OBER HAUS

'24

REAL ESTATE MARKET REPORT

BALTIC STATES CAPITALS
VILNIUS, RIGA, TALLINN

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

Ober-Haus provides services based on comprehensive knowledge of local markets and more than 30 years of experience in the real estate sector. We build long-term partnerships with our customers and seek that the professional principles would become the market standard. The professionalism of our team and nurturing of a culture of high business standards is our driving force that ensures smooth operations in creating the highest value for our clients.

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

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

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

In 2021, Ober-Haus merged with Kiinteistömaailma, Finland's largest brokerage and real estate consulting company.

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

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

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FOREWORD

From the perspective of the real estate market in the Baltic countries, the year 2023 proved to be challenging, and similar to 2022, for all participants — buyers, sellers, developers, and investors. Shrinking economies, persistently high inflation, record-high interest rates, and the ongoing geopolitical situation have significantly reduced confidence across the entire real estate market. No sector was spared — whether housing, commercial property, or the land market — and the effects were evident.

The activity in the housing market declined for the second consecutive year, as potential buyers lost confidence due to the worsening economic indicators and the direct impact of high interest rates, which have reduced affordability. Understandably, having observed the decline in activity in the housing sector, developers have started to scale back their development plans. Despite the robust number of completed apartments in the Baltic capitals during 2023, developers plan to finish around 30-50% fewer apartments for sale in 2024. A decrease in residential development activity, will result in less work for construction and related companies, and also limit the options available to potential home buyers. Additionally, a slower construction pace could create imbalance in the market again if the real estate market begins to recover more rapidly in late 2024 or 2025.

In 2023, the economies of all the Baltic countries declined, with Estonia experiencing the largest shrinkage at 3.0%. This marked the second consecutive year of economic downturn for Estonia. The overall economic situation impacted businesses, leading many of them to postpone decisions regarding expansion. It was noticeable that during 2023, companies were more focused on optimizing operations rather than seeking new spaces. This trend was especially evident in the office sector, where the vacancy rates increased in all Baltic capitals during 2023, reaching 8-12% by the end of the year. Whether in the office, retail, or industrial sector, decision-making on contracts for new spaces was taking considerably longer compared to the previous period. While the development of previously started projects is still ongoing, landlords have had to accept higher vacancy rates in their projects upon completion. This general delay in business is also affecting the development of some projects.

Due to the economic and geopolitical situation, along with record-high interest rates, investors in 2023 were very cautious. This caution led to decreased market liquidity and a noticeable increase in yields for less desirable properties. Investment deals for commercial property were agreed at a much slower pace in 2023, as the number of potential buyers reduced significantly. The trend was particularly noticeable when considering the origin of capital, where the record share of local investors in the Lithuanian real estate investment market, exceeded 70% for the second consecutive year. The geopolitical situation continues to influence the decisions of potential investors from abroad. However, local investors with available capital, can find attractive opportunities in the market.

Despite the lack of positive news in the Baltic real estate market, it managed to avoid the worst-case scenario. Firstly, housing prices demonstrated resilience with a slight increase recorded in Tallinn and Vilnius in 2023, while Riga experienced only a modest decline. This meant that sellers did not panic and could afford to wait longer for buyers. Strong fundamentals, such as a robust labor market, sufficient savings, and a relatively low level of household debt, prevented a more severe market downturn, unlike recently witnessed in some European countries. Although the housing sales market experienced a significant reduction in activity, the rental market remained active in 2023. Some potential home buyers shifted to the rental market, and an influx of people from neighbouring countries, increased the population in the Baltic capitals, creating additional demand for rental housing.

Looking ahead to 2024 and beyond, it's evident that many participants in the real estate market are pinning their hopes on the European Central Bank's anticipated interest rate cut. According to the latest forecast, this could commence in the middle of 2024, potentially boosting confidence among housing buyers or commercial property investors and encouraging their return to the market. We already observed a slight decrease in Euribor rates and narrower margins from credit institutions for borrowers towards the end of 2023.

However, we need to understand that any decrease in interest rates will not be rapid, and it will take time for confidence to return and for the real estate market to recover. Additionally, different Baltic countries continue to face a variety of local and global challenges. Despite the predicted economic improvement in Latvia and Lithuania in 2024, Estonia is still struggling to recover, and their real estate market is not exempt from these challenges. This means that the real estate market may offer interesting opportunities for investors in 2024. As in recent years, more balanced decisions become possible in this calmer environment, whether for first-time home buyers or private and institutional investors.

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Ober-Haus has offices in Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai, Panevėžys and Druskininkai with over 140 real estate experts working there and lead the group in terms of the annual number of real estate operations. Major local and foreign companies, medium-sized and smaller companies, investment funds and private investors trust the quality of the services that Ober-Haus offers. A team of independent experts provide all real estate services: mediation in letting, selling and purchasing commercial and residential real estate, valuation of movable and immovable property, business valuation, market research and analysis.

LITHUANIA

COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

Coordinates:	56 00 N, 24 00 E
Area:	65,200 km^2
Border countries:	Belarus, Latvia, Poland, Russia
Capital:	Vilnius
Ethnic groups:	Lithuanians 84.6%, Poles 6.5%, Russians 5.0%, other 3.9%

CURRENCY

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

2024 FORECAST

GDP growth, %	1.5 - 2.0
GDP per capita, €	26,000
Average annual inflation, %	1.0 - 2.0
Unemployment rate, %:	6.7 - 7.2
Average monthly net salary, €:	1.360
Average salary growth, %:	8.5 - 10.0

POPULATION [1]	2018	2019	2020	2021	2022	2023
Lithuania	2,794,200	2,794,100	2,810,700	2,806,000	2,857,300	2,886,500
Vilnius	552,100	561.800	556.500	563.000	586.800	602.400
Kaunas	286,800	289.300	298.700	297.900	302.900	304.200
Klaipėda	147,900	149.100	152.000	152.200	156.700	159.400
Šiauliai	100,100	101.500	100.600	101.700	106.100	110.500
Panevėžys	87,100	85.900	89.100	87.600	87.400	86.600

