

REAL ESTATE MARKET REPORT 2015

BALTIC STATES CAPITALS
VILNIUS, RIGA, TALLINN

REALIA GROUP

Realia Group is the region's largest provider of real estate brokerage, valuation, investment and property management services. Realia Group's 1,600 real estate professionals serve our clients throughout Finland, Estonia, Latvia and Lithuania. Total turnover of Realia group in 2014 was €97 million.

Ober-Haus Real Estate Advisors is the largest real estate agency operating across the Baltic region including Estonia, Latvia and Lithuania. Ober-Haus Real Estate Advisors is a highly experienced provider of the most complete property services including residential and commercial real estate services, property management and property valuation services and has, since 1994, grown to employ over 270 real estate professionals in 22 offices across the region.

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

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

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

It's so much easier with Ober-Haus!



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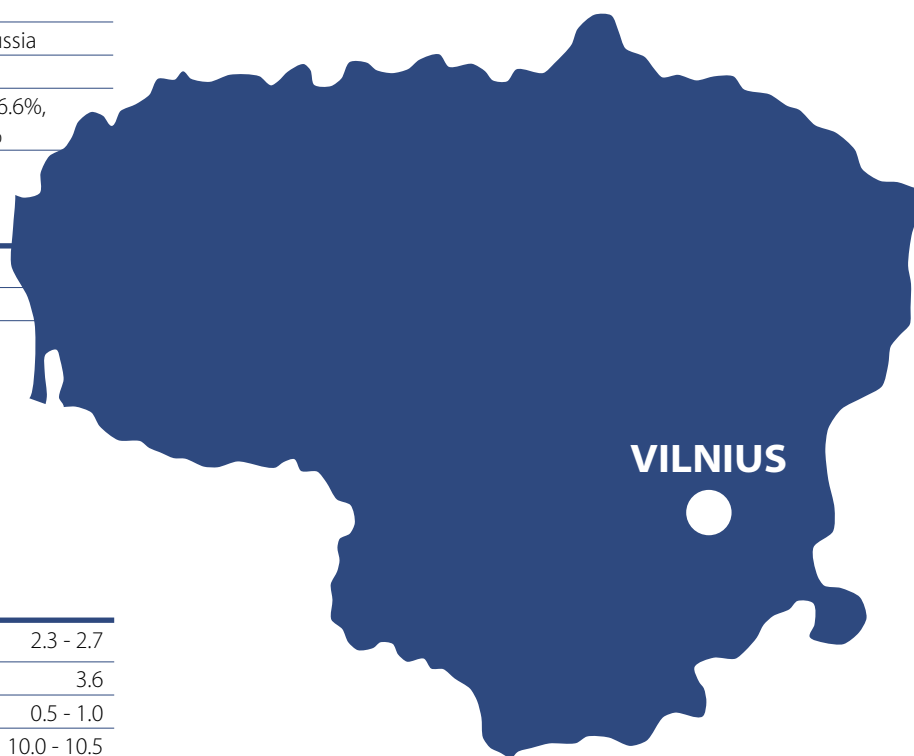
LITHUANIA

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



2015 Forecasts

GDP growth, %:	2.3 - 2.7
Private consumption growth, %:	3.6
Average annual inflation, %:	0.5 - 1.0
Unemployment rate, %:	10.0 - 10.5
Avg. monthly gross wage, €:	709
Avg. gross wage annual growth, %:	4.5 - 5.0

Population	2009	2010	2011	2012	2013	2014
Lithuania	3,183,900	3,142,000	3,052,600	3,003,600	2,971,900	2,944,500
Vilnius	543,000	543,200	536,100	533,300	537,200	539,700
Kaunas	335,400	329,500	317,300	310,800	306,900	304,000
Klaipėda	170,700	168,100	162,900	160,100	158,500	157,300
Šiauliai	116,200	114,500	109,700	107,700	106,500	105,600
Panevėžys	104,800	103,100	100,000	98,500	97,300	96,300

Economics	2009	2010	2011	2012	2013	2014
GDP growth, %	-14.7	1.3	5.9	3.6	3.4	2.9
GDP per capita, €	8,516	9,041	10,319	11,150	11,816	12,200
Private consumption growth, %	-17.5	-4.9	4.3	3.2	5.3	4.7
Average annual inflation, %	4.2	1.2	4.1	3.2	1.2	0.2
Unemployment rate, %	13.7	17.8	14.8	13.2	11.8	10.6
Average monthly gross wage, €	595	576	593	615	646	675
Average gross wage annual growth, %	-4.5	-3.2	3.0	3.7	5.0	4.5
Retail sales growth, %	-21.6	-7.1	8.8	4.5	4.5	5.6
FDI stock per capita, €	2,935	3,286	3,667	3,902	4,209	4,043

Source: Government and private institutions



EURO CAN PROVIDE ADDITIONAL STIMULUS TO THE COUNTRY'S ECONOMY

Lithuania adopted the euro as its national currency on 1 January 2015, becoming the 19th member of the euro zone. The conversion rate is set at 3.45280 Lithuanian litas (LTL) to 1 euro (EUR). Analysts see the euro creating longer-term support for investments through an improved and more stable business environment.

The Lithuanian economy is showing rapid recovery after the 2009-2010 crisis. However, the fast deterioration of the economic situation in Russia and still stagnating European economy is forcing the country's economists to project more moderate trends in the country's economic growth. Despite less optimistic expectations, the anticipated growth of the Lithuanian economy should be among the highest of the euro zone countries.

In 2014 GDP grew 2.9%, after growing 3.4% in 2013. Analysts forecast growth of 2.3-2.7% in 2015 and 3.2-3.5% growth in 2016.

Average annual inflation dropped from 1.2% in 2013 to 0.2% in 2014. Forecasts are for CPI growth of 0.5-1.0% in 2015.

Gross wages increased by 4.3% in Lithuania in Q3 2014 (compared to Q3 2013), to €697 per month before taxes. The average net monthly after tax wages in Q3 2014 was €541. Salary growth in 2015 is expected to be 4.5-5.0%.

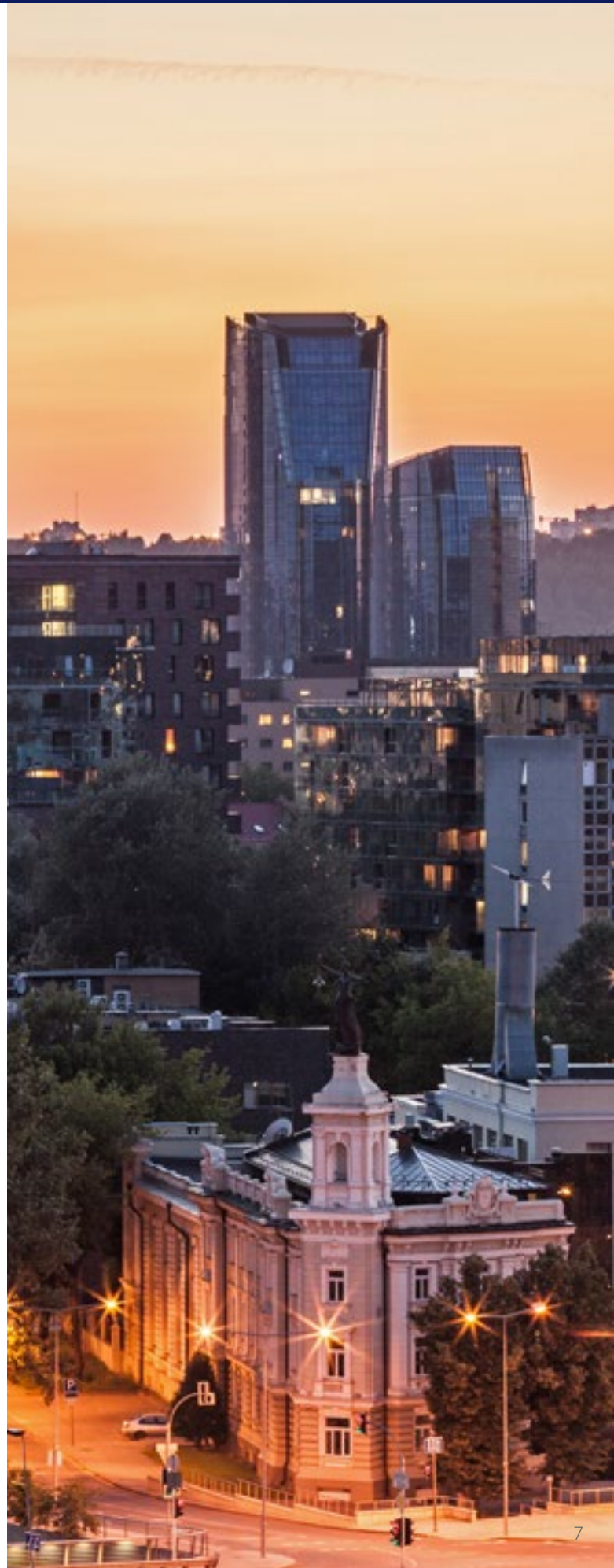
Unemployment fell to 9.1% in Q3 of 2014. Analysts project average unemployment of 10.0-10.5% in 2015.

Confidence among Lithuanian consumers is decreasing. The consumer confidence indicator in November 2014 as compared with November 2013 decreased by five percentage points to negative 17. Since mid-2014, people have been of considerably poorer opinion about the prospects for their household financial situation and the country's economic development.

The export decreased marginally by 0.6% in Lithuania in 2014. One of the most important news for Lithuanian economy in 2014 was the trade sanctions introduced by Russia in August. Russia is the main export partner of Lithuania, although a closer look at the structure of goods sold to Russia showed that the Russian sanctions against agricultural and food imports will not have the expected effect on the export indicators. It is expected that the loss in exports will be compensated by the redirection of production to other markets.

Annual increase of constructions costs was 1.7% in December 2014. In this period, the biggest increase was recorded for residential constructions (2.6%).

As of September 2014, direct foreign investment totalled €11.8 bln (7% decrease compared with start of 2014), which is €4,043 per capita.





COMING SUPPLY COULD PUT PRESSURE ON RENTS IN H2 2015

SUPPLY

Developers continue to develop office projects and do not intend to abandon their plans in Vilnius, at least in the short term. Four new projects were completed in 2014 bringing 25,400 sqm of office space to the market. After completion of these projects, the total area of modern office premises (A and B class) grew to 508,600 sqm gross lettable area (GLA) at the end of 2014. In total there are 92 office buildings in Vilnius, of which as many as 68 are B class. By floor space, A class constitutes 37% of the total modern office premises in Vilnius, and B class 63%.

It is expected that in 2015, six new office projects will be completed in Vilnius and significant amount of office space will appear in the market. After completion of these projects 62,700 sqm of new office space will appear in the market and total supply in Vilnius will increase by 12%. If all of these projects are successfully implemented, it will be the largest annual growth in supply over the past 5 years.

The newly opened business centres offer excellent location and quality opportunities and encourage the migration of tenants between different projects. It is likely that business centres which are currently under construction will not only increase market activity, but will also contribute to the growing amount of vacant office space in the market. The second half of 2015 may become a breaking point as four large office projects – PREMIUM, K29, QUADRUM, and UNIQ – will be completed till the end of the year.

DEMAND

The newly developed business centres and current occupancy rates suggest that the demand for modern premises remains sufficiently large. In 2014 the decrease in vacancies in business

END-2014 SNAPSHOT

VILNIUS

TOTAL OFFICE SPACE:
508,600 sqm

TOTAL OFFICE VACANCY RATE:
3.9%

VACANT OFFICE SPACE:
19,800 sqm

A CLASS OFFICE VACANCY RATE:
0.7%

B CLASS OFFICE VACANCY RATE:
5.8%

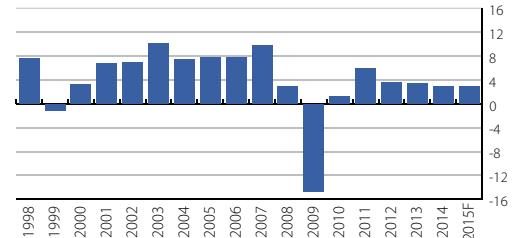
A CLASS OFFICE RENTS (sqm/month):
€12.70 - €15.60

B CLASS OFFICE RENTS (sqm/month):
€8.10 - €11.60

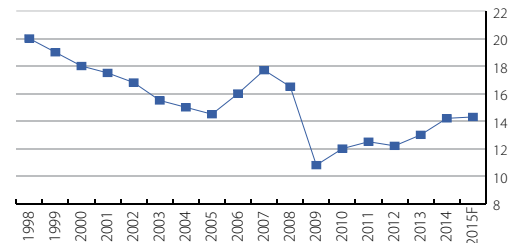
TOP OFFICE RENTS (sqm/month):
€16.00

ADDITIONAL OFFICE COSTS (sqm/month):
€3.00 - €5.50

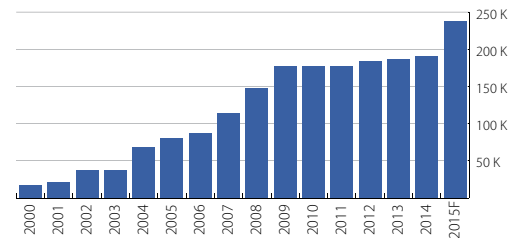
GDP growth, %



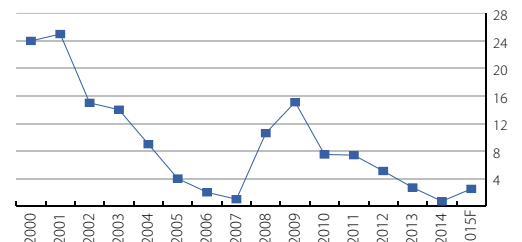
A class office rents, €/sqm



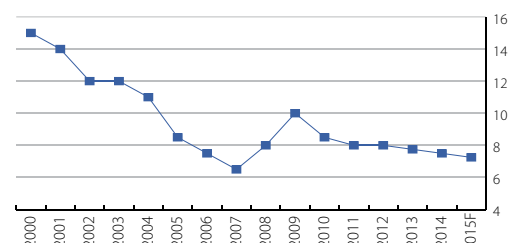
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yields, %





centres has been further observed.

In 2014, 41,500 sqm of office premises was leased in Vilnius business centres, which is 3% less compared to 2013. Although the total amount of newly leased space in 2014 is a little lower, a considerable number of transactions have been postponed to 2015 when the biggest projects of recent years will be completed.

The vacancy rate of modern offices in Vilnius fell from 5.7% to 3.9% in 2014, and the total space of vacant premises dropped to 19,800 sqm. Due to bigger supply the highest vacancy rate remains for B class office buildings. At the end of 2014, the vacancy rate for B class buildings was 5.8% (totalling 18,400 sqm), while the vacancy for A class buildings was just 0.7%, totalling 1,400 sqm of vacant space.

Ober-Haus forecasts that vacancy will rise in the second half of 2015, as new four large office projects will be completed (PREMIUM, K29, QUADRUM, and UNIQ). Currently, preliminary lease contracts are being signed for these projects and most premises should be leased by opening day. But it should be noted that some of the tenants will move to the newly built premises from older office buildings, so the occupancy of new business centres will take place at the expense of older buildings.

Expansion of international companies contributes to successful development of this sector. Already operating and newly arriving companies are establishing new services centres not only in the capital city, but also in the second largest city - Kaunas. Their preference is to settle in modern business centres (but not the most expensive), which meet the needs of today's multinational companies. According to the data of Invest Lithuania, newly arriving or expanding investors in the first half of 2014 in Lithuania are expected to employ over 1,100 employees in the services centres in Vilnius. Given the fact that on average 10 sqm office space is allocated per single employee in the service centres, the newly emerging service centres will require about 11,000 sqm of modern office space.

RENTS

Sufficiently high demand for modern offices and good occupancy indicators led to further increases in rents of modern offices. In 2014 office rents increased by an average 8% and now A class office rents range between €12.70 and €15.60 per sqm and B class – €8.10-€11.60 per sqm in Vilnius.

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

Newly developed business centres try to stand out from other projects by introducing the latest technological solutions that increase the energy efficiency of such buildings and create more comfortable working conditions for tenants. More and more developers not only

think of implementing, but also actually implement projects that will qualify for international certification of the environmental assessment of buildings (BREEAM, LEED, etc.). Therefore, developers believe that a higher quality of the building and cost-cutting solutions for tenants will allow for a higher asking rent. It is therefore not surprising that developers of some of the new projects expect to lease their premises for more than €16.00 per sqm.

Ober-Haus forecasts that rents in 2015 will increase slightly by 1-2%. Further noticeable increases in rents may be limited by the rapidly growing supply of premises and the less optimistic country's economic trends.

INVESTMENT

As forecast, the total volume of investment through purchasing already developed commercial property has been growing rapidly. An investment breakthrough was recorded back in 2013, but 2014 indicators are even more impressive. In total 18 investment transactions (modern office, retail and industrial property worth over €1.5 million) were concluded in Lithuania, with a total value of €204 million or by 30% more compared with 2013. In total, 99,200 sqm of offices, 55,600 sqm of retail premises and 22,200 sqm of warehousing/industrial premises have been purchased this year.

According to the value of purchased property, Swedish capital companies were the leading investors (45% from all investments). The remaining investments attracted buyers from Estonian, Dutch, Finnish, Danish, Russian, the United States and Lithuanian capital companies. Falling commercial property yields and expanding geography of investors, signals the attractiveness of the Lithuanian real estate market. During the year office and retail yields declined by 25 bps in Vilnius to 7.0-8.0%. Theoretically the best properties could be sold under the 7.0%, while warehousing/industrial premises are interested in no less than 8.5%.

Seeing the stable economic and political situation of the country and the growing prospects in this sector, investors take decisions to channel some of their available funds from less risky, yet less lucrative markets (e. g. Western Europe). Foreign investors, with the exception of investors from Latvia and Estonia, carefully select projects and see priorities in investing in property in the country's major cities – Vilnius and Kaunas. Only the retail property sector (most popular shopping centres), are of any interest in the remaining cities in the country. However, realistic assessment of the completed transactions shows that the majority of investment goes to Vilnius and only then are prospects of channelling investment to other cities considered. Over the past 5 years, over 80% of all investment was made in Vilnius (according to the value of investments), and it is likely that this will remain the same for the near future.







One of the largest investment deals in Lithuania was finished in May 2014. Swedish investment company East Capital Explorer has acquired Vilnius Business Harbour – biggest office project in Lithuania with leasable area of 28,000 sqm. A class office project, which is located in city centre (near Konstitucijos Ave.), was acquired from it's developer Nekilnojamojo Turto Gama for €61.6 million.

Swedish private equity firm Nordic and Baltic Property Group (NBP) have acquired two office projects in Vilnius in 2014. One B class office complex Business Park 4 was acquired from developer MB projektai and is located in Pasilaiciai district, next to Ukmerges Street. Total above ground area of the buildings are almost 18,000 sqm. Another B class office complex TRIO, which is in the same location and has 11,600 sqm of leasable area, was sold by Austrian investor ECE European City Estates. Details of the transactions are not disclosed.

After opening office building Grand Office in 2014 it was sold to Capital Mill. 21-storey office building in Virsuliskes district was developed by YIT. A energy efficiency class office building with almost 9,200 sqm of office space was opened in May 2014 and has number of tenants: Lesto, BTA Insurance Company, Schneider, Lidl, Adem, Lindorff, YIT Kausta and others.

At the end of 2014 local developer MG Valda sold its office building North Star in Zirmunai district on Ulonu Street. 7-storey building with total leasable area of 10,400 sqm was sold to local investment fund Prosperus Real Estate Fund I. The property is evaluated at €18.7 million.

Recent developments

	Description	Size (GLA, sqm)	Completion
	Atea/Sonex Consulting – Atea Baltic/Sonex Consulting has finished build-to-suit project in Virsuliskiu district next to the new western bypass. IT companies Atea Baltic and Sonex Consulting will share office space with Danske Bank (financial operation centre) in this 7,000 sqm sized building.	6,500	Q3 2014
	Baltic Hearts (III stage) – after completion of first and second buildings local developer ZVC has finished construction of A class office building on Ukmerges Street. The total area of the project is 10,000 sqm and consists of three identical structures with 3,300 sqm each. The building was leased to Danske Bank's financial operation centre. First two buildings also are fully leased.	3,300	Q4 2014
	Business Park 4 – in the start of 2014 Nordic and Baltic Property Group (NBP) have acquired office project in Ukmerges Street. The project consists of a number of commercial and administrative buildings with a total area of over 17,000 sqm. The project was already operational, but the new owners had to complete the fitting out of one new building and after this was done, they offered more than 6,400 sqm of office space to the market. Asking rents are from €8.70 to 9.30 per sqm.	6,400	H2 2014
	Grand Office – YIT has finished construction of a 21-storey office building in the Virsuliskes district. The 81-metre tall and A energy efficiency class office building with almost 9,200 sqm of office space was opened in Q2 2014. The anchor tenants include the insurance company BTA, the electricity distribution network operator Lesto, German supermarket chain Lidl. The property is also the location for YIT's Lithuanian subsidiary.	9,200	Q2 2014



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



New projects

Description	Size (GLA, sqm)	Completion
 <p>Sostena – a 3-storey car dealership building was built in 2008 and currently accommodates the Jaguar, Volvo, Renault, Dacia and Land Rover showrooms and a car repair workshop. The second phase of the project – construction of an additional four storeys of the building – is nearly complete. Opening of a new business centre with around 2,300 sqm of office space is scheduled for the beginning of 2015.</p>	2,300	Q1 2015
 <p>Vertingis – at the beginning of 2014, Invalda Privatus Kapitalas, a company of the Invalda Group of companies, purchased commercial property in major cities of the country from Siauliai Bank. One of the properties was an unfinished business centre on Ukmerges Street. The investor plans to complete this centre of about 6,000 sqm useful area and open it at the beginning of 2015.</p>	6,000	Q1 2015
 <p>PREMIUM – local developer Evolis is continuing construction of office project on the right side of the river Neris on Sporto Street (Zirmunai district). The project consist of two 6-7-storey buildings with a total above ground area of 8,300 sqm (7,300 sqm GLA) and 270 underground and outdoor parking places. One side of the project is facing Neris river and have a beautiful view of the surroundings. Estimated completion of construction works is in Q2 2015. Asking rents are from €12.00 per sqm.</p>	7,300	Q2 2015
 <p>K29 – local investment fund Lords LB Baltic Fund II is finishing the construction of A class office building in the new Vilnius business district, on Konstitucijos Avenue. The 8-storey building will bring 14,000 sqm of lettable office area in the first half of 2015. The building will be surrounded by a 2 hectare green zone and will offer as many as 560 parking spaces. Total investments will reach €30 million.</p>	14,000	H1 2015
 <p>UNIQ – Vastint Lithuania (previously operated under the name Pinus Proprius) has started the construction of A class office building on Gostauto Street. The 7-storey U-shaped building will bring 6,800 sqm of lettable office area in Q3 2015. UNIQ is the first building in Lithuania to bid for the highest – platinum – certificate to prove its green philosophy in accordance with the international LEED standard.</p>	6,800	Q3 2015
 <p>QUADRUM – the biggest office project in Lithuania from Norwegian developer Schage. With a total area of over 70,000 sqm this project will fill the shortage of A class office space in Vilnius by offering up to 40,000 sqm of top class space with BREEAM certification in the new Vilnius business district, on Konstitucijos Avenue. The first stage will be completed in the end of 2015 and will bring 26,000 sqm of office space in two buildings. It is planned that DNB Bank will set up it's headquarters in the first stage of the new business centre, taking over 10,500 sqm of the tallest 17-storey building there.</p>	26,000	Q4 2015

LEGAL NOTES BY SORAINEN

Rent is usually paid in advance, generally monthly. Rent is typically indexed against local or European Union inflation (CPI) rates. In addition to rent, tenants usually pay for utility services and a service charge for property maintenance. Payment of a security deposit or a guarantee is usually agreed. Triple net leases have become a standard for "A" class offices. Double net leases are more common. As a rule, the owner is responsible for finishing leased premises up to a standard level proposed by the landlord. Typically, standard lease agreements are used in larger properties.

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







DEVELOPMENT OF THE SMALL AND MID-SIZED RETAIL PROJECTS CONTINUES

SUPPLY

In 2014, two larger retail projects were opened in Vilnius. At the beginning of the year, the DomusPro shopping centre was opened in Pasilaiciai district and the Prisma supermarket was opened just off Pilaite Avenue. The Prisma supermarket is the chain's largest project so far in Vilnius. The useful area of these shopping centres is about 16,500 sqm.

At the end of 2014 there were the 24 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable area of 425,100 sqm. Currently Vilnius has 0.79 sqm of shopping area per capita.

German supermarket chain Lidl is continuing the construction of its first stores in Lithuania. Lidl plans to expand in all Lithuanian cities with a population of over 20,000 people. At least first several stores could be opened at the same time in 2015 (opening date is not published). To ensure the distribution of goods Lidl is constructing 41,000 sqm sized logistic centre in Kaunas district.

