of the apartments and row houses had been sold.

JOMANTO PARKAS – At the end of 2020 real estate development company Galio Group started the development of a residential project in Baltupiai district, on Baltupio Street. The project will be developed in stages and the first stage with four 7- and 9-storey A+ class energy efficiency residential buildings will be completed in the second half of 2022. Around 220 apartments are offered in the first stage and 1–4 room apartments range in size from 27 to 86 sqm. Asking prices of the available apartments without fit-out range from €1,750 to €2,100 per sqm.

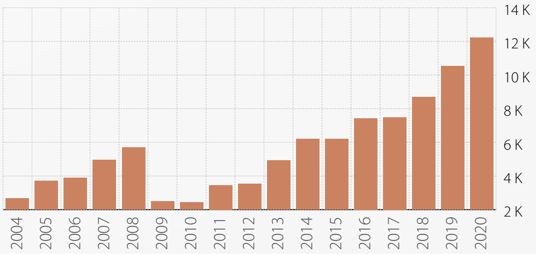
RAMU DU – At the start of 2021, the real estate development company Baltic Asset Management, started the development of a residential project in Naujininkai district, on Broliu Street. The project consists of two 4-storey residential buildings, which should be completed by the end of 2021 or early 2022. The project with 56 apartments offers 1-3 room apartments ranging from 23 to 55 sqm. Asking prices of the available apartments without fit-out start at €1,850 per sqm.



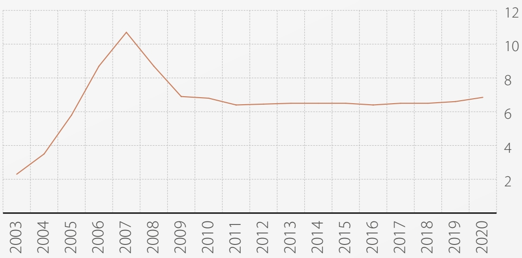
NAUJOJI ANGLIJA 2.0 – After completion a row house project with almost 140 units in the western part of Vilnius in 2017/2018, the same developer plans to develop a similar concept project in a different location of the city. The new 64 row house project will be located in the southeastern part of Vilnius, on Juodasis Road. The houses of 57-74 sqm with land plots of 50-60 sqm without fit-out are priced at €79,000–€84,000.

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

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-2020)

TOTAL LAND TRANSACTIONS CHANGE (Vilnius city)	+ 16 %
TOTAL LAND TRANSACTIONS CHANGE (Vilnius district)	+ 21 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€450 - €1,500
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€80 - €270
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€20 - €85

THE NEW INFRASTRUCTURE DEVELOPMENT LAW ENTERS INTO FORCE IN VILNIUS IN 2021

PRICES

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

The collected payments will go to the Vilnius infrastructure support programme and will be used to build pavements, bicycle paths, public transport infrastructure, streets, and the necessary social infrastructure (e.g. construction of a school) and will compensate in certain cases for the priority municipal infrastructure developed at the developer's expense. Previously, real estate developers in Vilnius have independently built infrastructure and had to pay a small social infrastructure fee.

As interest in plots of land suitable for both residential and commercial development in the capital city has reached new heights this has pushed prices higher. This is particularly true for land plots suitable for residential developments, as this property segment has remained resilient to the shocks of the pandemic. The sales prices of land plots in less desirable area of the city increased by up to 5%, while the most attractive plots of land located in the centre of the city or in adjacent areas, increased by up to 10-15% in 2020. Asking prices for plots in the central part of the city or other prestigious districts suitable for residential and commercial development (with detailed plans or construction permit) are now €450–€1,500 per sqm of land, or roughly €350–€1,100 per gross buildable square metre of residential or commercial space.

Plots in residential suburbs for multi-apartment developments (with detailed plans or construction permit) range from €80 to €270 per sqm, which works out at roughly €70 to €220 per gross buildable square metre of residential space.

There is still a sufficient supply of land parcels for individual construction on the outskirts of Vilnius city, which prevents a more rapid increase in prices. Nevertheless, the price of land plots in the most popular and desirable locations in Vilnius surroundings increased by 5-10% in 2020. 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 2020, prices of plots for private homes with partial or full infrastructure were €20–€35 per sqm in the cheaper suburbs, to as high as €45–€85 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

The total number of land transactions in Lithuania increased by 2% in 2020, according to the data of the Central Registry. There was another significant increase in the number of transactions of land parcels in Vilnius region in 2020. Total land transactions increased by 16% in Vilnius city and by 21% in Vilnius district. It should be noted, however, that when acquiring a house or apartment (especially a new construction), people also acquire land with the property, and these land transactions could be part of the overall transaction statistics.

In 2020, growing interest in smaller plots of land for the construction of private houses was observed. It is also noticeable that some buyers are interested in such plots in Vilnius surroundings not only for the possibility to build an individual house, but also as a medium or long-term investment. Increased buyer activity may have been driven not only by good housing market indicators, increasing financial welfare or expectations, but also by the need for more spacious or secluded housing during a pandemic or post-pandemic period.

As the supply of bigger and attractive land plots for residential developments in the central part of the city is decreasing, developers are trying to find new potential zones in the city for multi-storey constructions. And previously unurbanized or unpopular territories and city districts are becoming increasingly attractive to developers and large-scale projects are been developed in Markuciai, Naujininkai, Lazdyneliai, Burbiskes and other areas.

The biggest land transaction in 2020 was the acquisition of a 72 ha land plot for around €10 million in Vilnius district in Pagiriai. The land was acquired by Germany's wood fiberboard manufacturer Homanit, which plans to invest €100 million into a new production facility in the 77 ha territory in five years. Production at the facility could be operational by 2022.

At the start of 2020, an investment fund acquired an 0.8 ha parcel of land in Virsuliskes district and local real estate developer Omberg will start the development of a 22,000 sqm residential project on this site in 2021.

At the start of 2020, real estate developer Realco acquired a 0.5 ha parcel of land in Naujamiestis district, on Algirdo Street. The developer plans to develop an upper-class residential project with almost 100 apartments. Total investments will reach €16 million.

In the second half of 2020, the real estate developer Lithome acquired a 0.5 ha land plot in the southern part of Naujamiestis district, on Algirdo Street. Lithome plans to develop a residential project with some commercial premises.

In Q3 2020, a local company acquired a 0.44 ha parcel of land with old buildings in Snipiskes district, on Lvovo Street. The new owners plan to develop a commercial project on this site.

In Q3 2020, real estate developer Vastint Lithuania acquired a 2.8 ha parcel of land in Lazdynai district, on Parodu Street. Vastint is developing a large-scale office project close to the acquired land plot and plans further development of offices on the acquired site.

At the end of 2020, a local real estate developer acquired a 1.7 ha parcel of land in Baltupiai district. The new owners have not disclosed their development plans.

At the end of 2020, a subsidiary company of real estate developer Groupinvest acquired a 1.1 ha parcel of land in Karoliniskes district, on L. Asanaviciutes Street. The new owners plan to develop a multi-apartment project on this site. Ober-Haus was the selling agent.

OBER HAUS

LITHUANIAN REAL ESTATE TAXES AND LEGAL NOTES

ACQUISITION

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

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

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

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

In case of a share deal the transfer of shares in a real estate holding entity is subject to the notary fee of 0.33-0.41% on the value of transaction (the fee shall not be less than EUR 17 or exceed EUR 5,000 (plus VAT)), when:

- ≥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 4.22). 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 162,324per calendar year of 2021, 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 straightforward. Separate tax aspects applicable to a direct disposal of real estate are described below.

VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

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

WITHHOLDING TAX (WHT):

For foreign entities income from sale of real estate located in Lithuania is subject to 15% WHT. A foreign entity may submit a specific request to the Lithuanian Tax Authority and achieve 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 162,324per calendar year of 2021, 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 2020 new exit taxation rule is established in Lithuania. When transferring assets (in other form than sale) from a Lithuanian taxpayer (local legal entity, branch or a permanent establishment of a foreign entity) to a foreign taxpayer 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 2021 are:

- 1% - standard RET rate;
- 0.7% - for cultural, leisure, catering, sport, educational or hotel buildings (with some exceptions);
- 3% - for real estate that is actually used and 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 150,000 is not exceeded, whereas the excess value is subject to progressive taxation:

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

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

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

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

Tax base is the average market value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (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 2021 are:

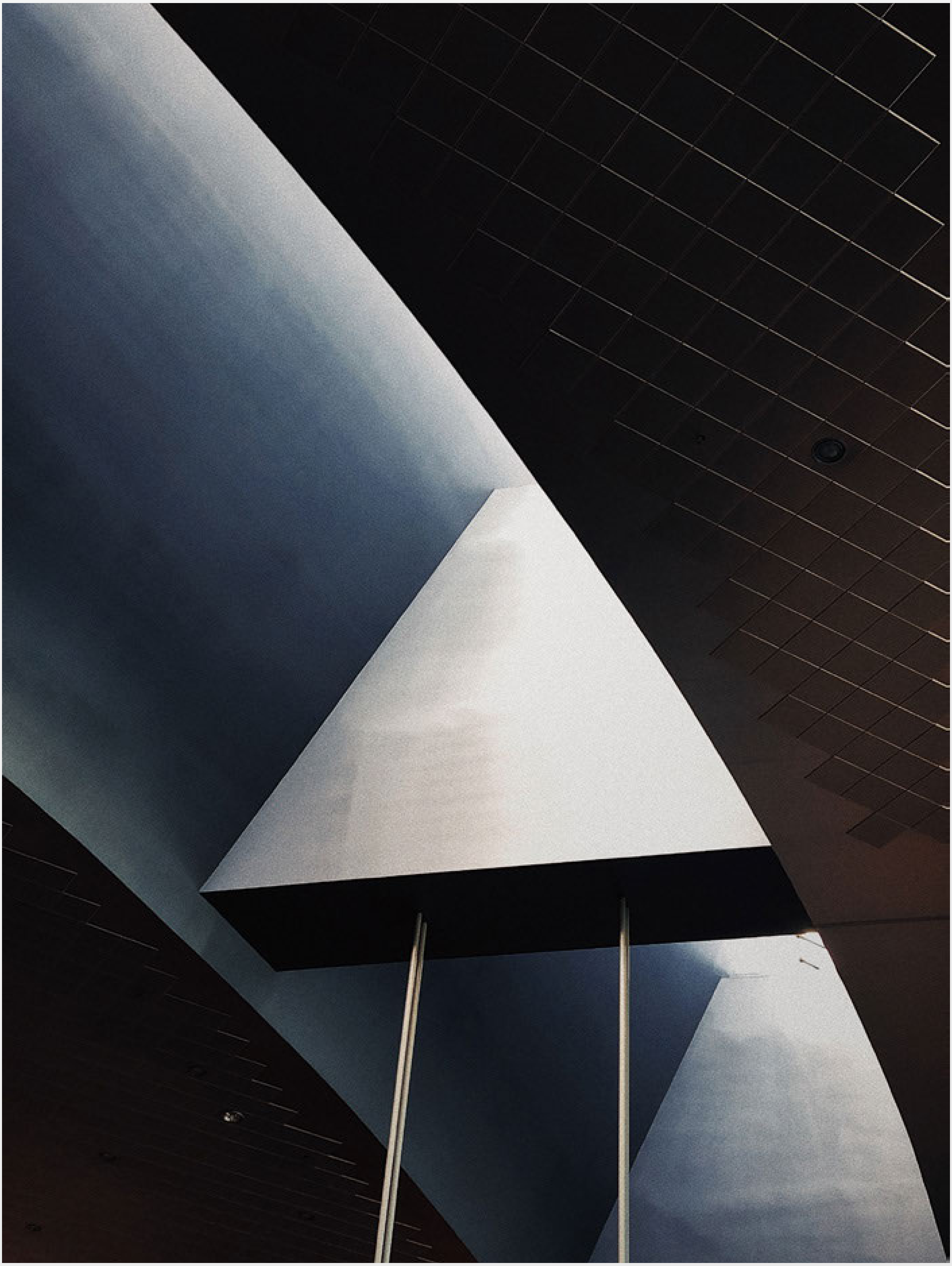
- 0.12% - standard tax rate for individuals and companies;
- 4% - increased tax rate for the land that is not used and for the land with buildings recognized as unauthorised construction.

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 professional firm entitled to manage personal accounts for financial instruments (eg a financial brokerage firm).

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

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

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

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

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

ASSET DEAL

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

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

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

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

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

SALE-LEASEBACK

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

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

FORWARD PURCHASE

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

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

JOINT VENTURE

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

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

PUBLIC-PRIVATE-PARTNERSHIP PROJECTS (PPP)

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

FORM OF AGREEMENTS

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

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

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

LANGUAGE REQUIREMENTS

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

DUE DILIGENCE

Legal due diligence 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 can involve checks on e.g. ownership titles, the target and engineering infrastructure servicing the target, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for the supply of utility services, environmental and zoning compliance issues – all information including material facts related to real estate. It should be noted that a general statutory principle exists that if an encumbrance of property is not registered with the Real Estate Register, 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 0,37% of the real estate transaction value, capped at EUR 5,000 for transactions that involve one real estate object and at EUR 12,000 for transactions involving two or more real estate objects. State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired. State duty for registration or deregistration of title to each real estate object amounts to EUR 17.19 (increased fees apply for accelerated registration).

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

The notary fee for transfer of shares transactions (when applicable) amounts to 0,37% of the transaction value and is capped at 5,000 EUR. For transactions that involve transfer of shares of two or more companies, the notarial fee (when applicable) is capped at EUR 12,000.

MERGER CONTROL

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

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

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.

It should be mentioned that the Law on Special Conditions on Land Use (which came into force on 1 January 2020) introduced a clause specifying that the execution of economic and/or other activities, use of site without the establishment of sanitary protection zones specified by law may result in administrative fines. If sanitary protection zones are required for the performed activities, such persons are obliged to establish the required sanitary protection zones and register them in the Real Estate Register by 31 December 2022. Carrying out activities without establishing and registering the required sanitary protection zone is prohibited since 1 January 2025.

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

REAL ESTATE FUNDS

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

MORTGAGE

A mortgage is established by a contractual agreement between the parties, which may be executed as a separate agreement or be part of the other (main) agreement. A contractual mortgage requires only the approval of a notary and subsequent registration with the 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 the territorial planning regulations, the right to build on urbanised territory and territories 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. However, under recent legislative amendments (which will enter into force on 1 June 2021), the preparation of a detailed plan becomes mandatory when development of a territory is planned within urbanised areas or within areas that are being urbanised. This may occur in cases where the existing and/or designed engineering and/or social infrastructure of the municipality is insufficient and needs to be planned. Considering the aforementioned, it is likely that a detailed plan would have to be prepared in most cases, i.e. in case of the absence of a detailed plan, construction would not be permitted to be carried out under the master plan.

Other key planning provisions are as follows:

- A district (quarter) is the smallest area for planning.
- State and municipal institutions organise the territorial planning documents.
- Legal acts provide a simplified procedure for establishing special conditions of land use and for changing both the purpose of land use and land plot boundaries.
- For detailed plans some corrections are available during preparation of technical design.
- 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 class A+ energy efficiency is required for newly constructed buildings where the construction permit was obtained after 1 January 2018. Note that the new legislation (which entered into force on 1 January 2021) establishes that buildings for which construction permits were obtained after 1 January 2021 shall meet the energy efficiency requirements for class A++.

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

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

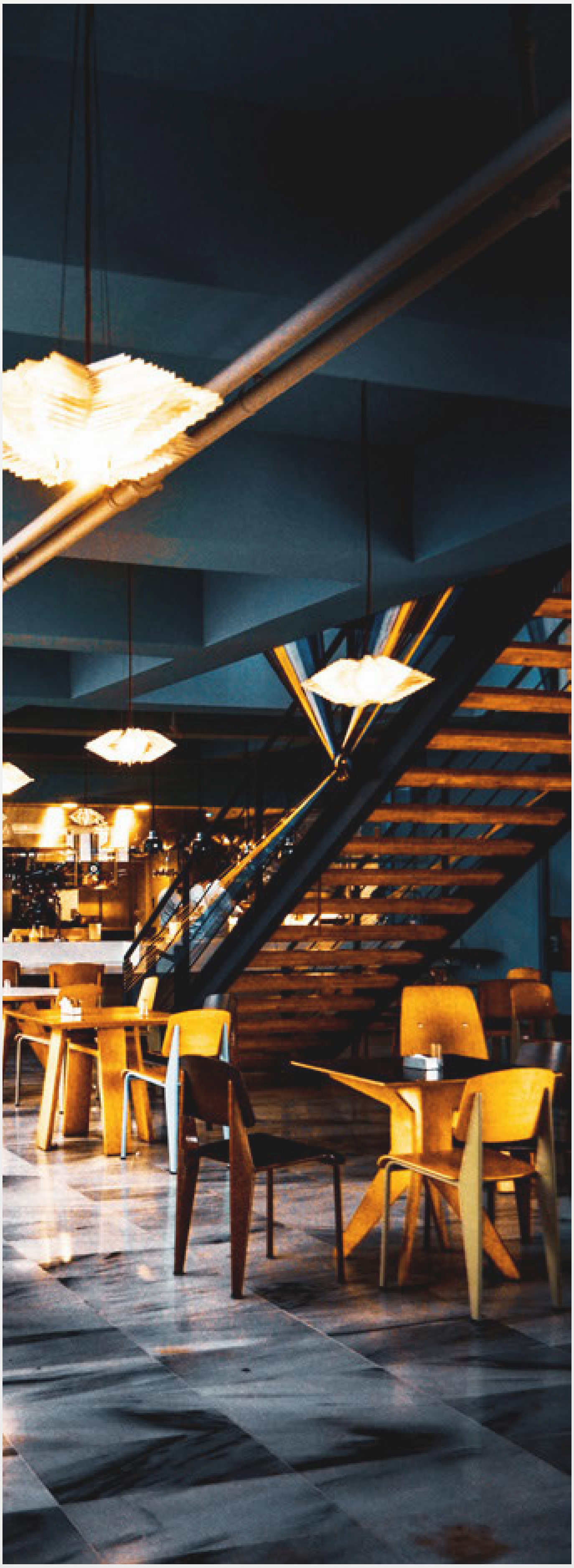
Moreover, from 1 January 2021, developers intending to carry out construction or reconstruction will be required (i) to pay the infrastructure development fee (calculated as EUR X per 1 sq.m) or (ii) to contribute to the development of the planned public infrastructure, i.e. to install infrastructure (roads, networks etc.). The infrastructure development fee must be paid when applying for a construction permit.

INSOLVENCY

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

RESTRUCTURING

Restructuring proceedings may be carried out if (i) a company may realistically be able to overcome its temporary financial problems or; (ii) when a company is carrying out activities that will enable it to fulfil its obligations in the future. Company restructuring may not exceed five (4+1) years in duration. Company restructuring is a tool that allows creditors to restructure their claims and provides better opportunities for the company to survive. Operations by the company's management bodies are not suspended during restructuring proceedings, when, in addition, creditors are ranked, with first priority given to claims secured by mortgaged/pledged property. The initiation of restructuring proceedings requires no approval by creditors, who become involved only upon an affirmative decision of the court to start restructuring..



BANKRUPTCY

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

OBER HAUS

EXECUTIVE OFFICER IN LATVIA

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

LATVIA

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

2021 FORECAST

GDP annual growth, %	3.0
GDP per capita, €	14,900
Average annual inflation, %	1.4
Unemployment rate, %	7.8
Average monthly net salary, €	890
Average salary growth, %	6.0

POPULATION	2015	2016	2017	2018	2019	2020
Latvia	1,986,100	1,968,900	1,950,000	1,934,000	1,920,000	1,907,700
Riga	641,000	639,600	641,500	638,000	632,000	627,500
Daugavpils	86,400	85,900	86,100	83,300	82,600	82,000
Liepaja	71,100	70,600	69,400	69,200	68,900	68,500

ECONOMICS	2015	2016	2017	2018	2019	2020
GDP growth, %	3.0	2.1	4.6	4.8	2.3	-3.5
GDP per capita, €	12,300	12,800	13,900	15,300	14,900	14,400
Private consumption growth, %	3.5	3.5	3.1	4.3	3.7	3.3
Average annual inflation, %	0.2	0.1	2.9	2.5	2.8	2.4
Unemployment rate, %	9.9	9.6	8.7	7.4	6.2	8.2
Average monthly net salary, €	603	631	676	742	800	844
Average salary growth, %	6.8	4.6	7.1	9.8	7.7	6.2
Retail sales growth, %	4.9	4.0	4.9	4.0	2.3	1.5
FDI stock per capita, €	6,300	6,900	7,400	7,300	8,300	—

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

THE LATVIAN ECONOMY WAS HIT THE MOST IN THE BALTICS

The outlook for global and euro area economic growth remains closely linked to the Covid-19 pandemic. Statistics on the prevalence of Covid-19 are unfavourable, while the results of vaccine tests and the vaccination already under way are more optimistic.