ECONOMICS	2018	2019	2020	2021	2022	2023
Real GDP growth, %	4.0	4.3	- 0.8	4.8	1.9	-0.3
GDP per capita, €	16,250	17,500	17,850	20,100	23,800	25,150
Construction costs growth, %	2.9	4.3	1.4	6.2	18.4	5.0
Average annual inflation, %	2.5	2.2	1.1	4.6	18.9	8.7
Unemployment rate, %	6.1	6.3	8.5	7.1	5.9	6.8
Average monthly net salary, €	725	828	916	1.008	1.129	1.254
Average salary growth, %	9.0	14.2	10.6	10.0	12.0	11.1
Retail sales growth, %	6.4	5.2	3.0	12.6	0.5	-1.3
FDI stock per capita, €	6,100	6,600	6,800	9,700	10,500	11,500

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS

[1] (AT THE END OF THE YEAR)

WHILE THE ECONOMY DEMONSTRATED RESILIENCE, THE REAL ESTATE MARKET STRUGGLED IN 2023

In 2023, the Lithuanian economy showed remarkable resilience against negative external shocks. Lithuania's real GDP decreased by 0.3% in 2023 in contrast to the 1.9% growth of 2022. Essentially, the economic downturn was softened by the rapidly increasing public investment volumes and resilient domestic consumption. This was supported by the highest confidence indicator across the European Union, rapid wage growth, low unemployment levels, and significantly reduced inflation throughout the year. However, despite the buoyancy exhibited in various sectors of the economy, the real estate sector experienced another challenging year, characterised by a further decline in market activity and noticeably lower investment in new construction projects.

Economists predict that decreasing interest rates and an increase in real salaries, could boost consumption in 2024. This, in turn, may lead to the recovery of various sectors such as industrial, wholesale, and others. According to estimates, the Lithuanian economy should grow by around 1.5-2.0% in 2024.

Evidence suggests that inflation management in the Eurozone and Lithuania was successful in 2023, as a rapid and persistent decline in inflation growth was observable throughout the year. Record-high inflation had been a major challenge in Lithuania in 2022, when it peaked at 22.5% in September and eased to 20.0% by the end of the year (with an average annual inflation rate of 18.9%). At the end of 2023, annual inflation in Lithuania had dropped to 1.6%, with a recorded average annual inflation rate of 8.7%. It is expected that average annual inflation will drop to 1.0-2.0% in 2024 and increase minimally to 2.0-3.0% in 2025.

In Q4 2023, net wages increased by 10.1% when compared with Q4 the previous year, to €1,304 per month (€1,467 in Vilnius). It is expected that salaries will grow about 8.5-10.0% in 2024. On 1 January 2024, the gross minimum wage in Lithuania was increased to €924 per month (€708 net).

Unemployment increased to 7.4% in Q4 2023, compared with 6.4% in Q4 2022. Analysts are predicting an average annual unemployment figure of 6.7-7.2% in 2024.

In December 2023, the consumer confidence indicator in Lithuania reached the highest point since September 2021. It increased to plus one percentage points compared to the minus eight percentage points at the end of 2022. In December 2023, 26% of consumers believed that their financial situation would improve in the coming 12 months, while, 12% felt that it would get worse.

After Lithuania's record export figures of 2022, an 11% decrease was recorded in 2023, totalling €39.4 billion.

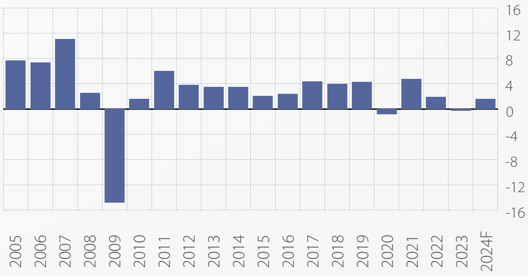
By December 2023, the annual increase in construction costs was 2.9%, in comparison to the end of 2022, when the increase in construction costs stood at 17.5%. The increase softened considerably in 2023, primarily due to a 2.9% drop in the price of construction materials. However, costs for machinery works rose by 5.9%, and salaries increased by 16.9%.

By the end of 2023, direct foreign investment totalled €33.1 billion (€11,500 per capita), an 11.0% increase when compared with the end of 2022.

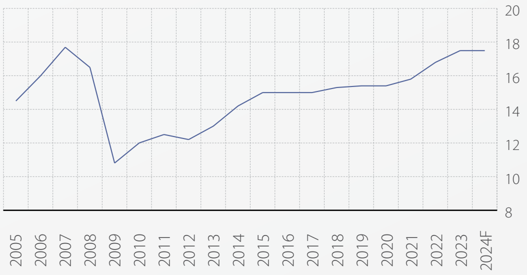
The clear, significant downward adjustment in the Lithuanian housing market activity is clearly impacting decisions regarding new housing development. According to the Lithuanian State Data Agency, the number of residential units in multi-family buildings (buildings with three or more dwellings), where construction was started in 2023, decreased by 42% compared to 2022. Similarly, during the same period, the number of individual houses being built, shrank by 26%. The construction starts for non-residential buildings decreased by 14% in 2023.