Although no major shopping centres were opened in Vilnius during the past five years, developers try to exploit attractive locations by offering medium-size centres or a different concept of shopping centres to the market. In 2015, at least two projects will be built in Vilnius: a 5,500 sqm Rimi shopping centre in Linkmenu Street and NORDIKA Shopping Valley in Vikingu Street next to IKEA. 40,000 sqm NORDIKA Shopping Valley will be developed in two stages and total investment will reach €50 million. The first stage should be completed in Q3 2015.

DEMAND

Retail property developers and tenants are trying to exploit the growing consumption and

END-2014 SNAPSHOT

VILNIUS

TOTAL LEASABLE SPACE IN SHOPPING CENTRES:

425,100 sqm

TOTAL SHOPPING CENTRE SPACE PER CAPITA:

0.79 sqm

SHOPPING CENTRE VACANCY RATE:

1.0%

RETAIL RENTS FOR ANCHOR TENANTS (sqm/month):

€8.50 - €13.00

RETAIL RENTS FOR MEDIUM SIZED UNITS (sqm/month):

€13.00 - €35.00

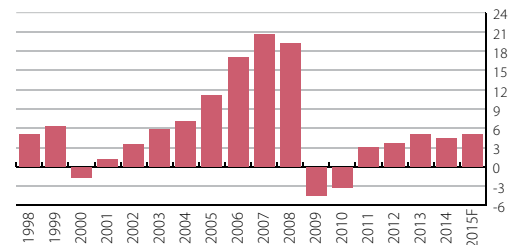
RETAIL RENTS FOR SMALL SIZED UNITS (sqm/month):

€50.00 - €70.00

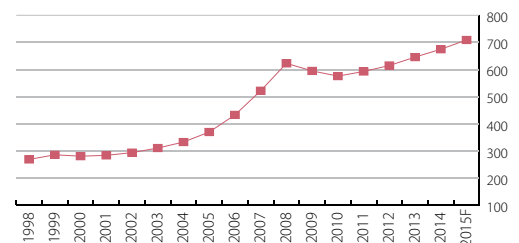
HIGH STREETS RENTS (sqm/month):

€16.00 - €40.00

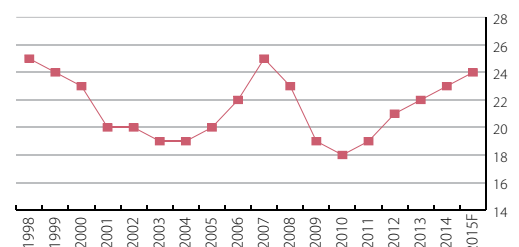
Average salary growth, %



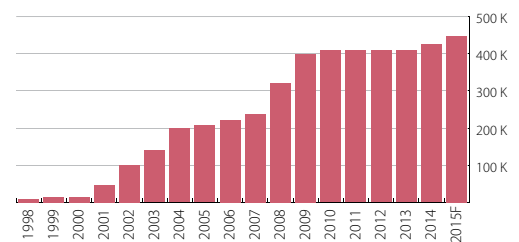
Average salary per month (brutto), €



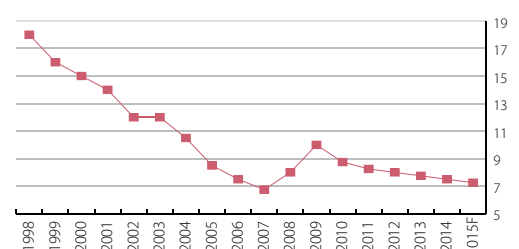
Average mall rents, €/sqm



Total leasable space in shopping centres, sqm



Retail investment yields, %





leave no vacancies in strategically convenient locations. The vacancy rate of shopping centres in Vilnius decreased from 2.3% to 1.0% in 2014. The biggest effect on the decrease in the vacancy rate was the opening of the commercially improved and reshaped shopping centre GO9 (previously Gedimino 9), which, following its renovation has new tenants and these have significantly reduced the previously vacant spaces. This means that there is very little free space available in the existing shopping centres and projects in attractive locations attract a lot of attention from tenants.

Newly arriving brands further limit the availability of premises, because the managers of the buildings are primarily interested in strong well-known trademarks. The first H&M brand store was opened in 2013 and by the end of 2014 the chain has 7 stores in the best shopping centres of Lithuania's major cities.

In 2014 retail turnover grew by 5.6%. The biggest increase in turnover was registered by companies selling clothes, textile, footwear, audio and video equipment, recordings, hardware, paints and glass, electrical household appliances, furniture and lighting equipment, which increased by 9-12%.

The main shopping streets (Gedimino Avenue, Pilies Street, Didzioji Street, Vokieciu Street) are also enjoying almost full occupancy. The dominance of shopping centres has changed the face of shopping streets and clothes, shoes or other accessories are now seldom seen in shop windows. Instead small new food shops, cafes and cocktail bars popular in the evenings are being opened in the central part of the city.

RENTS

As has been forecasted, no significant price changes have been recorded in the shopping centres, but the overall price trend remained positive. In 2014, rents increased by another 5% in Vilnius shopping centres.

Rents for a medium sized (150-300 sqm) units in a major shopping centres run from €13.00 to €35.00 per sqm and up to €50.00-€70.00 for small sized units. Rents for anchor tenants are €8.50 - €13.00 per sqm.

Rents for retail premises in the high Vilnius streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) went up by another 5% in 2014, after a 15% increase in rents in 2012 and 5% increase in 2013. In the end of 2014, rents for medium sized retail premises (100-300 sqm) in such streets were €16.00 - €40.00 per sqm.

Ober-Haus believes that retail rents will rise slightly in 2015.

INVESTMENT

As forecast, the total volume of investment through purchasing already developed commercial property has been growing rapidly. An investment breakthrough was recorded back in 2013, but 2014 indicators are even more impressive. In total 18 investment transactions (modern office, retail and industrial property worth over €1.5 million) were concluded in Lithuania, with a total value of €204 million or by 30% more compared with 2013. In total, 99,200 sqm of offices, 55,600 sqm of retail premises and 22,200 sqm of warehousing/industrial premises have been purchased this year.

According to the value of purchased property, Swedish capital companies were the leading investors (45% from all investments). The remaining investments attracted buyers from Estonian, Dutch, Finnish, Danish, Russian, the United States and Lithuanian capital companies. Falling commercial property yields and expanding geography of investors, signals the attractiveness of the Lithuanian real estate market. During the year office and retail yields declined by 25 bps in Vilnius to 7.0-8.0%. Theoretically the best properties could be sold under the 7.0%, while warehousing/industrial premises are interested in no less than 8.5%.

Seeing the stable economic and political situation of the country and the growing prospects in this sector, investors take decisions to channel some of their available funds from less risky, yet less lucrative markets (e. g. Western Europe). Foreign investors, with the exception of investors from Latvia and Estonia, carefully select projects and see priorities in investing in property in the country's major cities – Vilnius and Kaunas. Only the retail property sector (most popular shopping centres), are of any interest in the remaining cities in the country. However, realistic assessment of the completed transactions shows that the majority of investment goes to Vilnius and only then are prospects of channelling investment to other cities considered. Over the past 5 years, over 80% of all investment was made in Vilnius (according to the value of investments), and it is likely that this will remain the same for the near future.

Ogmios Centras, the real estate development and management company, sold the 19,000 sqm retail and office complex Domus Centras to Westerwijk Investments registered in the Netherlands. The complex built in 2003 accommodates Domus Galerija, a 10,600 sqm interior finish and fitting out material centre, and 4,400 sqm of offices. Details of the transaction have not been disclosed.



The local developer Eika completed the sale transaction of the Hyper NORFA shopping centre opened in April 2014. The shopping centre, with a total area of 5,000 sqm in Pilaite district, was sold to a foreign investor for an undisclosed amount.

A forward investment deal was finished when the first stage of shopping centre next to Ukmerges Street has been completed by TK Development. After successful completion of the first stage (7,500 sqm) it was sold to Northern Horizon Capital for its latest Baltic fund (Baltic Opportunity Fund). The value of the investment deal was established based on the required initial yield of 8.5%.

At the end of 2014 Finnish real estate investment company Citycon sold its shopping center Mandarinas in Fabijoniskes district. Shopping center with total area of over 9,000 sqm was sold to local investment fund Lords LB Baltic Fund III for €12.5 million. In 2006 this shopping centre was acquired from its developer ELL Real Estate for €14.6 million.

LEGAL NOTES BY SORAINEN

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

Lease agreements may be invoked against third parties only if registered with the Real Estate Register. The tenant may terminate the lease agreement on change of ownership of the leased premises. In practice, the owner/landlord attempts to resolve this issue by obtaining estoppels (up-front waivers of these rights) from tenants.



Recent developments

Description	Size (GLA, sqm)	Completion
 <p>DomusPro – the first stage of shopping centre next to Ukmerges Street has been developed by TK Development and has opened on March 2014. After successful completion property was sold Northern Horizon Capital for its latest Baltic fund (Baltic Opportunity Fund). The shopping area of 7,500 sqm has small tenants with anchor tenant Rimi. The development of the second stage will begin once necessary preleases have been signed.</p>	7,500	Q1 2014
 <p>Prisma – in April 2014 YIT has completed the development of new shopping centre development next to the new western bypass in Virsuliskiu district. 9,000 sqm of retail space host small shops in addition to the Prisma supermarket (6,000 sqm). The shopping center has 300 underground and 160 outside parking places. The total value of the project is €12 million.</p>	9,000	Q2 2014
 <p>GO9 – East Capital Baltic Property Fund II acquired the shopping centre on Gedimino Avenue in the end of 2012 and has completed the reconstruction of Gedimino 9 in spring 2014. Previously known as Gedimino 9 it was rebranded to GO9 and now shopping center offers around 11,000 sqm of lettable retail area. Swedish multinational retail-clothing company H&M has become the anchor tenant.</p>	11,000 (reconstruction)	Q2 2014

New projects

Description	Size (GLA, sqm)	Completion
 <p>Rimi – construction of a new Rimi shopping centre started in spring 2014 between Linkmenu and Gelezinio Vilko Streets in Vilnius. The main retail trade area is 5,500 sqm and the anchor tenant is the Rimi food store chain. Smaller shops will occupy the rest of the building. It is planned to provide parking for 350 cars near the building. The completion date is H1 2015.</p>	5,500	H1 2015
 <p>NORDIKA Shopping Valley – construction of this shopping center between Vilnius International Airport and the city southern bypass has begun on the same plot with the Swedish furniture superstore IKEA. The almost €50 million project is under development in two phases. The first phase includes the construction of 18,000 sqm retail area, to be opened in Autumn 2015. The second phase will open in 2016, with an additional 22,000 sqm. The total area of NORDIKA Shopping Valley will total almost 40,000 sqm. Senukai, the Lithuanian home improvement and construction products retail chain, Rimi Hypermarket, electronics retailer Elektromarkt, and Kotryna, the largest retailer of children goods and toys in Lithuania operating their shops Baby City and Toy City, will be among the largest tenants. The main owner of NORDIKA Shopping Valley is Peter Gage Morris, who also owns shopping centres in Estonia. The developer of the project is the Lithuanian developer VPH.</p>	18,000 (I stage)	Q3 2015



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LOW RENTS DO NOT MOTIVATE THE START OF NEW PROJECTS

SUPPLY

The situation in the warehousing premises sector in 2014 can be described as cautiously optimistic. Although there are not many projects developed exclusively for the market, companies continue investing in warehouses mainly intended for their own needs.

Few new warehouses were completed in Vilnius in 2014. A logistics centre of Transekspedicija with a total area of 17,000 sqm next to the Ukmerges highway and Autoverklas warehouse with total area of 3,500 sqm in Kirtimu Street. These projects increased total leasable area of modern warehousing premises in Vilnius and its surroundings to 461,100 sqm.

Despite relatively high occupancy rates, the development of warehousing projects is not a priority for real estate developers. The low level of rents, specific needs of tenants and the overall risk profile of the entire sector do not inspire confidence in developers wishing to start new projects designated not only for own needs, but also for market needs.

The development of new projects could be inspired by public projects. Vilnius city municipality with other state-owned company is finishing the construction of Intermodal Terminal (first stage of Vilnius Public Logistics Centre (Vilnius-PLC)). Total investments in terminal will reach €32 million. Up to 100,000 containers will be transhipped in the new terminal per year. This project also is offering the land plots with full infrastructure for the private investors. Autoverklas is one of the first companies which, under favourable conditions, plans to lease a 3.1–3.5 ha parcel of land in Vilnius PLC. It is likely that after

END-2014 SNAPSHOT VILNIUS

TOTAL NEW WAREHOUSE SPACE:
461,100 sqm

WAREHOUSE VACANCY RATE:
4.0%

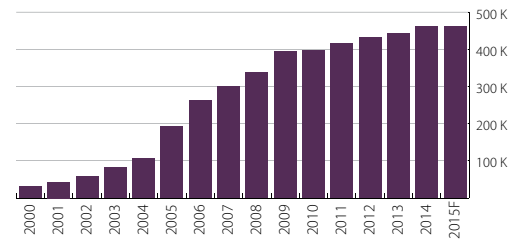
ANNUAL WAREHOUSE RENTS CHANGE:
+5.5%

NEW WAREHOUSE RENTS (sqm/month):
€3.50 – €5.20

OLD WAREHOUSE RENTS (sqm/month):
€1.50 – €2.90

ADDITIONAL WAREHOUSE COSTS (sqm/month):
€1.00 – €1.20

Total modern warehouse space, sqm



New warehouse rents, €/sqm



Old warehouse rents, €/sqm



LEGAL NOTES BY SORAINEN

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



completion of the first phase, more private investment will be attracted and construction of new warehouses and other facilities will start.

DEMAND

In Vilnius, the vacancy rate of modern warehouses by the end of 2014 was 4.0%. The current vacancy rate includes space in logistic centres, which are operated by 3PL companies and could offer additional space for strong tenants. Given that no larger projects are planned in the immediate future, occupancy rates should remain the same in 2015.

While the overall revenues from services supporting the warehousing and transport sector have increased in the country in 2014, after a longer period of time a decrease in revenues of companies engaged only in warehousing and storage services can be observed. Revenues from warehousing and transport services increased by 8.1% in Q1-Q3 2014, but revenues only from warehousing and storage decreased by 26.1% in the same period.

The transport and warehousing sector is very sensitive to changes not only within the country, but it is also very dependent on changes taking place outside the country. Retaliatory sanctions introduced by Russia affect the country's food production and transportation services business and, as a result, the warehousing sector. Companies that use the storage facilities for sorting and storage of goods supplied to the Russian market may face greater challenges. However, the relatively strong internal demand in the country will likely help retain quite good indicators in the warehousing premises sector.

RENTS

Rents for new warehouses increased by 4% in 2014, while rents in old construction premises increased by 7%. At the end of 2014, rents for new modern warehouses near the city centre were from €4.00 to €5.20 per sqm, depending on the size. Near or outside the city limits, rents range from €3.50 to €4.00 per sqm. Renovated premises are being offered at prices from €2.50 to €2.90 per sqm. Average and poor quality premises are from €1.50 to €2.00 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

It is likely that the tense geopolitical situation will be offset by the shortage of new storage facilities and rents will stay at a similar level in 2015.

INVESTMENT


As forecast, the total volume of investment through purchasing already developed commercial property has been growing rapidly. An investment breakthrough was recorded back in 2013, but 2014 indicators are even more impressive. In total 18 investment transactions (modern office, retail and industrial property worth over €1.5 million) were concluded in Lithuania, with a total value of €204 million or by 30% more compared with 2013. In total, 99,200 sqm of offices, 55,600 sqm of retail premises and 22,200 sqm of warehousing/industrial premises have been purchased this year.

According to the value of purchased property, Swedish capital companies were the leading investors (45% from all investments). The remaining investments attracted buyers from Estonian, Dutch, Finnish, Danish, Russian, the United States and Lithuanian capital companies. Falling commercial property yields and expanding geography of investors, signals the attractiveness of the Lithuanian real estate market. During the year office and retail yields declined by 25 bps in Vilnius to 7.0-8.0%. Theoretically the best properties could be sold under the 7.0%, while warehousing/industrial premises are interested in no less than 8.5%.

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No major transactions of warehouses were registered in Vilnius in 2014.

Recent developments

	Description	Size (GLA, sqm)	Completion
	Transekspedicija II – after completion of the first warehouse next to Ukmerges highway in early 2012, local transporting-forwarding company Transekspedicija has completed construction of the second warehouse on the same location. Logistic centre with 14,000 sqm warehouse premises and 3,000 sqm office premises was completed in mid-2014. Asking warehouse rents are from €4.60 per sqm, offices – from €6.50 per sqm.	14,000	Q2 2014

New projects

	Description	Size (GLA, sqm)	Completion
	Vilnius Public Logistics Centre – the long-term (2025) Lithuanian transport system development strategy, approved by the Government in 2005, focuses on the modern public logistics centers (PLC). Vilnius city municipality with other state-owned company are currently developing the public logistic centre in Vaidotai. The infrastructure on the site of the logistics park will be fully completed and adapted to each investor's needs; investors will be provided with an opportunity to connect to engineering systems. The logistics park project will be implemented in three phases. Once completed the park will occupy an area of about 460 ha. In the first phase, in the area of 54 ha owned by Vilnius city municipality near Vaidotai Railway Station, an inland intermodal container terminal is being built with all the required infrastructure. The scheduled opening of the terminal is the beginning of 2015. Autoverlas is one of the first companies that plans to lease a parcel of land and start investing in Vilnius PLC. It is likely that after completion of the first phase, more private investment will be attracted and construction of new warehouses and other facilities will start.	N/A	Q1 2015

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AFTER A VERY ACTIVE H1 2014, THE MARKET CALMED DOWN AT THE END OF THE YEAR

PRICES

Following the rapid recovery of the residential property market in Vilnius and other Lithuanian cities in the first half of 2014, the situation in second half is seen to be more moderate and in fact some slightly negative indicators have been observed. However, overall price change indicators remain positive.

Apartment prices in Vilnius increased by 5.1% in 2014, after increase of 2.8% in 2013, according to the Ober-Haus Lithuanian apartment price index. As a result, the average price at the end of 2014 rose to €1,280 per sqm. Since the last lowest price level in May 2010 till December 2014, apartment prices increased by 10.9% (€126 per sqm). In 2014 the greatest positive changes in prices were recorded for old construction apartments in the prestigious and residential districts of the capital city.

Prices for new construction apartments in residential districts increased by 2.4% in 2014 and by the end of the year ranged from €930 to €1,550 per sqm without final fit-out.

In Lithuania new apartments are generally sold shell, which is without any fit-out at all. Apartments sold shell require average of €150-€200 per sqm to fit-out with floors, painting, lights, bathrooms and kitchen to a bare economy standard.

By the end of 2014, a standard two-room apartment (45-50 sqm) in a Soviet-era concrete block building located in a residential district cost from €38,000 to €52,000. Prices of apartments which are in old brick buildings are 15-20% higher. The lowest price for old construction unrenovated apartments in Vilnius residential districts is €650 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €1,000 to

END-2014 SNAPSHOT VILNIUS

ANNUAL APARTMENT PRICE CHANGE:

5.1%

NEW APARTMENTS BUILT:

2,863

AVERAGE NEW APARTMENT FLOOR AREA:

54.2 sqm

ECONOMY CLASS NEW APARTMENT PRICES
(sqm, without final fit-out):

€950 – €1,400

MIDDLE CLASS NEW APARTMENT PRICES
(sqm, without final fit-out):

€1,400 – €1,800

LUXURY CLASS NEW APARTMENT PRICES
(sqm, without final fit-out):

€1,900 – €3,000

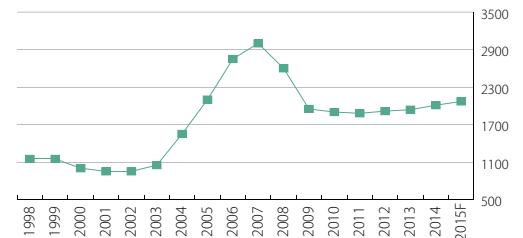
FINAL APARTMENT FIT-OUT:

€150 – €200

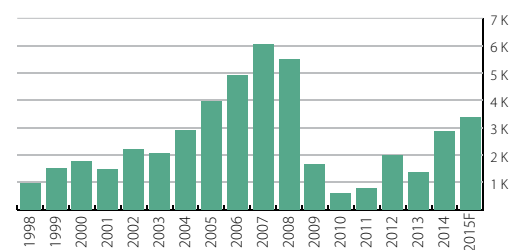
RESIDENTIAL INVESTMENT YIELD (city centre):

4.8%

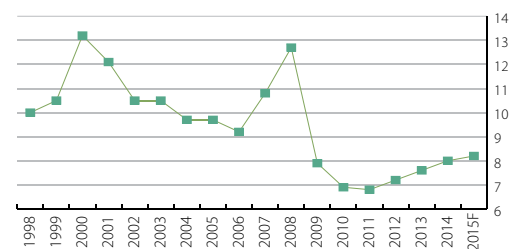
Residential prices in city centre, €/sqm



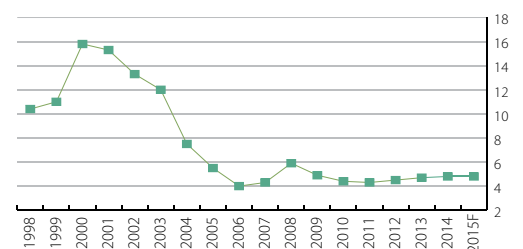
Completed apartments



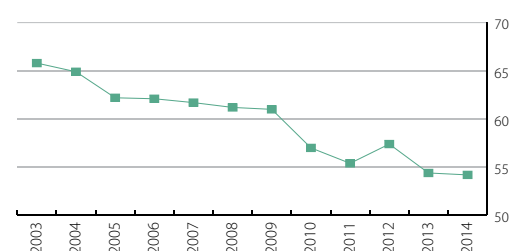
Residential rents in city centre, €/sqm



City centre residential investment yield, %



New apartment floor area, sqm





€1,800 per sqm for unrenovated and from €1,450 to €3,500 per sqm for renovated apartments. Prices of new construction apartments are now offered for €1,500 to €3,000 per sqm without final fit-out.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas), old apartment prices range from €850 to €2,250 per sqm. Prices of newly built apartments range from €1,350 to €2,200 per sqm without final fit-out.

In 2014, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate Vilnius surroundings have increased by 5%.

Detached houses (150-200 sqm with land plots of 600–1,000 sqm) located in a 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 €100,000 to €160,000. Prices for semi-detached houses (100-125 sqm with land plots of 300–400 sqm) range from €90,000 to €120,000. Full final fit out generally costs €150 per sqm or more.

The price for fully finished 150-200 sqm sized detached house within the city limits (city residential districts) averages between €170,000 and €300,000, and from €250,000 to €580,000 in the city's more prestigious neighbourhoods where a considerable share of the house price is represented by the high price of land in these districts.

Given the current economic situation and forecasts, we believe that in 2015 slight, but positive trends in residential property prices will be recorded. Due to the introduction of the euro at the beginning of 2015, it is likely that the residential property market will not be very active in the beginning of the year as market participants will be adapting to significant changes and some buyers may postpone the purchase of homes for later. However, mid and second half of 2015 should be more active and therefore one can expect positive price changes. Ober-Haus believes that in 2015 apartment prices will show increase of 2-4%.

SUPPLY

According to Ober-Haus data, 2,863 apartments (in 39 different apartment building projects) were constructed in the capital in 2014, which is two times more than the number of apartments constructed in 2013. Rapid construction of new apartment blocks and growing competition among developers in recent years raises some questions regarding a potential surplus of supply and the effect on apartment prices in the near future. Developers see the market potential and try to offer more new projects to the market. Around 50 new apartment block projects were started in 2014 alone, the majority of which will be completed in 2015. Such rapid development of new apartments in the capital city could have been caused not only by an increase in demand for new housing, but also by the

adoption of the EU directive in Lithuania which requires construction of only A class energy efficiency buildings from 2016. Therefore, some developers are now trying to exploit the possibilities by building B class energy efficiency buildings, because it costs 10-15% less to construct them than A class buildings.

Looking at the apartment projects, which were constructed in Vilnius in 2014, the major portion of the supply of apartments are middle class apartments that partially finished sell at €1,400 to €1,800 per sqm and account for up to 53% of the total supply of apartments. The supply of economy class apartments — the selling price of which (partially finished) is between €930 and €1,400 per sqm — is just lower compared to middle class and accounts for 44% of the total supply. The more expensive apartments in the central part of the city or the other prestigious districts account for the remaining 3% of supply.

The average floor area of newly built apartments continues to decrease. The average floor area of projects implemented in 2014 was 54.2 sqm, which is 0.2 sqm smaller than those built in 2013. And from 2003 to 2014, the average floor area of newly constructed apartments was reduced by 11.6 sqm, i. e. by almost 18%.

Depending on the trends in a specific project development and demand, it is expected that in 2015 around 3,300–3,500 new apartments should be built in Vilnius.

Whereas previously developers mainly developed apartment blocks in apartment block residential districts, recently a growing number of projects have been developed in the city centre and other prestigious areas of the city. In 2015, at least 20 new projects should be completed in the city centre and prestigious districts, which will offer approximately 1,200 new apartments.