The decline in the size of the Latvian economy (GDP) in 2020 is close to 3.5% less than was estimated at the beginning of the Covid-19 pandemic. The actual economic downturn in 2020 turned out to be three times smaller than in the previous major crisis of 2009. In terms of economic sectors, the situation differs significantly – while tourism and entertainment services are experiencing difficult times, a record high harvest was achieved in agriculture and Latvia's exports of goods have reached new peaks. Current forecasts suggest that the economy will start recovering in 2021, reaching pre-crisis levels in 2022. The Bank of Latvia and other official institutions forecast a 3% growth in GDP in 2021.

The unemployment rate is around 8%, currently 2-3 percentage points higher than before the pandemic. Downtime benefits and wage subsidies, state support programmes for companies allowed them to retain employees even in the face of a significant drop in turnover. A rapid and decisive inflow of money into the economy is a precondition for unemployment to continue to be in single digits and to start declining again in the second half of 2021.

In 2020, the national minimum wage in Latvia remained fixed at €430 per month. As suggested, since 1 January 2021, this has been increased to €500 per month. Compared to Q4 2019, the average gross wages and salaries for full-time work increased by 6.2% or €66, and amounted to €1,143 in Q4 2020. Net wages increased by 6.0% in Q3 2020 (compared to Q3 2019), to €844 per month after taxes. The Ministry of Finance forecasts average gross salary growth of 6% in 2021, and 5% in 2022.

The dynamics of consumer prices on an annual basis remains in the territory of deflation and is broadly in line with the forecast. For three quarters, product prices are rising faster than headline inflation, and the period of deflation is not expected to be long. The impact of Covid-19 distribution restrictions on service prices (especially on accommodation and air transport) is negative, but prices for several services continue to rise as the imposition of restrictive measures and lower customer flows increase their costs per customer.

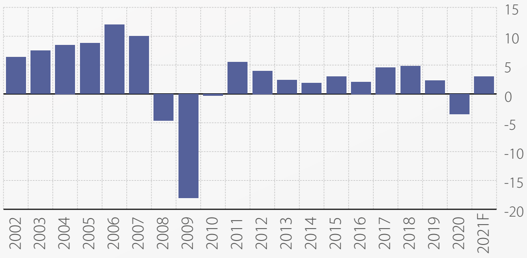
Consumer prices in Latvia fell 0.5 per cent year-on-year in December of 2020. The CPI in 2020 was 2.3%, and in 2019 was also 2.3%. Economists forecast inflation averaging 1.5% in 2021 and 2.2% in 2022.

Construction industry costs in all categories increased 0.3% year-on-year by the end of 2020. This change in prices was mainly due to the 4.2% increase in workers' pay, and maintenance and operational costs of machinery and equipment – by 0.9% – but prices of building materials fell by 1.7%.

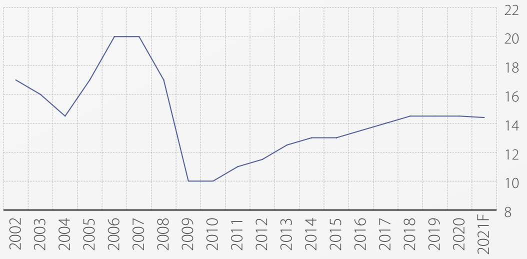
Retail trade turnover increase at constant prices (year-on-year) was 1.5% in 2020. Total retail trade turnover at current prices fell by 4.3% (not taking into account the calendar influence).

By the end of the first half of 2020, foreign direct investment in the Latvian economy reached €16.4 billion, which is approximately 53% of the country's GDP. Although the figure is impressive, much of this money is invested in financial intermediation and real estate.

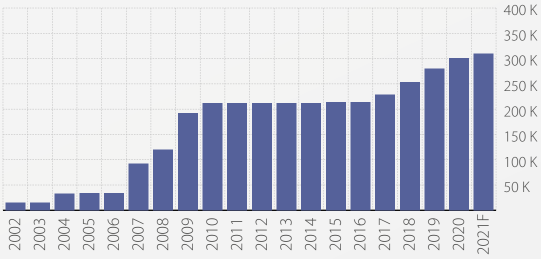
GDP GROWTH, %



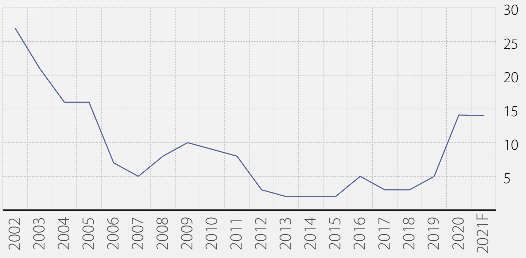
A CLASS OFFICE RENTS, €/SQM



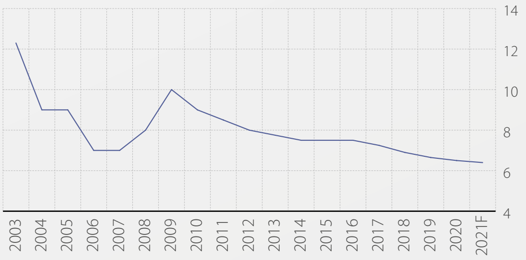
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



RIGA SNAPSHOT
(END-2020)

TOTAL OFFICE SPACE	640,900 SQM
TOTAL OFFICE VACANCY RATE	15.1 %
A CLASS OFFICE VACANCY RATE	14.1 %
B CLASS OFFICE VACANCY RATE	15.4 %
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)	€2.50 - €4.00

NEW SUPPLY HAS PUSHED VACANCIES UP

SUPPLY

Completion of four new office projects in 2020 added 49,500 sqm of office space to the market in Riga. Total modern office area at the end of 2020 stood at 640,900 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 2021-2023, six new office buildings are scheduled to come to market in Riga, with a total office space of more than 112,000 sqm.

2020 has seen a very strong impact of the Covid-19 pandemic around the world. Entrepreneurs were forced to mobilise and find an opportunity to learn to work differently and work fully or partially remotely, change their habits and learn to communicate from further away. This year, entrepreneurs and developers certainly learned a lot about how to reorganise their operations. Of course, it must be understood that there will never be 100% telework; people have to communicate and socialise, and amid a lot of grief it is not possible to perform work duties totally remotely. The biggest changes in the office market will be possible in 2021, when everyone will be familiar with the current situation and have learned to work (choosing appropriate office space, job changes and significantly longer distances) qualitatively and productively.

DEMAND

The vacancy rate of modern offices in Riga increased from 8.5% to 15.1% in 2020. At the end of 2020, the vacancy rate for B class buildings was 15.4%, while the vacancy for A class buildings was 14.1%.

Ober-Haus forecasts that vacancy will stay high during 2021 for both A and B class offices, as a number of new office buildings will be coming to the market.

RENTS

At the end of 2020 typical 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 still asking top rents of €17.00 to €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 levy additional charges for parking places ranging from €30 to €60 per space, and to €80 per space in the city centre for underground parking.

Ober-Haus forecasts that if the total vacancy rate faces a further increase during 2021; office rents could experience a slight drop.

INVESTMENT

Expected and requested yields for A class office centres ranged from around 6.0% to 7.0% in 2020. There were a few significant investment deals in 2020.

The largest deal was the acquisition of the Citadele Bank headquarters building with a total area of over 32,000 sqm by Lords LB Baltic Green Fund, for over €50 million.

Grinvest bought the 10,400 sqm SEB headquarters office building, located in Meistaru Street on the outskirts of Riga.

EfTEN Real Estate Fund III bought the Air Baltic headquarters building, located at Riga International Airport, with total area of almost 6,600 sqm.

Corum acquired the office building at 1 Kungu Street, located in Old Town Riga with a total area of 2,700 sqm, from Baltic RE Group.

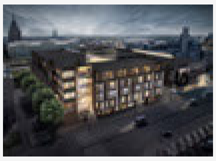
LEGAL NOTES BY SORAINEN

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.

NOVIRA PLAZA RIGA

RECENT DEVELOPMENTS

	DESCRIPTION
	**JAUNĀ TEIKA (HENRIHS)** – In addition to the Teodors office centre, a new office building –Henrihs – with total leasable area of 22,000 sqm, has been developed by Hanner in the neighbourhood and was completed in Q1 2020.
	**Z-TOWERS** – Ongoing since 2006, two 30-storey towers for residential and office use were 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 a spa.
	**ORIGO ONE** – Origo One business centre, developed by Linstow offering 11,500 sqm of A class offices (the upper three floors will be given over to retail), was completed in Q2 2020 in the very centre of Riga, near the railway station. The new building has been constructed 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.
	**RIVERSIDE OFFICES** – Renovation of an office building with fantastic views of the river Daugava and the city skyline was finished in Q2 2020. When complete the modern, spacious B+ class office and retail space will 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 and areas for networking. The total area of the building is 9,000 sqm, with an office area of 6,000 sqm.

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

ORIGO ONE

NEW PROJECTS

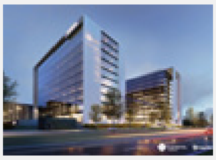
DESCRIPTION

VERDE – The greenest modern office project in Riga, in the vibrant Skanste district, is planning to open the first building in 2022 with a total area of 29,500 sqm. The total space of the two buildings will be 45,000 sqm. Verde is designed according to scientific office wellness studies. Relaxing terraces, greenery, state-of-the-art air ventilation systems, intelligent lighting, clever layout design, various amenities and other solutions are scientifically proven to boost well-being and productivity. The project is being developed by Capitalica Asset Management.

PRESES NAMS – In the first stage of the development project of the Press House quarter, it is planned to build an office centre with area of 25,000 sqm, retail premises with the first 10,000 sqm football field in the Baltics on the roof of the building, and a Holiday Inn hotel. In addition to high-class offices and co-working spaces, there will be several catering establishments, shops and conference rooms, as well as 200 bicycle sheds, more than 970 parking spaces, 27 electric car charging stations, walking areas and terraces with greenery. The construction of the first stage is expected to be completed in the summer of 2022. The project developer is the investment fund Lords LB Special Fund V.

BUSINESS GARDEN RIGA – In this project developed by Vastint Latvia, within the framework of the second phase of Business Garden Riga, three 5-storey office buildings with a leasable area of 27,000 sqm will be built. In addition to office space, it is planned to significantly expand the range of services available in the building offering cafes, lounge areas, a conference centre, co-working spaces and a sports club. For the convenience of employees, the infrastructure of the mobility point will be improved, as well as extensive underground and surface parking spaces will be created, which will accommodate more than 800 cars in total. The construction of the first stage is expected to be completed in 2023.

NOVIRA PLAZA RIGA – The Novira Plaza office building will be at the very heart of Riga, on Marijas Street, and will offer everything for the urban personality. It is planned to build a 7-storey building with an area of about 30,000 sqm by Q3 2023, of which about 20,000 sqm will be offered to tenants for office space, and about 3,500 sqm of retail space will be leased on the first floor.

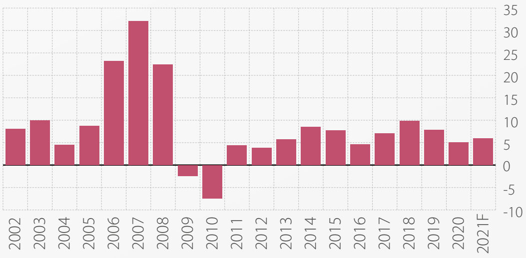


ELEMENTAL SKANSTE – The developer Kapitel is building a modern office complex in Skanste district. The first stage of construction of the Elemental Skanste office complex includes two 10-storey office buildings – North and South buildings – with an area of more than 20,000 sqm of rentable office space. The project has been awarded the BREEAM 'Excellent' rating certification for the building design process. In the following stages, it is planned to build three more office buildings with a total leasable office area of almost 21,000 sqm, as well as a multistorey car park in the middle of the complex.

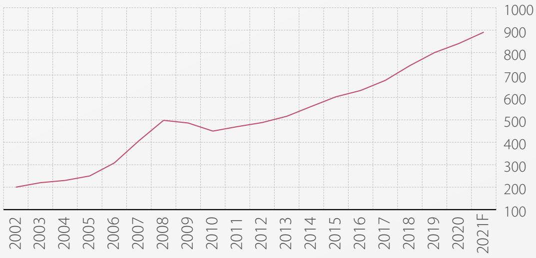
VERDE

OBER HAUS

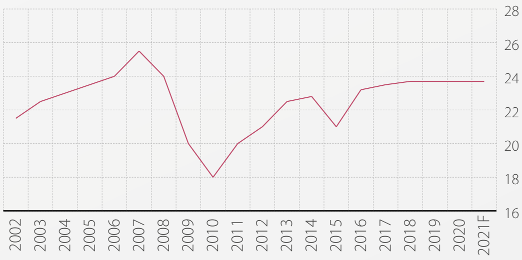
AVERAGE SALARY GROWTH, %



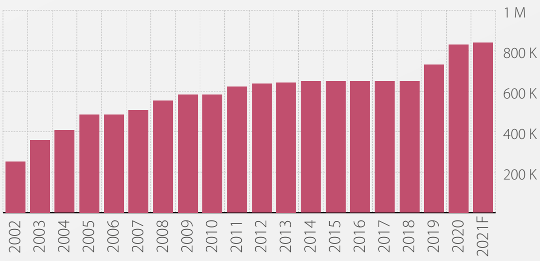
AVERAGE NET SALARY PER MONTH, €



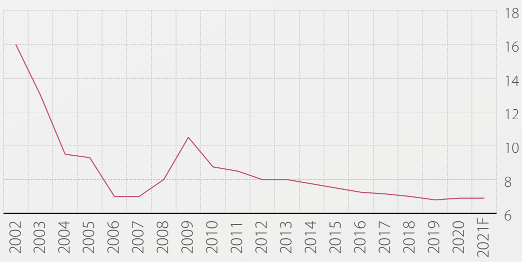
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



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RIGA SNAPSHOT
(END-2020)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	830,900 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.3 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€6.00 - €10.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€10.00 - €20.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€10.00 - €33.00
HIGH STREETS RENTS (SQM / month)	€20.00 - €55.00

LANDLORDS AND TENANTS WILL HAVE TO ADAPT TOGETHER

SUPPLY

2020 was a year of challenges and changes in the retail space segment. With the spread of the Covid-19 virus, national restrictions on trade and services have hit restaurants and cafes, hotels, sports clubs, beauty salons and virtually all non-food stores particularly hard.

But despite the changes brought about by Covid-19, the retail segment has been active in terms of new supply in 2020. According to Ober-Haus data, almost 100,000 sqm of retail space was added to the market in 2020 in Riga. At the end of 2020, Riga had 830,900 sqm of total leasable space in shopping centres or 1.27 sqm of shopping area per capita (counting those over 5,000 sqm of GLA with more than 10 tenants).

The largest shopping centre, Sāga, was opened in Q4 2020. Located in the Riga region on Biķeru Street, it comprises 57,000 sqm of shopping area, developed by Lithuanian developer VPH.

Expansion of the one of largest existing shopping centres, Origo, finished in Q1 2020. The centre's total area has increased from 35,500 sqm to 81,800 sqm; 35,700 sqm is allocated for retail space, with 11,100 sqm occupied by A class offices and retail premises in the Origo One business centre.

In Q2 2020, the Aleja shopping centre was opened, located on Vienibas Street in Riga with a total area of 12,000 sqm, with its largest tenant Rimi.

In Q3 2020, the first stage of Via Jurmala Outlet Village with an area of 13,500 sqm was opened.

Restrictions on the spread of the virus affected the largest Latvian retail chains less than other retailers. The major retail chains Rimi and Maxima have continued their expansion throughout Latvia. Rimi still has 4 concepts (Rimi Hyper, Rimi Super, Rimi Mini and Rimi Express) and at the end of 2020 there were 131 stores in Latvia (3 new stores were opened during 2020). At the end of 2020, Maxima had 175 in Latvia (7 new stores opened in 2020); Maxima also has 4 store concepts: X, XX, XXX and Express.

Lidl has arrived as a strong competitor to the existing Latvian retail chains in the last few years, although none of the already built and commissioned stores opened their doors in 2020. It is expected that in the first stage of 14 stores will be opened in 2021 (6 stores located in Riga and other 8 in other major cities in Latvia).

In 2020, the number of purchasers who ordered food and non-food goods via the internet increased significantly. According to the Central Statistical Bureau, the number increased by as much as 10% in relation to 2019.

With the increasing size of shopping centres and the changing habits of shoppers in recent years, it has already been observed that many traders and service providers prefer to locate their sales or service outlets directly in shopping centres. 2020 was no exception to the development of this trend. With the spread of the virus and the development of e-commerce, this trend was observed even more intensively, as a result of which many outlets in individual stores not located in shopping centres remained empty, many throughout the year.

DEMAND

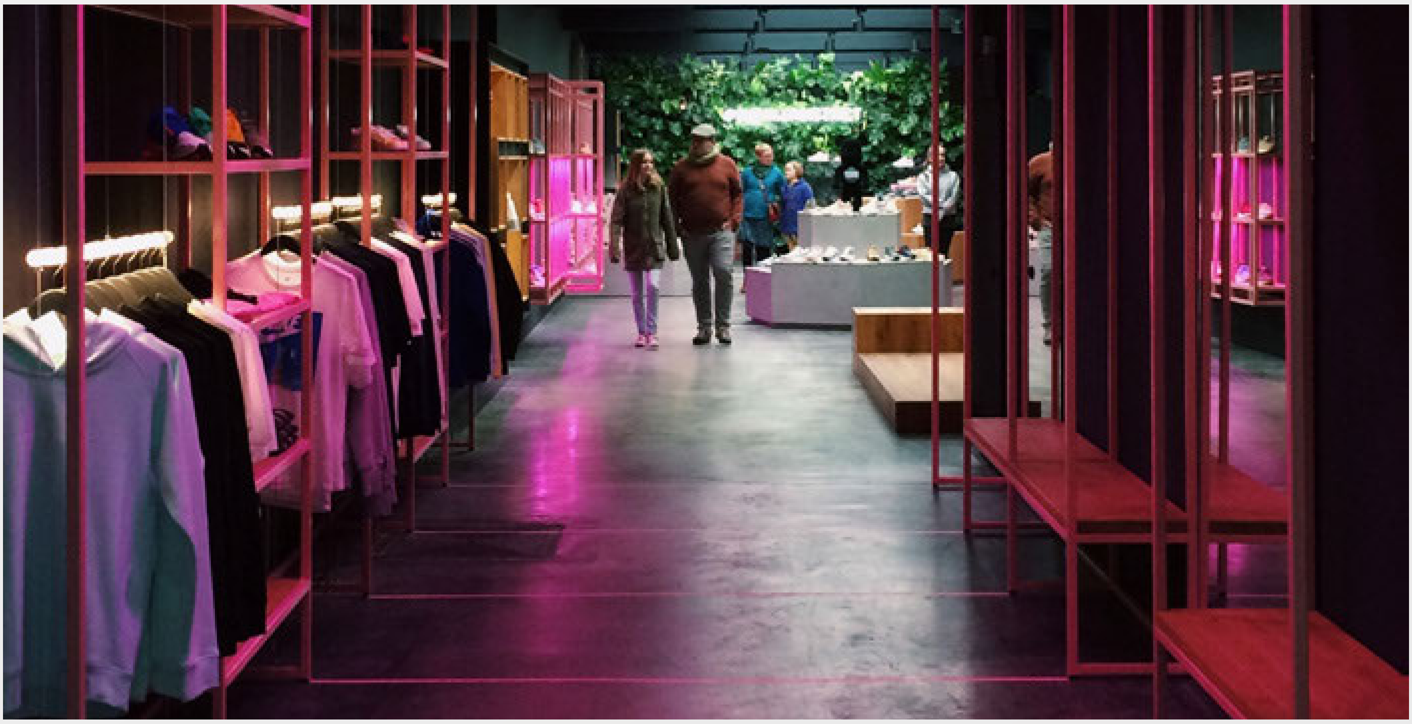
Covid-19 has introduced changes to the retail segment – some companies have not withstood the imposed changes and closed their stores, but many of them were able to adapt and find suitable solutions, which were mostly related to the development of online sales.

The vacancy rate of shopping centres in Riga increased from 3.2% to 7.5% in 2020.

RENTS

Due to the various national restrictions to reduce the spread of the coronavirus, many retailers and service providers have asked their landlords for either a rental holiday or at least a reduction in rent, making it quite difficult to estimate rent fluctuations in 2020, but it is quite clear that some decrease in rents was observed last year.

In 2020, asking rents for retail premises in the centre of the city remained almost intact; still, negative trends could be seen as some tenants are leaving the premises and owners will undoubtedly have to adjust rents for the new tenants. 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 side streets in the city centre and the Old Town rents are between €10.00 and €20.00 per sqm per month.