OFFICE MARKET

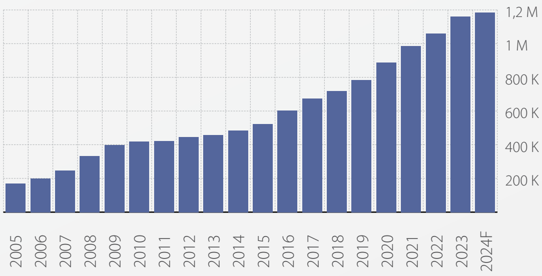
GDP GROWTH, %



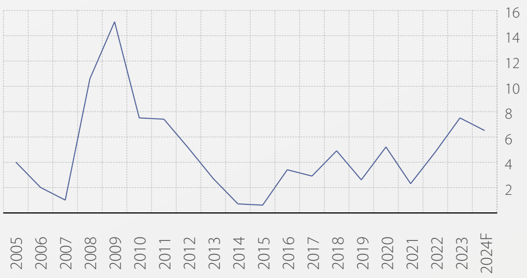
A CLASS OFFICE RENTS, €/SQM



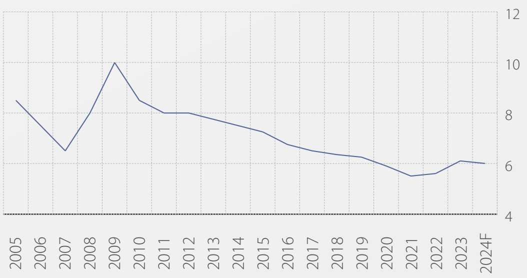
TOTAL MODERN OFFICE STOCK, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2023)

TOTAL OFFICE SPACE	1,159,200 SQM
TOTAL OFFICE VACANCY RATE	7.9 %
VACANT OFFICE SPACE	91,200 SQM
A CLASS OFFICE VACANCY RATE	7.3 %
B CLASS OFFICE VACANCY RATE	8.3 %
TOP OFFICE RENTS (SQM / month)	€20.00 - €21.00
A CLASS OFFICE RENTS (SQM / month)	€15.50 - €19.50
B CLASS OFFICE RENTS (SQM / month)	€10.00 - €15.00
ADDITIONAL OFFICE COSTS (SQM / month)	€3.00 - €5.00

TOTAL VACANT OFFICE SPACE REACHES ALL-TIME HIGH IN 2023

SUPPLY

In 2023, Vilnius saw another year of record-breaking completions of new office space. In total, nine new projects/stages were completed in 2023 bringing 95,500 sqm of office space to the market or for own use. The largest projects were developed by Tesonet (Cyber City), Lords LB Asset Management (Artery), Eika (Flow), LJB property (S28), YIT Lietuva (Sky office), the Teltonika headquarters. Altogether, the total area of usable modern office space (A and B class) grew by over 9% to 1,159,200 sqm (all projects can be viewed on OHMAP). During the period 2019-2023, the Vilnius market added 440,000 sqm of office space and currently capital city has 1.92 sqm of usable office space per capita (45% more than five years ago).

In terms of floor space, A class accounts for 42% of the total modern office premises in Vilnius, and B class, 58%. Developers continue to follow sustainable development practices, not only aiming for international certification of the environmental assessment of their buildings (BREEAM and LEED schemes), but also the implementation of health and well-being systems like WELL and Fitwel. At the end of 2023, almost 50 completed office buildings in Vilnius (47% of the total modern office space stock), were either already certified or had a preliminary assessment status with one of the internationally recognised certification bodies.

As demand for offices declined and the vacancy rate increased in 2023, developers felt less confident about initiating new projects. It is expected that in 2024, significantly less office space will be completed in Vilnius compared to the previous year. Based on the progress of projects currently under construction, it is expected that in 2024, six smaller to medium-sized projects, in total offering over 25,000 sqm of usable office space, will be completed in the capital (Sand Offices, Yellowstone and others). This will represent the smallest amount of office space added to the market in the last ten years.

Despite geopolitical tensions, a stagnating economy, and less active tenants, developers remain confident about starting new projects in the central and prime locations of Vilnius. In contrast, when it comes to the development of lower-class projects in less desirable locations, the situation is different. Consequently, a significant increase in supply is expected in 2025-2026 when larger ongoing projects in the central part of the Vilnius are scheduled to be completed—Hero by Realco, the Business Stadium Central by Hanner, the Lords LB Asset Management project on Konstitucijos Avenue, the Vilbra project on Svitrigailos Street, and the Eika project on J. Jasinskio Street.

It is noticeable that landlords, serviced office operators, and other investors have shown less confidence in opening new flexible and cost-effective workspaces in recent years. However, the development pace of office spaces like coworking, and serviced offices, has been slower compared to the most active development period, 2016-2020. In 2022, local real estate developer the Kaita Group (formerly known as Baltic Asset Management), completed a residential rental project, Youston, located in the Naujamiestis district. Additionally, in 2023, they opened a 1,200 sqm coworking space called DoDay within this project. In 2024, Workland plans to open its sixth space in Vilnius (2,000 sqm), in the newly developed office building, Flow, adjacent to Konstitucijos Avenue (in Central Business District). Clearly this segment is becoming primarily viable only for professional operators who can maximise the use of the operating space.

Due to the limited growth in new coworking space and a notable increase in total modern office space in the market, the share of flexible office space located in modern office buildings slightly decreased in 2023. At the end of that year, it was 1.5% or 0.1 percentage points lower than the previous year. In Vilnius, dedicated or hot desk rents in general, that use flexible workplace schemes, cost from €100 to €250 per month (depending on the space provider, location, building class, fit-out and services), and up to €250-€450 for a workplace in a private office. Amidst the pandemic and economic uncertainty driven by global tensions, flexible workspaces have demonstrated their essential advantage and attractiveness over the traditional long-term rental model. Businesses now have a wider array of flexible options to choose from.

DEMAND

A total of 125,100 sqm of office space were leased in Vilnius business centres, which is only 5% less than in 2022 (including newly developed space for own use). Despite noticeably weaker demand in the office sector, total take-up figures remained at a high level, largely driven by record-high office space completions in 2023. This means that new projects successfully attracted tenants, but at the same time, it has led to higher vacancy rates in older buildings as tenants relocated to the new projects.

The vacancy rate in modern offices in Vilnius increased from 5.9% to 7.9% in 2023, and the total available office space increased from 62,400 sqm to 91,200 sqm. At the end of 2023, the vacancy rate for B class buildings was 8.3%, while for A class, it was 7.3%. The recorded vacancy rate at the end of 2023 was the highest since mid-2013, and the total vacant space available, reached an all-time high.