In 2014, 180 detached and semi-detached houses were built by developers in and around Vilnius, which is a 36% increase compared to 2013. Developers of residential property tend to direct their investments to the development of apartment blocks, therefore no considerable growth in the supply in the individual private house segment has been recorded (compared with that in the apartment block segment). The current trend is to build small-scale projects, typically consisting of around 6–12 semi-detached houses. These small semi-detached private houses attract considerable interest, because the buyer is offered a cheaper version of a detached private house.

DEMAND

The residential property market was extremely active in the first half of 2014. Despite the drop in activity in the second half of the year, the overall positive annual changes continue to be recorded both throughout Lithuania and in the capital.



The number of residential property transactions in all the main cities of Lithuania grew 12% for apartments and 10% for houses in 2014.

Vilnius in 2014 saw a 9% increase in apartment sales and a 37% increase in house transactions. In 2014 on average 810 sales of apartments and almost 60 sales of private homes were made in Vilnius each month.

Sellers of newly constructed apartments in Vilnius enjoy record sales in 2014. According to Ober-Haus, during the year, almost 3,100 apartments in newly built buildings or buildings under construction were purchased or reserved directly from developers in Vilnius. This is 35% more than in 2013 and over two times more than was sold in 2012. In 2014, on average 255 new apartments were sold each month in the primary market in Vilnius.

Market players are concerned by the significant number of new apartments, and are worried about an oversupply of residential property and possible drops in prices. One of the key indicators that could signal a supply surplus in the residential property market is the number of unsold apartments in fully completed buildings. Therefore, the growing number of vacant apartments in freshly completed projects may be of concern to both developers and the market; however the figures for 2014, do not indicate this. According to Ober-Haus data, the number of unsold new apartments on the Vilnius primary market decreased by 10% during 2014. At the end of 2014 there were almost 1,050 unsold newly built apartments in the finished apartment buildings. Also, around 2,200 new apartments in buildings currently under construction remained unsold. This leads to believe that developers will be able to successfully complete projects already started, whereas the future of new, not yet started projects will depend on the demand for newly build residential property in 2015.

THE MORTGAGE MARKET

Current interest rates in Lithuania are at the lowest level ever recorded. In the end 2014 interest rates in the local currency, the litas, was below 2.3%. The majority of loans are taken in euros, and the average interest rate on new mortgage loans dropped to 2.0%.

In the end of 2014 the total value of outstanding residential loans stood at €5.90 bln. Currently in Lithuania, the value of household loans equals about 17% of GDP. This rate is one of the lowest compared to other EU countries (EU28 average in 2013 – 51%).

The increased residential market activity are also reflected in the mortgage loan statistics. According to data from the Association of Lithuanian Banks, in Q1-Q3 2014, the main credit institutions in the country provided new mortgage loans amounting to almost €518 million, which is a 27% increase compared with the same period of 2013.

The housing affordability has changed slightly in 2014. Currently, an inhabitant of Vilnius can purchase 5.7 sqm in a medium-class apartment for his average (net) annual salary. In 2013 this figure was 5.9 sqm. Still the space to salary ratio is the highest in the past 16 years.

RENTS

2014 saw an average 5% increase in apartment rents, after rising 4% in 2013 in Vilnius. The same increase of prices was recorded in 2014, so changes in the rents of residential property are directly related to their selling prices.

Typical two-room old construction apartment in Vilnius residential districts rents for €170 to €230 per month in the end of 2014. The same size new construction apartment rent starts from €275 per month. Maintenance costs are additional.

Rents for fully equipped two-room apartments (old or new) in the central part and prestigious districts of Vilnius range from €230 to €460 per month, and for three-room apartments from €275 to €720 per month. Rents for bigger and good equipped apartments in the Old Town can be from €800 to €1,000 per month. Maintenance costs are additional.

Fully equipped houses of 100–200 sqm in the outskirts and residential districts of Vilnius are usually offered for rent at €580 to €1,000 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zvėrynas) and city centre or Old Town are higher and vary from €850 to €1,800 per month. Maintenance costs are additional.








In recent years, the residential yields have remained stable. At present, the overall gross rental yield in the city centre is about 4.5–5.0% and in residential areas – 6.0%. Rental income has become an attractive investment option among non-professional players in the market, because the interest rates offered by credit institutions are very low. Therefore, those with funds available often choose a sufficiently secure form of investment by purchasing one or two room apartments in various areas of Vilnius.

Ober-Haus expects residential rents will keep the same tendencies as their prices in 2015, i.e. will increase 2-4%.





Recent developments





	Description	Price (sqm)	Completion
	Ozo Park (4A and 4B1 blocks) – in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark, Realco has finished construction of two residential blocks with 92 (4A) and 54 (4B1) apartments in 2014. One to four room apartments range from 28 to 85 sqm. Over 85% of the apartments have been sold. Sales price of the available apartments without fit-out are from €1,300 to €1,750 per sqm. In total over 800 apartments have been built in this territory in 2008-2014.	€1,300 - €1,750	2014
	Elguvos deimantai – local company Elguva has finished construction of low-rise residential project in the Karoliniskes district on I. Simulionio Street. The 4-storey residential building comprise apartments ranging in size from 49 to 123 sqm. 90% of the apartments have been sold. Sales price of the available apartments without fit-out are from €1,450 to €1,750 per sqm.	€1,450 - €1,750	2014
	Naujamescio namai I – in the second half of 2014 local developer Vilbra has finished the construction of the first stage of a new residential project in the Naujamiestis district on Vivulskio Street. The first stage delivered 114 apartments and commercial premises on the ground floor. The 4, 8 and 9-storey residential building comprise apartments ranging in size from 35 to 75 sqm. Asking prices for apartments without fit-out are from €1,500 to €1,700 per sqm. Over 90% of the apartments have been sold or reserved.	€1,500 - €1,700	H2 2014 (I stage)
	Vingriai Houses I – in the second half of 2014 local developer Realinija has finished a 4-storey apartment building in the Old Town on Vingriu Street. The building with 41 apartments and commercial premises on the ground floor is the first stage. The second stage of the project will be completed in late 2015. Sales price of apartments without fit-out are from €2,100 to €2,500 per sqm. 80% of the apartments have been sold.	€2,100 - €2,500	H2 2014 (I stage)
	Gabijos Street – in the end of 2014 local company Anreka has finished another residential building with over 40 apartments on Gabijos Street, in the Pasilaiciai district. 1-4 rooms apartments range from 42 to over 100 sqm. Sales price of the available apartments without fit-out are from €900 per sqm. 80% of the apartments have been sold.	From €900	Q4 2014
	Visinskio kalnas – in the end of 2014 local developer Buvis has finished construction of low-rise residential project next to Uzupis. A 4-storey apartment building with 32 apartments offers spectacular view of the Old Town. Two to three room apartments range from 35 to 53 sqm. Sales price of the available apartments without fit-out are from €1,450 to €1,800 per sqm. 60% of the apartments have been sold.	€1,450 - €1,800	Q4 2014
	Rasu namai – construction of settlement of the eighteen houses in the Rasos district was finished in the end of 2014. The 2 and 3-storey houses comprise apartments and houses ranging in size from 42 to 190 sqm. Over 70% of the apartments and houses have been sold. Sales price of the available units without fit-out are from €1,750 to €1,900 per sqm.	€1,750 - €1,900	Q4 2014

LEGAL NOTES BY SORAINEN

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



New projects

	Description	Price (sqm)	Completion
	Zalgiro namai – in start of 2014 local developer NT Investiciju Sprendimai has started to build A class energy efficiency apartment building in the Snipiskes district on Rudnios Street. On first stage one 7-storey residential buildings with 61 apartments will be built. 1-4 rooms apartments range from 30 to 100 sqm. Construction will be completed by the start of 2015. Sales prices of the available apartments without fit-out are from €1,350 to €1,650 per sqm. Over 40% of the apartments have been sold.	€1,350 - 1,650	Q1 2015
	Pylimeliai - local developer is finishing low-rise residential project in the Antakalnis district on Pylimeliu Street. The 4-storey residential building comprise apartments ranging in size from 63 to 93 sqm. The project is equipped with a geothermal system to ensure low cost heating. Sales prices of the available apartments without fit-out are from €1,500 to €1,800 per sqm. Construction will be completed by the start of 2015. Over 50% of the apartments have been sold or reserved.	€1,500 - €1,800	Q1 2015
	Lighthouse II – in the end of 2013 local developer MG Valda has finished the construction of the first stage of a new residential project in the Fabijoniskes district. Currently this company is developing the second stage of this project. In total, 127 apartments will be built in the second stage, with the construction to be completed in Q3 2015. One to four room apartments range from 37 to 92 sqm. Apartments are sold without or with fully fit-out. Sales prices of apartments without fit-out are from €1,300. Total investments will reach over €7 million.	From €1,300	Q3 2015
	Link parko - local company Linkmenu bustas with local developer Eika is building a 7-storey apartment building in the Snipiskes district on Linkmenu Street. The building with 30 apartments and commercial premises on the ground floor will be completed in Q3 2015. One to three room apartments range from 28 to 75 sqm. Sales price of the available apartments without fit-out are from €1,600 to €1,900 per sqm. 50% of the apartments have been sold or reserved. The Japanese Garden of Vilnius will be created near this project in 2016 on an unused 5-hectare land parcel.	€1,600 - €1,900	Q3 2015
	Antakalnio parkas – in the beginning of 2015 local company Antakalnio parkas will start construction of residential project in the Antakalnis district. The building with 120 apartments and commercial premises on the ground floor will be completed in Q2 2016. Sales prices of 33-74 sqm sized apartments without fit-out are from €1,250 to €1,700 per sqm. All apartments will have glazed balconies, and some apartments will have wide terraces. There will be around 150 underground and outdoor parking places.	€1,250 - €1,700	Q2 2016
	Bendoreliai – after successful completion of 72 row houses quarter in Bendoreliai, next to the Old Ukmerges Road, local developer Markeris is developing the second stage. In the second stage will be 65 row houses and 70 apartments. Partially furnished 110 sqm row houses with land plots of 200 sqm are sold for €88,000-€105,000. Sales price of 60-90 sqm sized partially furnished apartments are from €800 to €950 per sqm. Second stage will be completed till 2017.	€800 - €950	2017 (II stage)
	Misko namai – after successful completion of two residential buildings on C. Sugiharos Street local company Veikme is developing residential project on the same street. Four 6 and 8-storey residential buildings with 160 apartments will be built. The apartments vary from 43 to 76 sqm. Construction of the first 53 apartments will be completed in autumn 2015 and the whole project is scheduled for completion till 2017.	N/A	H2 2015 (I stage)



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



INTEREST IN AGRICULTURAL LAND CURBED BY RESTRICTIONS

PRICES

The introduction of a variety of safeguards for buyers of agricultural land affected the overall trends in this sector. The prices for arable land, which in recent years had been increasing, stopped rising in mid-2014 and a decrease in prices of land could be observed. However, to a greater extent this affected less fertile types of land, because they were no longer attractive to businessmen who received support from the European Union for carrying out certain activities.

On average 5% decrease in prices were recorded in the agricultural land market in 2014. Interest in agricultural land, which started to grow in 2011-2013, declined from the mid-2014. Depending on location (land productivity), agriculture land prices range from €1,000 to €3,500 per hectare.

In H1 2014, there was some interest in parcels of land for real estate development. The transactions that have taken place and the planned property development signaled the growing confidence of the commercial and residential real estate market. However, at the end of 2014, due to the more cautious mood, interest in such parcels of land has diminished somewhat. Overall then, prices of such parcels of land have remained essentially unchanged over the year.

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

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

END-2014 SNAPSHOT

VILNIUS

ANNUAL LAND PRICE CHANGE (agricultural):

-5%

TOTAL LAND TRANSACTIONS CHANGE (Vilnius city & district):

-21%

LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (sqm):

€300 - €1,500

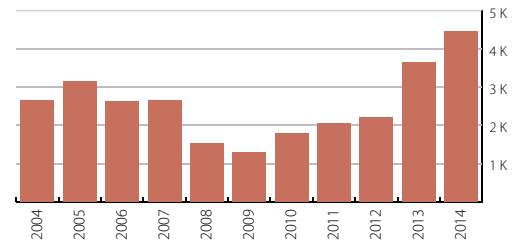
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (sqm):

€60 - €200

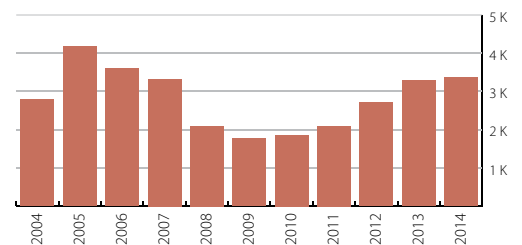
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (sqm):

€20 - €85

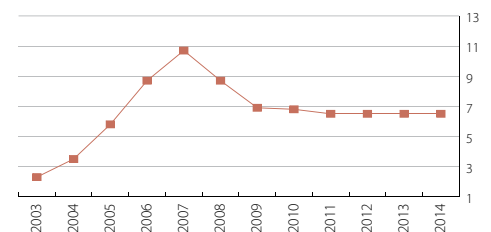
Land transactions in Vilnius city



Land transactions in Vilnius district



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





Prices for plots for private homes with partial or full infrastructure stay flat during 2014, and are €20 - €35 per sqm in the cheaper suburbs, to as high as €45 - €85 per sqm in Riese, Bajorai, Kalnenai, Gulbinai.

DEMAND

Total land transactions in Lithuania decreased 21% in 2014, after growing 25% in 2013, according to the data of the Central Registry.

A growth in the number of transactions involving land parcels is further recorded in the capital city. Total land transactions increased 24% in 2014 in Vilnius city, to 380 transactions per month. Total land transactions increased 3% in 2014 in Vilnius district, to 280 transactions per month.

In mid-2014, the developer MG Valda acquired a parcel of land for the development of the prestigious properties in Polocko Street in Uzupis. The 1.24 ha site, previously occupied by the Vilija factory, will accommodate a prestigious low-rise residential complex - Uzupio krantines.

In 2014, developer Hanner purchased a 2.34 hectares land parcel for €1.9 million near the centre of Vilnius. According to Hanner, guidelines for the future project are drawn by its location between the airport and the city centre, which is convenient for businesses. The main objective of the project is to offer offices that meet today's requirements and are attractive by their modernity and price. According to the parameters of the parcel of land, the total area of real estate to be constructed may reach a total of about 30,000 sqm.

At the end of 2014, ZIA Valda paid nearly EUR 2.2 million for a 1.1 ha parcel of land in Zverynas, a prestigious district in the capital. The company acquired a share package (62%) of the company that controlled the property. The company plans to develop residential and commercial properties in the acquired territory.

NEWS

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

In spring 2014, the ban on foreigners buying land expired in Lithuania, but the safeguards for the sale of land introduced prevent farmers and

associated persons from acquiring more than 500 hectares of land. Only breeders of livestock can purchase more land (this depends on the number of livestock). At present, in order to purchase more than 10 hectares of land, a buyer must have three years experience in agriculture or a profession related to agriculture, but he will be able to sell it, only after he uses the land for its intended purpose for five years. In order to acquire more than 10 hectares of land, permission must be obtained from the National Land Service.

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

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 buyers 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, for acquisition of agricultural land additional conditions apply (eg, 3 years' experience in agriculture).

Investments in land (including agricultural and forestry) by non-Lithuanian citizens or legal persons are not more restricted than for Lithuanian citizens or legal persons if criteria of European and Transatlantic Integration are met.









LITHUANIAN REAL ESTATE TAXES & LEGAL NOTES



CURRENCY

Lithuania is scheduled to join the Eurozone by adopting the euro on 1 January 2015. Euro will take place of the current currency Lithuanian litas at the exchange rate of 3.4528 litas to 1 euro.

ACQUISITION

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

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

- notary fees are 0.45% on the value of real estate. However, the fees shall not be less than EUR 28.96 or exceed EUR 5,792.40 for one transaction;
- state duties imposed upon the registration of a transfer of real estate are typically not material and vary depending on the real estate value (up to EUR 2,320).

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

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

- more than 25% of limited liability company's shares are sold;
- the purchase 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 not subject to registration fees (as the direct legal owner of real estate remains the same). The transfer of shares in a real estate holding company is not taxed with any VAT.

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

RENT

VAT

Rent of real estate (buildings and land) is generally VAT-exempt,

with certain exceptions for residential premises and premises for parking of vehicles, etc.

Whereas rent is VAT-exempt according to the general rule, a VAT payer is entitled to opt for taxation, i.e. VAT can be charged on rent of the property if the customer is registered for VAT purposes and performs economic activities or if the property is rented to diplomatic and consular establishments and offices of international organizations in Lithuania. If a company exercises this right in respect of one rent transaction, the same VAT treatment will automatically apply to all analogous transactions for the following 24 months.

Corporate Income Tax (CIT)

For local Lithuanian entities income from rent of real estate is considered as taxable income which is in general subject to 15% CIT under regular taxation rules of company business activities (i.e. companies' profit is taxed). 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%.

Withholding Tax (WHT)

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

Personal Income Tax (PIT)

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

SALE

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

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



tax analysis may disclose material tax differences between various options available.

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

VAT

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

Withholding Tax (WHT)

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

Personal Income Tax (PIT)

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

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.3% to 3% depending on municipalities. In Vilnius, the RET rate established for 2015 is 1%. Residential and other personal premises of individuals are exempt from tax where the total family-wise-ownership value of EUR 289,620 is not exceeded, whereas the excess value is subject to 1% RET. According to the draft Law as from 1 January 2015 the RET exempt value of residential and other personal premises shall be reduced from EUR 289,620 to EUR 220,000 and RET applied on

the exceeding part of value shall be reduced from 1% to 0.5%. Tax base is the average market value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (performed every 5 years) or using the replacement value (costs) method. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

LAND TAX

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

Land tax rates range from 0.01% to 4% depending on local municipalities. In Vilnius, the Land tax rate established for 2015 is 0.3%. The tax base is the average market value determined according to the mass valuation performed not rarer than every 5 years. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

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

LAND LEASE TAX

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



INTRODUCTION

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

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

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

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

ACQUISITION OF REAL ESTATE

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

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

Letter of Intent and Heads of Terms: Ordinarily, a letter of intent (LOI), heads of terms (HOT), or preliminary agreement details what the parties have to do before entering into the main agreement for acquisition of real estate, the main terms

and conditions of the contemplated transaction, and liability for not entering into the main agreement.

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

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

Legal structures of real estate transactions: The Lithuanian legal environment has proven to be flexible in meeting investment practices introduced to the local market by foreign investors. Complex business structures are tailored to the needs of investors. These structures range from incorporation of a special purpose vehicle (SPV) to other contractual instruments.

PRINCIPAL LEGAL STRUCTURES

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

SHARE DEAL

Acquisition of a target holding real estate may be performed via an SPV incorporated either in Lithuania or elsewhere.

Starting from 2015, the share sale-purchase agreement needs to be notarised when more than 25% of shares is transferred or the price of share transfer exceeds EUR 14,500 (not applicable to shares of a public limited liability company). This requirement is non-mandatory only if the accounting of shares is performed following the rules and procedures of Lithuanian laws on the securities market.

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

- accounting of shares is transferred to an independent manager (eg, licenced credit institution or financial brokerage firm); and
- shares of the company are registered with the Central Securities Depository of Lithuania and an ISIN number is issued.

Costs for switching to double-tier accounting of shares are not yet fixed by law and are slightly lower than notary fees (if applicable). The notary fee for certifying a share sale-purchase agreement amounts to 0.4-0.5% of transaction



value and is capped at EUR 5,792.

A share sale-purchase agreement needs not be publicly registered, unlike an agreement on sale-purchase of real property. The list of new shareholders must be filed with the Register of Legal Entities; however failure to do so does not have any impact on ownership rights to the shares.

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

ASSET DEAL

Asset deals usually require a narrower scope of due diligence review than share deals, and are more tax-transparent.

An agreement on sale-purchase of real estate must be certified by a notary public. Failure to notarise an asset transfer agreement invalidates it. Notarisation and registration of transfer with the Real Estate Register generally increase the transaction costs.

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

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

Asset deals may involve recharacterisation risk, ie a REI transaction structured as an asset deal may be recharacterised as sale of a business. As a result, investors may be exposed to additional risks related to transaction validity and liability to creditors and employees of the former owner of the target.

SALE-LEASEBACK

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

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

FORWARD PURCHASE

Projects under development have more often been structured as forward purchase transactions. In these cases the investor undertakes a forward commitment to purchase the property. The developer usually acts as a developer until completion of the project or may act as project developer under a development contract while title to the target property on construction goes directly to the investor.

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

JOINT VENTURE

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

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

PUBLIC-PRIVATE-PARTNERSHIP PROJECTS (PPP)

PPP projects in Lithuania may take the form of a concession, Private Finance Initiative (PFI) or mixed capital venture. From February 2015, more possibilities for private initiatives are open, with local and foreign investors able to propose PPP projects to be implemented, which public institutions must discuss.



FORM OF AGREEMENTS

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

Share transfer transactions must be in written form. A private limited liability company share sale-purchase agreement must additionally be notarised when more than 25% of shares is transferred or the price of share transfer exceeds EUR 14,500 (for possible exemption please see above).

As of 2015, 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.

Failure to notarise these agreements invalidates them.

LANGUAGE REQUIREMENTS

Transactions by Lithuanian legal and natural persons must be in Lithuanian. Failure to do so, however, does not invalidate such transactions. 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 allocation, verification of purchase price, and pre- and post-closing commitments. Due diligence checks on eg ownership title, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for supply of utility services.

PRE-EMPTION RIGHTS

Pre-emption rights may be established on a statutory or contractual basis. For instance, a co-owner of real estate enjoys a pre-emption right to acquire a legal share of real estate being sold to third parties, save for cases when the sale is by public auction. In addition, if real estate and the underlying land plot have different owners, the owner of real estate situated on a land plot enjoys a pre-emption right to acquire the land plot 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 within the statutory limitation period for an order transferring the rights and obligations of the buyer.

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

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

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

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

MERGER CONTROL

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

Irrespective of whether the transaction 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 14.5 million for the financial year preceding the concentration and the aggregate income of each of at least two undertakings concerned (received from the Lithuanian market) is over EUR 1.45 million for the financial year preceding concentration.



RESTRICTIONS

Restrictions on Acquiring Real Estate

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

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land and forest without restriction, 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 apply (eg, 3 years' experience in agriculture).

Foreign legal and natural persons may acquire title to land and forests under the same conditions as Lithuanian citizens and legal persons if they comply with European and Transatlantic criteria. Foreign legal entities are assumed to comply with these criteria if they are established in:

- Member States of the European Union or states parties to the European Treaty with the European Communities and their Member States; or
- Member Countries of the Organisation for Economic 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.

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

Public Restrictions on Use of Real Estate

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

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

General

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

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

Duration and Expiry of Lease Agreement

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

Generally, either party may terminate a lease of an indefinite term by giving three months prior notice, unless the parties agree on another notice 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 the tenant may terminate the lease agreement following change of real estate owner.

Lease Payment and Accessory Expenses (Utilities and Service Charge)

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

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

REAL ESTATE FUNDS

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

Mortgage

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

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

Another novelty introduced by the amendments to the Civil Code is a possibility to execute a mortgage over a legal entity, ie its property (pool of assets), the composition of which may change in the normal course of business of the mortgaged entity.

PLANNING REQUIREMENTS AND CONSTRUCTION

Planning

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

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

Other key new planning provisions:

- territorial planning documents of projects of national importance have been introduced;
- special plans are deemed a part of the master plan and the number of special plans has been reduced;
- a district (quarter) is the smallest area for planning;
- the organisation of territorial planning documents has been transferred to state and municipal institutions;
- the procedure for establishing special conditions of land use and for changing the purpose of land use and for changing land plot boundaries has been simplified;
- a procedure for correction has been introduced which allows a change (not materially and without deviating from the higher territorial planning documents) of certain solutions of territorial planning documents in a simplified way; for detailed plans some corrections are available during preparation of a technical design;
- environmental impact assessment and public health impact assessment is carried out prior to technical design (impact assessment of solutions during territorial planning has been abandoned);
- a new information system for preparation of territorial planning documents in Lithuania and for state supervision of the territorial planning process (TPDRIS) has been introduced;
- a territorial planning document enters into force from registration with the register of territorial planning documents.



Construction

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

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

After completion of construction, reconstruction, modernisation or other construction activities (depending on the complexity of the work performed) either the state authorities inspect the building to check whether it complies with design requirements and issue a certificate of completion of construction or the builder issues confirmation of compliance. As of 9 January 2013, a building may not be used without this documentation (certificate of completion or confirmation of compliance), except residential buildings.

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, as of 9 January 2013, a 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, services, catering, transport, cultural, educational, sports, medical treatment and recreational buildings (when the area used is more than 500 m²).

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

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

Insolvency

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

Restructuring

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

Bankruptcy

Generally, bankruptcy proceedings may be commenced if a company is insolvent. Operations of the company's administrative institutions are suspended and management is performed by the insolvency administrator. Declaration of bankruptcy triggers suspension of accumulation of loan interest, interest set by law, contractual penalties, and late payment interest. Creditors are ranked, with first priority given to claims secured by mortgaged/pledged property. From 2015, bankruptcy administrators are selected randomly by using a special e-system.