INVESTMENT

Although 2020 has not been easy in the retail segment, some significant investment transactions have been concluded here as well.

Expected and requested yields for well-performing shopping centres were 6.6-7.2% in 2020.

The 50,000 sqm Riga Plaza shopping centre with more than 170 tenants, located on Mukusalas Street in Riga, was purchased in Q4 2020 by Summus Capital and a private person.

The 25,000 sqm Olimpia shopping mall, located on Azenes Street in Riga, was purchased in Q3 2020 by Grinvest, a real estate company. Details of the transaction have not been disclosed. The new owner intends to carry out extensive modernisation work on the centre. In 2021, it is planned to open a modernised 2nd floor for the visitors of the centre, and in 2022, the 1st floor.

In 2020, the retail building on Ilģuciema Street in Riga was sold, where the anchor tenant Rimi is currently located. This property was purchased by Lidl for €8.12 million and significant changes in this property are likely in the near future.

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 ONE

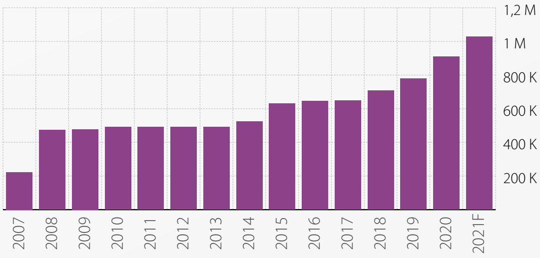
RECENT DEVELOPMENTS

	DESCRIPTION
	**ORIGO ONE** – To expand the Origo shopping centre, Linstow has constructed a new building on the adjacent plot of land on Satekles Street in Riga. On the first three floors of the building there is a shopping centre, while on the fourth to sixth floors there is an 11,500 sqm business centre, Origo One. The centre was opened in Q2 of 2020.
	**VIA JURMALA DESIGNER OUTLET VILLAG** – Conveniently located between Riga and Jurmala, Via Jurmala Outlet Village outlet centre with an area of 13,500 sqm was opened in Q3 2020. It hosts almost 70 fashion brand clothing, footwear and accessories stores, cafes and restaurants, as well as a 600 sqm children's playground. The second phase concept is still being developed in accordance with the wishes of potential tenants.
	**SĀGA** – Sāga opened in Q4 2020, with a total area of 57,000 sqm. Sāga offers a concept that is already recognised in the world but a new one for the Baltic market, combining shopping for home and garden, everything for sports, recreation, and a health and office centre. It is the first shopping centre in Latvia with a specially created street food concept area with restaurants and cafes, which being currently in the emergency situation operates only in the delivery mode, and it is the first centre with a preschool facility. The Sāga shopping centre was developed by VPH Latvia together with Estmak Capital.

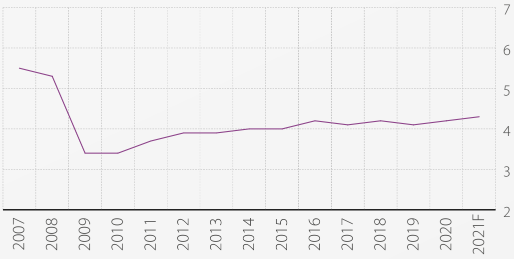
NEW PROJECTS

	DESCRIPTION
	**VIA JURMALA DESIGNER OUTLET VILLAGE** – Construction work is continuing at the Via Jurmala Designer Outlet Village in Piņķi. The completion of the second phase and the full opening of the outlet centre is scheduled for 2022. The total retail space of the project is estimated at 24,000 sqm.
	**VALDEKU SHOPPING CENTRE** – A new shopping centre is planned by VPH in Riga, on Valdeku Street, with a retail area of 4,300 sqm and planned opening in Q4 2021.

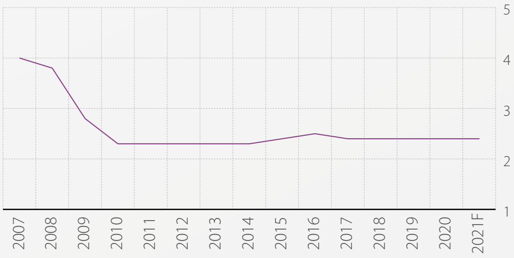
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



RIGA SNAPSHOT
(END-2020)

TOTAL NEW WAREHOUSE SPACE	910,400 SQM
WAREHOUSE VACANCY RATE	4.0 %
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

RIGA HAS THE BIGGEST LOGISTICS CENTRE IN THE BALTICS

SUPPLY

Three new projects with a total warehousing area of 131,500 sqm were completed in Riga and surrounding areas in 2020. These new projects were undertaken by LNK Properties, Lidl and Rimi. Recent projects increased the total leasable area of modern warehousing premises in Riga and surrounding areas by 22.5% to 910,400 sqm.

In 2021/2022, implementation of at least six major projects in Riga and its vicinity (within 20 km) – including expansion stages – are scheduled, with total area of over 130,000 sqm. These will include stock office format projects, which has successfully been introduced to the Latvia market recently.

DEMAND

The industrial segment has seen significant activity in 2020; 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 popular in the vicinity of Riga, where convenient access to main roads and public transport infrastructure is provided.

With the growth of e-commerce resulting from resilience to the pandemic, there is increasing activity from parcel delivery companies looking for professionally managed and modern warehouse space.

Due to the significant increase in new industrial space in 2020, the vacancy rate of modern warehouses in the Riga region during 2020 has increased from 2.5% to 4.0%.

RENTS

Due to sufficient new supply and relatively high demand, rents have remained stable in 2020. At the end of 2020, rents for new warehouses in Riga city and surrounding areas 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. Sale prices for hangars built in the 1980s-1990s range from €70 to €250 per sqm.

INVESTMENT

EfTEN Real Estate Fund VI purchased a logistics and office building Dominante Park in Kekava region for €16.5 million in Q1 2020. The building, which was put into operation in 2007 and covers an area of 39,000 sqm, has logistics and office space.

EfTEN Real Estate Fund III bought the logistics complex Piepilsētas, located near Riga in the Kekava region near the Via Baltica motorway, in Q1 2020. The largest tenants in the complex are the companies Fristads Kansas Production and Forans.

EfTEN Real Estate Fund VI purchased Berġu Logistic Centre in Q4 2020. The 50,000 sqm logistics facility was built in 2008 and is leased to two main tenants: Do It, a Danish home furniture importer and distributor operating under the retail name Jysk, and Orkla Logistics.

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.

RECENT DEVELOPMENTS

	DESCRIPTION
	**LIDL** – The German supermarket chain preparing to start active operations in Latvia in Q3 2020 completed the logistics centre on Ulbrokas Street in Riga, with a total area of 47,000 sqm. Lidl has also bought several plots for its stores in Riga, as well as in the cities of Liēpaja and Jekābpils. It has started submitting projects to the respective construction authorities and is looking for opportunities in other cities of Latvia.
	**RIMI LOGISTIC CENTRE** – this is one of the largest investment projects in the industry in the Baltics, and also the largest and most modern logistics centre in the Baltics, with total area of 74,000 sqm. It opened in Q4 2020.
	**DIENVIDU VĀRTI (SOUTHERN GATEWAY)** – This is an A class industrial park, where construction started at the beginning of 2019. It comprises a multifunctional warehouse, and office, trading and production spaces with highly developed infrastructure on a four-hectare site. The Southern Gateway industrial park is located at 5a Rēzeknes Street in Riga in the quarter between Piedrujas and Darzciema Street, close to the Southern Bridge (Dienvidu tilts) in Riga. The 10,500 sqm project opened in Q4 2020.

DIENVIDU VĀRTI (SOUTHERN GATEWAY)

NEW PROJECTS

DESCRIPTION

A6 – Construction works of the new logistics park in Maskavas Street, Riga, were started in 2020 and are planned to be completed in Q3 2021. Pillar Capital will create a single logistics and warehousing park, building almost 32,000 sqm of new warehouses. After the completion of construction works, the total area of buildings in the territory will exceed 50,000 sqm, ranking the newly established logistics park A6 among the largest in the territory of Riga.

DHL – Construction of the regional parcel handling complex for the logistics company DHL was started at Riga International Airport, which will be one of the most modern parcel processing and logistics centres in Europe. A logistics centre with an area of 4,500 sqm is expected to open in Q2 2021.

SIRIN LOGISTICS PARK – After completion of the first stage in Q4 2019, a Lithuanian developer, SIRIN Development, plans to build another stage of the 27,000 sqm, A class logistic park in 2021. In three years the park will have a total of 80,000 sqm of modern logistics and storage facilities.

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. This will be a land plot of 100,000 sqm, a warehouse of 50,000 sqm and offices of 7,000 sqm. It is expected that the warehouses will be commissioned in 2021.

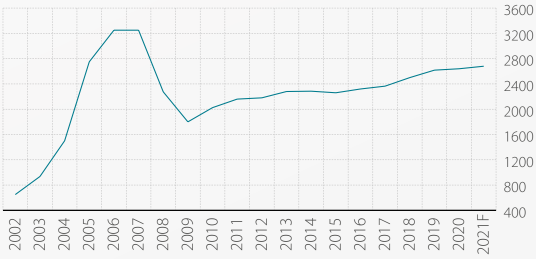
STOKOFISS U30 – Construction of a new business complex has started, where small and medium-sized companies will have access to premises that will combine store, warehouse and office functions. The total area of the planned business complex will be approximately 3,800 sqm, and is expected to open in 2021.

VILIA INDUSTRIES LUBANA PARK – Vilia Industries Lubana Park is planned as a stock office industrial project at Lubānas Street in Riga, which will offer customers areas with office space, showrooms and warehouse space in one location. The project has a total area 14,500 sqm and it is expected that the industrial park will be commissioned in 2022.

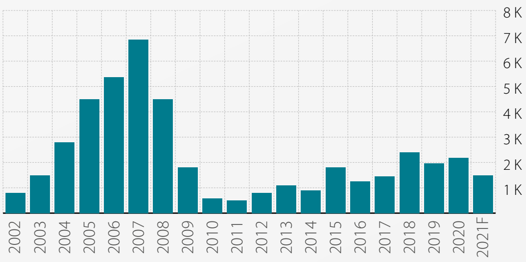
INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+371 6 728 4544**

STOKOFISS U30

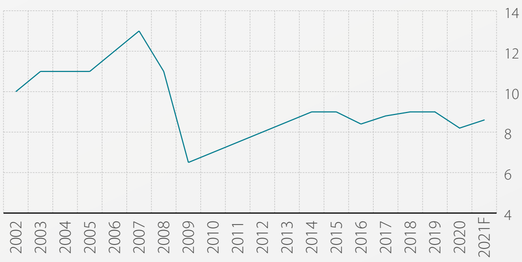
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



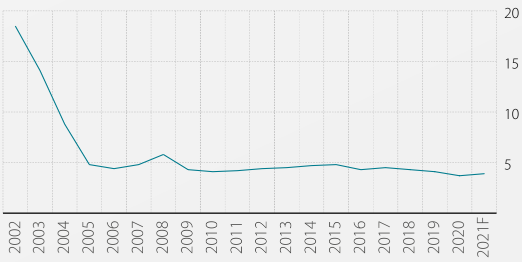
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



RIGA SNAPSHOT
(END-2020)

ANNUAL APARTMENT PRICE CHANGE	- 0.9 %
NEW APARTMENTS BUILT	2,190
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)	3.7 %

MINOR PRICE DROP JUST FOR OLD CONSTRUCTION APARTMENTS IN 2020

PRICES

Apartment prices in Riga dropped by 0.9% in 2020, after an increase of 2.3% in 2019. In 2020, prices slightly decreased in old construction buildings in residential districts, while prices for new construction apartments, despite some fluctuations in middle of the year, stayed at the same level as in 2019.

Prices for apartments in Soviet-era buildings decreased by 1% and stood at an average of €801 per sqm at the end of 2020. Prices per sqm in old Soviet-era buildings are usually 40-50% cheaper than prices for new projects in the same locations. Still, older construction apartment prices in the central part of the city stayed level during 2020.

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 2020, and prices of apartments in luxury newly developed projects can top €5,000 to €7,000 per sqm.

New apartments in the suburbs were selling from €1,550 to €2,100 per sqm at the end of 2020. New apartments are usually sold with final fit-out except for kitchens.

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

SUPPLY

According to Ober-Haus data, in 2020 2,190 apartments were constructed in Riga, which is an 11% increase compared to 2019 (1,975 in 2019). Ober-Haus expects around 1,300-1,500 new apartments to be completed in 2021.

The completed projects were located in different locations of Riga – in both the centre and 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.

In the Latvian real estate market, a problem which remains essentially unsolved is Soviet-time apartment buildings; a relatively small proportion of them have experienced substantial reconstruction. Since 2016, Latvia has implemented the most extensive energy efficiency improvement programme of apartment buildings, for which funding is provided by the development financial institution Altum. Up to 50% of the costs invested in improving the energy performance of buildings are covered by EU funds, while the other costs should be borne by apartment owners themselves or through bank lending. Currently, 258 homes have been completed, 50 buildings are under construction while more than 500 projects are in various other stages of implementation, according to information from Altum last December. In total, 988 home renovation projects have been submitted since the beginning of the programme, with a total of €420 million planned for renovation.

DEMAND

In 2020 Riga saw a 9.5% decrease in apartment sales; on average, 743 apartments were sold in Riga each month.

At the end of 2020 there were almost 1,600 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 MORTGAGE MARKET

The average annual interest rate on new mortgage loans in 2020 was 2.4% (this figure was 2.77% in 2019, 2.82% in 2018). Since 2008, the annual average interest rate of new residential loans has decreased from a record 7% to approximately 2.3% in 2020. 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 have higher salaries, but Covid-19 has an impact on banking lending policies. The industry of the borrower is very carefully assessed. Consequently, lending in Latvia is still slow.

Despite the impact of the Covid-19 pandemic on the economy as a whole, housing lending has been relatively successful in 2020. Borrowing habits are dominated by rational caution – banks stick to responsible lending principles, but people are more careful and assess the impact of the housing purchase on the budget, and look at functional housing without excess areas. Although the situation was unclear due to the pandemic, around €575 million has been issued in housing loans during the first ten months of 2020.

Still poor credit history, insufficient savings levels or low incomes are the main reasons why there are people who still cannot receive mortgage loan. It is true that the shadow economy also reduces the availability for part of society, because without transparent and documentable income, it will not be possible to obtain loans.

More than half of the housing purchase or construction borrowers use the guarantee offered by state development financial institution Altum for the bank loan. the amount and number of guarantees granted in 2020 are almost identical to 2019 figures. Over the five years since the program has been operational, more than 18 thousand guarantees have been granted, with a total amount of guarantees of more than €135 million.

RENT

The Riga rental market was quite variable and the situation was different in each quarter of 2020. At the end of 2020 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 €300 to €800 per month. A three-room apartment costs €400 to €1,500 per month, and four- and five-room apartments from €850 to €2,100. Compared to 2019, at the end of 2020 the prices of some apartments have decreased by 10-25%. It cannot be unequivocally said that all apartments have a price reduction, but 2020 is certainly significant in that more good apartments can be found at relatively lower rental prices.

Demand for rental apartments in the suburbs and for small city centre apartments up to €350 per month is still in high demand and no significant price adjustment was observed here; the rent price remains stable.

The demand has decreased for low or medium level 2-4 room apartments in the price range €250 to €500, which were often rented out to students, because they have been studying completely remotely due to the virus and students no longer need to be physically located in Riga or the rest of the country.

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 to €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.

At the beginning of 2020, there was no indication of expected changes. The market was moderately active in all segments. There was activity around short-term rental opportunities in the summer season and a large part of the good options had already been booked.

At the end of the first quarter of 2020 when the pandemic broke out, the rental market began to sway and short-term rental bookings began to be cancelled.

At the beginning of the second quarter, the cancellation of short-term rental reservations continued to be very active as the flow of tourists, who were the main customers, slowed down. The owners of these apartments became very active in offering their properties for long-term rent in order to obtain at least some cash flow, which led to a significant reduction in long-term rent in other cases by as much as 50%.

It must be said, that at the end of Q2 2020 the situation had already returned to normal due to an increase in domestic demand. One part of the Latvian population that had previously worked outside the country returned to life in Latvia, stimulating demand in the rental market. They are looking for rental options, or some of them returned to their own properties and removed them from the rental market, thus reducing supply.

External demand for short-term rents increased, which certainly helped to stabilise the long-term rental sector. People, realising that due to the pandemic various restrictions will remain and they will not be able to leave the country, have looked for an opportunity to travel and relax here in Latvia.

It is expected that in the late spring / early summer of 2021 the situation in the rental market will normalise, as it did after first coronavirus wave.

It is planned that the new Rental Law will enter into force in 2021, which will help regulate the rental market, promote the development and maintenance of new rental properties, and reduce the shadow economy. In connection with this, there is also an increased activity of investors and developers in the rental housing segment.

The most popular apartments in demand by investors are those with an 8% annual return, 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%.

LOFTS & ROSEGOLD

LEGAL NOTES BY SORAINEN

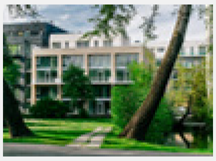
Residential leases are regulated by Latvian law more strictly than commercial leases. However, the amount of rent may still be agreed upon freely. Residential leases are binding on new owners regardless of whether they are registered with the Land Register. Currently a draft law on Residential tenancy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

RECENT DEVELOPMENTS

DESCRIPTION

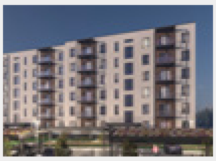
HOFT – Located in the heart of Riga's Quiet Centre, Strēlnieku Street, this project is a combination of historical architecture, nature, technology and art. The project has been developed by R.Evolution City. A unique hovering oasis is positioned over the carefully preserved and restored historic facade like a glass showcase built for design objects, but nature itself is its creator. There are a total of 42 apartments, ranging in size from 76 to 232 sqm with prices from €2,000 to €3,400 per sqm for a fully finished apartment. Construction was completed in Q4 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 the lofts. The project is developed by R.Evolution City. There are 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 at €2,300 per sqm. It was completed in Q1 2020.



MERKS VIESTURDĀRZS – The project is located in the Quiet Centre on Rūpniecības Street and is being developed by Merks. The Merks Viesturdārzs project will be realised in three stages, with the construction of 350 different sized apartments, all of which feature high-quality construction and modern designs. Three 5–7 storey buildings will be built within the project. The first building, which is closest to the park, has 96 apartments and is available from Q3 2020. Apartment sizes range from 36 to 123 sqm. Prices start at €2,100 per sqm.

KRASTA RAJONA TREND – This ambitious new project is located in the Krasta district on Maskavas Street, located near the historic Krīdenera Dam. It is being developed by Bonava Latvia. The Krasta District, as part of the new Moscow Fortress, began to develop during the construction of the Island Bridge (Salu tilts) 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 building. The first stage of 94 apartments was completed in Q2 2020, ranging in size from 31 sqm to 73 sqm. Prices start at €1,600 per sqm.



FJORDI – A fjord is a northern nature greatness that has now settled in the centre of Riga. This is an 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 buildings, with a total of 133 apartments with balconies, ranging from 49 to 89 sqm. Prices start at €1,900 per sqm. The first building was completed in Q4 2020.

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 5-storey buildings with 189 apartments, most of which will be two-room. Construction was started in 2019 and was commissioned in Q3 2020 by Bonava. Apartment areas range from 40 to 66 sqm, and prices start at €1,700 per sqm.