Significantly, companies are not only seeking office space available on the market but are also creating their own supply by investing in the construction of new projects. This became more evident in 2023. One of the most notable recent examples, is the Cyber City office project, a hub for tech talents and companies located on the site of the former Sparta factory in the Naujamiestis district and developed by the Tesonet group. The construction of the first three buildings, totalling over 32,000 sqm, was completed in 2023. There are plans to develop additional office buildings on this site. In 2023, Teltonika completed the construction of its headquarters for approximately 500 employees, located near Konstitucijos in the CBD on Saltoniskiu Street. Similarly, the insurance company, Lietuvos draudimas, opened its headquarters on J. Basanaviciaus Street.

Unavoidably, these companies are freeing up a significant amount of office space in previously occupied buildings. It is crucial for the owners of older office buildings to decide on their strategy — whether they will attempt to attract new tenants with lower rents and minimal investment or undertake the necessary renovations to increase attractiveness for potential tenants.

Looking ahead to 2024, it is expected that significantly fewer lease deals will be completed in the Vilnius market. The main reasons for this, are the significantly reduced number of new office space completions taking place during the year, and a decrease in tenants seeking new spaces for relocation or expansion. The vacancy rate may remain relatively stable in 2024, but the total take-up figure is expected to be significantly lower than during the period 2021-2023. However, the economic recovery and increased business confidence could lead to more tenant activity, resulting in improved indicators for the office sector in 2025.

RENTS

Despite the increased supply of vacant office space, rents for new office leases in Vilnius increased in 2023, especially for the newest projects. During the year, B class office rents increased on average by 4%, and by the end of 2023, rents for B class offices were €10.00–€15.00 per sqm. At the same time A class office rents increased by 5% to €15.50–€19.50 per sqm. At the top end, rents might even reach €20.00–€21.00 per sqm on the top floors of exclusive projects or smaller-sized premises.

Depending on the building, additional costs to tenants—single, double, and triple net costs—are from €3.00 to €5.00 per sqm. Newly developed business centres no longer provide free parking spaces for their tenants and charge an extra €35-€100 per space, and even as high as €150 per space in the most prestigious areas of the city.

The sharp rise in inflation in 2022 posed a real challenge for landlords and tenants, making rent indexation more relevant than ever. In 2023, this issue was less pressing, as the average annual inflation dropped from 18.9% in 2022 to 8.7%. A considerable proportion of tenants felt the effects, particularly when a no ceiling (cap) was set into the agreements and landlords failed to agree on a compromise with existing tenants. However, most landlords chose a compromise option and adjusted the rents to below the official inflation rate for 2022-2023. Notably, the rents for new office lease agreements in the market have also not increased as much as inflation.

Since the demand for office space decreased and the vacancy rate increased to a sufficient level in 2023, office rents may experience a degree of stagnation in 2024. This is particularly relevant for older construction projects that lack competitive advantages in the market and no longer meet the needs of today's businesses.

INVESTMENT

In 2023, the investment market results in Lithuania were somewhat contentious and atypical. It is evident that a notable downturn in investment market activity occurred following the sudden change in the geopolitical situation due to the war in Ukraine. Still, according to Ober-Haus data, for core property (modern office, retail, and industrial objects worth over €1.5 million), investment totalled €402 million or just 1% less compared to 2022 and 12% less compared to 2021.

The overall annual investment volume saw significant improvement towards the end of 2023, as local investment management company, Lords LB Asset Management, announced its agreement to acquire a large office campus in Vilnius from the Finnish company Technopolis. This mega investment deal was finally completed at the start of 2024, following the Competition Council granting permission. The volume of this deal alone accounted for almost half of the total investment volume in Lithuania, significantly boosting the overall investment market performance in 2023, which based on local and global trends, had initially been expected to be lower. The significantly decreased number of investment deals in the commercial property market in Lithuania is strong evidence that this market was much less active compared to the period 2021-2022.

In 2023, over 90% of all investments occurred in the capital, which marked a significant shift compared to 2021-2022. During those years, investments into the capital accounted for up to 55%, with the remainder going to other regions of the country.

The distribution of investments by property type in Lithuania in 2023 was also not typical, primarily due to the acquisition of a large office campus in Vilnius. The share of investments in the office property sector jumped to 78% of total investments in 2023 (compared to 30% in 2022). The retail property sector took a 12% share of the investments, with the industrial sector occupying the lowest share at 10%.

In the period 2022-2023, local capital surged, indicating an increased risk perception among potential foreign investors, especially from Northern and Western Europe. This caused delays in investment decisions within the Lithuanian real estate market following Russia's invasion of Ukraine. Local capital completely dominated in both 2022 and 2023, with a record share of 82% and 73%, respectively.

Due to the geopolitical situation and record-high interest rates, investors in 2023 were very cautious, leading to decreased market liquidity and a noticeable increase in yields. This trend was particularly evident in the secondary property segment, where significant discounts had to be offered to conclude the sales process. While new and well-located properties did not experience as drastic a liquidity drop, it was still noticeable that investors were reluctant to pay the all-time high prices previously seen in this segment and in addition, expected some discounts. At the end of 2023, yields in Vilnius ranged from 5.5% to 7.0% for higher class offices and retail properties, and 7.0–8.5% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

It can be expected that the European Central Bank's decision to begin cutting interest rates in 2024 will help restore confidence among investors, potentially resulting in a slight decrease in yields. Nevertheless, due to the ongoing geopolitical situation and the persistence of relatively high interest rates, investors are likely to remain cautious. However, a faster decline in yields throughout the year is less likely.

Despite the rise in office rents, the value of high-class offices experienced a slight decline in 2023. This was influenced by investors' heightened return expectations, and resulted in average yields increasing by approximately 50 bps for prime properties and up to 100 bps for secondary properties. The capital value index for A class offices decreased by 4.2% over the year, returning to the 2021 level.