LATVIA

Geography & Social

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

Currency

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



2015 Forecasts

GDP growth, %:	2.6
GDP per capita, €	12,366
Average annual inflation, %:	2.5
Unemployment rate, %:	9.9
Average monthly gross wage, €	793
Average monthly gross wage annual growth, %	4.2
Retail sales growth, %	4.1

Population

	2009	2010	2011	2012	2013	2014
Latvia	2,162,800	2,120,500	2,074,600	2,044,800	2,023,800	2,001,500
Riga	687,400	673,400	659,400	649,900	643,600	643,400
Daugavpils	98,700	96,000	93,600	90,900	89,200	87,400
Liepaja	80,700	78,900	76,900	74,800	73,500	71,900

Economics

	2009	2010	2011	2012	2013	2014
GDP growth, %	-17.7	-0.9	5.5	5.6	4.2	2.5
GDP per capita, €	8,682	8,674	9,873	10,800	11,520	12,041
Private consumption growth, %	-16	-8.8	5.3	5.7	6.2	3.7
Average annual inflation, %	3.5	-1.1	4.4	2.3	0.0	0.8
Unemployment rate, %	16.9	18.7	15.4	13.8	11.9	10.7
Average monthly gross wage, €	655	633	660	685	716	761
Average gross wage annual growth, %	-4.0	-3.4	4.3	3.8	4.5	6.3
Retail sales growth, %	-27.3	-2.0	2.4	7.3	3.8	3.6
FDI stock per capita, €	3,732	3,890	4,512	5,017	5,668	5,921

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

BUYING FIRST HOME COULD BECOME VERY DIFFICULT FOR MAJORITY OF PEOPLE DUE TO NEW INSOLVENCY LAW

ECONOMY

The Russian economic sanctions slowed GDP growth by at least 2% in 2014. After solid growth of 5.6% in 2012 and 4.2% in 2013, growth in 2014 was just 2.5%. Despite the prognoses of an average of 1.1% growth in GDP in the Eurozone in 2015, the forecast for Latvia is 2.6% growth in 2015.

Average annual inflation increased from 0% in 2013 to 0.8% in 2014. Forecasts are for CPI growth of 2.5% in 2015.

The minimum wage was increased for the second year in the row to €360 on January 1, 2015, which is €75 growth in the past two years. Personal income tax was also reduced 1% and was set at 23% on January 1, 2015.

In 2013 and 2014 resident permits were a key factor for developers working on many renovations and new residential projects. Before September 1, 2014, a 5-year residence permit could be obtained by non-residents investing in real property if the transaction value exceeded €142,000 in Riga and the Jurmala area or €71,000 in other areas. But beginning September 1, 2014, to obtain a residence permit the minimum investment in one real property must exceed €250,000. The government is even talking about prohibiting Russians from being granted 5-year resident permits.

There will be major changes in the insolvency law for individuals. The new changes will allow returning only the property to the bank and completely erasing the obligations of the loan. The new law was supposed to be introduced on January 1, 2015, but at end of 2014 it was postponed to March 1, 2015. Some changes will probably be made to this law.

Due to the higher initial down payment, it is already more difficult for people to obtain a loan to buy a first home, and most banks do not give more than 70% of the value of the property.

Latvia adopted the euro as its national currency in January 2014. Lats, the national currency of Latvia, will continue to be changed to euro by the Bank of Latvia at the rate of 0.7028 Latvian lats (LVL) to one euro (1 LVL = 1.4299 EUR).



DEVELOPERS ARE PLANNING NEW OFFICE BUILDINGS BECAUSE OF HIGH DEMAND FOR A CLASS OFFICES

SUPPLY

Major developments last year included two built-to-suit buildings, SRS Office Complex with a GLA of 42,000 sqm and an office building on Vainodes Street 1 with a GLA of 7,000 sqm. That represents a more than 7% increase, and the total area of modern office space available in Riga reached 728,000 sqm at the start of 2015.

Despite the growing demand for modern offices, new developments are entering the market slowly. Ober-Haus projects that supply will grow just another 3,000 sqm in 2015 by the new Europa Business Center building. At least four new projects are planned before 2018, however.

Due to stable demand in the CBD on Skanstes Street, the developer Pillar is working on the New Hanza City (NHC) development. The first stage of construction is scheduled to begin in 2015 and is expected to be finished in 2018. There will be two buildings with a GLA of 20,000 sqm and 19,000 sqm in the first phase. This project will be developed on a 245,000 sqm plot of land.

The owner of Mukusalas Business Centre is going to renovate a building on Mukusalas Street, and that project is slated to be finished in 2016. The total area will be 3,900 sqm.

The multifunctional complex Z-Towers will be completed in 2017. There will be offices from the fourth to the thirteenth floors with a GLA of 8,000 sqm.

As a result of the relocation of the SRS to the new Office Complex, 42,000 sqm,

END-2014 SNAPSHOT

RIGA

TOTAL OFFICE SPACE:
728,000 sqm

TOTAL OFFICE VACANCY RATE:
10.0%

A CLASS OFFICE VACANCY RATE:
2.0%

B CLASS OFFICE VACANCY RATE:
13.0%

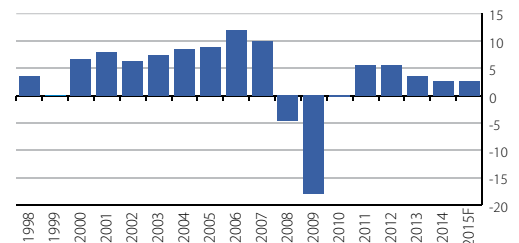
A CLASS OFFICE RENTS (sqm/month):
€11.00 - €15.00

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

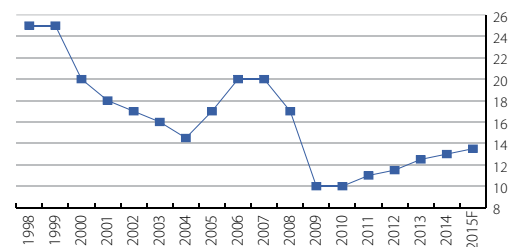
TOP OFFICE RENTS (sqm/month):
€16.00

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

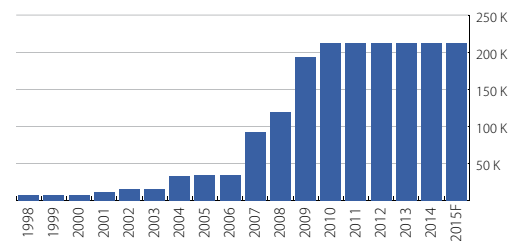
GDP growth, %



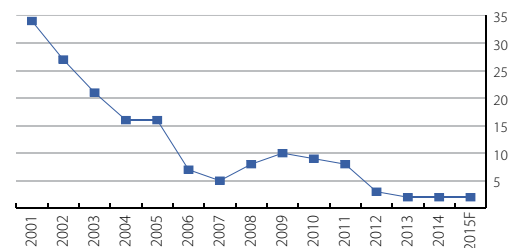
A class office rents, €/sqm



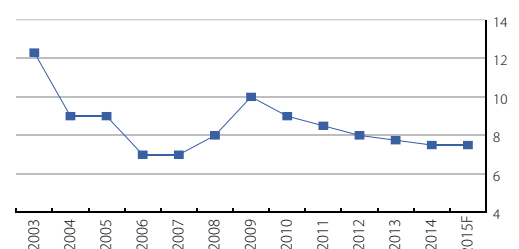
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yield, %



mainly C class office space, has been offered in 14 different locations in Riga. In a B class building formerly occupied by the SRS on Jeruzalemes Street 1, a GLA of 6,400 sqm is now also on the market.

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

DEMAND

Including the relocation of the SRS, the take-up was more than 54,000 sqm for premises with more than 1,000 sqm in 2014. The main customers were IT, travel and finance companies.

Total modern office vacancy in modern offices dropped to 10%, because most of the 42,000 sqm former SRS premises were in lower class buildings.

The major lease agreements were signed with the SRS at the office complex Ezerparks, the specialty chemical and performance materials company Cabot Corporation at Upmalas Offices, the Primera Travel Group airline Primera Air and Annex at Gunara Astras Street 1C, and the IT infrastructure company ATEA at Mukusalas Street 15.

New supply in the former Krajbanka headquarters offered by the new building owners, LNK Group, was leased in 3 months, and the main tenant was an IT company.

Demand is strong for offices in new office buildings with a leasable area from 100 sqm to even 2,000 sqm, but unfortunately there is a lack of supply for small spaces and spaces over 2,000 sqm.

Lease agreements that were signed 4–5 years ago (for lower rents due to the economic situation in Latvia) are starting to expire, and offices are looking to relocate, although first they explore the options.

Most active tenants were pharmaceutical, IT and financial companies. International companies, for example Border Concepts GmbH, are also thinking about locating their office in the Baltic States and have to choose from the three capitals: Riga, Vilnius and Tallinn.

RENTS

A class office rents in Riga increased by 5% in 2014. Rents for A class offices are mostly within the range of €11.00 to €15.00 per sqm. Rents for B class offices range from €7.00 to €10.00 per sqm.

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

INVESTMENT

LNK Group bought the former Krajbanka headquarters located at Jana Dalina Street 15 for €10.5 million. The new owners have reserved 3,000 sqm for their needs, and the remaining 5,000 sqm was offered to potential tenants.

The Estonian real estate fund EFTEN Capital bought an office building at Blaumana Street 5a with a GLA of 7,400 sqm for the price of €8.9 million.

Nordic & Baltic Property Group bought an office building at Dzelzavas Street 117 with a GLA of 6,250 sqm for the price of €8.5 million.

NBPG Vecriga bought an office building at Janvara Street 13 with a GLA of 1,292 sqm for €3.8 million.

LEGAL NOTES BY SORAINEN


Rents

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






Investments


Lease agreements for both business centres and office space are of rather good quality, though typically the owner prepares a standard lease agreement, in favour of the owner. Lease agreements are binding on the new owner of real estate on transfer of title only if such lease agreements are registered with the Land Book.

Recent developments

	Description	Size (GLA, sqm)	Completion
	SRS Office Complex – a B class project located on the territory of the multifunctional development complex Ezerparks with 42,000 net leasable sqm, of which 40,000 sqm was built to suit for the State Revenue Service of Latvia (SRS) and 2,000 sqm for other tenants. Construction was finished in 2014.	42,000	2014

New projects

	Description	Size (GLA, sqm)	Completion
	Europa Business Center – the owner is building a new 16-storey residential building with B class offices on the first three floors with a GLA of 3,000 sqm. This project is scheduled to be finished in 2015. This project will be a continuation of the already successful Europa Business Center building, which has a GLA of 15,000 sqm.	3,000	2015
	Business Centre Mukusala – the owner of Business Centre Mukusala is going to partly renovate and partly construct a building on Mukusalas Street, which is scheduled to be finished in 2016. The leasable area for building will be 3,900 sqm.	3,900	2016
	Z-Towers – this multifunctional complex consists of two 30-storey-high round towers joined by a podium at the base area. It is being developed by Towers Construction Management. Z-Towers Complex is situated on the left bank of the River Daugava (Pardaugava) by the Cable Bridge in Riga. There will be 10 floors for A class offices: about 800 sqm on each floor and a total GLA of 8,000 sqm. The offices will be located in the south tower from the fourth to the thirteenth floors. The complex will be completed in 2017.	8,000	2017
	New Hanza City – construction work is expected to start in 2015. The administrative building of Pillar, the developer of NHC, was built in 2013. It has a GLA of 800 sqm and allows the progress of NHC to be monitored. Construction of the main building of ABLV Bank, a 15-storey office building with a GLA of 20,000 sqm, and a multifunctional office and retail center, a 6-storey building with a GLA of 19,000 sqm, is scheduled to start in 2015 and finish in 2018. NHC is expected to be fully finished in 2033 and should provide the CBD with 200,000 sqm of office space, 330,000 sqm for residential purposes, and a 20,000 sqm public area.	20,000	2018
	Business Garden Riga – an office complex that will consist of five low-rise buildings with a GLA of 42,000 sqm. The complex will be located at Karla Ulmana Avenue. A permit for the external network and road construction works was received in September 2014.	42,000	N/A

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



SUPPLY OF NEW SHOPPING CENTRES POSTPONED, BUT NOT CANCELED

SUPPLY

In 2014, only one shopping center was opened in Riga. At the end of the year, the Maxima XX shopping center was opened in Mezciems. The total area of this shopping center is 7,200 sqm.

Maxima still could not open one already built shopping center on Dammes Street (GBA 1,000 sqm). Maxima focused on the reconstruction of its existing stores in 2014.

Other retail developers opened the following new shopping centers: SIA Plesko Real Estate opened RIMI in Ogre and SIA Eften Jelgava opened RAF Centrs in Jelgava.

At the end of 2014, there were 41 shopping centers in Riga (counting those over 5,000 sqm of GLA with over 10 tenants) with a total leasable area of 649,000 sqm. Currently Riga has 0.93 sqm of shopping area per capita.

The major shopping centers are still making improvements and changes. Linstow Centre Management, one of the key local market players, is planning to expand their two shopping malls: Alfa and Origo. These plans include the expansion of Alfa by approximately 11,500 sqm and the expansion of Origo with a new 6–7-floor wing. It will consist of 40,185 sqm of total floor space, including a 15,750 sqm space for retail lease, 9,015 sqm for office space, and 8,233 sqm that will be taken up by a basement also featuring an underground car park for 150 cars. Alfa's expansion project is scheduled to be finished in the spring of 2017 and Origo's in 2018.

Another major retail market player, ELL, is

END-2014 SNAPSHOT

RIGA

TOTAL LEASABLE SPACE IN SHOPPING CENTRES:

649,00 sqm

TOTAL SHOPPING CENTRE SPACE PER CAPITA:

0.93 sqm

RETAIL RENTS FOR ANCHOR TENANTS (sqm/month):

€5.00 - €9.00

RETAIL RENTS FOR MEDIUM SIZED UNITS (sqm/month):

€15.00 - €35.00

RETAIL RENTS FOR SMALL SIZED UNITS (sqm/month):

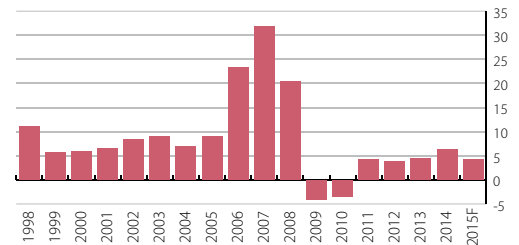
€25.00 - €50.00

HIGH STREETS RENTS

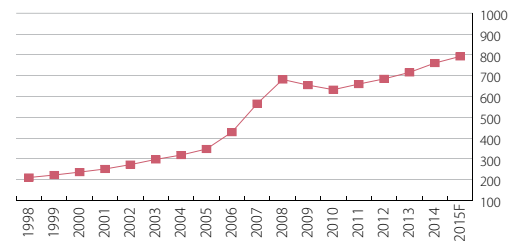
(sqm/month):

€15.00 - €50.00

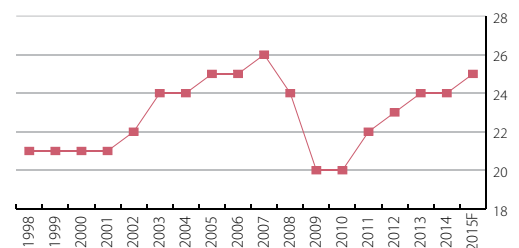
Average salary growth, %



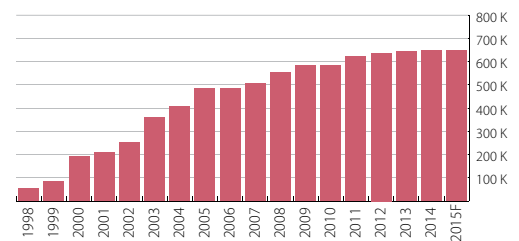
Average salary per month (brutto), €



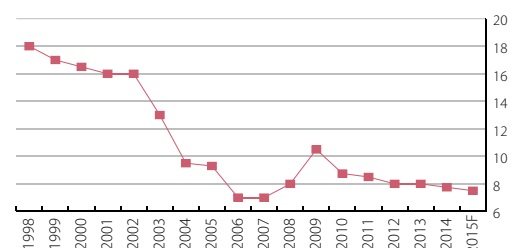
Average mall rents, €/sqm



Total leasable space in shopping centres, sqm



Retail investment yields, %



considering the expansion of its own shopping centre, Spice Home, and the potential investment is about €60 million.

Sky & More partly changed its concept to “shop-in-shop”, where a brand owner or retailer takes space in another retailer’s store. That helps to increase sales volumes for both parties, and the brand owner rents not only an area for sales, but also sales staff, management, etc.

At the same time that international brands are carving out a market niche, Seppala, the clothing sales department of the Finnish retail company Stockmann, has announced that it is closing its stores in 2015. Stockmann indicated that last year the brand suffered a loss of approximately €25 million. At the moment they have nine stores in Latvia, and due to Seppala leaving we can expect approximately 7,000 sqm of vacant retail space to appear in shopping centers.

Another international brand, Varner Baltija, closed all Cubus, Bik Bok and Dressman stores in Q1 2014, freeing approximately 10,000 sqm of vacant retail space in shopping centers.

The DIY shop Depo started construction work on a new store at Krasta Street 36. This will add approximately 6,800 sqm to the vacant retail spaces of its current DIY shop at Krasta 52.

In January 2014, SIA Palink decided to leave the Latvian market. IKI was one of the largest retail food chains in Latvia and had worked here for the past nine years, managing a total of 51 stores. The stores have started to work under the Mego brand.

In 2014 SIA NEKUSTAMA IPASUMA PROJEKTI started construction work at Imantas 15 line 7 in Riga, near the Maxima building that collapsed in Zolitude. In late 2015, they are planning to open a shopping center with a GLA of approximately 2,200 sqm. The main anchor tenant will be Rimi.

AKROPOLIS LV, SIA, a subsidiary of AKROPOLIS GROUP, UAB planned to open a shopping center at Maskavas Street 257 at end of 2015, but the project has been postponed to the end of 2016.

DEMAND

The main street of Riga has recovered, with a stable vacancy rate of 2% after reaching nearly 20% in the depths of 2009. Tenants are still looking for premises on the main streets in the active center of Riga, and the most active searchers are in the foodservice industry.

Foodservice companies are entering the market actively. For example Hesburger is considering the possibility of

opening new restaurants/cafes, and one will be opened at Krasta Street 85 in 2015. Subway has already opened three restaurants in the Old Town and in the active center of Riga.

Some building owners are keeping spaces empty and waiting for attractive tenants that will be able to pay higher rent. The greatest demand and the highest rents are for retail spaces from 50 to 150 sqm in the city center.

Store incomes in the Old Town in the center of Riga are sensitive to the season, but during the summer months of 2014 Riga experienced the second largest increase in the number of foreign tourists in Europe, an 18.9% increase compared to 2013. The vacancy of premises is close to 0% in the most popular tourists places in Old Riga.

In May 2014, the largest Reserved store in the Baltics opened at Kalku Street 15 in Riga. The area of the new store is over 1,700 sqm. This brand is the one of the fastest developing international fashion retailers.

Demand for well-located retail premises remains high. In addition to the continual expansion of existing retailers and the relocation of several new brands, a new Baldessarini boutique was opened on Terbatas Street, the premium watch brand Chopard opened a store on Elizabetes Street, and an Elena Miro brand store also opened on Elizabetes Street.

There is still very high demand for spaces in shopping centers. Most shopping centers are nearly fully leased, with minimal vacancy rates. The vacancy at the largest shopping centers at the beginning of 2015 was 0% at Spice and Spice Home, 0% at Alfa, 0.3% at Mols, 2.6% at Origo, 1.9% at Galerija Centrs, 2% at Riga Plaza, 2.7% at Dole and 0% at SC Domina.

Olympia is planning to open a factory outlet shop on the second floor. At the completion of this project, 30 stores with about 8,000 sqm will be opened and will offer world-famous brand-name fashion and sports products from their factories. The first floor and part of the second floor is still working.

Internationally recognized brands continue to enjoy Riga and more and more new fashion stores continue to open. For example, H&M already opened their sixth store in Latvia. The last one was opened in the Domina Shopping center and has a total area of nearly 2,200 sqm. The first H&M store opened in autumn 2012. This brand is now represented at Galerija Centrs, Alfa Parks, Spice, Riga Plaza, Mols and Domina Shopping.

Investing about €2 million, the British retailer Debenhams opened its first department store, which has a total area of



nearly 3,000 sqm, in Spice in March 2014.

New stores in Riga were also opened by other international and recognizable brands such as Ben de Lisi (women's clothing and home furnishings), Janet Reger (women's underwear), Jasper Conran (clothing and accessories), Camp David (men's store), American brand store US Polo Assn. and Sketchers.

RENTS

There were no relevant changes in high street rents. Rents on high street range from €15.00 to €35.00 per sqm. In the prestigious Old Town area, rents for retail premises are from €20.00 to €50.00 per sqm.

In shopping centers, rents were stable in 2014. The lowest rates started at €5.0 per sqm for large units (1,000 sqm or more), from €15.00 to €35.00 per sqm for medium-sized units (150–300 sqm), and from €25.00 to €50.00 per sqm for small units (under 100 sqm). Anchor tenants, such as supermarkets, typically pay €5.00 to €9.00 per sqm.

INVESTMENT



The most active interest and high demand are for retail, hotel, office and residential properties in Latvia.


Investors are looking for properties that are in a great location and are able to yield a good cash flow. The largest investments came from neighboring countries and from individuals in Russia.

A noteworthy transaction in the retail market was the sale of Damme Shopping Centre. Plesko Real Estate sold this property, which has a GLA of 13,000 sqm, in Q2 2014. The transaction involved separating the Damme Shopping Centre business from the other businesses of Plesko Real Estate by establishing a new company and the subsequent sale of that company to the Norwegian company New Agenda Partners.

The retail trade company Mego acquired the stores belonging to the Iki chain, and at the beginning of 2014 51 stores become retail outlets of Mego. After this deal Mego become one of the largest retail trade companies in Latvia. At the moment Mego runs a total 86 stores.

New projects

Description	Size (GLA, sqm)	Completion
 <p>RIGA AKROPOLE – AKROPOLIS LV, a subsidiary of AKROPOLIS GROUP, is currently developing a multifunctional real estate project that will feature retail and entertainment companies as well as offices and parking facilities. The properties that make up the project will be built on a 14.8 ha plot of land. This project will yield 60,000 sqm of retail space and 7,400 sqm of office space. Construction is scheduled to start at the end of 2016.</p>	60,000	N/A
 <p>DAUGAVGRIVAS PROJECT – AKROPOLIS LV, a subsidiary of the AKROPOLIS GROUP, will develop another project located at Daugavgrivas Street 31 in Riga. It is planned that an 11-ha lot will be used for a multipurpose commercial, office and entertainment center. The project concept and the start of construction have been changed several times. The current plan is that the project could start only in 2018. The project will be implemented in several stages, a total of 6–7 years. It is provisionally planned that including parking the shopping center will occupy about 100,000 sqm and around €100 million will be invested.</p>	100,000	N/A

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

LEGAL NOTES BY SORAINEN

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

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

LACK OF VACANT PREMISES STIMULATES DEVELOPERS TO BUILD NEW WAREHOUSE COMPLEXES EVEN WITHOUT PRE-LEASE AGREEMENTS

SUPPLY

There were two developments in 2014. An industrial complex with a total leasable area of 25,000 sqm developed by Balt Cargo Solutions was delivered in Q3 2014, and one renovated warehouse with total area of 5,000 sqm located near the Port of Bolderaja was delivered in Q3 2014.

The total amount of modern industrial space available in Riga and its immediate surroundings reached almost 525,000 sqm at the start of 2015. Most premises are located along major highways outside the city.

Ober-Haus projects that supply will grow at least 110,000 sqm in the next year.

Two projects of new supply will be for the speculative market: NP Jelgava Business Park, with a total area of 21,823 sqm, and VGP Park Kekava. VGP Park Kekava will deliver a warehouse complex of 10,000 sqm in 2015 instead of 2014 as anticipated earlier.

Sanitex will develop Baltic Logistic Solutions, a warehouse and office complex with 44,000 sqm in Ramava, which is very near Riga. In addition, Polipaks plans to construct a warehouse complex with a total area of 35,000 in the district of Marupe. Both projects will be used for their own needs.

DEMAND

Due to the high demand, the vacancy rate for industrial space fell to 3% at the start of 2015 from 55% at the start of 2010.

The vacancy rate has fallen drastically and modern industrial premises are becoming

END-2014 SNAPSHOT RIGA

TOTAL NEW WAREHOUSE SPACE:
525,000 sqm

WAREHOUSE VACANCY:
3.0%

NEW WAREHOUSE RENTS (sqm/month):
€3.50 – €5.00

OLD WAREHOUSE RENTS (sqm/month):
€1.50 – €3.00

ADDITIONAL WAREHOUSE COSTS (sqm/month):
€0.40 – €0.80

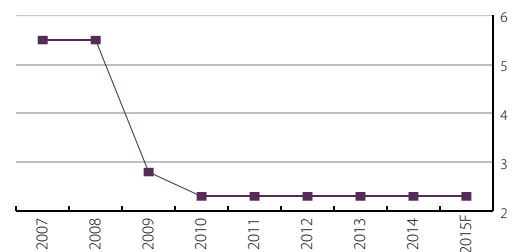
Total modern warehouse space, sqm



New warehouse rents, €/sqm



Warehouse rents on surrounding roads, €/sqm



LEGAL NOTES BY SORAINEN

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

scarce. Developers are ready to build warehouses without lease agreements. For example, VGP plans to develop the first phase of 10,000 sqm of VGP Park Kekava in the spring of 2015 without any rent agreement.