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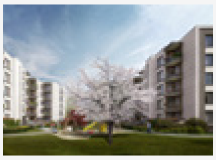
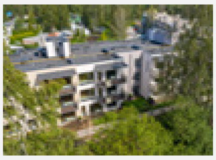
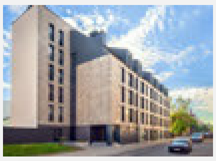
RECENT DEVELOPMENTS

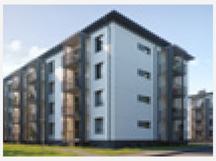
	DESCRIPTION
	**MEŽAPARKA REZIDENCES** – Mežaparka Rezidences is situated in a location that successfully combines all the necessities for modern living – Kokneses Avenue. The project concept includes the creation of exclusive villas, twin-villas, terraced houses and premium apartments in low-rise buildings. 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. The first stage of the project was completed in Q3 2020. Prices start at €1,900 per sqm.
	**GREEN CITY** – This project is located in Stirnu Street, Purvciems. The project developer is YIT Latvija, and two more apartment blocks are planned within the project. There will be 100 apartments in each 8-storey building ranging in size from 40 to 102 sqm. Prices start at €1,530 per sqm. Construction of the first building was finished in Q4 2019, with the second building completed in Q2 2020.
	**DREILINGA MĀJAS TREND** – The project is located in Robežu Street, Dreiliņi 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 buildings are characterised by low-rise blocks 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 at €1,600 per sqm. The final phase of construction is expected to be completed in 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 a safe environment. There will be 1,400 apartments in total. The first stage of two buildings with 108 apartments was completed in 2018. In 2020 the second stage was completed, of four buildings with 175 apartments ranging from 36 to 80 sqm; prices start at €1,500 per sqm for a fully finished apartment. The whole project is expected to be completed in 2028.
	**DIVI KRASTI** – Estonian developer Kaamos has begun construction of two new buildings 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 have a total of 132 apartments with areas ranging 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, a children's playground and video surveillance. Prices start at €1,600 per sqm. The first building was completed in Q4 2020, the second is scheduled to be completed in Q3 2021.
	**IRIS SHAMPETERIS** – IRIS is a unique residential building complex in the ecologically clean, green and luxurious housing area of Riga – Shampeteris, located between Riga and Jurmala. The total area of the residential building complex is 2.5 hectares. Several three-floor apartment buildings are planned within the framework of the project. The first stage building was completed in Q3 2019 with 72 apartments. The second stage building with 72 apartments was completed in Q4 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.
	**STRĒLNIEKU 4B** – This is a modern and new 6-storey building in the Quiet Centre in the prestigious Art Nouveau district, developed by Hepsor. The building meets all the requirements for today's fast-paced life. Thoughtful and functional apartment plans are convenient not only for entrepreneurs, students and tourists, but also meet the needs of a small family. Attic and duplex apartments are available on the top floor, and all apartments are offered for sale with quality finishing. In total, the project has 50 apartments with areas from 20 to 46 sqm; prices are from €3,600 to €4,000 per sqm. The building was commissioned in Q3 2020.

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

NEW PROJECTS

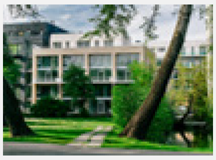
DESCRIPTION

GREEN CITY – The project is located in Stirnu Street, Purvciems; the project developer is YIT Latvija. The second building of this project which has 7 storeys with 88 apartments was finished in summer 2020. The third building is under construction and will be finished in the beginning of 2022; it will have 5 storeys with 97 apartments. Each building has apartments ranging from 39 to 92 sqm and are sold with full finish, selling at an average price of €1,860 per sqm.



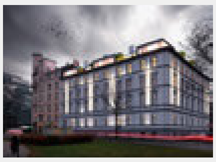
ANNAS PARKS – YIT apartment complex Annas Parks is located in a forest in the neighbourhood of Imanta, only 15 minutes from the centre of Riga. It is a residence that combines Scandinavian quality with thoughtful comfort and the presence of nature. Imanta's neighbourhood provides its residents with all the benefits of a capital city that make life more enjoyable. Two of buildings were finished in 2019, the third one was finished in 2020, and the fourth is under construction and will be finished in 2021. Each of the 4-storey buildings has apartments ranging from 33 to 86 sqm. The apartments are sold with full finish, selling at an average price of €1,950 per sqm.

SAFRĀNS – The project is located in Purvciems, in the quiet and peaceful Žagatu Street. The project developer is YIT Latvija. There will be one 9-storey building with apartments ranging from 31 to 88 sqm. The apartments will be with full finish, at an average price of €1,950 per sqm. The building is under construction and will be finished at the beginning of 2022.



MERKS VIESTURDĀRZS – This project is located in the Quiet Centre on Rūpniecības Street, and is being developed by Merks. The project Merks Viesturdārzs will be realised in three stages, with the construction of 350 different sized apartments, all of which are combined with high-quality construction and modern layouts. Three 5–7 storey buildings will be constructed within the project. The first building, closest to the park and with 96 apartments, was finished in 2020. The construction of the second building with 167 apartments was started in 2020 and is to be completed in the first half of 2022. Apartment sizes range from 33 to 155 sqm, excluding balconies, and prices start at €2,000 per sqm.

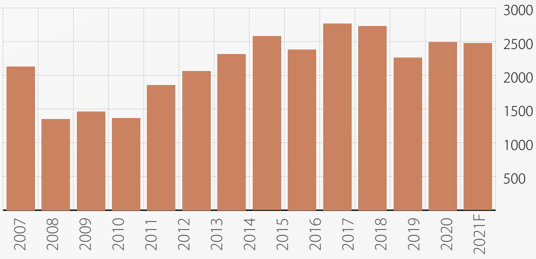
MERKS MEŽPILSĒTA – The project is located in one of the greenest neighbourhoods in Riga – Mežciems, which makes it a preferred living environment for young families. Within the first stage of the project, three 5-storey buildings with a total of 117 apartments will be built. The land plot is located in a unique place between the Dreiliņupīte stream, which is planned to be cleaned up, and a forest that offers pleasant walks in nature. All buildings will include an elevator, and common and private storage rooms. There will be children's playgrounds and gazebos next to the buildings, as well as outdoor parking spaces. Special care will be taken for security – the area will be fenced, with video surveillance. There will be 2- to 4-room apartments available with a living area of 35-70 sqm, excluding balconies. Prices start at €1,770 per sqm.



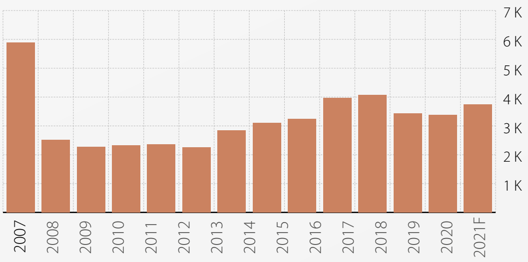
HOFFMANN REZIDENCE – The Hoffmann Rezidence construction is expected to be completed in Q3 2021. The development of the project involves the reconstruction of this eclectic building, built at the beginning of the 20th century. Hoffmann Rezidence is a 5-storey building, divided into 50 cosy apartments, 8 lofts and 7 exclusive penthouse apartments, with 6 private garages on the ground floor. The renovation is being managed by Vilia Investments. About half of the apartments have a beautiful view of the Daugava and the Old Town panorama. Prices start at €2,500 per sqm.

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

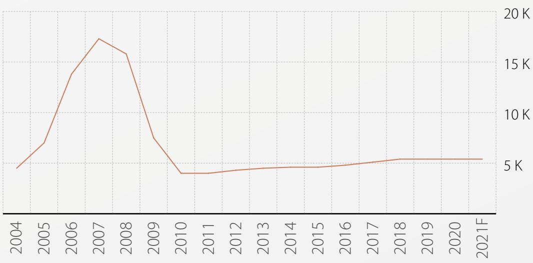
LAND TRANSACTIONS IN RIGA CITY



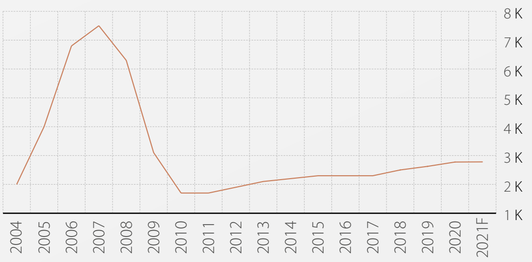
LAND TRANSACTIONS IN RIGA DISTRICT



LAND PRICES IN RIGA CITY, €/100 SQM



LAND PRICES IN RIGA DISTRICT, €/100 SQM



RIGA SNAPSHOT (END-2020)

TOTAL LAND TRANSACTIONS CHANGE (RIGA CITY)	+ 0.2 %
TOTAL LAND TRANSACTIONS CHANGE (RIGA DISTRICT)	+ 4 %
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

THE LAND MARKET IN RIGA WAS STABLE WITH MODERATE PRICE GROWTH IN 2020

PRICES

Prices for plots for residential development (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 central Riga areas. Commercial land, near highways, ranges from €15 to €20 per sqm, with commercial land in Riga neighbourhoods €20–€80 per sqm. In general, land prices in Riga and its vicinity remained stable in 2020, except for land for commercial use in Riga neighbourhoods, where prices increased by 5-10% on average.

DEMAND

Total land transactions in Latvia increased by almost 4% in 2020, according to the data from the Central Registry. Land transactions in Riga city increased just by 0.2% compared to 2019. Total land transactions were around 2,360 in the city, averaging 197 transactions per month.

INVESTMENT

The land market has been stable throughout 2020 in Riga, with purchases of land plots suitable for commercial and residential developments.

Plesko Real Estate has registered ownership of a 10,190 sqm land plot in the Mežaparks district, in Riga. The land plot was purchased from Retail Mežaparks for €2 million in Q3 2020.

LIDL acquired two properties from Interfield in Riga – Dzirciema Street and Lielezeres Street. Land plots of 8,188 sqm and 1,435 sqm were acquired for the purpose of developing retail buildings, purchased for €5.1 million in Q1 2020.

Also in Q1 2020, LIDL acquired a land plot of 10,276 sqm in centre of Riga – Sporta Street, for €4.7 million, purchased from Premier Estates Ltd.

LEGAL NOTES BY SORAINEN

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

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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% (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% (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 alienated through a share exchange as part of a group reorganisation.

Re-evaluation of RE

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

Nevertheless, this income is tax exempt until 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% (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.

Unused agricultural land is taxable:

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

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

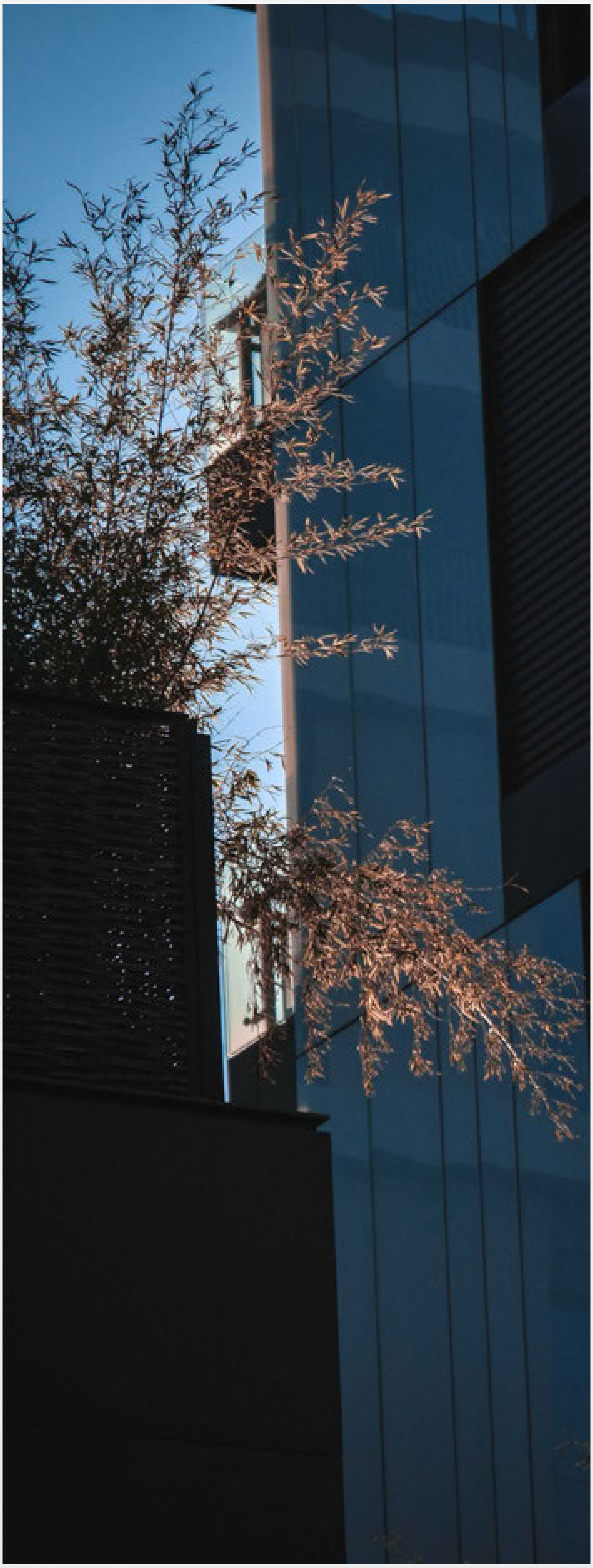
The RET is not applied to the state, local, state or municipal limited liability companies and limited liability companies providing regulated public services, the ownership or legal possession of an existing engineering:

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

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

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

Currently in discussion there is a draft bill regarding recalculation of RE cadastral value for tax purposes as of 2022. According to provisions introduced to the public, it is planned that there will be an increase (approx. 3 times) in cadastral values of RE due to improved valuation principles. In order to avoid creation of a disproportionate RET burden, it is proposed to abolish RET on primary housing with a cadastral value that does not exceed EUR 100,000 and apply a reduction factor of 0.2. The tax on land would be calculated from 1/5 of the cadastral value. These changes in the law have not been approved yet due to discussions and public objections regarding significant increases in both - cadastral value and respective RET payable.



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

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

- Income arising 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 in previous years. This might be unexpected considering the economic ramifications of the global Covid-19 pandemic. The lack of significant change on the real estate market could be due to the moratorium on insolvency claims, as well as other restrictions on enforcement proceedings that the government established in June 2020.

Some of the restrictions have ended, but the moratorium on insolvency claims will continue until March 2021. When the moratiorium ends and creditors regain the right to apply for debtors' insolvency proceedings, it could be that the real estate prices will fall.

During 2020, investments were mostly in non-residential, commercial properties; investments in residential properties by foreigners from non-EU states have decreased. Investors come most frequently from Scandinavian countries, as well as, in case of the energy sector, from the Baltics. In addition, due to rather unclear regulation on the acquisition of agricultural land, practical difficulties continue to arise with investments in the agricultural (and consequently the forestry) sector.

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, but it (conclusion of the purchase agreement and consequently change of title) cannot be compulsorily enforced.

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

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 (e.g. waiver of rights of first refusal by the local municipality; consent from a spouse, if the seller is a natural person).

LANGUAGE REQUIREMENTS

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

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

DUE DILIGENCE

Before carrying out a real estate transaction, it is advisable to research the legal and technical status of the target real estate, e.g. encumbrances (as the Land Register may not contain all current data), permitted use as set by the local authority, lease agreements affecting the real estate, etc. For this purpose, information available in the Cadastral Information system as well as other public registers should also be 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 document that grants a right to register the title (e.g. a purchase agreement) 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 as a single merger occurring on the day the last merger takes place.

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

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

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

ACQUISITION OF AGRICULTURAL LAND

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

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

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

- it is registered as a taxpayer in Latvia and has no tax debt over EUR 150 in Latvia or its country of domicile;
- all shareholders are either EU, EEA, Swiss or OECD country citizens or citizens of other countries that have concluded agreements on protection of investments with Latvia;
- it can identify all its true beneficiaries, all of whom must be EU, EEA, Swiss or OECD country citizens;
- confirms in writing that it will commence agricultural work on the land within one or three years depending on whether the particular land in the previous or current year has been a subject of direct payments;
- the owner of the share capital or owners of at least 50% of the share capital with voting rights and all those entitled to represent the legal person, being citizens of the EU, the EEA or Switzerland, hold an EU citizen registration certificate;
- the owner of the share capital, or owners of at least 50% of the share capital with voting rights, and all those entitled to represent the legal person, being citizens of the EU, the EEA, Switzerland, an OECD country, or a state with which Latvia has entered into international agreements regarding the promotion and protection of investments (ratified by 31 December 1996), hold a certificate of Latvian language skills to at least B2 level.

However, the European Court of Justice recently ruled that these last two requirements for legal persons (that their shareholders/representatives must hold an EU citizen registration certificate and/or a certificate of Latvian language skills) are discriminatory and not in line with Articles 9, 10 and 14 of Directive 2006/123/EC on services in the internal market. This judgement was issued in June 2020, and we expect that the Parliament will amend the law accordingly.

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

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

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

ACQUISITION OF 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 (also by non-EU citizens and legal entities) without further restrictions and limitations unless the land beneath them is included in the deal. In most cases, however, ownership of an apartment also comprises an ideal part of a land plot co-owned by all apartment owners in the building.

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

ENCUMBRANCES

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

MORTGAGE

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

In order to register a mortgage on real estate, a loan and mortgage agreement must be concluded. 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 residential 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 of the Law on Residential Tenancy (which was accepted in the parliament on its second reading in September 2020) 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 a 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 residential tenants. Hence, options for unilateral termination by the owner of a residential tenancy agreement are limited, as unilateral termination is allowed only in cases explicitly stated by law and by obtaining a final court ruling: for example, if the tenant is damaging the apartment or the apartment building, the tenant owes rent or payments for basic services, or if the tenant has sub-leased residential space without the owner's consent. Unilateral termination of the tenancy agreement does not entitle the owner to arbitrarily evict the tenant. Unilateral termination of the tenancy agreement is also allowed if capital repairs or demolition of the building are necessary. However, in 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 three months' rent is often required by the owner. The owner uses the security deposit for instances when the tenant is in breach of the agreement, for example, by failing to pay the rent. A security deposit that is not used due to breach of the agreement is applied to the rental payment for the last months of the tenancy or returned to the tenant after expiry of the tenancy agreement. Obligations of the tenant may likewise be secured by a bank guarantee.

PPP & INFRASTRUCTURE

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

INVESTMENT FUNDS AND REAL ESTATE

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

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

Real estate owned by an AIF can be managed by the AIFM, provided the AIFM is 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 usually takes 8-12 months) before they can be developed.

CONSTRUCTION

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

ACQUISITION OF DISTRESSED ASSETS

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

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

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

OBTAINING A TEMPORARY RESIDENCE PERMIT

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

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

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

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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

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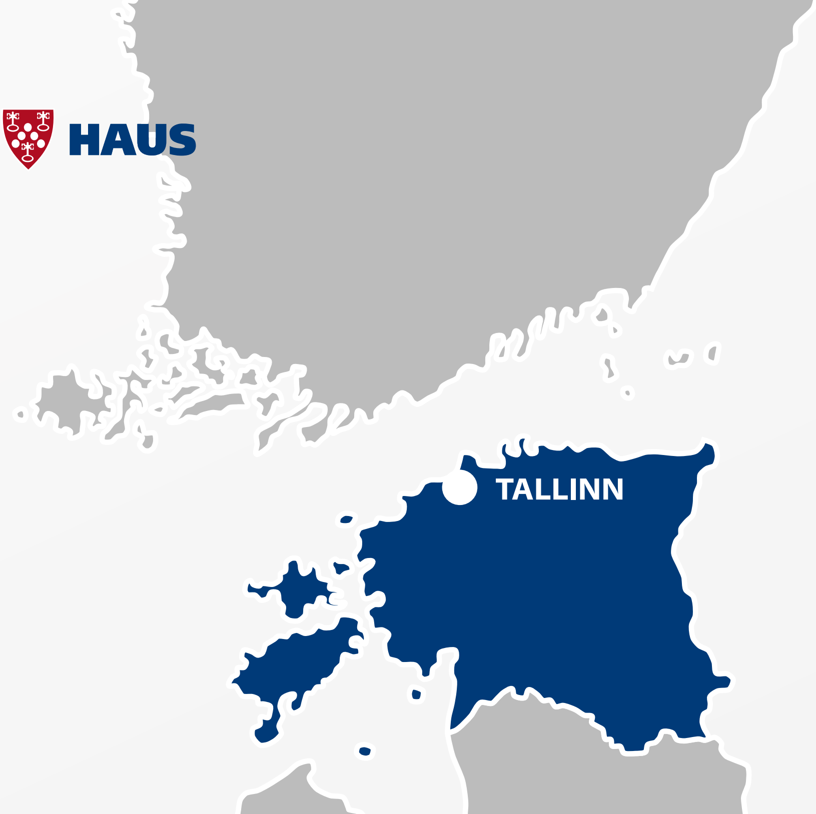
COUNTRY OVERVIEW



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

2021 FORECAST

GDP annual growth, %	2.9
GDP per capita, €	21,100
Private consumption annual growth, %	3.0
Average annual inflation, %	1.4
Unemployment rate, %	9.9
Average monthly net salary, €	1,226
Average salary growth, %	3.0
Retail sales growth, %	2.7
Exports annual growth, %	6.0
Imports annual growth, %	7.3

POPULATION	2015	2016	2017	2018	2019	2020
Estonia	1,315,000	1,315,900	1,315,700	1,319,100	1,324,800	1,329,500
Tallinn	414,000	423,500	426,500	433,000	435,000	437,000
Tartu	97,500	94,000	95,700	96,500	97,000	95,100
Narva	58,600	58,200	57,130	56,100	55,250	55,200

ECONOMICS	2015	2016	2017	2018	2019	2020
GDP growth, %	1.5	2.1	4.9	3.9	5.0	-2.9
GDP per capita, €	15,800	16,700	18,100	19,700	21,200	20,400
Private consumption growth, %	4.7	4.4	2.6	4.6	3.3	-2.5
Average annual inflation, %	-0.4	0.1	3.4	3.4	2.3	2.0
Unemployment rate, %	6.6	6.9	5.8	5.6	4.4	7.3
Average monthly net salary, €	859	924	986	1,098	1,163	1,190
Average salary growth, %	7.5	7.6	6.7	7.1	5.9	2.3
Retail sales growth, %	7.0	5.0	1.5	1.0	4.0	-4.9
Exports annual growth, %	-0.6	4.1	3.5	4.3	6.6	-9.6
Imports annual growth, %	-1.4	5.3	3.6	6.1	4.4	-8.8
FDI stock per capita, €	13,269	13,537	14,604	15,924	18,786	20,173

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

THE PRE-CRISIS LEVEL OF ECONOMY IS LIKELY TO RECOVER IN THE SECOND HALF OF 2021

The Estonian economy decreased by 2.9% in 2020 and is expected to grow by 2.9% in 2021. This is a much gentler decline than was feared when the Covid-19 crisis erupted and is notably, one of the smallest in Europe.