At the end of 2023, the investment management company, Lords LB Asset Management, announced that its managed fund would be acquiring a 106,000 sqm office campus in Ozo Park, Vilnius. The seller is the Finnish company, Technopolis, which initially acquired the first office buildings (Alfa, Beta, Gamma) in 2013 and subsequently expanded the campus to include six office buildings. The deal was completed at the start of 2024 after receiving permission from the Competition Council. Details of the transaction have not been disclosed, but it is expected that the acquisition price could be as high as €200 million, making this deal the largest in the office segment and the second largest in the commercial investment property market in Lithuania to date.

In mid-2023, a fund managed by the property management company, East Capital Real Estate, acquired from Northern Horizon Capital, two 17,000 sqm office buildings in Duetto, located in the Virsuliskes district. The property was sold for €37 million. Northern Horizon Capital had originally acquired the office buildings from their developer, YIT Lietuva, in 2017 and 2019.

In Q1 2023, the AeroCity Group, a subsidiary of the Avia Solutions Group, and a leader in the aviation business, sold its office building on Dariaus ir Gireno Street to the Finnish real estate investment fund, Titanium Baltic Real Estate, in a sale-leaseback deal. Following the transaction, Avia Solutions Group remains the sole tenant of the over 10,000 sqm building under a long-term lease agreement. The office building is estimated to have purchased for around €25 million.

In Q2 2023, the real estate investment company, Grinvest, acquired a historic building from SNS, located in the Old Town, at the corner of Islandijos and Vilniaus Street. The 7,600 sqm building (including underground parking) features retail premises on the ground floor and office space on the upper floors. The building previously underwent a full renovation and was opened in 2008. Details of the transaction have not been disclosed.

In mid-2023, the Capitalica European Office Fund, managed by the investment management company, Capitalica Asset Management, acquired the 3,900 sqm office building, Evita on Savanoriu Avenue in the Naujamiestis district. The building was sold by the Vilniaus Prekyba support fund, Dabar, which had owned this property since 2017. Details of the transaction have not been disclosed.

LEGAL NOTES BY SORAINEN

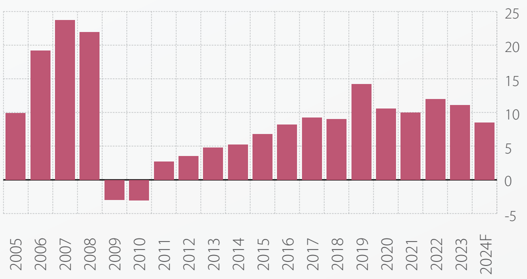
Rent is usually paid in advance, generally monthly. Rent is typically indexed based on local or European Union inflation (HICP) rates. Recent practice shows that rent is sometimes indexed by European Union or European Monetary Union HICP rates. In addition to rent, tenants pay for utility services and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

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

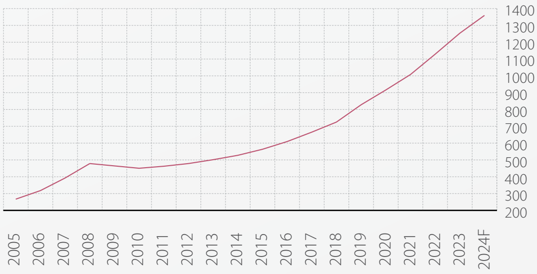
OBER HAUS

RETAIL MARKET

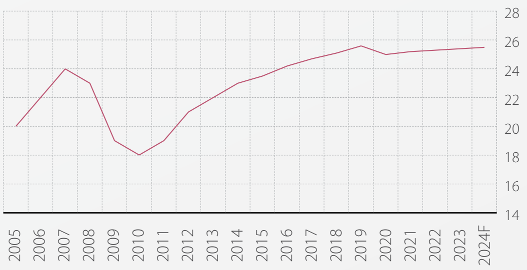
AVERAGE SALARY GROWTH, %



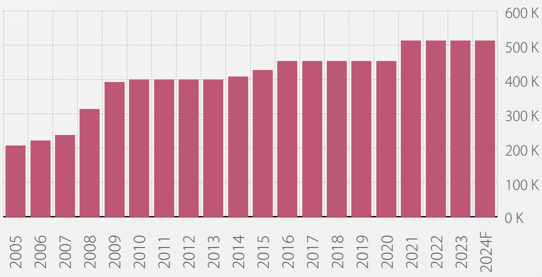
AVERAGE NET SALARY PER MONTH, €



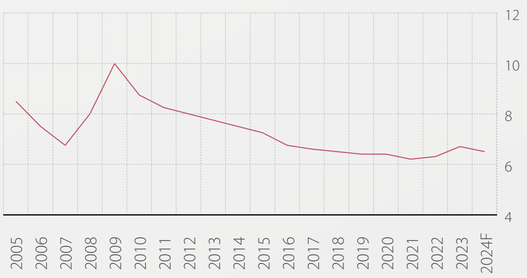
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2023)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	512,700 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	0.86 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €14.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€15.00 - €40.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€50.00 - €75.00
HIGH STREETS RENTS (SQM / month)	€15.00 - €40.00

THE RETAIL PROPERTY SECTOR IS NOT EXPERIENCING GROWTH BUT REMAINS STABLE

SUPPLY

In 2023, no new, large, traditional shopping centres were opened in Vilnius. At the end of 2023 there were the original 27 shopping centres in the city (those over 5,000 sqm GLA with over 10 tenants), with a total leasable retail area of 512,700 sqm. Since the city's population increased in 2023 by almost 3%, the shopping area per capita decreased to 0.86 per sqm.

By the end of 2023, across Lithuania, the total retail space in these larger traditional shopping centres amounted to just 1.18 million sqm or 0.41 sqm of shopping area per capita. Altogether 43% of the shopping space available in traditional shopping centres, is in Vilnius.

Despite the lack of new, large, traditional shopping centres in the capital, investors are still actively seeking opportunities in the retail sector. In mid-2023, VPH, a commercial property developer and manager, opened a new retail park named Una in the northern part of the city, adjacent to Moletu Road on Dangerucio Street. The 16,000 sqm retail park hosts a total of 25 tenants, including anchor tenants Rimi and Senukai.