The greatest demand is for warehouses and manufacturing facilities of 500–2,000 sqm.

RENTS


Despite the high demand, rents did not change in 2014 and remained within last year's margins. After falling by 40% during the crisis years, warehouse rents rebounded in 2011 and 2012 each

by 10%. New warehouse rents in the city and on the surrounding ring road now range from €3.5 to €5.00 per sqm. Old construction premises (including good and poor quality) are from €1.50 to €3.00 per sqm.

INVESTMENT

The most important transaction was the August 2014 sale of Nordic Technology Park industrial premises with a total area of 45,200 sqm at Jurkalnes Street 15/25 in Riga. The buyer was EftEN Capital. Other details are confidential.

Recent developments

Description	Size (GLA, sqm)	Completion
 <p>Balt Cargo Solutions – in Q3 2014 added another 25,000 sqm of warehouse space to its earlier development located next to the important Riga-Dreilini transport hub, about a 15-minute drive from the city center. The first stage consists of 5,000 sqm for offices and 35,000 sqm for warehousing. The entire existing complex is 100% leased.</p>	25,000	Q3 2014

New projects

Description	Size (GLA, sqm)	Completion
 <p>Baltic Logistic Solutions (BLS) – a project being developed by Sanitex. This is a new warehouse and office building with a total area 44,000 sqm. The project will be delivered in April 2015.</p>	44,000	Q2 2015
 <p>NP Jelgava Business Park – a project being developed by NP Properties LTD. This is a renovated warehouse with a total area of 21,823 sqm. The first stage of 6,717 sqm will be finalized by the end of May 2015, and the second stage of 15,106 sqm is expected to be finished by October 2015. Rent will be around €3.5 per sqm.</p>	21,823	Q4 2015
 <p>POLIPAKS – packaging manufacturer POLIPAKS plans a new warehouse and office complex with a total leasable area of 35,000 sqm in the district of Marupe. Its completion is expected in early 2015, and the project is being built by Merks.</p>	35,000	Q1 2015
 <p>VGP Park Kekava – VGP plans to develop the first phase of 10,000 sqm in the spring of 2015. The whole project will consist of 60,000 sqm of warehouse space on a land plot of 14,000 sqm. The project will be at the intersection of the A7 and A5, A7 is an important highway also known as the Via Baltica only 18 km from Riga. The project will be developed by VGP and will provide turnkey solutions from the concept to the handover of the final building approval and future expansion.</p>	10,000	H1 2015



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RESTRICTIONS IN RESIDENT PERMIT LAW AND UNCERTAINTIES IN NEW INSOLVENCY LAW SMASH PLANS OF DEVELOPERS

PRICES

Apartment prices in Riga rose by 2.3% in 2014. Overall increase in 2014 was mainly influenced by rise in prices of old construction apartments in residential districts. Prices of apartments in Soviet-era buildings rose 5.8% and are €651 per sqm on average at the start of 2015. Prices of more expensive properties located in prestigious areas and the centre have remained stable.

Prices of new apartments in the city center and the Old Town range from €2,100 to €4,000 per sqm at the start of 2015, and prices for very exclusive projects can reach even €6,000 per sqm.

New apartments in the suburbs are selling for €1,200 to €1,850 per sqm at the start of 2015. New apartments are usually sold with everything except the kitchen finished.

SUPPLY

More than 900 new units were delivered in Riga in 2014. Some projects started later than planned before.

Despite the uncertainties in the insolvency law and regulations in the 5-year resident permit law, Ober-Haus expects almost 1,400 new apartments to be completed in 2015.

At the start of 2015, there are almost 2,000 unsold newly completed apartments available on the primary market, which is close to last year's 1,900 units.

Due to changes in the resident permit law and low demand for apartments with prices over €120,000, such developers as Hanner, YIT, and NCC Majas are focusing on local buyers and will offer smaller and cheaper apartments in their new developments.

END-2014 SNAPSHOT RIGA

ANNUAL APARTMENT PRICE CHANGE: +2.3%

NEW APARTMENTS BUILT: 900

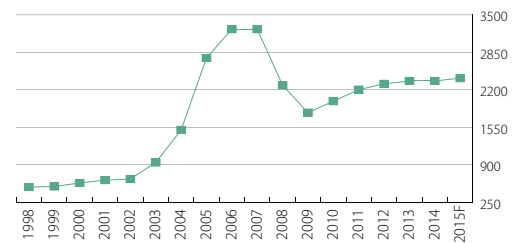
ECONOMY CLASS NEW APARTMENT PRICES (sqm): €1,100 – €1,400

MIDDLE CLASS NEW APARTMENT PRICES (sqm): €1,400 – €2,000

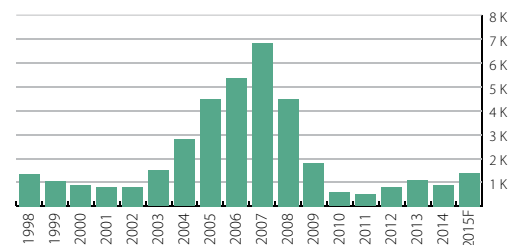
LUXURY CLASS NEW APARTMENT PRICES (sqm): €2,000 – €5,000

RESIDENTIAL INVESTMENT YIELD: 4.6%

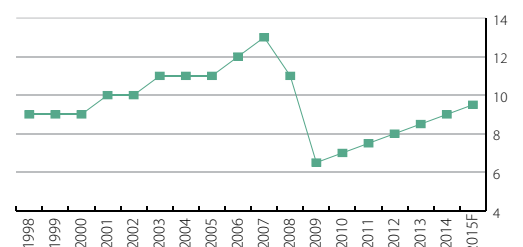
Residential prices in city centre, €/sqm



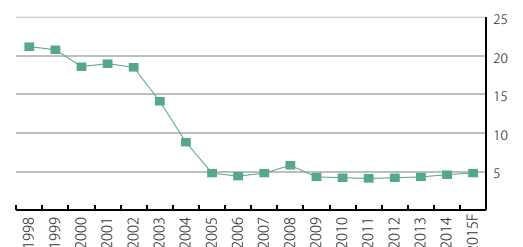
Completed apartments



Residential rents in city centre, €/sqm



City centre residential investment yield, %



LEGAL NOTES BY SORAINEN

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

Subsidiaries of banks still are very active on the market, although their supply is not so great anymore. In addition, the strategies of these companies are different, some are not willing to decrease prices after losses in the resident permit segment, and others are gradually decreasing their prices and providing more favorable terms for borrowing. The latter often squeeze private sellers in their attempts.

There is a tendency for owners of expensive apartments in the center to not lower prices but try to rent their properties.

DEMAND

Five-year resident permits, the lifeboat for most developers in 2013 and 2014, cannot help any more. The new minimum price must exceed €250,000 and, compared with last year's €142,000, it brings another residential segment to the forefront. Buyers for this segment are unfortunately mostly Russians, but they do not find the unclear geopolitical situation conducive to making purchases at this time. Local buyers are looking for apartments at a price up to €120,000, and as a result it is becoming difficult to find new owners for apartments in the more expensive segments.

Great changes in the law concerning the insolvency of individuals were initially expected to come into effect on 1 January 2015, but they were postponed to 1 March 2015. At that time it will be possible for borrowers to end their obligations by returning the real property that was pledged to the bank.

There were just a few transactions more in 2014 than there were in 2013, but the amount of transactions grew more than 8% compared to 2012. The rising number of transactions is a result of the subsidiaries of banks having active selling policies. The subsidiaries of banks usually offer more favorable credit terms and a good average price.

Transactions in the price segment that ranges from €145,000 to €200,000 and was of interest to foreign buyers have almost stopped. There were more than 75 transactions of such property per month until September 1, 2014, but then it dropped to 15 transactions per month.

Demand in the suburbs generally comes from local buyers, while apartments in the city center are purchased by both local buyers and foreigners.

Local buyers are looking for two- and three-room apartments that cost less than €120,000. Most buyers are careful and when choosing an apartment, they analyze the general condition of building, the time when utility mains were changed, the condition of the roof, the size of utility and maintenance payments, the ownership of the land that the building is sitting on, and whether that land is considered part of the property or not. An important criterion is availability of parking, which on average costs from €5,000 to €7,000.

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

Local private house buyers are looking for new economy class buildings under €150,000 and for old or uncompleted houses below €60,000 in Riga region. There is also a demand for completed middle-class houses ready for immediate occupation and priced less than €250,000.

THE MORTGAGE MARKET

Loans are offered in euros with maturities up to 30 years. The average interest rate at the start of 2015 was 0.18% (6-month Euribor) plus an average margin of 3.0% to 3.2% (depending on the customer's financial standing), to a total of 3.6%. Clients can borrow up to 70% of a property's value.

Outstanding mortgage loans in Latvia total 29% of annual GDP. The mortgage market slowed down during the crisis years, but banks resumed active lending in the second half of 2010.

RENTS

Compared to the previous year, the increase in rents was within the range of 5–10%. This cannot be applied to all segments, since each has its own specific features dictated by the particular market situation and supply and demand.

Very high rents remained in exclusive apartments in the quiet center, the Old Town, and the new developments in the city center such as Thomson Terrace, Skanstes Peaks, Viesturdarza Home, Jerusalem 10, and Star City. One-bedroom apartments in these developments cost from €600 to €700, but two-bedroom apartments from €700 to €2,500 per month. However, it is unclear how the situation will change when similar developments enter the market.

Rents for well-maintained, renovated, two-bedroom apartments in the center and near the center range from €400 to €600 per month. Locals cannot afford apartments with higher rents, because in addition to the rent people must cover technical utility payments and management fees. Utilities for a one-bedroom apartment in the winter period can be up to €180 or more. Forecasts that the price of electricity is likely to increase by 7% in 2015 must also be taken into account. These apartments are targeted at foreigners: embassy personnel, international business representatives, and businessmen.

Rents for the economy-class apartments in the far center and residential districts can reach €150–350 per month for a one-bedroom apartment, while two-bedroom apartments go for €270–500. In districts with better and more developed infrastructure, the apartments are more expensive and are popular with locals.

Recent developments

	Description	Price (sqm)	Completion
	NCC Majas – located at Bikernieku Street 160 in Mezciems and developed by NCC Majas. This project comprises eighteen 5-storey buildings. Twelve of them, with 336 apartments and with parking, are already finished. Apartments range from 47 to 80 sqm, and prices starting at €1,180 per sqm for a fully finished apartment. The project was completed at the end of 2014. About 95% of the apartments are sold or reserved.	from €1,180	Q4 2014
	Skanstes Majas – located at Grostonas Street 17, 19 and 21 in the city center and developed by Merks. The first building of a projected three 5 to 10-storey building complex was finished in Q4 2014. There are 64 apartments having an average size of 90 sqm. The next two buildings will be completed by the end of 2015.	N/A	Q4 2014
	Ezerparka Nami – located in one of most attractive residential districts, Mezaparks at Rusova Street 5, and developed by New Europa Real Estate. In the first phase of the multifunctional project, 136 apartments were delivered. The size of the apartments are 45–105 sqm on average, and prices range from €1,207 to €1,492 per sqm for a fully finished apartment. The first phase was completed in Q4 2014.	€1,207 - €1,492	Q4 2014 (I stage)
	Bikerziedi – located at Talivalza Street 21 and in Teika and developed by YIT Celnieciba. This project comprises three 4-storey buildings, with 149 apartments and with underground parking lots. Apartments range from 29 to 71 sqm, and prices range from €1,490 to €1,760 per sqm for a fully finished apartment. Two buildings were finished in Q4 2014 and the last building will be finished in 2015. YIT has pre-sold 60% of the apartments.	€1,490 - €1,760	2015

New projects

	Description	Price (sqm)	Completion
	Jauna Teika – located at Ropazu Street 12 in one of most attractive residential districts, Teika, and developed by Hanner. The multifunctional district Jauna Teika is one of the largest mixed-use developments in the Baltics, with outstanding potential to become a new hub of commercial activity in Riga. There are plans to produce 100 apartments. The building will be completed in spring 2015.	N/A	H1 2015
	Kalnciema kvartals – located at Kalnciema Street 2a, Kalnciema Street 2b, Kalnciema Street 2c in Pardaugava and developed by Dekarta Property, a group of companies. The first phase of the project will consist of two 7-storey buildings with 59 apartments. The project provides covered parking on the ground floor of the building. Two buildings in the project will be completed in Q3 2015 and the third consisting of 124 apartments will be completed in Q2 2016.	N/A	Q3 2015 (I stage)
	Centrus – developed by Centrus Real One and located in the city center between K. Barona, Dzirnau, Terbates and Blaumana streets. The project will consist of two 7-storey buildings with 84 apartments and commercial spaces on the bottom floors. The project provides underground and aboveground parking lots. Apartment sizes will range from 47 to 118 sqm, and prices will range from €2,250 to €5,500 per sqm for a fully finished apartment. The project will be completed in the summer of 2016.	€2,250 - €5,500	Q3 2016
	Z-Towers – this multifunctional complex consists of two 30-storey-high round towers joined by a podium in the base area. The project is being developed by Baltic Real Estate Holding. There will be 336 apartments and approximately 700 underground parking lots in the northern tower. Apartment sizes will range from 35 to 623 sqm. The complex will be completed in 2017.	N/A	2017



DESPITE THE ECONOMIC CHALLENGES, DEVELOPERS ARE LOOKING FOR LAND

SUPPLY

Lack of supply still is an acute problem in the densely built downtown and prestigious parts of the city center. There are no attractive offers publicly available. Public offers are usually full of properties carrying restrictions and at inadequate prices. Developers are forced to spend more resources to find good plots of land. Options are to participate in auctions and bid for property or look for vacant land and search for the owner. This is also an opportunity for good brokers.

The supply that is available is located some distance away from the city center. It is unfortunate that the price of apartments in residential districts has not reached the level to produce highly profitable projects. The development of these areas will probably be postponed to the distant future. It depends on the approval of the new insolvency law that may start on March 1, 2015.

Changes in the 5-year resident permit law smashed some great visions of developers. That affects the strategy of developer deciding whether to buy land.

The supply of plots of land for private houses in residential districts close to Riga continued to rapidly decrease until the third quarter of 2014. There were some expectations that there could be new developments on undeveloped land in the near future, but those hopes disappeared at end of 2014.

A great offer of plots of land was announced by the Riga City Council. Several undeveloped land parcels on Lucavsala Island, Juglas Lake and Tallinas Street will be sold at auction. The major plot of land

END-2014 SNAPSHOT

RIGA

ANNUAL LAND PRICE CHANGE

(Riga city district):

5%

TOTAL LAND TRANSACTIONS CHANGE

(Riga city & district):

+10%

LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (sqm):

€300 – €3,000

LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT

(per buildable sqm):

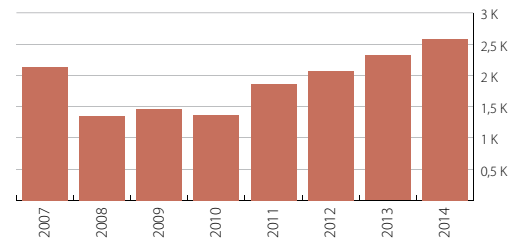
€50 – €100

LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES

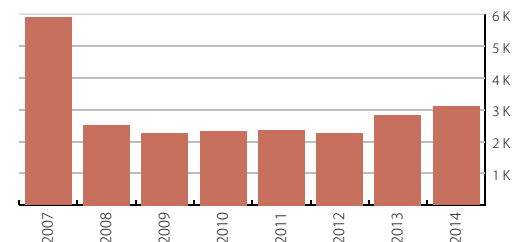
(sqm):

€15 – €45

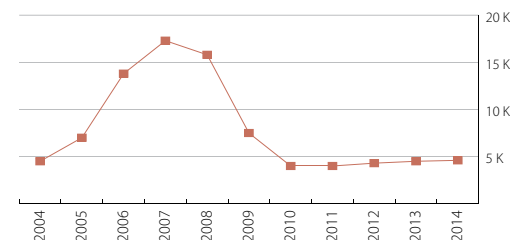
Land transactions in Riga city



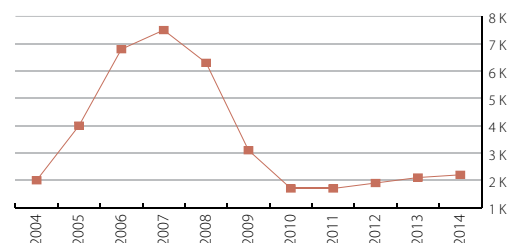
Land transactions in Riga district



Land prices in Riga city, €/100 sqm



Land prices in Riga district, €/100 sqm



LEGAL NOTES BY SORAINEN

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

located on Lucavsala Island consisted of 10 lots, and the total starting price was €26.6 million.

PRICES

Prices in the city center were stable in 2014. Land prices in the city center range from €300 to €3,000 per sqm.

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

DEMAND

Demand is great for plots of land in the city center. Last year there was a great demand for land from developers of hotels. It is expected that four new hotels will open their doors in Riga in 2015.

One of the new hotels is the Grand Hotel Kempinski Riga, located in the renovated building of the former Riga Hotel. The second Pullman Riga Centre hotel branch of Accor will be located in Old Riga at Jekaba Street. Welton Valnu Hotel is scheduled to open in December 2015 at Kungu and Kaleju Streets in Old Riga. The fourth new hotel that will be opened in Riga is Karavella Hotel, which joined Orbis Hotel Group this year. Finally, Novatel Hotel is planning to open on Greciniķu Street.

Ober-Haus also expects to see land plot transactions in suburban areas as developers, for example YIT, complete projects on land already owned by them and are interested in increasing their portfolio of land.

Several retail food companies are also interested in acquiring plots of land. They are looking for opportunities to open stores in places where they are not represented. Retailers such as TOP and RIMI have bought land for new stores in Riga, Kekava, Marupe and Aizkraukle. RIMI also used the opportunity to buy plots from Palink, which decided to leave the Latvian market at the beginning of 2014.

Demand is on the rise from buyers that are ready to handle construction themselves for commercial purposes. Prices in Riga and in suburban areas close to Riga have been stable since 2013. The greatest demand is for plots of 10,000–15,000 sqm that cost from €15.00 to €20.00 per sqm close to Riga or €30.00 to €45.00 per sqm in Riga. Investors use well-located land to build warehouses and factories.

Due to the lack of supply of private houses and a reasonable loan policy, demand for plots of land in Riga and the regions nearest Riga increase until the third quarter of 2014. There

was high demand for plots with excellent access and other infrastructure (gas, electricity, etc.). Compared to 2013, there was a more than 14% increase in land transactions in Riga.

INVESTMENTS

YIT is planning to invest €16 million in land and buildings by 2018. The company continues to develop its projects and has acquired new plots of land in Riga.

Another real estate developer, Hanner, acquired 8,000 sqm land plot on Sporta Street in Riga for the construction of A class office buildings.

NEWS

Changes to the law on the privatization of agricultural land have been approved on November 1, 2014. The new changes limit the amount of land that can be owned by one person. The maximum amount that can be owned by a legal or natural person is 2,000 hectares and the maximum for various associations and establishments listed in the register of associations and establishments of the Republic of Latvia is 5 hectares.









LATVIAN REAL ESTATE TAXES & LEGAL NOTES

ACQUISITION

- Upon acquisition of land or land and buildings, or a building property which includes residential building (including function-related buildings), a 2% stamp duty is levied on the property value.
- Upon acquisition of land or land and buildings, or a building property which includes only non-residential building or non-residential buildings and related engineering structures, a 2% stamp duty is charged on the real state value, capped at € 42,686.
- If legal title is transferred under a deed of gift, a 3% stamp duty is levied on the property value.

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

If real estate is invested in the share capital of a company, a 1% stamp duty is payable on the investment value. In case of acquisition of residential property from legal person, which carries out business activities, a 6% stamp duty is charged on the value of residential property. The value of the real estate for the purposes of stamp duty is determined as the highest value of:

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

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

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

RENT

Value Added Tax (VAT)

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

Corporate Income Tax (CIT)

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

Personal Income Tax (PIT)

Rental income is taxed at a rate of 24%. A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filed. In this case all expenses related to rental activities are deductible, and any loss can be offset over a period of three years.

A person that is not registered with the tax authorities for commercial purposes pays PIT at a reduced rate of 10% after filing the annual income tax return, if the lease agreement is presented to Latvian tax authorities. The taxable income may be reduced by paid real estate tax.

If person has not presented the lease agreement to Latvian tax authorities nor registered for commercial purposes with tax authorities, the income of lease will be subject of 24% PIT with no deduction for expenses associated with rental activities.

SALE

Value Added Tax (VAT)

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

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

first time in the first year after reconstruction, renovation, restoration, and the related land, or a part of related land;

- A building under construction, or its part under construction, that has not been maintained, and the related land, or a part of related land;
- A building, or its part, that is under reconstruction, renovation, restoration, and has not been maintained, and the related land, or a part of related land.

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

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

The applicable rate of VAT is 21%.

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

The taxpayer may recover input VAT paid on the acquisition if the property is used to make taxable supplies.

VAT registered traders may opt to charge VAT on supplies of used real estate if the sale is made to VAT registered person.

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

- They are supplied in Latvia,
- The supplier and customer are both registered for VAT, and
- Non-cash payment is made.

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

Corporate Income Tax (CIT)

If a company sells real estate, any capital gain is taxed at a rate of 15%. Generally, the taxable gain is calculated as selling price less

net book value and any balancing charge/allowance arising on the removal of the property from tax accounts.

Withholding Tax (WHT)

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

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

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

Personal Income Tax (PIT)

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

The exemptions:

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

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

REAL ESTATE TAX (RET)

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

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

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

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

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

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

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

From 1 January 2014 the same rate of 3% is also applied for newly constructed buildings in case the permitted construction period has expired. The tax is applicable from the next month following the expired date and will be charged till the months the building is maintained in line with statutory procedures. The rate will be charged on the highest of cadastral value of the related land and the cadastral value of building itself. There is a specific transition period, covering the construction permits issued before 1 July of 2013 and not extended till 31 December 2014, according to which the tax will be payable.

Unused agricultural land is taxable:

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

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

From 1 January 2014 the living property owned by proprietors are eligible for reduced rates (0.2% to 0.6%), but only in cases the property is rented out and the rent rights are properly registered within the Land Register of Latvia. There is also new obligation to notify

the local council in case the business activities are carried out in the living property. The same notification must be submitted in case the business activity has ceased.

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

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

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Need help in tax issues?



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

We provide advisory services in the following areas:

- practical application of the Estonian, Latvian and Lithuanian tax law,
- international taxation and restructuring,
- transfer pricing,
- tax due diligence investigations,
- management of tax audits and tax disputes,
- preparation of tax ruling requests,
- registration services,
- accounting services and tax compliance,
- preparation of individual tax returns.

INTRODUCTION

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

During the first three quarters of the year foreigners from non-EU states continued to acquire mostly residential real estate in order to obtain temporary residence permits in Latvia, which continued the trend of increased activity in the upscale residential real estate market. However, market activity has significantly declined due to recent amendments in the Immigration Law, effective from August 2014, and political instability in eastern neighbouring countries in the last months of 2014.

TITLE TO REAL ESTATE, LAND BOOK

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

The Land Book stores information regarding the legal status of real estate, including all encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations. The Land Book is a public register; the information it contains is publicly available and is binding on third parties. It is also available in a database version in Latvian via internet in return for a fee. For its clients' convenience the Land Book and State Land Service have increased their mutual cooperation, thus reducing the number of documents to be filed in order to register title or other modifications with the folio.

ACQUISITION OF REAL ESTATE

General

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

Letter of Intent and Heads of Terms

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

Usually, a LOI sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) and states other obligations of the parties to be followed during a certain period. Breach of the

exclusivity obligation under LOI or preliminary agreements entitles the relevant party to claim compensation of damage, including specific contractual penalties.

Change of Ownership

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

LEGAL STRUCTURES OF REAL ESTATE TRANSACTIONS

Asset Transfer vs Share Transfer

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

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

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

Asset transfer involves the following benefits and drawbacks:

- asset transfer is subject to notary fees and state duty and in this respect is more expensive than a share transfer;
- limited scope of due diligence investigation since the review concerns only the target asset;
- only lease contracts registered in the Land Book still bind the new owner after purchase of the target asset;



- agreements on supply of utilities and other services must be assigned to the buyer or new agreements signed with service providers;
- an asset transaction may in some cases be treated as sale of an enterprise, in which case all obligations associated with the enterprise may be transferred from seller to buyer.

Portfolio Deals

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

FORM OF AGREEMENTS

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

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

In addition to the purchase agreement and corroboration request, other documents have to be prepared and filed with the Land Book (e.g. waiver of rights of first refusal by the local municipality if real estate contains land).