The latest economic forecast from the Bank of Estonia, expects the Estonian economy to recover from the crisis and return to pre-crisis levels in the second half of 2021. However, the outlook for the Estonian economy remains uncertain. The course of the pandemic is unpredictable, despite the hopeful news about vaccines, and developments in the economy may differ substantially from expectations.

The rapid bounce back of the economy in the third quarter of this year, demonstrated that it can grow rapidly once restrictions are removed. If the vaccinations contain the pandemic, the coronavirus crisis will not have caused lasting harm to the economy. It will return to its predicted pre-crisis growth trajectory by 2022.

The flexible labour market means that employment has dropped sharply, and assistance will need to be directed to the unemployed. Despite the recession in Estonia being one of the smallest, unemployment has risen more than in most other European countries. The unemployment rate will continue to rise because of the second wave of the virus, and it will peak in early 2021 at a little above 10%, falling close to 7% by 2023.

The outlook for the Estonian economy is uncertain. Although the base scenario of the forecast is that the economy will grow by 2.9% next year, the negative scenario is that it could shrink by a further 1.8% next year. The wide variation in these forecasts is inextricably connected to the outlook for the Eurozone, where growth in 2021 is forecast to be between 0.4% and 6%. In addition, the major lack of clarity about foreign demand makes the outlook for the Estonian economy unpredictable.

The exit from the crisis can be supported by temporary but well-targeted support measures by the government for people and businesses. It may prove necessary to extend, within appropriate limits, the support measures taken in the spring; depending on the spread of the virus and the restrictions already applied to businesses.

The base scenario indicates that the budget will be in deficit even if the economy has returned entirely to the forecast, pre-crisis levels, by 2022. In the most probable forecast scenario, the economy returns in 2022 to the track that was predicted before the pandemic.

A sharp change in budget policy will be needed to stop an unrestrained growth in the national debt.

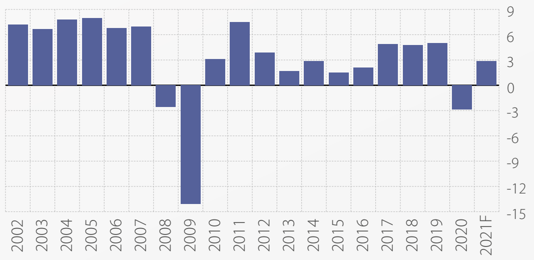
The minimum wage in Estonia was increased to €584 starting 1 January 2021. The minimum wage did not change during of 2020.

Gross wages in Estonia increased by 2.9% in 2020 (compared to 2019), to €1,448 per month before taxes. The average net monthly net salary in 2020 was around €1,190. Salary growth in 2021 is expected to be 3%.

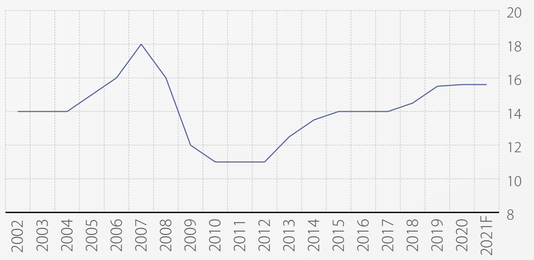
Unemployment was 8.3% at the end of 2020 and is expected to increase to 9.9% by end of 2021.

In 2020 inflation was -0.4% and is expected to be at 1.4% in 2021 and 1.9% in 2022.

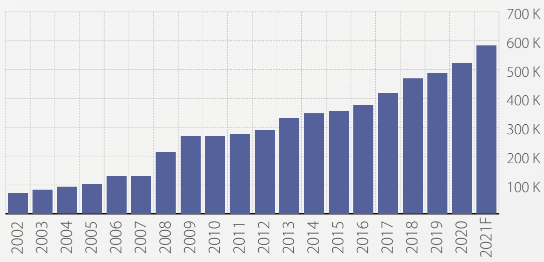
GDP GROWTH, %



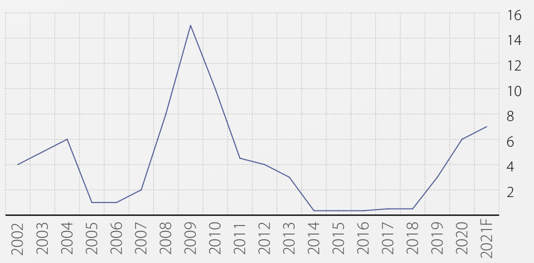
A CLASS OFFICE RENTS, €/SQM



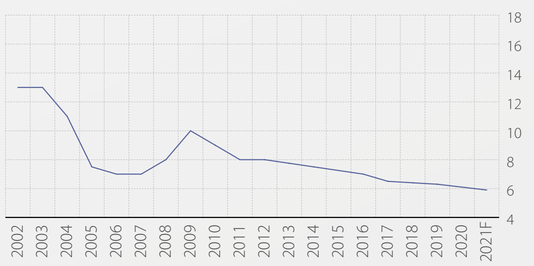
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2020)

TOTAL OFFICE SPACE	1,024,000 SQM
A CLASS OFFICE VACANCY RATE	6 %
B CLASS OFFICE VACANCY RATE	8 %
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 - €12.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.00 - €4.50

THE VOLUME OF DEVELOPMENTS IS INCREASING

SUPPLY

7 new larger projects and a few spaces in mixed-use buildings were completed in 2020, bringing almost 34,000 sqm of office space to the market, which is 70% more than in 2019. After completion of these projects, the total area of modern office premises grew by 3.4% to 1,024,000 sqm at the end of 2020. However, the completion of several other projects had been delayed or suspended, due to high construction prices, labour shortages, and the recession.

In 2021, 7 larger office buildings with a total of 60,000 sqm of leasable space should be completed in Tallinn. It is expected that during the period 2021-2023, at least 15 new office projects should be completed in Tallinn; this will add up to 150,000 sqm of new office space coming to the market.

One of the largest office complexes in Estonia with 28,000 sqm of A class office space, should be completed in 2024. The total area of the complex is 77,000 sqm, including apartments, parking, and retail space. The plot is in the central business district (CBD), opposite the Radisson Hotel Olümpia. The planned investments are about €100 million. Merko is the developer.

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

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

DEMAND

The vacancy rate of A class spaces is around 6%, and for B class spaces it is around 8%. Most of the potential customers for A class office spaces are linked to foreign companies and their representative firms, including IT, medicine, and financial companies. In the second quarter of 2020, the vacancy rate of A and B class began to increase, caused by Covid-19. Vacancies have grown fastest in B class spaces.

Demand has also been reduced by the increasing usage of home offices. Many companies have suspended expansion due to the economic downturn. There is also some pressure on rental prices.

The sale and purchase market in office space is more fluid in the centre of the city, since in secondary locations companies prefer to rent. Deals are dependent on the location, with prices commonly ranging from €1,000 to €2,300 per sqm. In a few projects in the centre of Tallinn, prices have been between €2,200 and €3,700 per sqm.

RENTS

Despite reduced demand, A B class rents did not change in 2020. At the end of 2020 rents were €13.00–€17.50 per sqm for A class offices and €8.00–€12.00 per sqm for B class. The asking rents of single smaller exclusive A class offices are up to €18.00–€20.00 per sqm, on the upper floors of high-rise buildings. 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 stay stable during 2021.

INVESTMENTS

In Q1 2020 LHV Pension Funds acquired some 16,400 sqm of office space in central Tallinn from Laurus (a joint venture between Partners Group and Northern Horizon Capital). Key tenants include Webhelp, Genius Sports Services, Nets Estonia and Tallink. The value of the transaction was €14.6 million.

In Q2 2020 East Capital Real Estate IV acquired SEB's head office in central Tallinn, also from Laurus. The 24-storey building, with a total leasable area of approximately 16,000 sqm, is in Tallinn's CBD. The entire building is fully leased to SEB that has been its tenant since the commissioning of the building in 1999. The transaction value amounts to €45.75 million.

In Q4 2020 Bigbank bought the previously Danske Bank building from Estiko group, (located in the central part of Tallinn city on Tallinn's busiest street - Narva Street). The approx. 7,800 sqm office building was built in 1997. Until 2019, the property was the headquarters of the Estonian branch of Danske bank. The former owner searched for an anchor tenant for a long time unsuccessfully. Bigbank will renovate the building and will move its operations there.

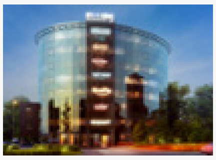
In Q4 2020 Novira Capital sold a new, recently completed office building named Büroo 31 in Tallinn's CBD. The price was €8.8 million.

LEGAL NOTES BY SORAINEN

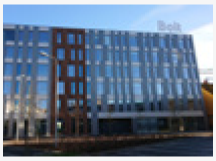
Rents are usually payable monthly, in advance. Payment of rent more than one month in advance is not customary. Tenants generally pay for their own utilities, which they are invoiced for by the owner after use. Rents are typically indexed to local inflation. Triple net leases are common for commercial properties but not universally used and there are often variations. The concept of a sinking fund (amortisation) is rare. Generally normal wear and tear is allowed and is at the risk of the landlord. The parties can also agree that the tenant will arrange for the repair or incur the costs of any normal wear and tear. Quite commonly, payment of rent and costs is secured, e.g. by rent deposit, bank or parent company guarantee. Leases survive the transfer of property titles. However, unless the lease is registered with the Land Register, the new landlord obtains the right to terminate the agreement upon becoming the owner, by terminating the lease within three months of becoming the owner, provided the new owner shows that they themselves have a pressing need to use the premises – so the intention to re-let at a higher rent is not sufficient grounds. As of 14 January 2021, if the leased property is transferred to a new owner during the course of bankruptcy or enforcement proceedings, the new owner has the right to terminate the residential lease agreement or the lease agreement for business premises, without the necessity to prove an urgent need to use the leased premises. In case of other types of transferral of rights and obligations arising from the leased property, the lessor still has to prove the existence of an urgent need to use the leased premises if they wish to cancel the lease contract. In recent years, asset deals have become more common than share deals.

RECENT DEVELOPMENTS

DESCRIPTION



ELLIPSE HOUSE – An 8-storey A class office building in a fast-developing area near the city centre of Tallinn (next to the Oval House project), was completed in 2020. The ground floor is 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 €12.0-€13.0 per sqm; developed by Fund Ehitus.



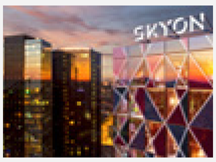
BOLT HEADQUARTERS – After completion of the Bolt Headquarters building in summer 2019, it was extended in 2020, adding additional office space of 1,000 sqm. It is a modern 6-storey office building with underground car parking and total area of 4,300 sqm with 2,800 sqm of office space on Vana Lõuna Street.

VIKTOR PALM BUILDING – Ülemiste City invested €25 million in a new 12-storey A class office building on Sepapaja Street. The rentable area of this space is 10,800 sqm. The building was completed in Q3 2020. Rents start from €14.50 per sqm. The developer is Technopolis Ülemiste AS.

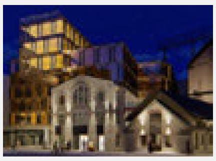
MAURUSE HOUSE – An 8-storey B class office building with total leasable area of 7,700 sqm, of which 6,870 sqm is office space, was completed in Q2 2020. Located on Tammsaare Road this project has a good location and a well-established living environment. There are many potential tenants in the neighbourhood, 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 between €11.0–€12.00 per sqm plus additional costs of around €1.60 per sqm. Developer is Fund Ehitus.

NEW PROJECTS

DESCRIPTION



SKYON – Skyon will be a 26-storey office building erected at Maakri Street, in Tallinn's CBD. Skyon's architecture follows Scandinavian examples, combining the grandeur of the city centre with functionality and practicality. The GLA of the building will be 8,200 sqm, with the anchor tenant Coop Bank. 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 tower shaped and the standard rental area of a floor starts from 300 sqm. Whole floor rental prices start from €15.00 per sqm. The building will be completed in Q2 2021. The developer is Capital Mill.



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. Retail, restaurant and cafe spaces with direct access from outside have been designed on the ground floor, while the other floors have 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 Q2 2021. Developed by Rotermann City.

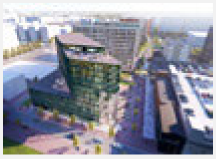
AVALA QUARTER – Avala quarter is a unique business park in the city centre of Tallinn in the immediate vicinity of all the major connecting roads. The airport and the bus station are only a few minutes away by car. In the first stage, an A class office building named Electra on Veskiposti Street will be completed in Q2 2021; the network operator Elektrilevi will be an anchor tenant of nearly 6,000 sqm. The second stage building, named Polaris, will be completed in 2022 and a third office building called Sirius is being planned. The construction work will meet the LEED Gold standard. Rents range from €15.00 to €16.00 per sqm and office spaces from 250–10,000 sqm. Additional costs €2.00 per sqm. Developed by Kaamos.

NEW PROJECTS

DESCRIPTION

GRÜNE – The building is located near the Haabersti–Mustamäe road 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. The GLA of the building is 4,000 sqm and the rents start from €12.60 per sqm. The building will be completed in 2021. Developed by Hepsor.

PORTO FRANCO – Next to the Admiralty Pool located in the immediate vicinity of both Tallinn's harbour 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 25,000 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 €15.00 to €18.00 per sqm. Total cost of the project is €190 million. The office complex should be completed by 2021/2022. The completion of the project has been delayed for various reasons. Developed by Porto Franco.

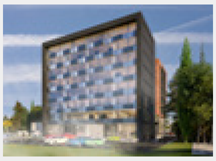


ALMA TOMING – Ülemiste City is investing €30 million in a new 11-storey A class office building of 22,400 sqm, on Sepise Street. The building has been pre-awarded a LEED gold certificate and will be completed in Q4 2022. Developed by Technopolis Ülemiste and Mainor Ülemiste.

VEERENNI 38B – This A class office building will be constructed in a fast-developing area near the city centre of Tallinn next to the Oval and Ellipse House projects. The ground and first floor will be given over to parking, floors 2 to 6 will be office spaces. The total area of the building is 4,500 sqm, of which 3,000 sqm is office space. Rents start from €11.70 per sqm. The building will be completed in 2021. Developed by Fund Ehitus.

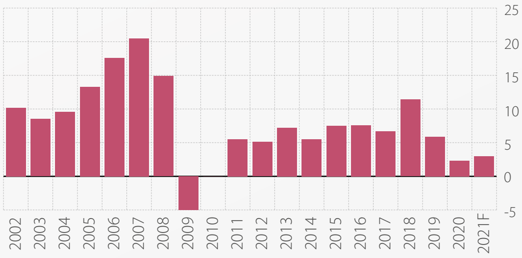
BÜROO 113 – Hepsor is building the first high-rise continuing the green thinking concept on Pärnu Road close to the heart of Tallinn. The A class 13-storey office block to go up at 113 Pärnu Road will have a total of 3,900 sqm of rental space. In addition to offices, there are commercial premises, a restaurant and ample parking. The sunny roof terrace on the fifth floor will be open to all users of the building. This will be the first high-rise in Tallinn to be heated in winter and cooled in summer using geothermal energy. Rents start from €15.50, and the building will be completed in 2021. Developed by Hepsor.

MÄEALUSE 2/4 – Astlanda Ehitus has commenced construction of an 8-storey building, which will become the largest office building in Tehnopol. The new building, the (address Mäealuse 2-4), will feature 12,000 sqm of office space and parking spaces for 600 cars. The building meets the latest technological requirements and is rated as quality class A. The tenants of the building, which will be completed in 2022, will mainly be technology companies. Developed by Astlanda.

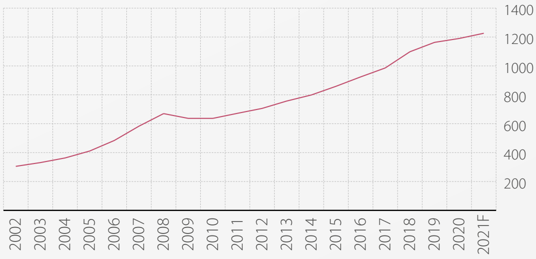


EHITAJATE TEE 104 – This will be an 8-storey office building with total leasable area of 6,700 sqm. Each floor has an area of approx. 840 sqm, which can be converted into several smaller offices. Rents range from €10.00 to €12.00 per sqm. At the end of 2020, more than 40% of the premises were already booked. The building will be completed in Q1 2022. Developed by EKE.

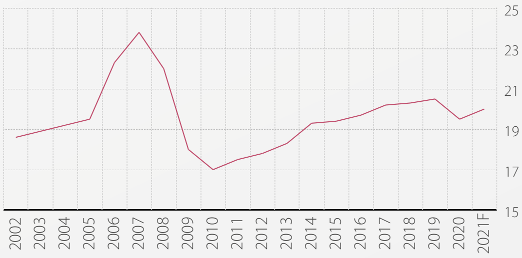
AVERAGE SALARY GROWTH, %



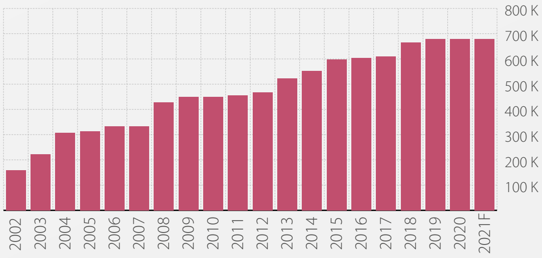
AVERAGE NET SALARY PER MONTH, €



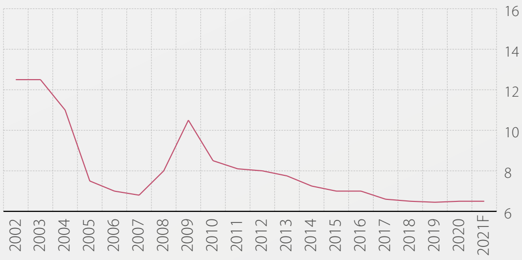
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2020)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	678,300 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.55 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 - €35.00

NEW BRANDS IN ESTONIA'S RETAIL MARKET 2020/2021

SUPPLY

In 2020, as in 2019, no large shopping centres were opened in Tallinn. At the end of 2020, 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 1.55 sqm of shopping centre per capita.

All major retailers - Coop, Selver, Maxima, Rimi and Prisma - want to expand, but due to the uncertain economic situation, several projects have been suspended.

The international chain Burger King entered the Estonian market and opened 4 restaurants in Q2 2020 in Tallinn (Ülemiste SC, Rocca-al-Mare SC, the railway station, and Old Town).

The German supermarket chain, Lidl, is planning to open its first stores in 2021. At the beginning of 2021, there were 5 stores under construction in the suburbs of Tallinn (Tähesaju 4, Rannamõisa 12A, Karjavälja 12, Raadiku 11, Sõpruse 153). Lidl has purchased 2 more plots on Paavli and Akadeemia streets.

Selver, owned by the Tallinna Kaubamaja Grupp, acquired ABC Supermaket AS, (which operates the Comarket chain), in April.

The deal led to 16 Comarket stores appearing in Harju, Pärnu and Tartu counties, as well as two of the higher-end Delice stores, (also previously owned by ABC Supermarket AS), in Viimsi, just outside Tallinn, and in Pärnu city.

The move gives Selver smaller stores which it had not had before.

The Prisma retail chain will open one store in Tallinn in 2021 and another one in Tiskre near Tallinn. In total, the Prisma retail chain plans to open 10 new stores in Estonia.

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

There is an oversupply in the Tallinn shopping centre market in 2020, illustrated by the high vacancy of the T1 shopping centre. It is now planned to change the functions of the premises on the third floor of the T1 shopping centre - possibly entertainment, spa, and/or office space.

The trade/service sector has been severely affected by restrictions on movement and the disappearance of tourists. In some places the turnover of stores decreased by 50-90%. This decline is especially noticeable in the Old Town.