At the beginning of 2024, the real estate company MasterKeyBaltics began preparations for the development of a shopping centre in the Seskine district, located on Ukmerges Street. The planned 3-storey building will have a total above-ground area of almost 8,300 sqm, providing approximately 7,400 sqm of space for retailers and other service providers.

At the end of 2023, a local company commenced construction on a multifunctional project in the rapidly developing residential district of Kalnenai in the southeastern part of the city. The project plans include over 9,000 sqm of space that will host traditional retailers, a gym, healthcare and education facilities, a swimming pool, and more. The total investment for the project could reach €16–17 million, with completion expected in the second half of 2024.

The development of a second Akropolis shopping centre in Vilnius has been generating excitement in the market for many years, as it has the potential to rejuvenate the shopping centre market in the capital. The Akropolis Group is planning to build a second Akropolis shopping, entertainment, and business complex next to Vingis Park. The new project concept was introduced at the end of 2021 and approved by the Vilnius city municipality in 2022. However, as of the end of 2023, construction had so far not commenced.

Since the development of new, larger, traditional shopping centres is stagnating, managers of existing shopping centres continue to focus on improvements and even expansion.

Akropolis plans to expand the shopping centre by adding an additional 480 sqm, where an expanded Sportland sports goods store will be located. At the start of 2024, major reconstruction and improvements were completed at Panorama, the third largest shopping centre in Vilnius. In the period 2022-2023, up to €15 million was invested, which included the installation of a new entrance, renovation of the central hall, installation of an amphitheatre, installing new flooring, reshaping various spaces, new lighting, LED displays, and more. Additionally, other shopping centres also made various improvements throughout the year, with the primary focus of optimising the tenant structure.

Other shopping centres also made various improvements throughout the year, with the similar primary focus of optimising the composition of the tenant structure.

DEMAND

In Lithuania, the total retail sales, based on comparable prices, decreased by 1.4% in 2023, after a 0.5% increase in 2022. After a slight decrease during 2023, it is noticeable, that retail sales began to grow at the start of 2024. It is expected that domestic consumption will recover in 2024, as significantly lower inflation and a strong labour market increase the purchasing power of the population.

In general, the situation in 2023 favoured owners of retail premises, since total sales volumes remained at record highs. However, the economic challenges resulting from geopolitical tensions did not inspire confidence among small businesses, which are more sensitive to any negative changes. But in general, tenants were able to maintain stable operations, and the demand for retail premises remained steady. In the event of lease agreements for premises in shopping centres or main shopping streets expiring, finding a new tenant was generally not very difficult. In 2023, the occupancy rate in shopping centres and the main shopping streets in Vilnius remained at a record high.

However, internet sales are becoming increasingly important in the retail market, reaching new heights each year, and posing a threat to in person sales. According to official statistics, in Lithuania during 2023, retail sales via the post and internet reached a record turnover of €1.62 billion, representing a 28% increase compared to 2022. Additionally, the share of internet retail sales rose to a record 8.7% of the total (up from 7.0% in 2022), indicating that this sales channel is becoming more significant. Notably, delivery companies have significantly expanded their parcel locker networks in recent years by securing prime locations in shopping centres and other key locations.

RENTS

In 2022, retail property owners were unable to increase rents because maintenance costs, caused by significantly higher energy prices, had increased. And in 2023, owners were feeling the pressure from tenants as consumption stagnated. This led to rents for new contracts stagnating in the market for the second consecutive year. Rent increases were only recorded in valid contracts, as they were indexed, according to the European or Lithuanian inflation indicators. Since record inflation was recorded in Lithuania in 2022 and 2023, a compromise was often accepted where there was no indexation ceiling—rents were indexed by a smaller amount than official inflation figures.

The rents for retail premises on the major shopping streets of Vilnius remained stable in 2023. At the end of 2023, rents for medium-sized retail premises (100–300 sqm), on main streets such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street, were €15.00–€40.00 per sqm. Nevertheless, when compared with the pre-pandemic level, rents are on average 10% lower than those at the end of 2019. Despite a substantial flow of pedestrians on these streets, tenants are feeling pressure from stagnant consumption and increasing operating costs, and they are reluctant to overpay for their premises. Additionally, at the start of 2024, Lithuania abolished the 9 percent VAT rate introduced for the catering sector, to support businesses affected by the Covid-19 pandemic.

During 2023, shopping centre managers were focused on working with existing tenants and stabilising their operations, so rents for new premises with new rental agreements also remained stable. Rents for medium-sized units (150–300 sqm), in major shopping centres were €15.00–€40.00 per sqm and €50.00–€75.00 for small-sized units. Rents for anchor tenants were €9.00–€14.00 per sqm.

It might be expected that a recovering economy and increasing consumption would boost the confidence of retail property owners and tenants. However, the increased operating costs of businesses, especially rising labour costs, may prevent tenants from paying more for retail premises. If rents for such premises increase in 2024, it is likely that they will not be significant.

INVESTMENT

In 2023, the investment market results in Lithuania were rather contentious and atypical. It is evident that a notable downturn in investment market activity occurred following the sudden change in the geopolitical situation due to the war in Ukraine. Still, according to Ober-Haus data, for core property (modern office, retail, and industrial objects worth over €1.5 million), investment totalled €402 million or just 1% less compared to 2022 and 12% less compared to 2021.

The overall annual investment volume saw significant improvement towards the end of 2023, as local investment management company, Lords LB Asset Management, announced its agreement to acquire a large office campus in Vilnius from the Finnish company, Technopolis. This mega investment deal was finally completed at the start of 2024, following the Competition Council granting permission. This deal alone accounted for almost half of the total investment volume in Lithuania, significantly boosting the overall investment market performance in 2023, which had initially been expected to be lower based on local and global trends. The significantly decreased number of investment deals in the commercial property market in Lithuania is strong evidence that this market was much less active compared to the period 2021-2022.