LANGUAGE REQUIREMENTS

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

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

DUE DILIGENCE

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

RIGHTS OF FIRST REFUSAL

Local authorities have rights of first refusal in respect of acquisition

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

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

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

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

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

Generally state duty amounts to 2% of either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. However, from 1 January 2014 the amount of state duty is significantly increased from 2% to 6% if an apartment is purchased by a legal person. In addition, the ceiling on most

state duties for registration of ownership rights amounting to EUR 42,686.15 has been removed.

Starting from 1 July 2014 an index of 1.5 is applied when calculating state duty if registration of title has been delayed by more than 6 months.

Nevertheless, state duty may not exceed EUR 42,686.15 when buying commercial real estate. Stamp duty for registration and issue of a Land Book certificate is approx EUR 22.

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

MERGER CONTROL

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

- the aggregate turnover of the undertakings involved in the transaction exceeds EUR 35.572 million for the financial year preceding the concentration; or
- the joint market share of the undertakings exceeds 40% in the relevant market.

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

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

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

RESTRICTIONS

Restrictions on Acquisition of Real Estate

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

EU Citizens and Legal Entities

Amendments have been made to the law in force since 1 November 2014 limiting acquisition of agricultural land in Latvia by foreigners. The amendments will be fully applicable from 1 July 2015. As a result of these amendments an EU citizen will be able to acquire not more than 10 ha of agricultural land without limitations. A citizen who wishes to acquire more must satisfy the following:

- register as a performer of commercial activities;
- be without tax debts in their country of domicile;
- confirm in writing that after purchase of the land they will start agricultural activities with the particular land within 1 or 3 years from the purchase depending on whether the particular land in the previous or current year has been a subject of single area payments or direct payments under EU Regulations;
- confirm that (1) the person has acquired definite agricultural education or (2) has received single area payments during the last 3 years, or (3) the person receives direct payments or (4) their income from agricultural activities during last three years has formed at least one third of all their income.

Stricter limitations are set for legal entities. Consequently, a legal entity may acquire not more than 5 ha of agricultural land without strict limitations. A legal entity that wishes to acquire more must comply with all the following rules:

- be registered in an EU country and as a taxpayer in Latvia;
- all shareholders must be EU citizens or citizens of other countries that have concluded agreements on protection of investments with Latvia;
- the entity must identify all its beneficiaries and all of them must be EU citizens;
- the entity has no tax debts in Latvia or its country of domicile;
- confirm that the entity has received single area payments during the last 3 years, or receives direct payments or the entity's income from agricultural activities during the last three years has formed at least one third of all its income.
- confirm in writing that after purchase of the land the entity will start agricultural activities with the particular land within 1 or 3 years from the purchase depending on whether the particular land in the previous or current year has been the subject of single area payments or direct payments under EU Regulations.
- at least one employee or shareholder has received an agricultural education or the entity should have at least one

shareholder whose income from agricultural activities during last three years has formed at least one third of that person's total income.

The maximum area of agricultural land that can be owned by one person is 2000 ha. To ensure greater control over transactions with agricultural land, starting from 1 July 2015 the Latvian Land Fund will start its activities and will have pre-emptive rights to agricultural land if more than 5 or 10 ha (respectively) are being purchased.

Unlike the situation with agricultural land, no restrictions apply to EU citizens and legal entities to acquire land plots in cities in Latvia.

Non-EU Citizens and Legal Entities

Citizens of the European Economic Area or Swiss Confederation and companies registered in the European Economic Area or Swiss Confederation may acquire land plots. They must comply with the requirements imposed on citizens of the EU or companies registered in the EU. However, that only applies for acquisition of land. Therefore, apartments or buildings may be acquired without further restrictions and limitations, unless the land beneath the apartments or buildings is included in the deal. In most cases, apartment ownership also comprises a certain ideal part of a land plot, the land plot being in the co-ownership of all apartment owners in the house.

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

ENCUMBRANCES

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

MORTGAGE

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

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

PROPERTY MANAGEMENT

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

Management of residential buildings

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

Management structure of residential buildings depends on the ownership structure.

LEASE AGREEMENTS

General

General terms for lease and tenancy agreements are laid down in the Latvian Civil Law and the Law on Apartment Leases. The contents of lease and tenancy agreements are subject to agreement between the parties. Lease agreements on real estate remain binding on new owners if registered in the Land Book. Otherwise, a purchaser of real estate may terminate an unregistered agreement. However, the tenant is entitled to compensation from the previous owner for termination of a lease agreement before expiry.

At the same time, the Law on Apartment Leases protects the rights of tenants. Residential tenancy agreements are binding on new apartment owners under the Law on Apartment Leases without registration in the Land Book.

Duration and Expiry of Lease Agreement

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

that case the owner must provide the tenant(s) with equivalent residential premises.

Lease Payment and Accessory Expenses (Utilities)

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

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

PPP & INFRASTRUCTURE

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

INVESTMENT FUNDS AND REAL ESTATE

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

Real estate acquired by an investment fund must be registered under the name of the investment management company managing the fund, and it can be sold or encumbered only with permission of the custodian bank. Assets of a fund may be invested in real estate located in Latvia, the EU, EEA or OECD member countries,

or other countries specified in the prospectus once the real estate has been valued and the valuation is approved by an independent expert panel appointed by the management company. Real estate owned by the investment fund may not be managed by the investment management company itself and therefore will most likely be managed by a professional real estate management company.

PLANNING REQUIREMENTS AND CONSTRUCTION

Planning

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

Construction

A new Construction law has entered into force since October 2014. Amendments prescribe that a construction permit is now received in the initial stage and it does not allow construction works to start immediately. To obtain a construction permit, the applicant must develop a building design in a minimum composition and file it with the local construction board. If construction of the proposed building is possible, the construction board issues requirements and conditions to ensure design works. Construction itself can start only when all the requirements and conditions included 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, in a procedure of compulsory enforcement or during insolvency proceedings of the owner of the real estate. In any case acquisition of distressed real estate is more complex; therefore thorough due diligence should be performed as the possibility of problems is much higher. For example, during financial difficulties of the owner, real estate may be managed and maintained poorly.

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

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

the auction procedure, is regulated by the Insolvency Law and the Civil Procedure Law.

OBTAINING TEMPORARY RESIDENCE PERMIT

A temporary residence permit can be obtained, for a period not exceeding five years if a foreigner acquires real estate in Latvia with a total purchase price of at least EUR 250,000 (assuming that the cadastral value is not less than EUR 80,000). If the cadastral value is lower, then a certified real estate valuer will have to confirm that the market value of the real estate is at least EUR 250,000.

Only transactions involving purchase of a functionally related real estate with buildings will enable an application for a temporary residence permit. This means that buying several properties registered with separate land registries will not qualify for the transaction threshold set by law. In addition, the amendments state that transactions with agricultural or forest land do not qualify for grant of a temporary residence permit.

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



ESTONIA

Geography & Social

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

Currency

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



2015 Forecasts

GDP growth, %:	2.1
GDP per capita, €	15,000
Private consumption growth, %:	3.9
Average annual inflation, %:	0.8
Unemployment rate, %:	7.9
Avg. monthly gross wage, €	1.040
Avg. gross wage annual growth, %	5.0%

Population	2009	2010	2011	2012	2013	2014
Estonia	1,335,700	1,333,300	1,329,700	1,325,200	1,320,200	1,315,800
Tallinn	406,700	412,000	416,000	420,000	430,000	434,600
Tartu	102,800	103,300	103,700	104,100	98,500	98,000
Narva	66,200	65,900	65,500	65,300	64,000	62,000

Economics	2009	2010	2011	2012	2013	2014
GDP annual growth, %	-14.3	2.3	7.5	3.9	1.6	1.9
GDP per capita	10,423	10,723	12,101	13,300	14,200	14,737
Private consumption annual growth	-14.3	2.3	7.5	4.9	3.8	3.8
Average annual inflation, %	-0.1	3.0	5.0	3.9	2.9	-0.1
Unemployment rate, %	13.8	16.9	10.9	10.2	8.6	7.7
Average monthly gross wage, €	784	792	839	887	949	990
Average gross wage annual growth, %	-5.0%	1.0%	5.9%	5.7%	5.0%	4.3%
Retail sales growth, %	-17.0	0.0	11.0	5.0	6.0	7.0
Exports annual growth, %	-23.0	35.0	38.0	4.3	2.6	3.1
Imports annual growth, %	-33.0	27.0	37.0	8.8	3.1	2.1
FDI stock per capita, €	8,706	9,324	9,781	11,330	11,971	11,874

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

INTERNAL CONSUMPTION IS BOOSTING THE ECONOMY

The Estonian economy grew 1.9%, mainly due to the support of internal consumption. More rapid growth in industrial production and slightly more optimistic production expectations indicate a further increase in economic activity. Compared to the previous decade, the Estonian economy is in a new stage of development and further long-term growth will be 3–4%. According to the prognosis, the Estonian economy should reach the projected growth by 2016, and growth in 2015 will still be close to 2%.

The rapid price growth of recent years in the residential real estate sector has receded due to a decline in demand. Low interest rates will not increase in the next year. Over the past 7 years, interest rates have declined significantly. If in 2008 the 6-month Euribor rate was 5.8%, then at the end of 2014 it was just 0.17%.

Estonia's economic activity is restricted by the sluggish recovery of foreign demand. Although European countries have implemented structural reforms to improve competitiveness, the occurrence of the effect will take time and in several countries there is need for additional reforms. The cheaper euro improves the prospect for the economic growth of the Eurozone, and that has enhanced the competitiveness of exports in the common currency area. Estonia's export opportunities would be widened by expansion to new markets. The diversification of the markets would also help to improve the prospects for economic growth, because current trading partners are growing more slowly than the rest of the world.

The current unemployment rate is 7.7% but the labor shortage will worsen in the forthcoming years. In the next 2 years, the number of working-age people will decrease by 15,000. In 2014 the average gross salary increased 4.3% to €990 and is expected to grow 5% in 2015.

Although the increase in wages in Estonia has somewhat slowed down, the labor force shortage caused by the pressure on wage growth continues. The continuous growth of labor costs and bigger competition for workers will vigorously force out the companies that cannot increase productivity. Despite the decrease in the labor force, unemployment will not significantly decrease in the next 2 years, because the acute problem is that the skills of jobseekers do not meet the demands of companies.

Inflation slowed down in 2014 and in June fell below zero for the first time since the crisis. Although 4 years ago the

decline in prices affected a wide range of products and services, this year the fall in prices was mainly caused by the decline in energy and food prices. The decline in prices will end in early 2015, and in the next 2 years inflation will accelerate, although it will remain restrained. Due to the increase in labor costs, prices for domestic goods and services will rise faster than prices for imported goods and services.

Despite the weak economic conjuncture, the rapid growth in wages and household consumption increased tax revenues in 2014, which in turn improved the state of public finances. The risk is that economic growth may be slower or even negative in individual sectors, as evidenced by the recent trade sanctions towards Russia.



THE VACANCY OF A CLASS OFFICES IS ZERO, THE DEVELOPMENT BOOM HAS BEGUN

SUPPLY

In 2014 four projects were completed and around 16,000 sqm of office space entered the market. Very active development has also begun. In 2015 more than 50,000 sqm of office space will be added, and another 50,000–70,000 sqm is expected to be added in 2016. At the end of 2014, there was 631,000 sqm of modern office space in Tallinn.

Since the vacancy rate of A class offices has declined rapidly and is virtually zero and B class vacancy rate is 5%, active development work has started.

DEMAND

The demand is induced by the expansion of businesses and the creation of new ones, especially in the IT sector. Most potential interest in A class spaces comes from the representations of foreign companies and their back offices.

The owners of lower class office buildings have to make substantial investments or change the function of the buildings.

The market of office spaces is still not attractive to end-users. Depending on the location of the premises, individual transactions have taken place within the price range of €900 to €2,000 per sqm.

RENTS

Due to increasing demand in the office space market in Tallinn, rents for A class offices increased by 8%, and rents of B class offices increased by 5% in 2014. Rents for A class offices are from €12.0 to €15.00 per sqm, and rents for B class range from €7.40 to €10.50 per sqm. Rents for new developments and the best projects may reach €16.00 per sqm.

END-2014 SNAPSHOT

TALLINN

TOTAL OFFICE SPACE:

631,000 sqm

A CLASS OFFICE VACANCY

RATE:

0%

B CLASS OFFICE VACANCY

RATE:

5.0%

A CLASS OFFICE RENTS

(sqm/month):

€12.00 - €15.00

B CLASS OFFICE RENTS

(sqm/month):

€7.40 - €10.50

TOP OFFICE RENTS

(sqm/month):

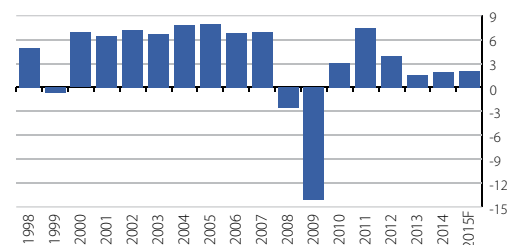
€16.00

ADDITIONAL OFFICE COSTS

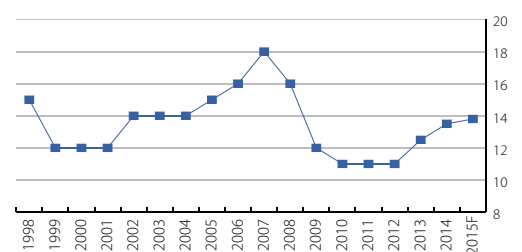
(sqm/month):

€2.00 - €4.50

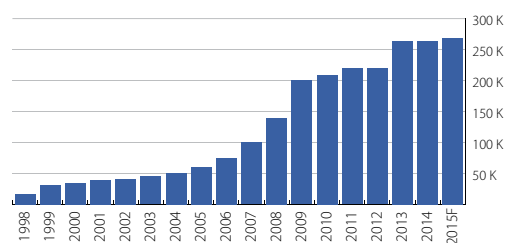
GDP growth, %



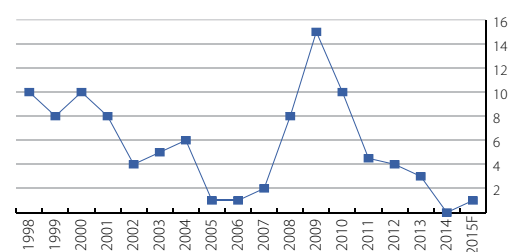
A class office rents, €/sqm



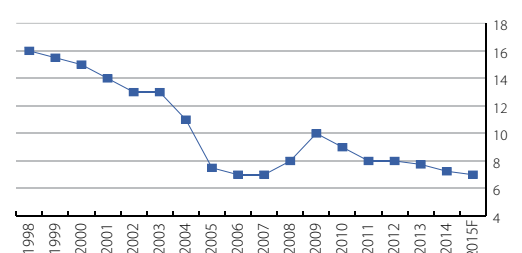
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yield, %



Rents for lower class offices did not change. In the less sought-after areas and buildings in the suburbs, the rents of office space range from €3.20 to €5.70 per sqm per month.

INVESTMENTS

In 2014 investors continued to display interest in spaces in prestigious locations with solid tenant structure and stable cash flow. In today's market situation, investors expect 7.5–8.0% yield, but in some cases investors are ready to accept lower yields (6.0–7.0%). Over the past year, there has been a remarkable growth in the number of Russian investors and in interest from Colonna Kinnisvara, representing mostly Italian investors.

Colonna Kinnisvara bought a multifunctional commercial building with commercial space on the ground floor and office space on the second floor located at Mustamäe Road 50 in the vicinity of Tallinn city center. The rented area is 6,600 sqm and at the moment of the transaction there was a free space of 620 sqm. The seller was M50 OÜ and the transaction price was €6.5 million. The yield has not been disclosed.



Colonna Kinnisvara bought a 9-storey, 4,957 sqm building housing office space and commercial areas at Pärnu Avenue 139c in the center of the business district of Tallinn. The transaction price was €3.0 million. The yield has not been disclosed.

East Capital bought the A class office building known as Metro Plaza, which has a floor area of 10,800 sqm and is located at Viru Väljak 2 in the center of Tallinn. The transaction price was €21.8 million, and yield was 7%. The seller was Lords LB Baltic Fund I.



LEGAL NOTES BY SORAINEN

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






Recent developments

	Description	Size (GLA, sqm)	Completion
	Mehaanika Street 21 – a compact, energy-efficient 4-storey office building with 2,000 sqm built near the city center on Mustamäe Road, one of the main roads. The building has 1,500 sqm of office space and a restaurant of 500 sqm on the ground floor. Rents start from €10.00 per sqm plus utility costs and VAT. The building was completed in late 2014 and the premises have been rented.	1,500	2014
	Sõpruse Avenue 157 – an energy-efficient 4-storey office building with an innovative design and a total leasable area of 2,400 sqm. It was built along Sõpruse Avenue, one of the main roads in Tallinn. The building has been designed to meet the standards of the Green Building certificate. Under the requirements for certification, the building uses at least 25% less energy than a typical office building of a similar standard design and is built in accordance with the requirements of Estonian building standards and regulations. The building was completed in 2014. Depending on the level of interior finish, rent starts from €11.50 per sqm plus projected additional costs of €2.10 per sqm and VAT. Most of the spaces are leased.	2,400	2014



Recent developments

	Description	Size (GLA, sqm)	Completion
	Eesti Energia Head Office – after selling its old offices, Eesti Energia will concentrate its workspaces in a logistically favorable office building on Lelle Street 22/24 (Pärnu Road 139E) near the intersection of Pärnu and Järvevana roads. A 10-year rent agreement will be signed. The size of the rented space is 7,500 sqm. The rents have not been disclosed. The building was completed in late 2014.	7,500	2014
	Metalli maja (Metal House) – a 6-storey development project with an underground parking space located on Metall Street 3 close to Tallinn city center. Office spaces on the upper floors have private terraces. The total area of the building is 5,820 sqm, and the rentable area is 3,280 sqm. The building was completed in the autumn of 2014. Rents start from €12.00 per sqm. Most of the premises had been sold or rented out by the end of 2014.	5,820	Q4 2014

New projects

	Description	Size (GLA, sqm)	Completion
	Kadrioru Business Centre – on Narva Highway 63 in the center of Tallinn, Kadriorg, which is near the sea and in the vicinity of the Liivaoja residential quarter. This development is a business quarter that comprises four office buildings, an underground parking area, a restaurant, a fitness club, and a car detailer. The net floor area of the building is 11,331 sqm. Rents are between €13.00 and €15.00 per sqm for office space, and the retail and service spaces on the first floor cost €20.00 per sqm. The planned completion time is the first quarter of 2015.	11,331	Q1 2015
	Pärnu Road 102B – an energy-efficient 4-storey office building with an underground parking lot. It has a total area of 2,535 sqm and 1,942 sqm of leased spaces and is located along one of the main roads in the center of Tallinn. Space planning can be carried out according to the customer's requirements. Rents start from €12.00 per sqm, plus VAT and incidental expenses. The developer and builder is YIT and the completion date is Q2 2015.	1,942	Q2 2015
	Tehnopool2KV – an 8-storey, two-block office building with underground parking on a rapidly developing science and business campus. The neighboring institutions are Tallinn University of Technology, the Tehnopol Startup Incubator, and the Estonian Information Technology College. The total area of the building is 11,560 sqm, and the rentable area is 7,340 sqm. The building will be completed in 2015. The builder is Astlanda and the developer is the Tallinn Science Park Tehnopol Foundation.	7,340	2015
	Eesti Loto Maja (Age Plaza) – an energy-efficient 9-storey A class office building that has a logistically favorable location right next to Pärnu Road (the Via Baltica), one of the busiest main roads in Tallinn. The building has a leasable area of 5,000 sqm and underground parking. Near the building, bicycle parking and an electric vehicle charging station are planned. The building will be completed in September 2015. Rents start from €13.00 per sqm plus VAT. The developer is the local real estate developer Age Vara, which is working together with EKE Invest.	5,000	Q3 2015
	Lõõtsa Street 5 – An environmentally efficient 13-storey office building with 9,245 sqm of leasable area on the rapidly developing high-tech campus of Ülemiste City in the immediate vicinity of the city center and airport. The facade of the building will have solar panels installed in addition to a gold-level LEED certificate. Construction cost is €8.7 million. The builder is Nordecon, and the developer is Mainor Ülemiste. Completion time is scheduled for August 2015.	9,245	Q3 2015

New projects

Description	Size (GLA, sqm)	Completion
 <p>Norra maja (Norway House) – a 7-storey energy-efficient class A office building, which is currently under construction with the assistance of Norwegian partners in the vicinity of the city center in the Baltika Quarter. The total floor area of the building, which has underground parking, is 13,300 sqm, with 7,600 sqm of space for rent. Rents range from €11.4 to €14.00 per sqm. The building will be completed by the end of 2015. The construction cost is €11 million, the builder is Nordecon, and the developer is Kawe.</p>	7,600	Q4 2015
 <p>Kai Street – a 6-storey office building with underground parking and a rental area of around 5,000 sqm in the immediate vicinity of the port and Old Town. Commercial or foodservice spaces will be located on the ground floor. Construction has begun and the building will be completed in early 2016. The builder is YIT Ehitus, and the developer is Capital Mill.</p>	5,000	2016
 <p>Super Ministry – according to the procurement of Riigi Kinnisvara (State Real Estate Ltd), a modern 16,000 sqm energy-efficient public building will be built on Suur-Ameerika Street in the center of Tallinn. It will be leased for 20 years to the Ministry of Finance, Ministry of Economic Affairs and Communications, Ministry of Social Affairs, and Ministry of Justice. Estimated rents are €14.00 per sqm. The winner of the tender and future builder is Fund Ehitus. Construction is scheduled to begin in 2015.</p>	16,000	2016
 <p>Novira Plaza – a modern 15-storey building that has underground parking and has been designed to provide exclusive A class office spaces and apartments with great views in the prestigious downtown business district. All offices and apartments will be developed for sale. The sales prices range from €2,500 to €3,000 per sqm for the office spaces and from €4,000 to €5,000 per sqm for the apartments. Ground floor commercial space price is €3,500 per sqm, and an underground parking space costs €20,000. Construction has begun and the building will be completed in the summer of 2016. The builder is Bauschmidt, and the developer is Novira Capital.</p>	NA	2016
 <p>Valukoja Street 8 (Opik House) – Estonia's biggest two-tower, 13-storey office building, which has a total area of 44,000 sqm (22,000 sqm in each tower) and is located in Ülemiste City. In the first phase, one tower with a GLA of 14,000 sqm of office space will be brought to the market. In addition, the project is designed to have so-called office apartments due to the increased demand caused by the growing number of foreign specialists. There will be a cafe on the first floor and bicycle parking on the ground floor. The new office building will be named after Ernst Julius Öpik, an internationally renowned academic and one of the founders of the Estonian School of Astronomy. The building has been designed by Agabus Arhitektid and Architect 11 to meet energy class B and LEED Gold certificate requirements. The tower construction will begin in early 2015 and is scheduled to be completed in the summer of 2016. The investment is €17.4 million, the builder is Merko, and the developer is Mainor Ülemiste.</p>	14,000	Q3 2016
 <p>Maakri Street 19/21 – a A class office complex of 32,857 sqm consisting of 30-storey, 4-storey and 10-storey buildings to be built in the prestigious Maakri Quarter in Tallinn city center. The project was initially scheduled for completion in 2017. The building is planned to have approximately 3,000 sqm of commercial and catering space and 167 parking spaces. There are also plans to renovate four neighboring historic buildings. The construction of utility systems and the foundation began in Q2 2014 but has now been temporarily suspended. The developer is Taali Grupp OU, and the builder is AS Oma Ehitaja.</p>	32,857	2017



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DEVELOPMENT CONTINUES

SUPPLY

In 2014 Ülemiste Shopping Centre near the Airport opened an extension and is now the biggest shopping center in Tallinn with 59,000 sqm of GLA. At the end of 2014 there were the 33 shopping centers (counting those having over 5,000 sqm of GLA and over 10 tenants) with a total leasable area of 553,400 sqm. Tallinn currently has 1.27 sqm of shopping center area per capita.

Retail sales in Tallinn are highly concentrated in shopping centers and development of completely new locations is subject to risks. In 2014 it turned out that development of one of the biggest shopping centers, Panorama City, was postponed because of an insufficient number of tenants, whereas development of the Tallink City entertainment and shopping center began.

The most active retail operator in Tallinn is Maxima, which in the next few years plans to open several shopping centers, including the first XXX-size store in Tallinn, and to become the market leader in Estonia by 2016.

The investments into new developments are taking place, particularly in residential districts such as Lasnamäe, Põhja-Tallinn, and Mustamäe.

DEMAND

Driven by an increase in real income, consumption is still growing, with annual growth of 7%, and is having a major impact on economic growth.