The existing retail space per capita in Tallinn is high and no new major projects are expected in the upcoming years.

DEMAND

Household consumption decreased 2.5% in 2020 as consumer confidence reached record lows in Q2 2020. Since Q4 2020 it has recovered but is still below the historical average. In 2021 household consumption is expected to grow 3%.

In 2020, companies managing the larger traditional shopping centres, faced a 5-15% operating income decline compared with 2019. Despite this, the vacancy rate in the largest and most popular shopping centres in Tallinn were close to zero at the end of 2020. However, in the newest T1 Mall shopping centre vacancies were rather high.

For shopping centres, the main goal is to be different from the competition, employing different concepts, especially when it comes to entertainment. 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, suggesting 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 larger centre.

Stockmann is selling its buildings in Tallinn, which is part of a reorganization plan. The firm will continue operations as a tenant in the sold-off properties, as well as online. The firm said it would retain ownership of its chain of Lindex fashion stores, noting that revenues would go toward paying off its debts.

RENTS

Because of lockdowns and restrictions in 2020, there was pressure in the retail sector and some landlords were forced to make major discounts to existing tenants to keep them.

At the end of 2020 rents for medium-sized premises (150-300 sqm) in shopping centres ranged from €13.00 to €20.00 per sqm, and for smaller units – €35.00-€70.00 per sqm. Rents for anchor tenants run from €8.50 to €13.00 per sqm.

In 2020, there was also pressure on rents in high streets. On streets next to popular pedestrian zones the rents for retail premises ranged from €20.00 to €35.00 per sqm.

INVESTMENTS

In 2020, interest in investing in retail space declined, due to the growth of online sales and the uncertain pandemic and economic situation. Some transactions were postponed.

In Q1 2020 LHV Pension Funds invested in Peetri Keskus (Peetri Centre), situated in Peetri village on the outskirts of Tallinn. LHV Pension Funds have acquired secured bonds maturing in five years (issued by Peetri Keskus under two separate issues), to a total value of €8.5 million. Opened in Q4 2019 the centre has a total of 8,200 sqm of net area. The anchor tenant of the complex is retail chain Konsum. The centre also has dentists and a family doctor facility, Medicum, a 24-7 fitness sports club and tennis centre, and hobby groups for music lovers. Compakt Kinnisvara is the developer and bond vendor.

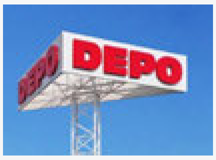
LEGAL NOTES BY SORAINEN

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. The distribution of maintenance and renovation obligations may not be clearly set out in agreements.

RECENT DEVELOPMENTS

DESCRIPTION

PÄRNU ROAD 186 – Located near the city centre and Järve shopping centre, is a new commercial building with six storeys for offices and retail and a two-storey car park for 350 cars. The total area is 23,900 sqm, of which 3,500 sqm will be offered as offices and 12,000 sqm as retail/service. The main anchor tenant is building materials retailer Ehituse ABC with 6,000 sqm. The building was completed in Q1 2020. The developer of the building is Silikaat Group.



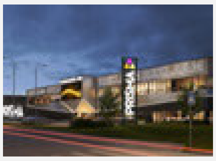
DEPO TALLINN – The first store of Latvia's DIY chain Depo was constructed in a fast-developing area near the city centre of Tallinn in the Avala Business Quarter. The total area of the building is 25,000 sqm. The roof of DEPO building boasts a 15,000 square meter solar park, which will help cover 1/3 of the total energy consumption of the planned Avala Business Quarter. The building was opened in Q4 2020. Developed by Kaamos.

NEW PROJECTS

DESCRIPTION

PORTO FRANCO – The complex will have a seaside promenade, a unique glass roof and will be located near Tallinn Harbour, which previously benefited from a footfall of 10 million 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 tenants will be Prisma and Peek & Cloppenburg. The whole project will cost €190 million and is expected to open in 2021/2022. The first house in the complex housing the Citybox Hotel, was completed in 2020. The premises have been handed over to the hotel operator. The completion of the remainder of the project has been delayed for various reasons. Developed by Porto Franco.

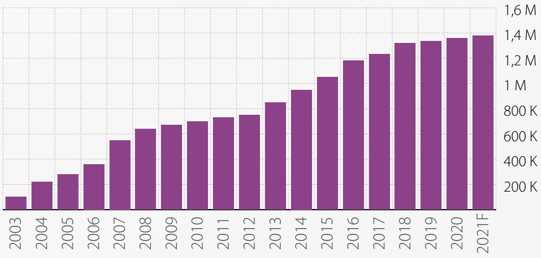
PRISMA TISKRE – Capital Mill is developing a shopping centre with a petrol station in Tiskre village (close to Tallinn), on Liiva Street. The total area of the building is 4,800 sqm and will be opened in Q4 2021. The anchor tenant will be Prisma with 3,600 sqm of GLA. The total area of the building is 4,800 sqm and the investment will total €4.5 million.



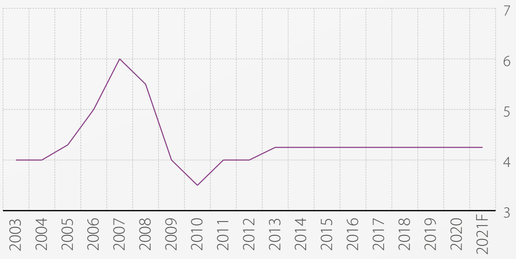
PRISMA LINNAMÄE – In the suburbs of Tallinn, in a larger district of the city, on Linnamäe Street, a local shopping centre with a rental space of 4,700 sqm will be opened in Q3 2021. The anchor tenant will be Prisma with 4,000 sqm of GLA. The total area of the building is 6,000 sqm and the investment will total €7.7 million. Developed by Eventus Kinnisvara and Hammerhead.

IKEA – IKEA Estonia launched its online store as well as its first bricks-and-mortar location, (with a limited showroom and pickup point), in the Lasnamäe district of Tallinn in Q3 2019. They also purchased a 20-hectare plot of land on the Tallinn Ring Road in the vicinity of the Maxima logistics centre in Kurna village about 12 kilometres from Tallinn. In Q4 2020, Rae municipality established a detailed plan and Ikea plans to build a retail outlet of 40,000 sqm. A building permit is under consideration and the store will open in 2023 at the earliest.

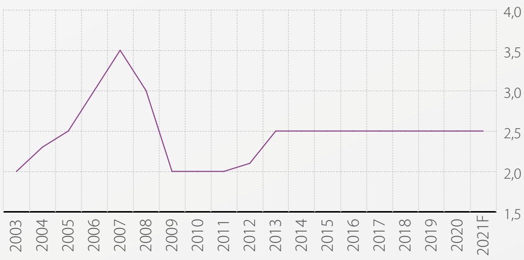
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



TALLINN SNAPSHOT (END-2020)

TOTAL NEW WAREHOUSE SPACE	1,358,600 SQM
WAREHOUSE VACANCY RATE	5 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €5.00
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

FURTHER RAPID DEVELOPMENT IN THE STOCK-OFFICE SEGMENT

SUPPLY

Three traditional warehouse projects, with a total warehousing area of 23,600 sqm, were completed in Tallinn and its surroundings in 2020. These projects were developed for their own use and increased the total leasable area of modern warehousing premises in Tallinn and Harju County to 1,358,600 sqm.

The active development of stock-office premises continued in 2020. Unit 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.

15 new stock-office projects were completed in 2020 bringing almost 60,000 sqm space to the market and further 11 projects with 50,000 sqm will be completed by 2021.

Additionally, Katoen Natie Eesti AS and OÜ Astlanda Ehitus agreed a contract for the stage 4 construction works of the KTN Tallinn Logistics Centre.

DEMAND

In 2020, customers showed growing interest in spaces located near Tallinn, in Rae parish next to the Tartu and Ringtee roads. Stock-office projects, available at various locations in Tallinn, were also popular, especially in Lasnamäe, Mustamäe district.

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

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

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

In Estonia, the development of storage and production facilities is closely related to external demand and exports. The vacancy rate of warehousing premises in Tallinn region was at 5% by the end of 2020.

2020, most typical industrial and warehouse spaces were developed mainly for own use, but in the popular stock office segment there are a lot of speculative developments.

RENTS

During 2020 rents for warehousing premises were stable in the Tallinn region. At the end of 2020, rents for new modern warehouses in 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 average from €1.00 to €1.20 per sqm.

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 versus warehouse space.

The country's economic growth, which will return after the end of the pandemic, is expected to strongly support the vitality of the industrial sector. Ober-Haus forecasts that warehouse space rents in the rapidly developing stock-office segment will grow up to 5% in 2021 as the e-commerce and logistics sectors rapidly develop. Ober-Haus forecasts that rents of traditional warehouses will not change during 2021.

INVESTMENTS

Over the past several years, investors have been actively looking for suitable properties to buy, but the owners' continued expectation to achieve high sales prices has limited the market. In addition, the uncertain economic situation since the spring has had a negative impact and several planned transactions have been suspended. At the same time, local investors and developers who know the market better have been more active.

In the current market situation, investors expect a return of at least 7% on warehousing and production facilities in and around Tallinn.

In Q3 2020, a stock-office (Stock 101) project was sold on the outskirts of Tallinn on the road to St. Petersburg. The total area of buildings was over 2,000 sqm and it was completed in 2020. Rental spaces include showrooms, offices, and storage rooms, all under one roof, with unit sizes from 280 to 400 sqm. The vendor was Favorte and the purchase price was €2.2 million.

In Q3 2020, a warehouse and industrial building was sold in the village of Liivamäe near Tallinn. The total area of buildings was almost 5,400 sqm and construction was completed in 2019. The building was built according to the special requirements of the tenant. The selling price was €3.5 million. The buyer is the tenant of the building.

In Q4 2020 LHV Pension Funds bought three stock-office type commercial buildings in Jüri in Rae parish where the biggest lessee was the Tanker brewery. The buildings in boast a total of 6,400 sqm of enclosed net space. It is characteristic of such buildings that the sales showrooms, offices, production facilities and warehouses belonging to small companies are situated in the same location. Two of the buildings were completed in 2007 and one in 2019. Artesyn, a biotechnology device manufacturer also rents space here.

In Q4 2020 real estate developer Hammerhead OU sold stock-office buildings in the Priisle business park in Tallinn's Lasnamäe district and the Mustamae district. The purchasers were investors entering Estonian commercial real estate for the first time. The portfolio transaction with a total volume of 15,000 sqm sold for over €18 million.

LEGAL NOTES BY SORAINEN

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

OBER HAUS

RECENT DEVELOPMENTS

	DESCRIPTION
	**SMARTEN LOGISTICS** – The well-known logistics company built a logistics centre in stages in Rae parish, near the Tallinn–Tartu Road and the Tallinn Ring Road, in the Rukki Technical Park. The last stage with 7,500 sqm of warehousing space, was completed in Q3 2020 and the total space of the complex after the expansion is 50,000 sqm.
	**EUGESTA LOGISTIC CENTRE** – The well-known distribution company built a logistics centre in Rae parish, near the Tallinn–Tartu Road and the Tallinn Ring Road, in Rukki Technical Park. The 10,000 sqm logistics centre was completed in Q3 2020.
	**ACE LOGISTIC** – Custom storage facilities are being built near Tartu Road in Rae parish in Lehmja, near Tallinn. The logistics centre of over 6,100 sqm was 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 was €5 million.
	**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 the Tallinn Ring Road allows convenient access from the directions of Maardu, Via Baltica and Paldiski. Available stock-office size units start at 330 sqm. Rents are €6.50–€8.20 per sqm depending on the type of premises. The building was completed in 2020. Developed by Favorte.
	**KADAKA ROAD 3** – A new multifunctional stock-office type complex with retail, warehouse and office space was completed in Mustamäe at Kadaka Road in 2020. 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 at the front. On the second floor, however, there is a large selection of mini warehouses that can also be reached by car lift. Rents are €6.00–€9.00 per sqm dependent on the premises type. Developed by Hammerhead.

IRU ÄRKESKUS

NEW PROJECTS

DESCRIPTION

MCF DATA – Next to Tallinn, the Saue municipal government has authorised the building permit for the Baltics' biggest data centre, which will be built in three stages at a total cost of more than €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.

TÄHETORNI TEHNOPARK – 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 with 4,400 sqm was completed in Q1 2020. In Q4 2020, the construction of the next building with 5,400 sqm began and will be completed in Q3 2021. The rents are €6.60 per sqm plus additional costs. Around 60,000 sqm of commercial premises are planned for this technology park. Developed by Favorte.

MAKITA CENTRE – Japanese tool manufacturer Makita is building a central warehouse, maintenance, and training centre up to 25,000 sqm in the Gate Tallinn business park near Tallinn. The sale of equipment to Estonia, Latvia, Lithuania, Norway, and Sweden will be coordinated from the representative office to be located in Laagri. The centre will be completed latest 2022.

HKSCAN – the largest Estonian food company HKScan Estonia built a logistics centre in stages in Rae parish. The new logistics centre, to be completed in the immediate vicinity of the Tallinn Ring Road within a year, will replace the existing assembly centres in Rakvere and Riga. The 9,000 sqm logistics centre will be completed in Q3 2021 and can be expanded as needed.

TÄHESAJU TEE 11 – a stock-office type multifunctional commercial building will be built next to the imminent Lidl store in the Tähesaju City business area of Tallinn's largest district. The building with a size 5,800 sqm will be completed in Q2 2021. The rents are around €10.00 per sqm plus additional costs circa €1.50 per sqm. By the beginning of 2021, there was already a tenant for most of the premises. Developed by Hammerhead.

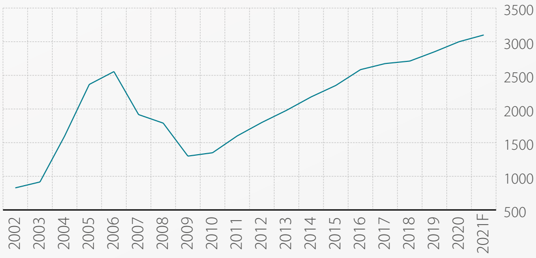
PAKENDIKESKUS – Pakendikeskus will build a logistics centre with a location at Suur-Sõjamäe Street, Soodevahe village, Rae parish. The building will be 10,850 sqm and construction work began in Q3 2020. In addition to the central warehouse of Pakendikeskus AS, the complex will include premises for a store and offices, as well as five stock-office units for rent, and whose clients can be offered the possibility of storing their goods in the central warehouse. The cost of the works is close to €5.3 million and the works will be completed in Q2 2021.

SALUSTE 3 – A modern commercial building close to Tallinn city. It will have over 23,000 sqm of commercial space, which is intended mainly for warehousing and production purposes. Rental premises range from 300 to 4,200 sqm with the possibility to combine units. The construction of infrastructure leading to the building was completed by autumn 2020. Project completion is expected at the beginning of 2022. The rents for office premises are €6.50 per sqm and for warehouses €4.20 per sqm. Developed by Favorte.

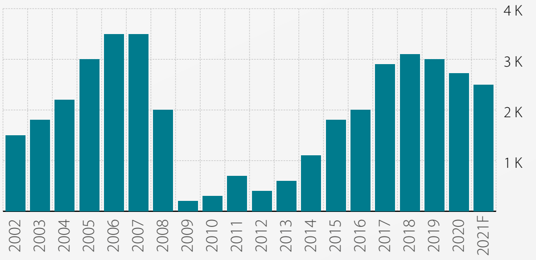
IRU ÄRKESKUS – It is a new 2-storey stock-office type building on the Vana-Narva Road. This three-in-one solution enables the company to bring all its business under one roof and thus save on logistics, communication, staff, and ancillary costs. Multifunctional units start at about 350 sqm, but there are also commercial spaces up to 980 sqm. About 9,500 sqm of commercial space can be formed by joining the units. Rents are €4.80–€5.70 per sqm. The building will be completed in Q1 2022. Developed by Favorte.

RINGTEE TECHNOLOGY PARK – located in Rae parish, by the Tallinn Ring Road with the highest traffic density in Estonia. There are several well-known enterprises in the neighbourhood: Hansaplant, Uponor and Maxima Logistics. The plots for sale range from 4,100 to 8,400 sqm. According to the detailed plan, it is possible to erect up to twelve buildings up to a height of 12 meters. At the beginning of 2021, all plots had been sold or reserved. The project will be completed in seven years. Developed by Hammerhead.

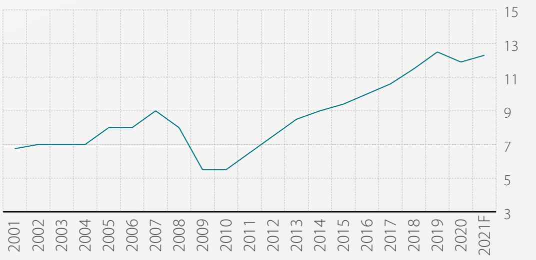
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



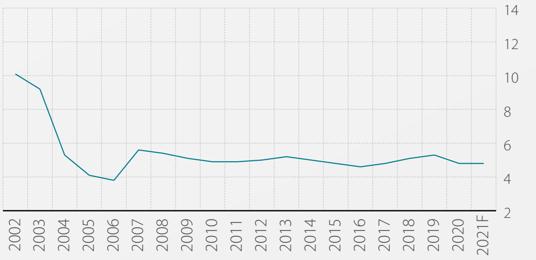
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



TALLINN SNAPSHOT (END-2020)

ANNUAL APARTMENT PRICE CHANGE	+ 4.9 %
NEW APARTMENTS BUILT	2,727
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€1,200 - €2,100
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,900 - €3,000
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€2,500 - €4,500
RESIDENTIAL INVESTMENT YIELD (city centre)	4.8 %

AVERAGE PRICES AT AN ALL-TIME-HIGH

PRICES

The average sqm price for an apartment in Tallinn increased 4.9% in 2020 reaching €2,124 per sqm by December 2020. Reasons behind the increased prices for apartments include higher proportion of deals with new apartments, (in total 32% in 2020 compared to 26% in 2019), lower interest rates, with rising incomes and the purchase of apartments for investment purposes. Altogether 45% of the deals took place without a bank loan and around 10% of the apartments were bought as investments.

In Tallinn, the price per square meter of new apartments increased by 4% during the year, and in secondary market apartments by 3%.

By the end of 2020, the average cost of a new 2-room, 50 sqm apartment in Tallinn was €125,900 (€2,730 per sqm). The average cost of a secondary market 2-bedroom apartment in Tallinn was €86,230 (€1,830 per sqm).

New apartments with final fit-out cost €2,500-€5,000 per sqm in the city centre and €2,000–€3,200 per sqm in the residential districts.

Prices of apartments vary mainly according to the location. Most transactions were in the city centre and involved apartments in good condition in modern or fully renovated buildings, with prices from €2,500 to €3,200 per sqm.

In buildings with the best views or special architectural features, prices can exceed €3,500 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 €1,200 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 2020, rents for apartments in Tallinn fell about 10% on average and even more in higher price ranges due to an increase in supply with many AirBnb apartments returning to the long-term rental market. The period for finding tenants has increased remarkably. The number of foreign employees and students has decreased because of travel restrictions. Despite this, in the second half of 2020, prices began to recover.

At the end of 2020, the asking price was €9.3–€11.00 per sqm for rental apartments in the suburbs of Tallinn and €11.00-€12.5 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, and in the suburbs €10.00–€15.00 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 €400 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 the Lasnamäe and Mustamäe districts. The average rent term is usually 1 year. Contracts for longer than 3 years are usually not 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 need 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.

Due to decreased rents and increased purchase prices, the gross rental yield of apartments in Tallinn in 2020 decreased to an average 4.8%. Owners generally negotiate rental agreements of short duration (up to one year) and thoroughly check tenant backgrounds.

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, owing to unemployment elsewhere in Estonia, and people converging 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 reliable rental prices. There is a constant demand for small, cheap, functional rental premises in Tallinn as with many large cities, which is supported by the constant growth of the population of Tallinn and its neighbouring areas.

Most tenants 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 the Ukraine. The driver here, is greater mobility of people and movement of jobs, creating an unwillingness to assume long-term financial commitments.

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' plans changing does not arise (e.g., the sale of the property).

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

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

In 2019 Lumi Capital and LHV Pension Funds started investing in rental apartment buildings in Tallinn. The first project with 127 apartments was in the Manufaktuuri Quarter in Põhja, Tallinn. In Q2 of 2020 a new project with 164 apartments was started in Mustamäe which will be completed in autumn of 2021. The new apartment buildings together with the completed buildings in Manufaktuuri make up almost 300 apartments, which is more than half of the planned LHV Pension Fund's portfolio of 500 rental apartments in Tallinn.