In 2023, over 90% of all investments were made in the capital, which marked a significant shift compared to 2021-2022. During those years, investments in the capital accounted for up to 55%, with the remainder going to other regions of Lithuania.

The distribution of investments by property type in Lithuania in 2023 was also not typical, primarily due to the acquisition of a large office campus in Vilnius. The share of investments in the office property sector jumped to 78% of total investments in 2023 (compared to 30% in 2022). The retail property sector took a 12% share of the investments, with the industrial sector occupying the lowest share at 10%.

During 2022 and 2023, local capital surged, indicating the increased risk perception among potential foreign investors, especially from Northern and Western Europe. This caused delays in investment decisions within the Lithuanian real estate market following Russia's invasion of Ukraine. Local capital completely dominated in both 2022 and 2023, with a record share of 82% and 73%, respectively.

Due to the geopolitical situation and record-high interest rates, investors in 2023 were particularly cautious, leading to decreased market liquidity and a noticeable increase in yields. This trend was particularly evident in the secondary property segment, where significant discounts had to be offered to conclude the sales process. While new and well-located properties did not experience as drastic a liquidity drop, it was still noticeable that investors were reluctant to pay the all-time high prices previously seen in this segment and in addition, expected some discounts. At the end of 2023, yields in Vilnius ranged from 5.5% to 7.0% for higher class offices and retail properties, and 7.0–8.5% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

It can be expected that the European Central Bank's decision to begin cutting interest rates in 2024 will help restore confidence among investors, potentially resulting in a slight decrease in yields. Nevertheless, due to the ongoing geopolitical situation and the persistence of relatively high interest rates, investors are likely to remain cautious. However, a faster decline in yields throughout the year is less likely.

At the beginning of 2023, the Lithuanian investment company Prosperus, which manages the real estate fund, Prosperus Real Estate Fund III, acquired the Domus Pro retail park and office building in Vilnius. The seller was a fund managed by Northern Horizon Capital, which had previously acquired the first stage of this property in 2014 and developed it into a complex spanning more than 17,000 sqm (70% retail, 30% office). The sales price of the property was approximately €23.5 million.

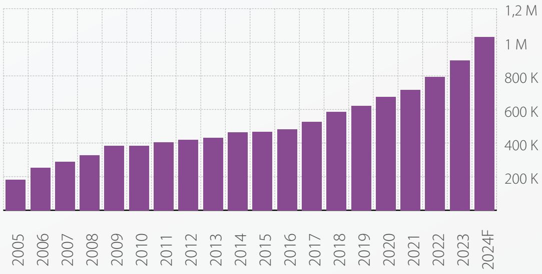
LEGAL NOTES BY SORAINEN

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

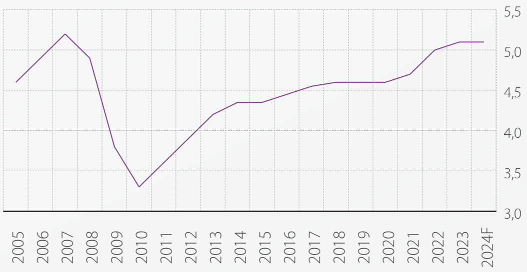
Lease agreements may be invoked against third parties only if registered with the Real Estate Register.


UNA
sinsay
AITVARAS
Rimi
HYPER

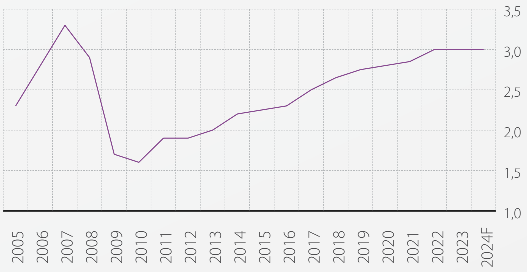
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



VILNIUS SNAPSHOT (END-2023)

TOTAL NEW WAREHOUSE SPACE	890,100 SQM
WAREHOUSE VACANCY RATE	3.0 %
NEW WAREHOUSE RENTS (SQM / month)	€4.50 - €5.60
OLD WAREHOUSE RENTS (SQM / month)	€2.00 - €4.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.20 - €1.50

WAREHOUSING SECTOR SURGES: FROM TRADITIONAL WAREHOUSES TO MULTIFUNCTIONAL SCHEMES

SUPPLY

Compared to other property sectors, the warehousing sector has been experiencing robust expansion in recent years. This growth is driven by the development of large logistics centres for major retail chains seeking new production distribution hubs. There has also been a rapid increase in the development of mixed-use stock-office projects, which provide not only showrooms or offices but also warehousing space for tenants, where typically, over 50% of the space is dedicated to production storage. However, there has been less expansion observed in the speculative development of traditional warehouses.

Five new projects with a total warehousing area of 97,000 sqm were completed in Vilnius and its surroundings during 2023, 28% more than in 2022. These new projects increased the total leasable area of modern warehousing premises by 12% to 890,100 sqm.

At the end of 2023, 80% of the modern warehouse supply was located within Vilnius' city limits. Most of the new warehouses are in the southwestern industrial zones of the capital (Kirtimai, Vilkpede, Aukstieji Paneriai and Zemieji Paneriai), as well as near the strategic highways—Vilnius–Kaunas and Vilnius–Minsk.

Warehouses exceeding 20,000 sqm make up 18% of the current supply. Those with 10,000 to 20,000 sqm account for 44% of the supply. Facilities providing 5,000 to 10,000 sqm account for 22% of the supply, and the remaining 16% are warehouses offering less than 5,000 sqm.

Unlike the other Baltic countries, Lithuania's warehousing sector is concentrated in three cities and their surroundings. At the end of 2023, the distribution between these cities and their environs, was as follows: Vilnius (49%), Kaunas (32%) and Klaipeda (19%).

The most significant completion in the warehousing sector in Vilnius in 2023 was a logistics centre for the German supermarket chain Lidl. The company invested over €100 million in a 64,000 sqm logistics centre located in the Paneriai district in the western part of the city. The project was completed at the end of 2023 and began operating at the beginning of 2024. This is the largest logistics centre in the Vilnius region and the second largest in Lithuania.