In the largest shopping centers of Tallinn in 2014, the supply of vacant premises was virtually nonexistent, and the vacancy rate was 0%. Retail sales are

END-2014 SNAPSHOT TALLINN

TOTAL LEASABLE SPACE IN SHOPPING CENTRES:
553,400 sqm

TOTAL SHOPPING CENTRE SPACE PER CAPITA:
1.27 sqm

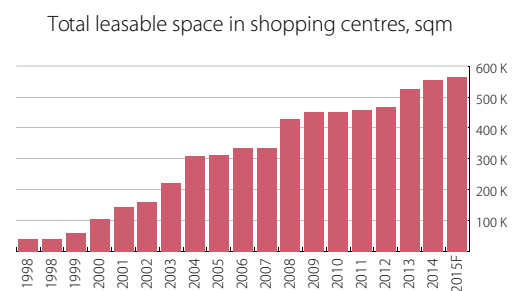
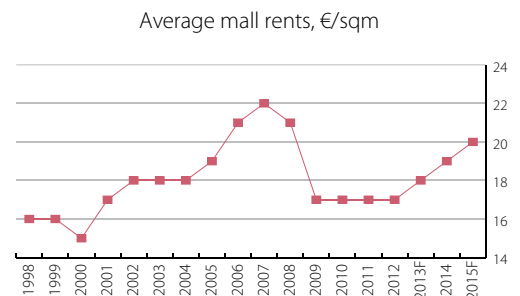
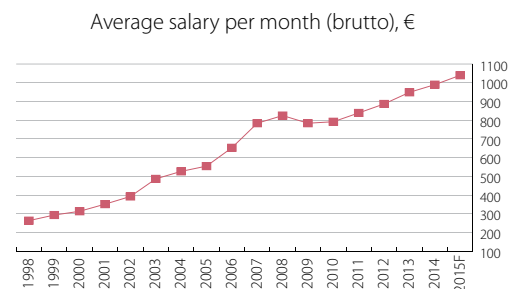
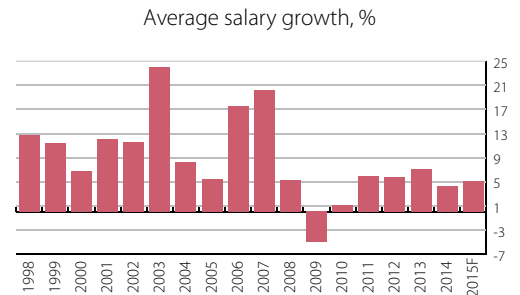
SHOPPING CENTRE VACANCY RATE (biggest SC):
0%

RETAIL RENTS FOR ANCHOR TENANTS (sqm/month):
€8.50 - €13.00

RETAIL RENTS FOR MEDIUM SIZED UNITS (sqm/month):
€13.00 - €20.00

RETAIL RENTS FOR SMALL SIZED UNITS (sqm/month):
€35.00 - €70.00

HIGH STREETS RENTS (sqm/month):
€20.00 - €40.00





concentrated in large centers and volumes are rising.

All over Estonia there is an expansion of retail chains such as Selver (Estonian), ETK (Estonian), Rimi (Scandinavian), and Maxima (Lithuanian). A number of new brands have also entered the market.

The shopping center Solaris opened the first budget store, Tiger. Ülemiste opened H&M Home and Sports Direct.

RENTS

Rents increased by an average of 5% in shopping centers in Tallinn.

Rents for medium-sized (150–300 sqm) units in retail centers run from €13.00 to €20.00 per sqm and up to €35.00–€70.00 for smaller sized units. Rents for anchor tenants are €8.50–€13.00 per sqm.

INVESTMENTS

Investments into Tallinn's retail sector increased in 2014 due to the increase in retail sales volumes and favorable interest rates, but the investments are limited by the scarcity of suitable objects. Investors are actively looking for stable cash flow from large and medium-sized retail premises in good locations and require a yield of at least 7.5%.

The 2,464 sqm De La Gardie Shopping Centre, which is located on a busy pedestrian street in Old Tallinn, was sold by Northern Horizon Capital/EPI Baltic I. The buyer was Lepidus Invest, and the value of the transaction was €6.5 million. The yield of the transaction has not been disclosed.

In Q3 2014, 2,000 sqm retail premises belonging to the Konsum chain of stores and located in the Tallinn suburb of Mustamäe was sold to a private investor for €2.06 million, with a yield of 7.0%.

In Q3 2014, the locally important, 3,600 sqm shopping center Järveotsa, which is located in the Tallinn suburb of Õismae, was sold to a Russian investor at the price of €4.32 million. The yield of the transaction has not been disclosed.




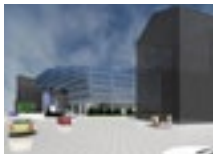

LEGAL NOTES BY SORAINEN


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

Recent developments

Description	Size (GLA, sqm)	Completion
 <p>Stroomi Shopping Centre – a locally important shopping center having approximately 15,000 sqm and including a 2-storey underground car parking area. It was built in the quickly developing district of Põhja-Tallinn to replace an old market. The key leaseholder on the first floor is the Maxima retail chain, with its XX-store of 2,800 sqm. The center was opened in December 2014. The cost of construction was €9 million. The builder was Nordecon AS and the developer was OU Kantaur.</p>	15,000	Q4 2014
 <p>Ülemiste centre – one of the biggest retail centers (located nearby Tallinn city center and between Tallinn Airport and Ülemiste City and a recently reconstructed, important road junction) was expanded by 32,000 sqm (22,000 sqm of leasable space). After the expansion, it became the largest shopping center in Estonia. It has a total area of approx. 92,000 sqm and a leasable area of 59,000 sqm and comprises 210 shops and entertainment places. A new main entrance and a 3-storey parking garage have been built. New well-known tenants include H&M, Sport Direct, and Apple. In January 2015, the restaurant chain Lido will join with 1,400 sqm. All spaces have been rented and vacancy is zero. The amount of the investment into the expansion was €40 million, and it was opened in October of 2014. The owner of the center and the developer is the Norwegian company Linstow International.</p>	+22,000	Q4 2014

New projects

	Description	Size (GLA, sqm)	Completion
	Hilton – the Olympic Entertainment Group, an Estonia-based Eastern European operator of a casino and entertainment chain, will replace Reval Park Hotel & Casino currently located in the center of Tallinn with a luxury hotel and entertainment complex that will be operated by Hilton Worldwide under its Hilton Hotels & Resorts trademark. The target clients will be tourists from Northern and Central Europe and Russia. Construction is taking place and the completion date is scheduled at the end of 2015. The amount of the investment is €36 million. The builder is Merko.	22,530	2015
	Maxima XXX – one of the largest retail chains, Maxima, is planning to build its first XXX hypermarket on logistically important Ehitajate Road, which connects the suburban districts of Mustamäe and Haabersti. The development will have a total area of 7,000 sqm and the retail area will be 5,000 sqm. Construction is scheduled to begin in 2015 and will be completed in Q4 2015.	5,000	Q4 2015
	Mustamäe Center – the most modern leisure and shopping center in the Baltics. This development will have a multiplex cinema and a total area of 13,000 sqm and will be built on Tammsaare Road in suburban Tallinn. The most important tenants of Mustamäe Center will be Rimi, Apollo Cinema, and the sports center MyFitness. The construction cost is €32 million and the builders are Astlanda Ehitus and Eventus Ehitus. Most of center has been already rented out. Construction started in autumn 2014 and the center will be completed in December 2015.	13,000	Q4 2015
	Hobujaama Prisma – the Finnish chain Prisma is planning to open a 2-storey, 16,000 sqm supermarket on the corner of Hobujaama and Ahtri streets in the city center near the Port of Tallinn in Q1 2016. The building will house a bus terminal.	16,000	Q1 2016
	Pro Kapital Fashion Factory (Europa) – a new shopping center located in the vicinity of the Sikupilli and Ulemiste shopping centers and on Peterburi Road, at the largest and most modern traffic junction in Tallinn, with prospects for connection to the public transport node that will connect the airport and the international Rail Baltica railway station. The total area of the center will be 130,400 sqm, and the leasable area will be 55,000 sqm. The development will contain 200 stores and the anchor tenant, with about 6,000 sqm, will be Selver Hypermarket. Preparatory construction work began in 2014, but the completion time will not be earlier than 2017. The developer is Pro Kapital.	55,000	2017

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DEVELOPMENT OF PROJECTS FOR OWN USE CONTINUES

SUPPLY

In Tallinn and Harjumaa, there is a total of 930,000 sqm of modern warehousing premises, of which 80,000 sqm, mainly built by companies for their own use, was completed in 2014. There are practically no sale offers of modern warehouses or manufacturing properties in highly sought-after locations, since in the current economic situation companies build according to their own needs for their own use and not for sale or rent.

DEMAND

In 2014 the clients were mainly interested in A class warehouses and land in Rae Parish near Tartu Highway.

Since construction in 2014 was mainly done for own use, vacancy remained at the level of 3% as it was in 2013. Finding tenants for B class space in less desirable locations is still problematic despite beneficial prices being offered. Like the owners of older office space, the owners of older warehouse and production areas need to shortly find the resources to renovate the premises in order to retain their clients.

Based on today's level of rent, it is not economically feasible to begin the construction of new warehouse and production space for leasing without having a specific client, because clients have very different requirements for the property.

In 2014 there was no change in rents. The asking prices of very good class A warehouses start from around €5.00 per sqm, but most transactions are made in the range of €3.50 to €4.30 per sqm, and old warehouse rents ranges from €2.00 to €3.00 per sqm.

Foreign clients with special requirements are ready to pay more than the average market price, but their expectations concerning loca-

END-2014 SNAPSHOT TALLINN

TOTAL NEW WAREHOUSE SPACE:

930,000 sqm

WAREHOUSE VACANCY:

3.0%

ANNUAL NEW WAREHOUSE RENTS CHANGE:

0.0%

NEW WAREHOUSE

RENTS (sqm/month):

€3.50 – €5.00

OLD WAREHOUSE

RENTS (sqm/month):

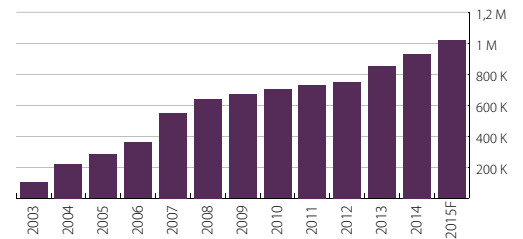
€2.00 – €3.00

ADDITIONAL WAREHOUSE

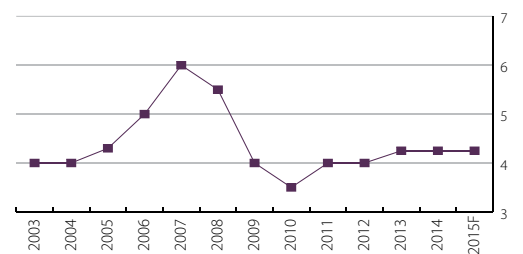
COSTS (sqm/month):

€0.90 – €1.20

Total modern warehouse space, sqm



New warehouse rents, €/sqm



Old warehouse rents, €/sqm



LEGAL NOTES BY SORAINEN

Industrial leases are quite simple. Rents are indexed to local inflation. Nearly all properties are owner-occupied. Good-quality tenants are in short supply, as are sufficiently universal properties to create an investment market.

tion and quality of the premises are significantly higher.

Warehouse and industrial space development is mainly related to foreign demand, export-based economic growth, and Scandinavian investors.

INVESTMENTS

Major investors are the internationally known Citycon, East Capital, and Northern Horizon Capital (Baltic Property Trust). In addition, local investors are also active (Eften and Capital Mill). Over the past year, the interest of Russian investors has increased significantly due to the drain of capital from Russia. In today's market situation, in Tallinn and its surroundings investors are expecting at least 8.0% yield for warehouse and production facilities.

Capital Mill, which manages Russian real estate investments, bought the Pharmadule production building in Jüri near Tallinn and BE Steel warehouse (which together have a total area of 11,000 sqm) in Maardu. The seller was the real estate fund EEREIF, which operates in Eastern Europe. The transaction price and yield have not been disclosed.

Eften Capital bought the DHL logistics center, an Onninen store, and the EstTrans warehouse with a total rental area of 24,100 sqm on Betooni Street. The seller was the real estate developer Varasto Estonia OÜ. The transaction price and the yield have not been disclosed.






The real estate fund East Capital Baltic Property Fund II purchased a logistics center and the head office of Rimi Eesti Food AS in Juri near Tallinn in 2014. The previous owner was Kinnisvaravalduse AS, a subsidiary of the Rimi/ICA Group. It was a leaseback transaction, since AS Rimi Eesti Food will stay as a long-term tenant. The transaction totaled €13.4 million and the yield was 8%.



Recent developments



	Description	Size (GLA, sqm)	Completion
	Via 3L – at the start of 2014 the logistics service provider Via 3L opened a 13,000 sqm extension in Lagedi near Tallinn, which increased the total area of its Lagedi logistics center to 35,000 sqm. The investment volume for the extension was €6.0 million.	+13,000	2014
	Logistika Pluss – one of the largest logistics warehouse keepers in Estonia, Logistika Pluss, built a 24,000 sqm warehouse complex in Nurmevalja, Iru, aimed at industrial electronics, medical devices, and storage facilities and at adding value to these products. The complex will create workplaces for 170 people. The investment value is €7–8 million. The complex was completed in 2014. The construction company was Merko Ehitus.	24,000	2014

New projects

	Description	Size (GLA, sqm)	Completion
	Eccua – a warehouse and production building of 3,600 sqm that consists of a one storey production and warehouse section and a compact 2-storey office and household section. The building is being constructed in Allika Industrial Park near Tallinn as ordered by AS Harju Elekter for the company Eccua, which specializes in water system equipment. The building will be completed in 2015. The builder is Merko.	3,600	2015
	The Port of Muuga – one of the world's leading logistics companies, the Belgian company Katoen Natie, is building Phase III of the largest logistics center in Estonia. It is located in the Port of Muuga. The cost of the center is €35 million. The Phase I, with 25,000 sqm, was finished at the start of 2013. Phase III, the last phase, will add 10,000 more sqm in 2015. In total there will be 65,000 sqm of warehouse space.	10,000 (III stage)	2015
	Smarten Logistics – in Rukki Industrial Park (Rae Parish) nearby Tallinn (at the intersection of the Tartu Highway and the Tallinn ring road) a well-known logistics company is constructing a logistics center with a total area of approximately 45,000 sqm. The first stage amounts to approximately 17,000 sqm and costs €6.4 million. The deadline for completion is early 2015. The builders are Eventus Ehitus OÜ and Nordecon Betoon OÜ.	45,000	2015
	VGP Park – Czech-based developer VGP Group is constructing an industrial and logistics park comprised of three buildings located in the vicinity of the Tallinn Ring Road and St. Petersburg Highway. In 2013 they finished the first 21,600 sqm building and started construction of another one. The site has a total area of 109,918 sqm. Rents range from €4.0 to €4.5 per sqm plus VAT. The entire complex is expected to be completed in 2015.	6,050 (II stage)	2015
	Maxima logistics center – the retail chain well-known throughout the Baltics started the construction of a 45,000 sqm logistics center equipped with 130 loading platforms by the reconstructed Tallinn Ring Road. The center will create 350 workplaces and the size of the investment amounts to €30 million. The builder is AS Rand & Tuulberg, and the building is scheduled to be completed in December 2015.	45,000	Q4 2015



New projects

Description	Price (sqm)	Completion
 <p>Peetri Business Park – 60,000 sqm business park to be built along Tartu Highway in rapidly growing Rae Parish in direct proximity to the city of Tallinn, which is the closest location to the city center and the airport. The entire area is divided into 12 plots that are from 3,000 sqm to 7,500 sqm and can be merged. Roads and utility networks were scheduled to be finished by the end of 2014. The price of land is from €60 to €70 per sqm plus VAT, and the price includes mergers and the utility network. Most of the plots are sold.</p>	60,000	N/A
 <p>Rukki Industrial Park – in a very favorable logistical location close to the highway between Tallinn and Tartu and Juri Road, Rukki Industrial Park will be built on a site divided into 14 plots of different sizes. According to the site plan, it is possible to build up to 60,000 sqm of warehouse or production facilities. The landlord is ready to erect buildings in accordance with the client's request, then leasing them and acting as an owner and long-term partner. Construction of the utility network and the first building has already started. The whole project will be completed when all plots are sold.</p>	60,000	N/A



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

SUPPLY IS STARTING TO EXCEED THE DEMAND

PRICES

Apartment prices in Tallinn increased 10.1% in 2014, reaching €1,499 per sqm in the end of 2014. The number of apartment transactions decreased 3%, but monetary value increased 11%. This means that there were more transactions with more expensive new construction apartments in Tallinn in 2014.

The reasons for the increase in apartment prices are low interest rates for home loans, increased incomes, and the acquisition of apartments for investment purposes. The reason for buying apartments in new developments is also energy efficiency (lower heating expenses). Around 40% of the transactions in Estonia were made without a bank loan.

New apartments in Tallinn cost €2,200–5,000 per sqm in the city center and €1,500–2,200 per sqm in the residential districts.

Prices of apartments differ mainly according to the location. Most transactions were in the city center and involved apartments in good condition apartments in modern or fully renovated buildings in the price range of €1,700 to €2,200 per sqm.

In buildings with the best views or special architectural features, prices sometimes exceed €2,800 per sqm. Well-renovated flats in the Old Town cost €2,700 to €4,500 per sqm.

In the residential districts, most sales were for cheaper one or two room Soviet-era apartments in need of renovation. These apartments cost from €1,000 to €1,200 per sqm. Suburban apartments in excellent condition situated in popular locations costs €1,300 to €1,500 per sqm. Apartments in less sought-after locations are much less attractive, even if they are in good condition. In popular districts like Pirita, Nõmme and Kakumäe, prices for new apartments range from €1,600 to €2,300 per sqm.

END-2014 SNAPSHOT

TALLINN

ANNUAL APARTMENT PRICE CHANGE:

+10.1%

NEW APARTMENTS BUILT:

1,100

AVERAGE NEW APARTMENT FLOOR AREA:

65.8 sqm

ECONOMY CLASS NEW

APARTMENT PRICES (sqm):

€1,400 – €1,700

MIDDLE CLASS NEW

APARTMENT PRICES (sqm):

€1,800 – €2,200

LUXURY CLASS NEW

APARTMENT PRICES (sqm):

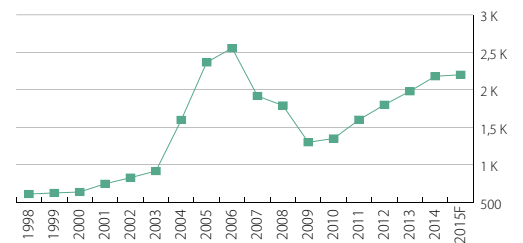
€2,500 – €4,500

RESIDENTIAL INVESTMENT

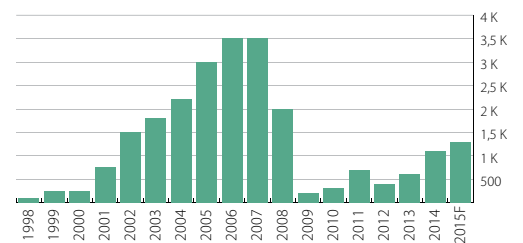
YIELD:

5.0%

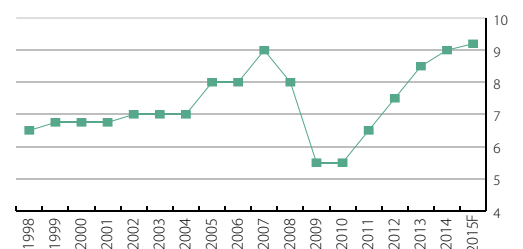
Residential prices in city centre, €/sqm



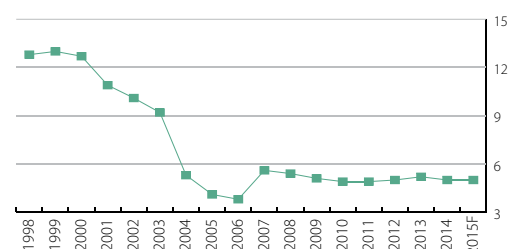
Completed apartments



Residential rents in city centre, €/sqm



City centre residential investment yield, %





RENTS

In 2014 rents increased 5–10%, depending on the exact location and condition of the apartment. In the first half of the year, prices moved upwards then in the second half prices stabilized. The increase in rents was primarily for smaller apartments in the city center and suburbs. In the autumn of 2014, the asking price of rental apartments in the residential districts of Tallinn was from €7.0 to €8.0 per sqm, with €10.00 per sqm in the center.

In the city center demand is highest for one or two-room furnished apartments, which rent for €430 to €550 per month, preferably with parking. Tenants pay their own utilities on top of the rent.

The gross rental yield of apartments in Tallinn in 2014 was 5.0–6.0% depending on the location. This number does not satisfy investors and that is the main reason why institutional investors have not started to develop rental apartment buildings. Owners generally conclude short-term rental agreements and most carefully check the tenant's profile.

SUPPLY

In 2014 1,100 new apartments were completed in Tallinn and construction of 1,300 new apartments began, most of which will be completed in 2015. While in the past development activity took place predominantly in the center of the city and its surroundings, there are now a number of development projects (200–500 apartments) in the residential districts. In the primary market, there are a total of 1,800 new apartments for sale in more than 100 projects in Tallinn.

Over the past year, 60 to 80 new apartments were sold per month. In the first half of 2014, demand exceeded supply and the majority of the apartments were already sold or booked during construction. In the second half, the situation changed and supply is now exceeding demand.

Customers primarily value the proximity of the town center and smaller original development projects.

Apartment development is concentrated in the hands of some of the larger developers (Merko, Endover, Metro Capital, TTP, Astlanda, Novira, Remet, Colonna Kinnisvara, YIT), while well-known construction companies Skanska and NCC are leaving the market due to the fierce competition.

PRIVATE RESIDENCES

In Tallinn and Harjumaa the prices for private residences rose an average of 4% in 2014. The number of transactions increased 10% and the total monetary value grew 15%.





In the current market situation, the preferred size of houses is 130 sqm to 180 sqm. Houses that are up to 5 years old or row houses with modern technical solutions have a price range of €150,000 to €250,000. In 2014 demand increased for row houses and developers started several developments.

Most transactions take place in Tallinn and in regions with well-established infrastructure located up to 25 km from Tallinn. The price increase can be observed in valued and established residential areas (Nõmme, Pirita and Kakumäe) and the adjacent municipalities of the city.