EfTEN Capital also entered the rental market. EfTEN Capital established a new fund that will invest in rental apartment buildings in Estonia, Latvia, and Lithuania. It aims to become the largest residential property fund in the Baltics, by attracting (in the inaugural stage), 60 million euros of equity investments. The first planned and committed investment of the fund will be a residential building with 112 apartments and 93 parking lots at the Kadaka Metsapark development in Tallinn; to be completed by autumn 2021. Mitt & Perlebach is the main contractor, and the first apartments will be rented out in autumn 2021. EfTEN is planning so-called bulk purchases during the upcoming low tide in the construction market, which means that the fund will purchase entire residential buildings, not separate units.

SUPPLY

In 2020, over 2,700 new apartments were completed in Tallinn, compared to 3,000 new apartments in 2019. It is expected that developers will complete construction of 2,500 apartments. Residential development is also growing near the centre of Tallinn, especially in the Lasnamäe, Mustamäe and Haabersti districts.

At the start of 2021, 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 of 137 apartments was completed in 2019/2020.

The second biggest project developed by Merko in Tallinn is Lahekalda, which started in Q3 2019. The first phase of construction, with 144 apartments was completed at the end 2020. The total volume of the project will be more than 1,000 apartments.

Most projects, however, are small, and the development of larger projects takes place in stages. Clients primarily value smaller development projects located in or near the city centre. Kalamaja district which is located near the sea and the city centre, is an extremely popular district, and the prices of new smaller apartments are €5,000-€5,500 per sqm.

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

DEMAND

In 2020, the number of apartment deals in Tallinn decreased 9%, and the total financial volume decreased by 3%.

During 2020, an average of 231 new apartments sold each month, which is 31% of all apartment transactions in Tallinn. Demand and supply are balanced; most apartments were reserved and sold during the construction period.

In Q2 2020, the market was affected by the uncertain situation and the number of transactions decreased. In some projects, developers have reduced prices or offered additional bonuses such as free parking or kitchen furniture.

The most expensive apartment transactions in Tallinn took place in the city centre in the project Das Haus, where two apartments were sold for around €1.2 and €1.5 million.

INVESTMENTS

In Q4 2020 EfTEN Real Estate Fund III AS bought a property located at Hunditubaka Street in Tallinn from OÜ Arca Varahaldus. The care home completed at the end of 2020 will be leased to Pirita Kodu OÜ long term. It is the first aged care home in the fund's portfolio. Pirita Pansionaat, EfTEN has clearly entered a segment with strong prospects, as the demand for maintenance services continues to grow. The total area of the building under construction is about 6,000 sqm. The care home will have beds for 250 clients. Pirita Kodu OÜ will operate the Pirita Pansionaat, based on a signed, 10-year rental agreement, with an option to extend for another 10 years. The tenant will start making the rental payments from Q2 2021 and during the launch period the rental fee will gradually increase, reaching the full amount by Q1 2022. The price of the transaction was €6.2 million. The yield on non-leveraged rental income for the first full year of operation is 7%.

In 2019/2020 Intermediate Capital Group (ICG) acquired the Raadiku municipal housing scheme in Tallinn from LCN Capital Partners for €144 million at a 6.2% yield. This was the largest residential investment transaction, proving well established residential schemes in the Baltic region can be attractive to global investors.

Eften Capital bought a residential building with 112 apartments in the development project named Kadaka Metsapark, located in the suburbs of Tallinn. The purchase price was €10 million.

PRIVATE RESIDENCES

In 2020, the average price of private houses in Tallinn and Harjumaa decreased 1.5%, but the number of transactions increased by 7.8% and the transaction volume increased by 5.6%.

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 value of such houses, depending on their exact location, was 5% in 2020.

The latest trend is the construction of houses smaller than 80–100 sqm, (priced €140,000 to €200,000), near Tallinn.

Most of the deals take place in Tallinn and up to a 25 km radius outside Tallinn, especially in Rae and Viimsi; 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. During the last year, the popularity of Kiili parish has increased.

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 2020 was 2.35% (depending on the customer's financial standing). During 2020, average interest rates were between 2.3 – 2.7%. 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.

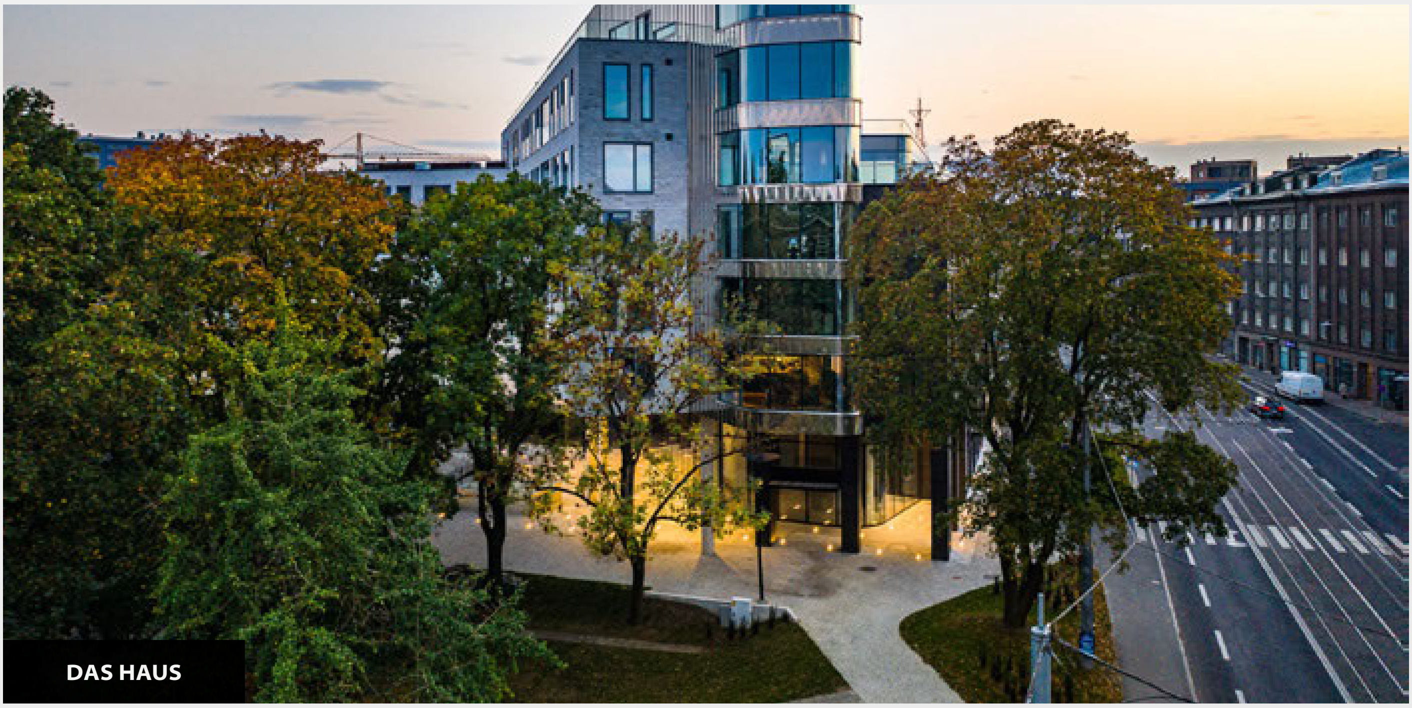
Housing loan contracts worth €115 million were signed in January 2021, which was a 24% over the previous year. The wave of applications for housing loans that started at the end of 2020, continued. An average of €125 million a month of contracts were signed in Q4 2020, which was 14% more than Q4 2019. The housing loan portfolio of the banks has grown by 7% over the year. The number of contracts signed may be growing because of the pent-up demand for purchases that were postponed in the spring. The average size of a housing loan has risen, and it has reached €94,000.

Low interest on housing loans has encouraged borrowing. Not only have interest rates in general been low, but the average interest margins demanded by the banks have fallen a little in recent months. The average interest rate on new housing loan contracts with collateral was 2.2% in January of 2021, or 0.2 percentage point lower than a year earlier. That access to housing loans is strong is also shown by the increase in loans issued with a relatively high loan-to-value (LTV) ratio of 85-90%. The quality of the housing loans issued earlier has remained particularly good. Only 0.2% of the portfolio of housing loans is overdue by more than 60 days.

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 the recovery of the premises from illegal possession, and eviction is possible only by a bailiff based on a court decision. This process can take a couple of years, although in most cases matters can be resolved within a more reasonable timeframe.

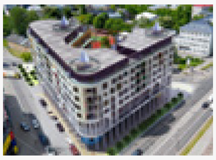
As 14th January 2021, it is allowed for the landlord and the tenant to agree on the contractual penalties in case of a non-monetary breach under the residential lease agreement. In such cases the total contractual penalty may be up to 10% of the monthly payable amount by the tenant per breach. The maximum amount for a contractual penalty in one month is up to 20% of the monthly amount payable by the tenant. It is also possible for the landlord and tenant to agree that the tenant has the obligation to bear the costs on the building's reconstruction and maintenance works. In addition, it is possible to agree for the tenant to arrange the repair or to incur the costs of any normal wear and tear after the termination of the lease agreement. The bases for increasing the payable amount of rent have been specified in the new regulation.



DAS HAUS

RECENT DEVELOPMENTS

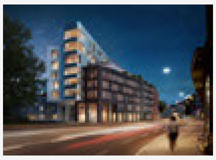
DESCRIPTION



KADRIORU PLAZA – This development project is a multifunctional development consisting of commercial and residential areas making it the largest and the best-located complex in the centre of Tallinn. It has 4 floors of commercial space with 6,200 sqm of leasable space and 5 floors of residential space with 97 apartments. Apartments on the top floors afford views to the city centre and the sea. There are 2 underground parking floors with 133 parking spaces and storage rooms for residents. Prices of the apartments range from €2,300 to €3,500 per sqm. The purchase 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 in Q1 2020 and the developer was Bariot Group. Ober-Haus is the selling agent.

TOOM-KUNINGA STREET – A project consisting of 8-storey residential buildings located between the popular Uus–Maailma district and Tallinn city centre. There are 109 apartments with balconies, terraces, high ceilings, storage rooms and underground parking. The purchase price ranges from €2,400 to €4,120 per sqm. By the end of 2020 most of the apartments had been sold. This project was developed by Metro Capital and was completed in Q3 2020.

LAHEKALDA – Lahekalda is a new, rapidly developing residential district where over the next 10 years contemporary buildings with more than 1,000 comfortable apartments will be constructed. Situated on the nearly 70 hectare, naturally beautiful Maarjamäe limestone bank, these apartment buildings rise to just the right height above sea level to provide amazing views to the sea and the city centre towers. The first phase of construction, which was completed by the end of 2020, comprised 3 buildings with 144 apartments. The sizes of the apartments ranged between 31 and 93 sqm, and the price per sqm remains between €2,000 and €3,150. The second stage includes two 5-storey buildings with 96 apartments, which are to be completed by the winter of 2021. Developed by Merko.



DAS HAUS – An 8-storey building complex with 131 apartments, 26 offices and 9 retail spaces 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 range from €2,000 to €5,500 per sqm, and for offices €2,300–€4,000. The most expensive apartment in this building, at a price of 1.5 million, has been sold. 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 2020 most of the apartments had been sold. The complex is developed by Novira Capital and was completed in Q2 2020.

NEW VEERENNI – The New Veerenni Quarter is the largest single residential development area. The buildings are in the Veerenni subdistrict. Over the next ten years, around 50 residential buildings with more than 1,600 apartments will be constructed. The residential buildings will have a B energy rating. There will be an underground car park and intra-quarter roads will be constructed. Courtyards in the quarter will be landscaped and play and recreation areas created. The first phase of construction, which was completed by the end of 2019, comprised 12 buildings with 137 apartments and 8 commercial premises. In 2020, 90 apartments were completed. 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.

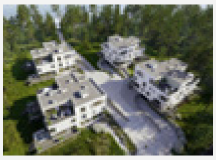
KADAKA METSAPARK – A residential project, consisting of 4 houses with 280 apartments. The smaller apartments will be cosy nests under 30 sqm, while the larger ones will be four-room family apartments with up to 72 sqm. Prices range from €2,150 to €3,700 per sqm with a parking space included. The first three buildings were completed in 2020 and the fourth building will be completed in 2021. Developed by Hepsor.

TISKREOJA – Over the next four years, the project, comprising around 400 new apartments will be constructed. Due to the newly finished Haabersti intersection, the people of Tiskreoja will have a good connection with every part of the city. Prices range from €1,650 to €2,400 per sqm; the price of a parking space is €1,900. Construction of the first residences was completed by autumn 2020. Developed by Invego.

RECENT DEVELOPMENTS

DESCRIPTION

RAND VILLAS – A total of three exclusive buildings consisting of 30 apartments with sea views. Prices of apartments range from €2,700 to €4,500 per sqm. Every apartment comes with a storage room in the heated underground car park, included in the purchase price. Parking spaces cost €18,000. The whole project was completed in 2020. Most apartments have already been sold or reserved. Developed by Merko.



MERIRAHU VILLAS – A residential project, consisting of four 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 €4,000 per sqm; the purchase price of a parking space is €15,000 and of storage rooms €3,000–€5,000. The project was completed in 2020. At the end of 2020, 8 apartments remained vacant. Developed by Novira.

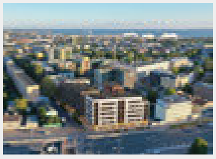
NEW PROJECTS

DESCRIPTION

KIIKRI RESIDENCES – These residences are in arguably the most beautiful area of Tallinn, right next to Kadriorg Park and Tallinn Bay. In the last stage, 86 apartments and 4 commercial premises will be built. On the upper floors there are exclusive penthouse-type homes with spacious terraces. Every apartment owner can have their apartment designed according to their preference from start to finish. The interior finish can be chosen from four different packages. In 2020, the earlier stage of the project, received the award for the best housing development in the Baltics. The price per sqm remains between €3,000 and €4,500. This project is developed by Metro Capital and will be completed in 2022.

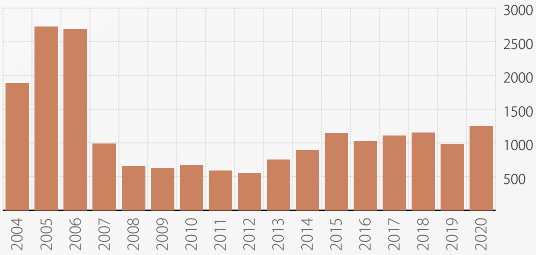
KALARANNA QUARTER – Located near the Old Town, and close to the sea, Kalaranna Quarter is undoubtedly one of the most unique areas in Tallinn. The Kalaranna Street development will have eight buildings with 240 apartments, commercial premises, and underground parking. Prices of apartments range from €3,000 to €6,200 per sqm. The most expensive, exclusive apartment costs up to €680,000. The purchase price of an underground parking space is €20,000; the price of a storage room is €6,900. The completion of the project is currently scheduled for the end of 2021. Developed by Pro Kapital.

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

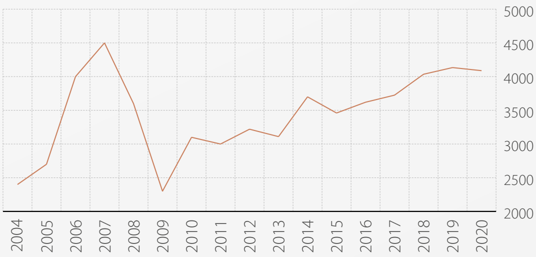


ODRA – Right in the centre of Tallinn, on the corner of Lastekodu and Odra Streets, a new house consisting of three parts with more than 100 apartments and seven commercial spaces will be built. The building located in a logistically perfect place will house 1-5-room apartments. The city centre, the Kadriorg Park, as well as plenty of cafes and restaurants, and the Central Market (with plans or a new lease of life in the next few years), are all located within a pleasant walking distance. The project will be completed in 2022. Developed by Merko.

LAND TRANSACTIONS IN TALLINN CITY & DISTRICT



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



TALLINN SNAPSHOT
(END-2020)

ANNUAL LAND PRICE CHANGE (TALLINN AND HARJUMAA)	- 3.7 %
TOTAL LAND TRANSACTIONS CHANGE (TALLINN AND HARJUMAA)	+ 27 %
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

THE VOLUME OF TRANSACTIONS IS INCREASING

In 2020, the number of transactions involving residential land in Tallinn and Harju County increased 27%, but the average price per sqm decreased by 3.7%.

In the most popular residential areas in Tallinn the average price of land was €70-€110 per sqm, and near the city, €30-€50 per sqm.

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

The prices for 1,000–1,500 sqm plots are €90,000–€170,000 in popular locations in Tallinn (Kristiine Pirita, Haabersti and Nõmme), €50,000–€100,000 near the city, and €20,000–€40,000 in other locations.

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

In 2020, the average price of commercial land in Tallinn was €332 per sqm and there were 26 transactions. Compared to 2019, the number of transactions decreased, but the average price increased.

Real estate developer Hammerhead in Q4 2020 acquired land plots near the Tallinn Ring Road and the intersection of the Kurna and Tuhala roads (in the rural municipality of Kiili near Tallinn) for the development of a new logistics park. The park, to be called Ringtee Äripark, will cost about €120 million. It is estimated that the construction of the logistics park will take more than seven years. The price of 20 ha was around €2.6 million. The park will be developed by Hammerhead and built by Eventus Ehitus.

In Q1 2021 Arco Vara signed an agreement for land acquisition beside Lake Harku, on Paldiski Road in Tallinn. More than 30,000 sqm of residential and commercial space is planned for development. The expected development period is 6 years with the start of construction planned for 2023.

East Capital Real Estate purchased 30 hectares of land outside of Tallinn for a new logistics project. The land, located in the corner of the Tallinn Ring Road and the Tartu highway, is a high-value location for logistics, distribution, and light industry companies in the Estonian capital. The building will provide 150,000 sqm of logistics facilities and already has detailed planning permission.

LEGAL NOTES BY SORAINEN

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

Construction requires a construction permit issued by a local municipality. Construction must generally comply with local spatial planning – in particular, with detail plans. In densely populated 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 assessed 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)

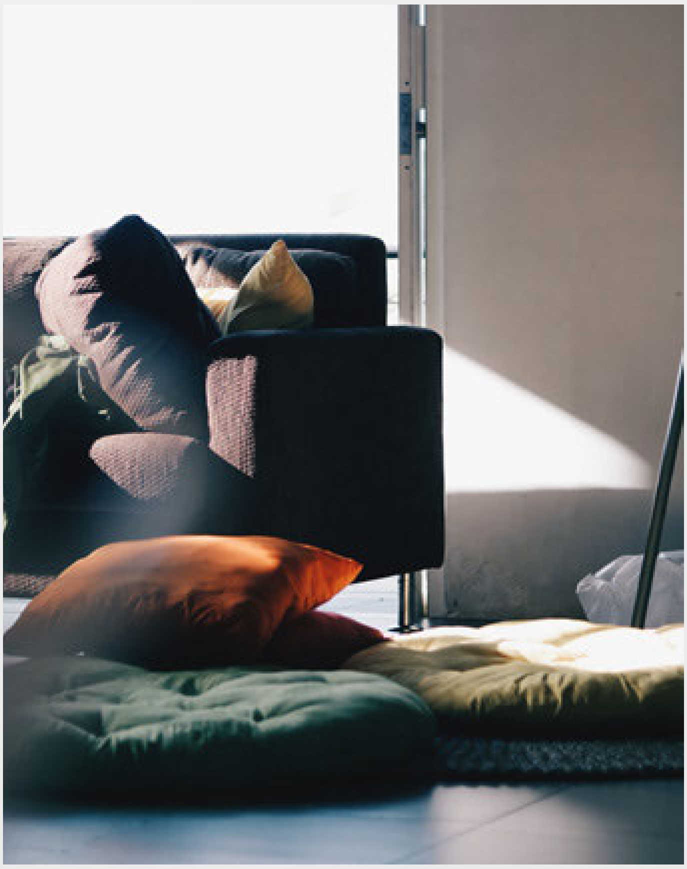
There is no real estate tax in Estonia.

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 m^2 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 in which registration itself confers the title. This makes verifying titles simple and transactions secure. At the same time, the requirements for notarisation and documentation can make other aspects of the transactions cumbersome and time-consuming.

TITLE TO REAL ESTATE, LAND REGISTER

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

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

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

ACQUISITION OF REAL ESTATE

GENERAL

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

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

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

LETTER OF INTENT AND HEADS OF TERMS

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

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

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

ASSET TRANSFER

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

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

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

Existing lease agreements remain valid after the transaction.