LEGAL NOTES BY SORAINEN

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








Recent developments


	Description	Price (sqm)	Completion
	Uus-Tatari 12 – a development project comprising of 28 apartments located close to the very center of Tallinn. The apartments have 1–4 rooms and sizes range between 32 to 102 sqm. Those on the highest floor (the 5th) have wide terraces, and parking spaces are located in the basement. Apartment prices range between €2,000 and €3,000 per sqm, a parking space in the basement costs €15,000, and a storage room runs €8,000. Project was completed in autumn 2014. The developer and builder was Remet, and the seller is Ober-Haus.	€2,000 - €3,000	Q4 2014
	Terase Street 16 – this exclusive 6-storey residential building (with only 13 apartments) is located in the center of Tallinn on the border of Kadriorg District, which is highly valued as a residential area for its cultural offerings and environment. The prices for the apartments range from €2,800 to €3,900 per sqm, and a parking garage costs €20,000. Project was completed in Q2 2014. The developer was Ehitusettevõtte OÜ and the seller is Ober-Haus.	€2,800 - €3,900	Q2 2014
	Tehika Street 22 – 14 apartments located at the border of the center of Tallinn and Pelgulinn District, which is growing in popularity. The building was constructed using the modern technical solution of special load-bearing structures of monolithic concrete. The prices for the apartments range from €2,400 to €2,800 per sqm, and a residential parking garage costs €8,000. The project was completed in Q3 2014. The developer was 22 OÜ and the seller is Ober-Haus.	€2,400 - €2,800	Q3 2014
	Hoburaua House (Horseshoe-Shaped House) – a horseshoe-shaped ensemble of two 109-apartment buildings being constructed near the sea in Kalamaja District, which in recent years has gained popularity as a residential area because of its rich cultural offerings and environment. Between the two buildings will be a spacious inner yard with a playground, benches, and “green islands”. There will also be a parking garage in the basement. The first building at Vibu Street 5 was ready in 2014, and the second will be ready in 2015. Apartment prices range from €1,800 to €3,100 per sqm. Storage and parking spaces are included in the price of each apartment. The developer is AS YIT Ehitus.	€1,800 - €3,100	2014

New projects

	Description	Price (sqm)	Completion
	Meerhof, Pirita Road 26 – an exclusive new development project located near the center of Tallinn and the sea. All apartments are luxurious and larger than average and have great views of the sea, large balconies and terraces, and parking garages in the basement. The apartments come with so-called Smart-Home solutions. Prices start from €2,200 to €5,000 per sqm. The scheduled time of completion is the beginning of 2015. The developer is Metro Capital and the construction company is Nordecon.	€2,200 - €5,000	Q1 2015
	Uuslinna Street 9 – a development project consisting of four buildings in the vicinity of the city center and popular Kadriorg Park. There are sixty 2–4 bedroom apartments, with underground parking spaces. The apartment prices range from €1,600 to €2,000 per sqm, parking spaces cost €6,000 per sqm, storage space is priced at €2,000. This project will be completed in spring of 2015. The developer is Näituste Kinnisvara OÜ, and the seller is Ober-Haus.	€1,600 - €2,000	Q2 2015

New projects

Description	Price (sqm)	Completion
 <p>Hobemetsa residential Area – a modern residential development of 500 apartments at Kadaka Tee 193, which is located in a suburb of Tallinn at the border of Nomme and Haabersti Districts and close to a natural area. Construction has begun and the first 4-storey building with 29 apartments will be completed in the summer of 2015. The prices for the apartments range from €1,480 to €1,780 per sqm, and parking spaces and storage spaces are included in the price. The developer is Kaamos Kinnisvara.</p>	€1,480 - €1,780	Q3 2015
 <p>Poorise residential area – a modern housing estate of three 12-storey and seven 14-storey buildings that will be constructed in phases. It is located in the suburbs of Tallinn on the border of Mustamae and Oismae. A kindergarten and a parking garage will also be constructed on the property. The first 2-room and 3-room apartments will be completed in the summer of 2015. The prices for most of the apartments are €1,500–2,000 per sqm, and parking spaces cost €3,000. The developer is Kaamos Kinnisvara.</p>	€1,500 - €2,000	Q3 2015
 <p>Stadioni Street 4 – local development project located nearby the developing Juhkentali subdistrict of the city center. The main floor accommodates commercial space. There are 81 apartments in the price range of €2,100 to €3,200 per sqm. Parking places cost from €10,000 to €13,000. The project will be completed in Q3 2015, and the developer is YIT.</p>	€2,100 - €3,200	Q3 2015
 <p>Kalaranna – this development project consisting of 4 buildings and 95 apartments that together with a children's playground form a complete living environment is located near the city center and the sea in Kalamaja, which in recent years has gained popularity as a residential area because of its rich cultural offerings and environment. Prices for apartments range from €1,900 to €2,600 per sqm, and an underground parking garage costs €7,000. The development project will be completed in the autumn of 2015, and the developer is Novira and Broadgate Capital.</p>	€1,900 - €2,600	Q4 2015
 <p>Paepargi towers – a housing complex of three 14-storey towers with 180 apartments to be built downtown in the rapidly developing area on the border of Paepark. Construction has begun and the first residential building of 60 apartments will be ready by the end of 2015. The prices of the apartments range from €1800 to €2,250 per sqm. Outside parking spaces and storage rooms in the basement for most apartments are included in the price. The developer and builder is Merko.</p>	€1,800 - €2,250	Q4 2015
 <p>Tartu Road 56 – a residential development project located in the center of Tallinn. It includes modern roof terraces and winter gardens and two underground floors (parking spaces). The building has the so-called Smart Home solution. The first floor is planned for commercial spaces. There are a total of 84 apartments in the price range of €1,800 to €4,200 per sqm, and parking spaces in the underground parking lot cost €15,000. The building will be completed in 2016, and the developer is Endover.</p>	€1,800 - €4,200	2016
 <p>Poordi Street 3/5 – a development project located in the area between the Old Town and the harbor in the city center of Tallinn. There are a total of 120 apartments ranging in price from €2,800 to €4,700 per sqm. Storage areas cost €3000–6000, and most parking lots from €18,000 to €25,000. Construction has not yet begun, but advance sales are taking place. The scheduled completion date is autumn 2016. The developer is Capital Mill.</p>	€2,800 - €4,700	Q4 2016

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



DEMAND IS HIGH FOR LAND IN GOOD LOCATIONS

Both number of transactions and average value of residential land plots increased 18% in Tallinn and Harju County in 2014. The price increase was the largest for the areas in the immediate vicinity of the city of Tallinn and the increasingly popular real estate development area in Rae Parish.

Plots of 1,000 sqm to 1,500 sqm cost from €75,000 to €130,000 in the highly valued districts of Tallinn (Pirita, Kakumäe and Nõmme), in the vicinity of the city from €50,000 to €90,000 in the vicinity of the city, and from €20,000 to €45,000 in other locations.

There are a large number of plots for sale in less desirable areas. There is practically no interest in residential lots without utility networks and insufficient infrastructure, even if below the market price.

END-2014 SNAPSHOT TALLINN

ANNUAL LAND PRICE CHANGE:
+18%

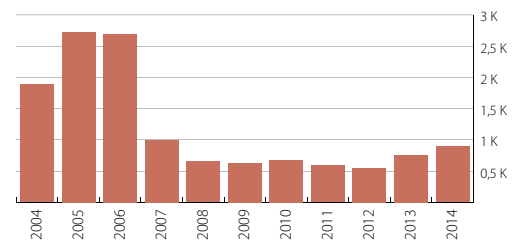
TOTAL LAND TRANSACTIONS CHANGE
(Tallinn & Harjumaa):
+18%

LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (sqm):
€250 – €450

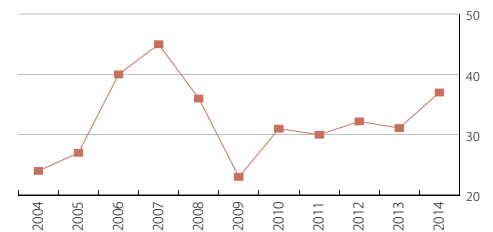
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (sqm):
€150 – €250

LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (sqm):
€55 – €90

Land transactions in Tallinn city & district



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



LEGAL NOTES BY SORAINEN

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

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

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





ESTONIAN REAL ESTATE TAXES & 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 subject to VAT.

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

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

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

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

LEASE

Value Added Tax (VAT)

As a general rule, rent of real estate is VAT exempt. Parties may opt to add VAT on rent, provided that the Estonian Tax Authorities are respectively notified in advance and in such case the notification is valid for 24 months. In practice the option is widely used by owners of commercial property since this grants the right to deduct input VAT incurred upon development of property. All residential

property is rented without VAT since the option to tax is not available.

Corporate Income Tax (CIT)

Due to the specifics of the Estonian corporate tax system, rental income received by Estonian companies only becomes subject to 20% corporate tax upon distribution of profits. Permanent establishments of non-residents are taxed similarly to Estonian companies, i.e. only upon making formal or deemed profit distributions.

Withholding tax (WHT)

As a general rule, non-residents without a permanent establishment in Estonia are subject to 20% income tax on the gross rental income by way of withholding.

Personal Income Tax (PIT)

Estonian resident individuals pay 20% income tax on gross rental income, i.e. without the right to make any deductions on the expenses incurred in relation to the property.

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

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

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

SALE

Value Added Tax (VAT)

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

Corporate Corporate Income Tax (CIT)

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

Special rules for 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. Income tax is charged on gains derived from the transfer of property and the income which is received from the hire or lease of property that is located in Estonia. In addition, interest which is received in connection with holding in another Estonian real estate contractual investment fund or pool of assets is subject to 20% income tax.

Personal Income Tax (PIT)

As a general rule, private individuals are liable to pay 20% income tax on the capital gain upon sale of real estate. Exemption is provided for sale of home (one home can be sold tax exempt in every 2 years).

REAL ESTATE TAX (BUILDINGS PREMISES)

There is no real estate tax in Estonia.

LAND TAX

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

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

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

INTRODUCTION

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

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

TITLE TO REAL ESTATE, LAND REGISTER

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

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

Title to real estate is considered transferred on registration of ownership in the Land Register, not on signing the agreement. In the case of a simple transaction ownership will usually be registered within one week from filing an application with the Land Register along with the signed and notarised agreement. In the case of a complex transaction the Land Register has up to one month to process the application.

ACQUISITION OF REAL ESTATE

General

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

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

Letter of Intent and Heads of Terms

In practice, letters of intent (LOIs) and heads of terms (HOTs) are used to bind negotiating parties to a contemplated real estate transaction. However, in Estonia all transactions related to the obligation to buy or sell real estate (including preliminary agreements,

LOIs and HOTs) require notarisation in order to be legally binding. Without notarisation, a buyer cannot require the seller to conclude a sale contract and transfer ownership, or to pay contractual penalties.

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

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

Asset Transfer

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

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

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

Existing lease contracts remain valid after the transaction.

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

Share Transfer

A share transaction can be made instantaneously, through electronic sale of shares in the Estonian Central Register of Securities, accessed via the buyer's and seller's internet bank accounts. No state duties apply, and no notary fees apply if the transaction is done electronically.

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

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

Portfolio deals

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

Considering a portfolio deal requires bearing in mind the following:

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

Sale-leaseback

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

This arrangement requires the following checks:

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

FORM OF AGREEMENTS

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

All transactions related to the obligation to sell and purchase real

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

LANGUAGE REQUIREMENTS

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

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

DUE DILIGENCE

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

PRE-EMPTION RIGHTS

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

directly to the seller within a couple of days as agreed in the purchase agreement.

RELATED COSTS

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

CONCENTRATION CONTROL

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

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

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

RESTRICTIONS

Restrictions on Acquisition of Real Estate

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

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

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

Other persons may own such land but on limited grounds and on

approval of the county governor.

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

Public Restrictions on Use of Real Estate

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

ENCUMBRANCES

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

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

MORTGAGE

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

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

PROPERTY MANAGEMENT

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

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

LEASE AGREEMENTS

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

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

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

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

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

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

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

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

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

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

end of the original lease term.

PPP & INFRASTRUCTURE

General

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

Concessions

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

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

Sale-Leasebacks

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

REGULATED REAL ESTATE FUNDS

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

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

This investment structure offers opportunities for investors for exiting real estate investment or receiving financing without losing control over the investment. Fund management fees may be

structured as success fees depending on the performance of the investment portfolio.

PLANNING REQUIREMENTS AND CONSTRUCTION

Planning

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

Construction

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

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

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

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

Once construction works are finished, the construction company must give a minimum two-year guarantee for construction faults. According to the latest court practice the longer guarantee agreed in the construction agreement will also apply to third parties who are not parties to the construction contract. A manufacturer's guarantee for equipment incorporated in construction works cannot be shorter than six months.

DISTRESSED ASSETS

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

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

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

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

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

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





**NOTEWORTHY
SORAINEN REAL ESTATE
TRANSACTIONS**



Awarded by:
Chambers Europe
The Lawyer
International Financial Law Review
International Tax Review

SORAINEN is a leading regional business law firm with fully integrated offices in Estonia, Latvia, Lithuania and Belarus. Established in 1995, today SORAINEN numbers more than 160 lawyers and tax consultants advising international and local clients on all business law issues involving the Baltics and Belarus.

<p>Citycon</p> <p>Advice on sale of Mandarin shopping centre with gross leasable area of approx 7,900 m² in Vilnius, Lithuania</p> <p>EUR 12.5 million</p> <p>2014 Seller's Legal Adviser</p>	<p>Olympic Entertainment Group</p> <p>Advice on planned construction of new luxury hotel (to be operated by Hilton Worldwide) and entertainment complex in Tallinn, Estonia</p> <p>approx EUR 36 million</p> <p>2013 Legal Adviser</p>	<p>Plesko Real Estate</p> <p>Advice on Latvia's largest real estate transaction in 2014 – sale of the Damme Shopping Centre</p> <p>Gross leasable area 12,912 m²</p> <p>2014 Seller's Legal Adviser</p>	<p>Technopolis</p> <p>Assistance in completing a transaction involving acquisition of Alfa, Beta and Gama office buildings in Vilnius, Lithuania totalling 42,300 m² of rentable space</p> <p>EUR 62 million</p> <p>2013 Legal Adviser</p>	<p>Dasos Timberland Fund II</p> <p>Advice on acquisition of a large forest property portfolio in Latvia</p> <p>2014 Buyer's Legal Adviser</p>
<p>Apollo Cinema</p> <p>Advice on purchasing Solaris Cinema in Tallinn city centre</p> <p>Multiplex 7-screen cinema</p> <p>2014 Buyer's Legal Adviser</p>	<p>Peikko</p> <p>Advice on expanding activities in Lithuania, on acquisition of a company owning immovable property and lease right to state land in Kaunas, Lithuania</p> <p>Total investment EUR 5 million</p> <p>2014 Legal Adviser</p>	<p>Embassy of the Kingdom of Norway in Riga</p> <p>Advice on sale of real estate in Old Riga, Latvia, consisting of land plot and 3-floor building</p> <p>EUR 1.575 million</p> <p>2013 Seller's Legal Adviser</p>	<p>Rimi Eesti Food</p> <p>Assistance on sale-and-lease-back transaction of logistics centre and headquarters building in Tallinn</p> <p>EUR 13.4 million</p> <p>2014 Seller's Legal Adviser</p>	<p>BPT Baltic Opportunity Fund</p> <p>Advice on forward purchase of Domus Pro Retail Park in Vilnius and acquisition and lease-back of SKY shopping centre in Riga</p> <p>2013 Buyer's Legal Adviser</p>
<p>Nekilnojamojo turto gama</p> <p>Advice on selling Vilniaus verslo uostas, an office building with an area of approx 28,000 m² Lithuania</p> <p>EUR 61.6 million</p> <p>2014 Seller's Legal Adviser</p>	<p>VCA Baltic Retail Fund</p> <p>Advice on sale of shopping centre fully leased to Prisma hypermarket with lettable area of 11,600 m² and 650 parking places to East Capital Baltic Property Fund II in Riga, Latvia</p> <p>2013 Seller's Legal Adviser</p>	<p>Vicus Capital Advisors managed fund</p> <p>Advice on sale of a newly developed single tenant shopping centre in Tartu</p> <p>2014 Seller's Legal Adviser</p>	<p>MG Valda</p> <p>Advice on sale of North Star business centre building with approx 10,500 m² gross leasable area in Vilnius, Lithuania</p> <p>EUR 18.7 million</p> <p>2015 Legal Adviser</p>	<p>YIT Ehitus</p> <p>Advice on sale of office and production facility with gross leasable area of approx 10,000 m² – one of the first forward purchase agreements in Estonia</p> <p>2013 Seller's Legal Adviser</p>

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Real Estate & Construction Sector Group



Today's business environment expects lawyers to speak clients' language, providing commercially savvy legal advice. To meet client needs SORAINEN has launched sector groups focused on specific business sectors (industries).

SORAINEN Real Estate & Construction Sector Group advises international and local real estate investors and funds, developers, construction companies, real estate brokers and consultants, design, construction, property management companies and real estate project financiers in the Baltics and Belarus. We assist in all types of transaction: buying, selling, letting, financing, developing or operating, designing and construction, territory planning, development of infrastructure.

Involved in the real estate industry for many years, SORAINEN Real Estate & Construction Sector Group lawyers have acquired a strong understanding of the sector and its needs. The sector focus and integrated regional approach allow us to offer efficient solutions tailored to our real estate sector clients across the region. As a result, SORAINEN is regularly involved in majority of the largest and most complex real estate projects and transactions in the Baltics and Belarus.

In addition to sector specific services, we provide comprehensive legal and tax services for real estate clients. Most typical services of our Real Estate & Construction Sector Group include advice on:

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



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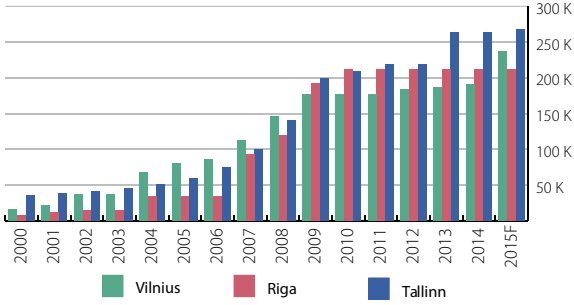
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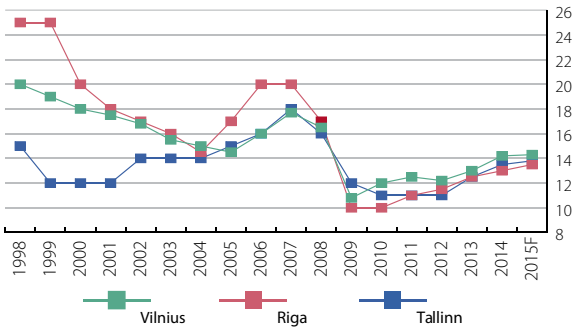
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OFFICE

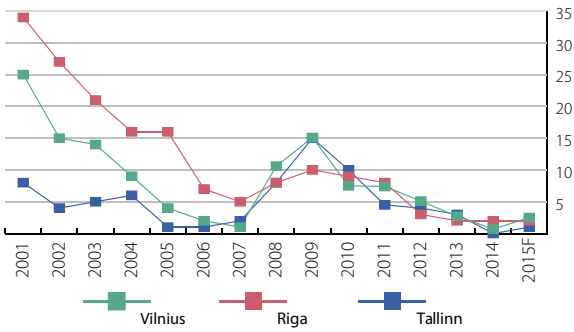
Total A class office space, sqm



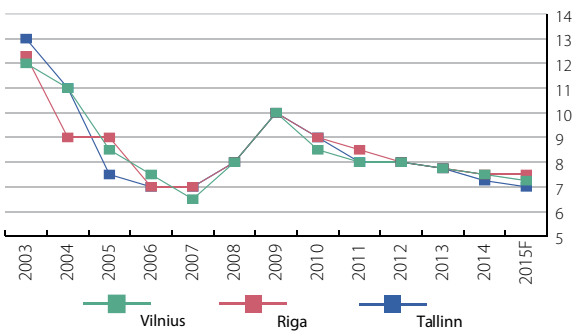
A class office rents, €/sqm



A class office vacancy rate, %

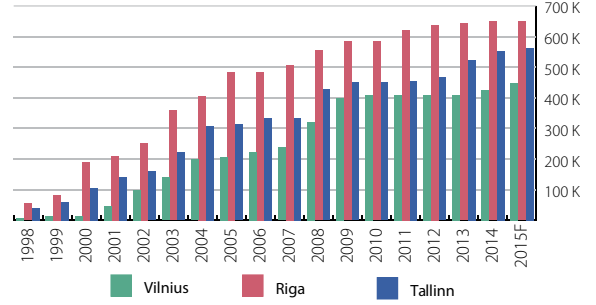


A class office investment yields, %

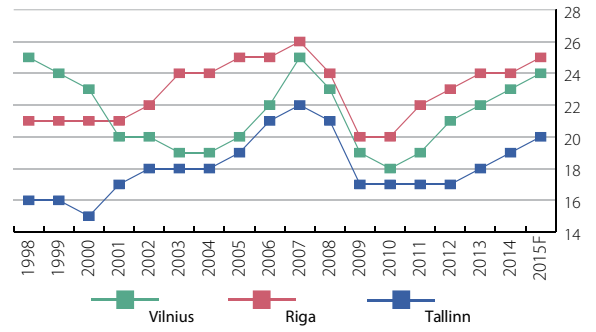


RETAIL

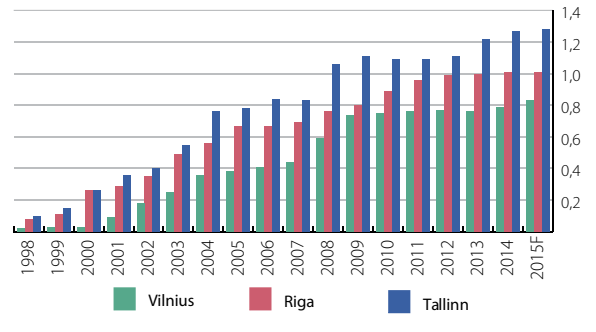
Total leasable space in shopping centres, sqm



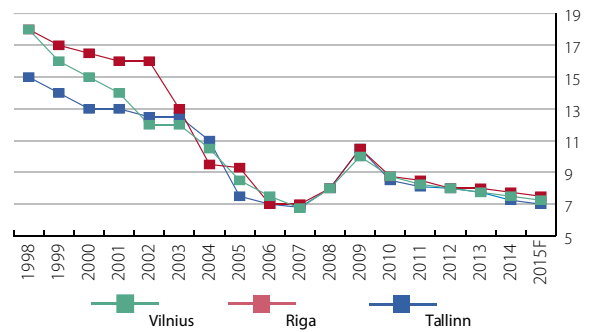
Average shopping centre rents, €/sqm



Total shopping centre space per capita, sqm

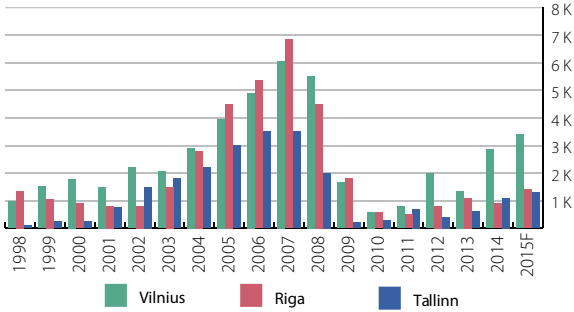


Retail investment yields, %

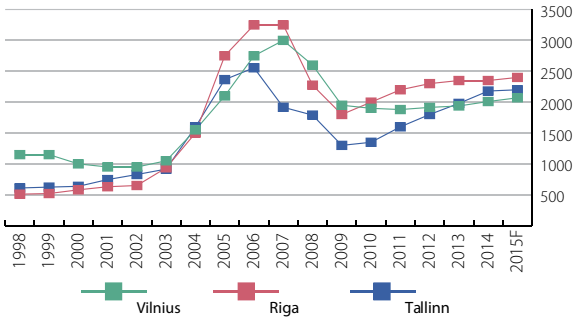


RESIDENTIAL

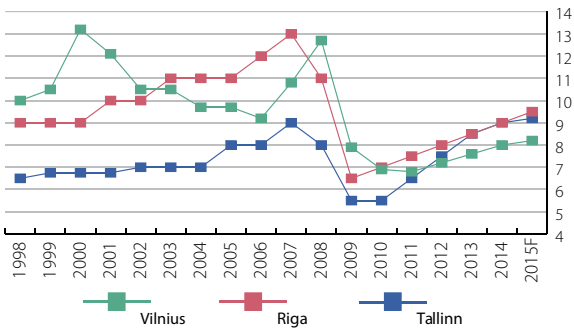
Completed apartments



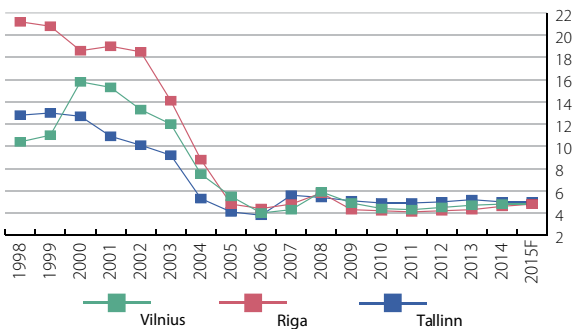
Residential prices in city centre, €/sqm



Residential rents in city centre, €/sqm

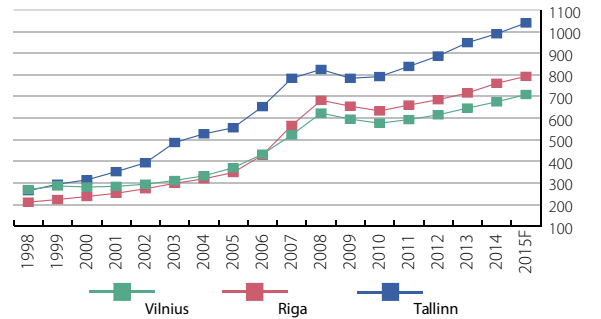


City centre residential investment yield, %

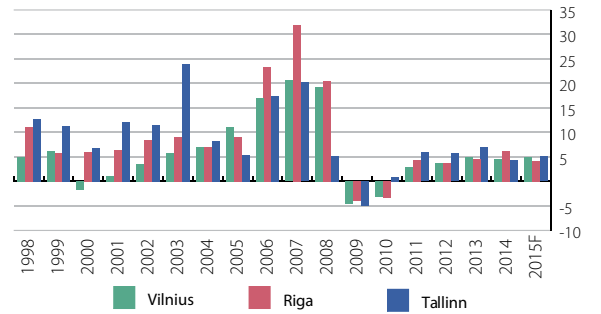


ECONOMICS

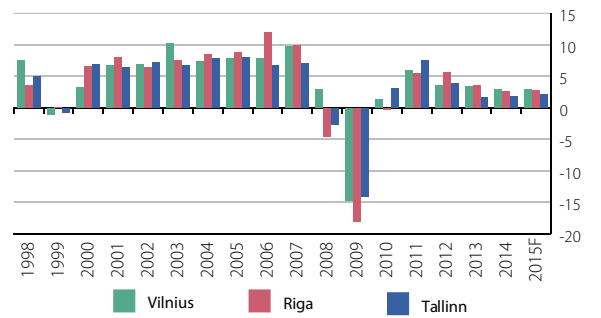
Average salary per month (brutto), €



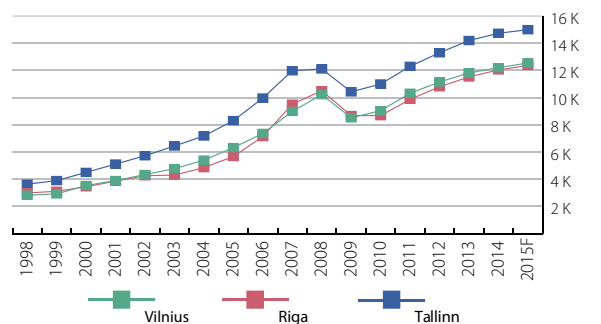
Average salary growth, %



GDP growth, %



GDP per capita, €





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