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

SHARE TRANSFER

A share transaction can be made instantaneously, through an electronic sale of shares in the Estonian Register of Securities, accessed via the buyer's and seller's internet bank accounts. No state duties apply, and no notary fees apply if the transaction is done electronically. If the shares are not registered with the Register of Securities, the disposition for the transfer of a share must be notarised. In addition to the notarial form of the share transaction of the private limited companies, as of 1 August 2020 if the shares are not registered with the Register of Securities, such share transactions may be concluded in a simple written form if certain conditions are met. In order to conclude such a share transaction in a simple written form, the share capital of a private limited company has to be at least EUR 10,000 and fully paid in; and this possibility has to be prescribed in the articles of association of the private limited company. All the shareholders of the private limited company have to be in favour of waiving the requirement for notarisation of the share transaction documents in the private limited company's articles of association.

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

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

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

PORTFOLIO DEALS

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

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

SALE-LEASEBACK

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

This arrangement requires the following checks:

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

FORM OF AGREEMENTS

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

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

LANGUAGE REQUIREMENTS

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

DUE DILIGENCE

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

PRE-EMPTION RIGHTS

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

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

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

TAXES

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

The owner of real estate is liable to pay land tax for the property for the full year. The land tax is 0.1 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 the participants in the concentration (target undertaking and buyer) exceeds EUR 6,000,000; and
- turnover in Estonia of at least two participants in the concentration exceeds EUR 2,000,000 each.

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

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

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

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

- citizens of Estonia or another country which is a contracting party to the EEA Agreement or a member state of the Organisation for Economic Cooperation and Development (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 only on approval of the local government.

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

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

It is important to be aware of the 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 that 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 a notarised agreement to secure the interest of the purchaser, seller, third persons or neighbouring real estate. Establishing and amending an encumbrance by transaction requires a notarised agreement. Removal of an encumbrance is also possible using digital signature.

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. In order to finance the purchase or for other purposes, a mortgage may be established on real estate by a notarised agreement as security for a bank. The mortgage agreement can be concluded at the same time and in the same document as the sales agreement. However, in order to be valid, the mortgage agreement must be sufficiently specific as to the claims secured.

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

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

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

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

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

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

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

In common market practice, rent increases are generally 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 so in such a situation the courts often limit the period for which the full rent can be claimed.

LANDLORD'S LIEN

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

PPP & INFRASTRUCTURE

GENERAL

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

CONCESSIONS

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

In practice in Estonia SPVs holding concessions have not been used as an investment object.

SALE-LEASEBACKS

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

REGULATED REAL ESTATE FUNDS

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

A real estate fund is a fund whose units or shares are redeemed or repurchased no sooner than within six months of a claim being filed by the unit-holder or shareholder, and, under the fund rules or articles of association, at least 60% of whose assets are invested in real estate or at least 80% of whose assets are invested in real estate and real-estate-related securities.

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

This investment structure offers opportunities for investors to exit real estate investment or receive financing without losing control over the investment. Depending on the performance of the investment portfolio, fund management fees may be structured as success fees.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

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

CONSTRUCTION

Under the Building Code, construction means the erection, construction, installation and demolition of a building and any other operations in relation to the construction work that leads 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 (for example, it is not possible to erect residential buildings on commercial land and vice versa). If no detailed plan is in place or required, construction work must be performed in line with design specifications issued by the local government — normally this occurs within 30 days of the submission of the application. The principles of open proceedings (public hearings and discussions) do not usually apply.

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

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

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

Information regarding construction-related permits and 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 that 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, these sales are subject to the 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 the buyer will usually have no recourse upon default.

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

A common problem for a purchaser of distressed assets is that the distressed seller has signed lease agreements(s) on unfavourable terms to the asset owner. Such agreements transfer to the purchaser, even if the bailiff and the purchaser were unaware of the lease agreement. The purchaser must thereafter seek to terminate the lease and evict the tenant. As of 14 January 2021, if the leased property is transferred to a new owner in the course of bankruptcy or enforcement proceedings, the new owner has the right to terminate the residential lease agreement or lease agreement for business premises without the necessity to prove an urgent need to use the leased premises, which makes the process of terminating such lease agreements and evicting the tenant easier compared to the process under the previous regulation.

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Notable and most recent transaction experience in the field of real estate and project development

Buyer's Legal Adviser

REInvest Asset Management and its fund DEREIF SICAV FIS

Advice on acquiring the SEB Bank headquarters building in Vilnius. The company acquired the building from the real estate investment fund Lords LB Special Fund II, managed by Lords LB Asset Management.

This was one of largest real estate transactions in the Baltic states in 2020.

Legal Adviser

Technopolis

Advice on signing an office lease agreement with Western Union Processing Lithuania (WU). This company, managed by the money transfer company Western Union, has leased more than 15,000 m^2 of office space.

The largest office lease transaction on the Vilnius market in 2020.

Legal Adviser

Deka Immobilien

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

EUR 156 million

Seller's Legal Adviser

Lords LB Baltic Fund III, Lords LB Asset Management

Advice on the sale of the shopping centre Rietumu Centrs and Bergi logistics in Latvia.

The sale of Bergi logistics centre was the largest logistics sector transaction in Latvia since 2018.

Seller's Legal Adviser

Kaamos Real Estate

Advice on the sale of the Tridens logistics centre, which has a total area of more than 11,000 m^2.

Seller's Legal Adviser

Lone Star Funds group company

Advice on the sale of one of Riga's largest shopping centres – Riga Plaza.

Buyer's Legal Adviser

Isnaudas Forest Holding

Advice on a transaction involving the sale of five of its subsidiaries, which own forest and agricultural land, to SCA Mežs Latvija.

EUR 44.5 million

Buyer's Legal Adviser

Nepi Rockcastle

Advice on the 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

Legal Adviser

FinEst Bay Area Development

Advice on the preparation of the national designated spatial plan for the Tallinn-Helsinki tunnel, providing a high-speed railway connection between Helsinki Vantaa Airport and Tallinn Airport.

Estimated cost: EUR 16 billion

Legal Adviser

RB Rail

Advice on FIDIC contract arrangements, contracts and templates, and consultations during procurement related to cross-border railway infrastructure for Rail Baltica.

Project value: EUR 5.6 billion

Legal Adviser

TIIC consortium KEKAVA ABT

Advice on a landmark PPP project in the Baltics – Kekava Bypass. We worked together with the lead counsel Loyens & Loeff to serve the client.

PPP project value: over EUR 250 million

Legal Adviser

Ignitis Renewables

Advice on entering into the largest deal in 2020 for the development and acquisition of solar parks in Central Europe.

The total capacity of these projects will reach 170 MW.

Buyer's Legal Adviser

VPH

Advice on the acquisition of a plot in Stopiņu novads (Latvia) from Verus Praedium (owner of the IKEA store in Latvia), for the development, construction and designing of a new lifestyle shopping centre, Sāga.

Project value: over EUR 68 million

Legal Adviser

Union of Harju County Municipalities

Advice on submitting an application to the Estonian Ministry of Finance for the initiation of the national designated spatial plan (the NDSP) for the development of the Tallinn ring railway.

Legal Adviser

Orkela

Advice on the conversion of the former Šv. Jokūbo hospital in Vilnius city centre. The complex, called Vasario 16 Kompleksas and spreading across 16,000 m2, will house a hotel with a conference centre, as well as restaurants, cafes, shops and administrative buildings.

Legal Adviser

Nelja Energia

Sale of a 100% shareholding to Enefit Green, a subsidiary of the 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

Contact our team for full-scale legal and tax advice

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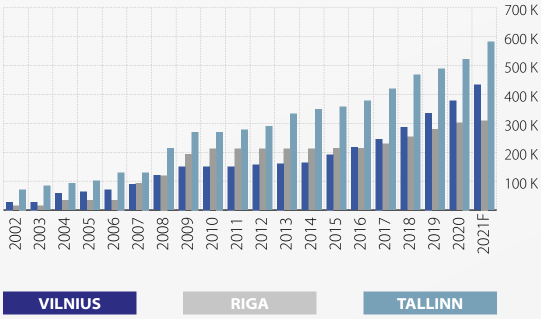
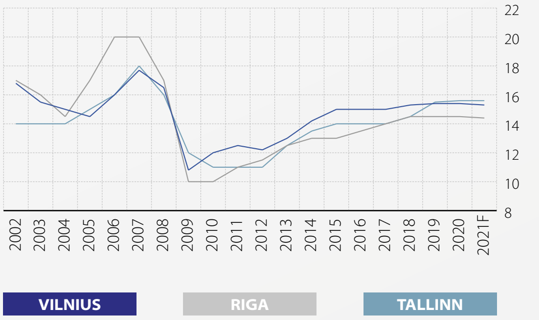
DATA CHARTS

OFFICE

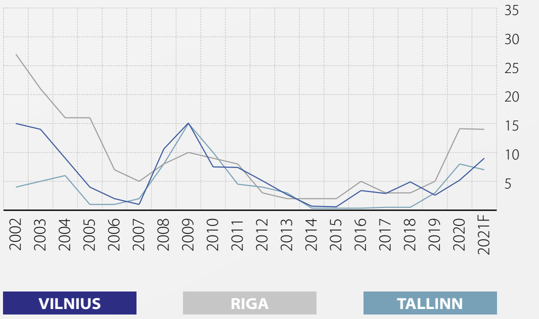
TOTAL A CLASS OFFICE SPACE, SQM



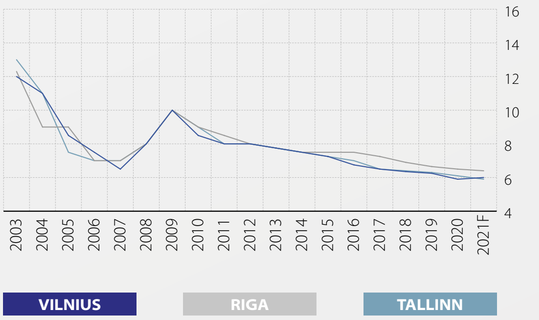
A CLASS OFFICE RENTS, €/SQM



A CLASS OFFICE VACANCY RATE, %

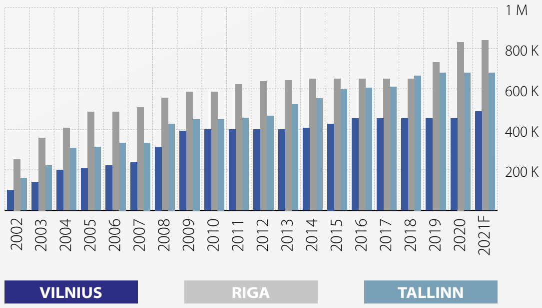


A CLASS OFFICE INVESTMENT YIELDS, %

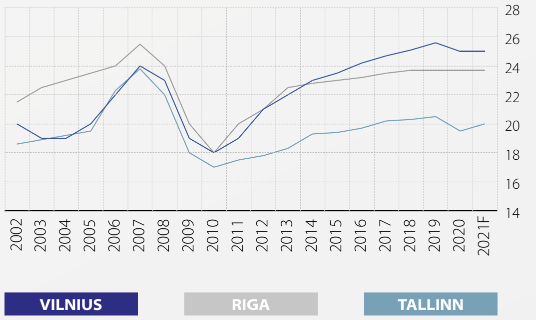


RETAIL

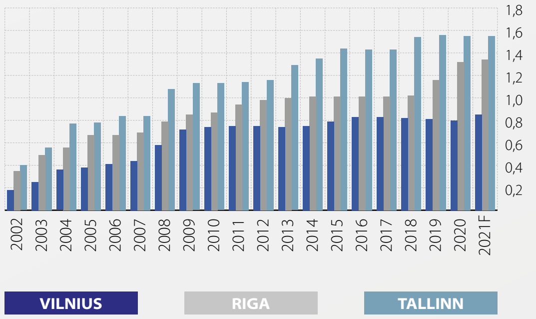
TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



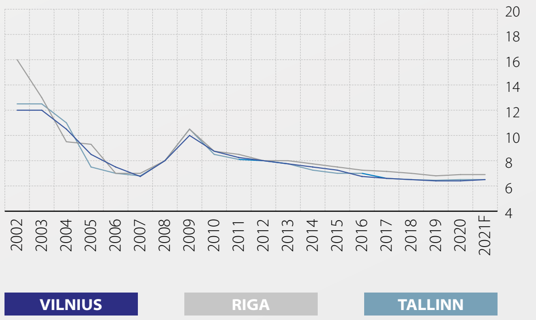
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL SHOPPING CENTRE SPACE PER CAPITA, SQM

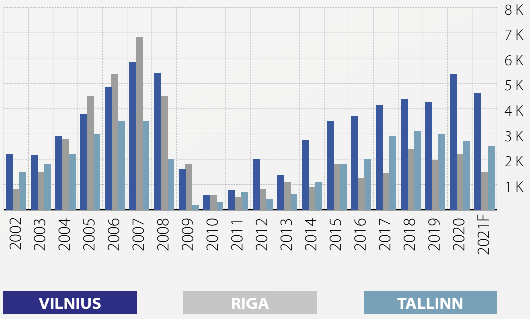


RETAIL INVESTMENT YIELDS, %

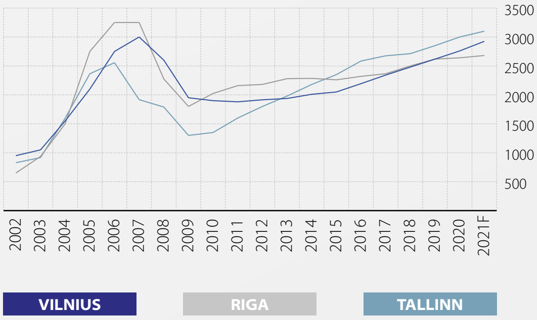


RESIDENTIAL

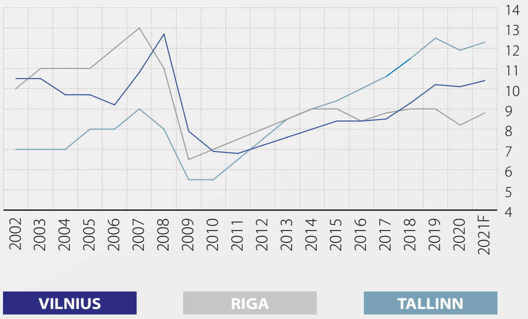
COMPLETED APARTMENTS



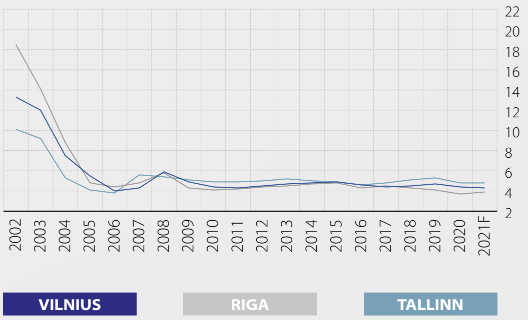
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM

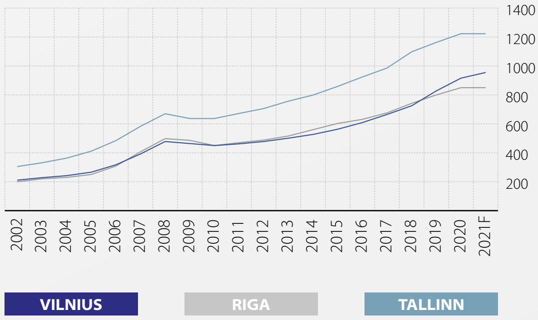


CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

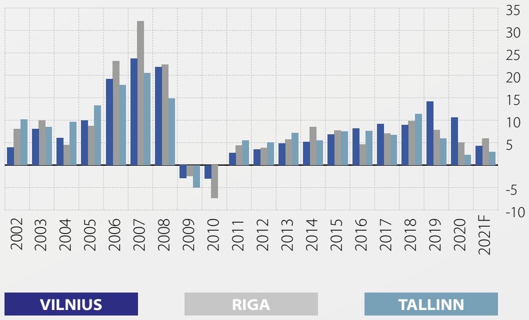


ECONOMICS

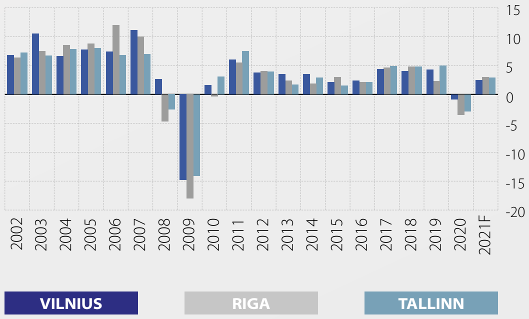
AVERAGE NET SALARY PER MONTH, €



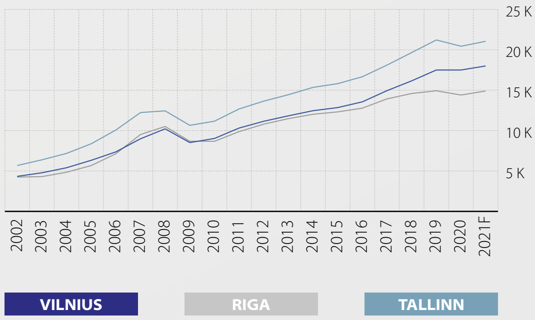
AVERAGE SALARY GROWTH, %



GDP GROWTH, %



GDP PER CAPITA, €



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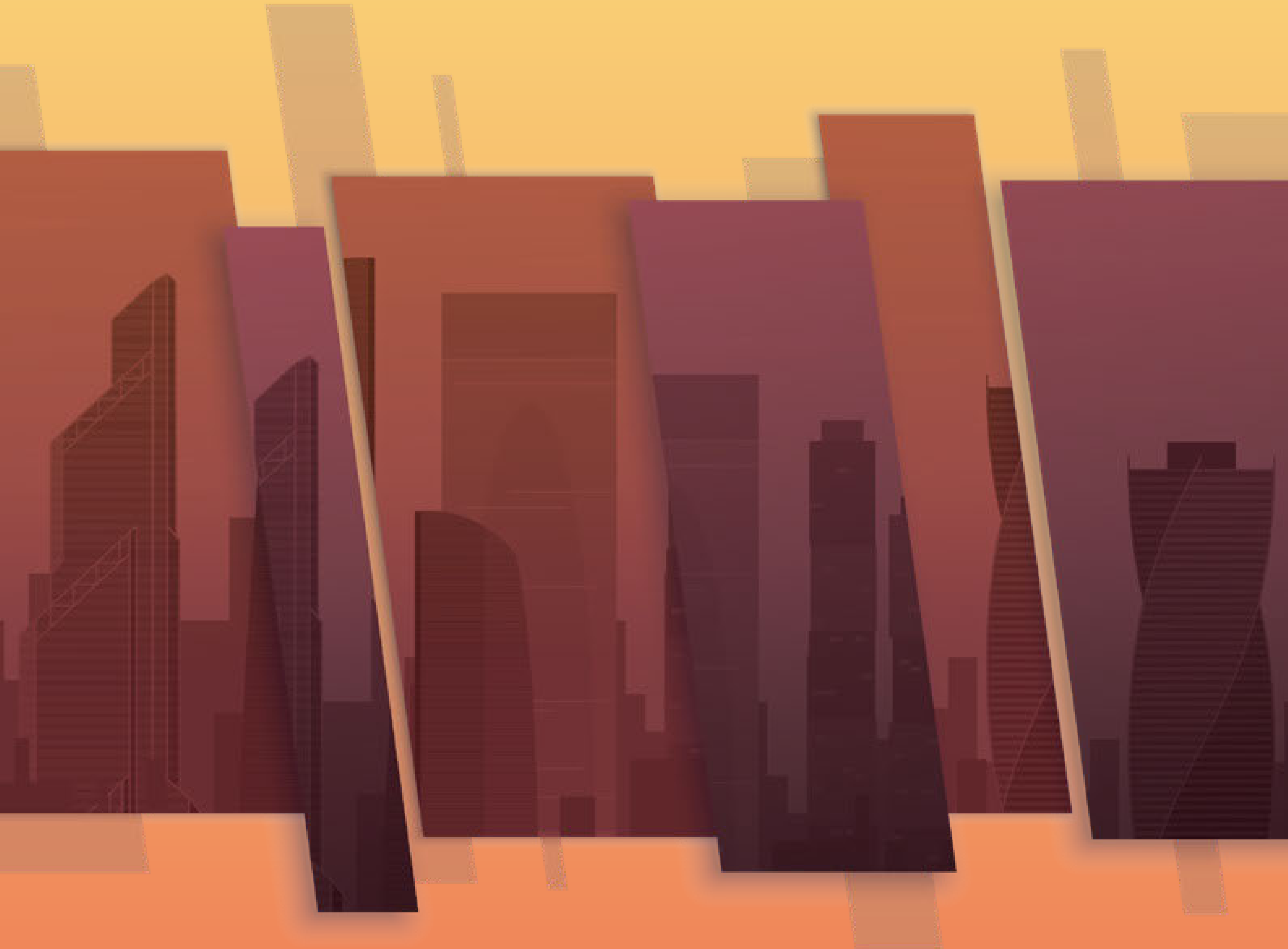

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