Another notable completion came from the commercial property developer, Sirin Development, which finished the second stage of Sirin Park Vilnius Central next to the Gariunai business park. In 2023, a new warehouse with a total size of 32,000 sqm was added to the first stage, completed in 2022. Currently, Sirin Development is the leading player in the warehousing sector, maintaining a focus on developing large speculative projects.

After the first sizeable multifunctional projects (stock-office) opened in Vilnius in 2022, several more were completed during 2023. The first stage of the eMarketCity project was finished in the industrial zone near Vilnius Airport, adjacent to Eisiskiu Road. This project is centred around wholesale and e-commerce activities, offering 6,400 sqm of office, retail, and warehousing space in this, its first stage. In mid-2023, the local real estate development company, Homa Group, completed the stock-office project West Garden, located next to the Western Bypass. The building has a total area of almost 6,200 sqm and is divided into 12 units, ranging in size from 300 to 420 sqm.

Stock-office projects are ideal for small and medium-sized businesses that in general require product storage. Traditional and larger warehouse owners prefer larger tenants, leaving smaller businesses seeking alternatives. It is, therefore, not surprising that investors are attracted to this niche and actively planning further investments, not only in Vilnius, but also in other cities. These projects can adapt to specific company needs by combining smaller units into larger spaces, appealing to wholesale and retail companies alike, fostering shared retail opportunities in one location.

During 2024, nine projects with a total warehousing area of 140,000 sqm are planned for completion in Vilnius and its environs. This includes not only traditional warehouses, but also stock-office projects where a major part of the space is planned for production storage. In Q2 2024, the Vilnius market will see the completion of another large-scale project. The supermarket chain, Maxima, plans to open its 46,000 sqm logistics centre in the western part of the city, next to the newly completed Lidl facility. If all projects currently under construction are completed on schedule, the Vilnius market will see a record increase in supply in 2024.

DEMAND

After experiencing significant growth in the preceding seven years, in 2023, transport-related activities, warehousing and storage services declined. According to the State Data Agency, revenues in this sector amounted to €6.2 billion in 2023, which represents a decrease of 15.7% compared to 2022. Conversely, if only the revenue of warehousing and storage companies is considered, it reached a record high in 2023, totalling almost €319 million, which is 14.2% higher compared to 2022.

Despite the rapid expansion of warehousing, it is notable that business expansion and demand for these premises, slowed down in 2023. Companies are taking longer to consider their expansion or relocation, and it is evident that the range of available options is slightly broader compared to previous years, when the number of premises still vacant and on the market was minimal. During 2023, the vacancy rate of modern warehousing in the Vilnius region increased to 3%. This increase was not significant because the largest part of the new supply was developed for own use or constructed as build-to-suit projects.

It is evident that the rapid growth of e-commerce demands the efficient and rapid delivery of goods to customers. This has led to the active development of compact, multifunctional projects, located closer to consumers, known as stock-office projects. According to State Data Agency, during the period 2015–2023, retail sales via mail order outlets or the internet grew, on average, 30% annually. In 2023, an increase of 28% was recorded. This means that since 2019 sales via mail order outlets or the internet have increased three-fold.

Given the overall stagnation in warehouse rents and recently increased construction costs, there is limited incentive for the development of speculative projects. It is expected that despite improvements in the economy, businesses will remain cautious in 2024. And with a significant increase in supply expected during the year, we could see an increase in the vacancy rate in the warehousing sector, particularly when projects built for own use result in space in older projects becoming available.

RENTS

In 2023, only minor changes were recorded in rents. New warehouse rents increased on average by 1-2%, while for older premises, they remained flat. By the end of 2023, rents for a standard, modern warehouse closer to the central part of the city, ranged from €5.00 to €5.60 per sqm, depending on size. Close to, or outside the city limits, rents ranged from €4.50 to €5.00 per sqm. Renovated premises were being offered from €3.00 to €4.00 per sqm. Average and lower quality premises were being offered for €2.00 to €3.00 per sqm. Additional costs for tenants averaged €1.20 to €1.50 per sqm. Rents for typical blocks (warehouse, office, showroom), in stock-office projects ranged from €8.00 to €12.00 per sqm.

The record-high development costs of warehouses or stock-office projects compel investors to increase rents, but the recently softened demand makes this challenging. It is expected however, that the recovering economy will boost demand in 2024. Interestingly, the market will also see a record-high number of completions, which means that competition will increase as well. It is likely that warehouse rents and those for premises in multifunctional projects will remain stable in the Vilnius region throughout 2024.

INVESTMENT

In 2023, the investment market results in Lithuania were somewhat contentious and atypical. It is evident that a notable downturn in investment market activity occurred following the sudden change in the geopolitical situation due to the war in Ukraine. Nevertheless, according to Ober-Haus data, for core property (modern office, retail, and industrial objects worth over €1.5 million), investment totalled €402 million; just 1% less compared to 2022 and 12% less than in 2021.

The overall annual investment volume saw significant improvement towards the end of 2023, as local investment management company, Lords LB Asset Management, announced its agreement to acquire a large office campus in Vilnius from the Finnish company Technopolis. This mega investment deal was finally completed at the start of 2024, following the Competition Council granting permission. The volume of this deal alone accounted for almost half of the total investment volume in Lithuania, significantly boosting the overall investment market performance in 2023, which based on local and global trends, had initially been expected to be lower. The significantly decreased number of investment deals in the commercial property market in Lithuania is strong evidence that this market was much less active compared to the period 2021-2022.

In 2023, over 90% of all investments were made in the capital, which marked a significant shift compared to 2021-2022. During those years, investments into the capital accounted for up to 55%, with the remainder going to other regions of the country.

The distribution of investments by property type in Lithuania in 2023 was also not typical, primarily due to the acquisition of a large office campus in Vilnius. The share of investments in the office property sector jumped to 78% of total investments in 2023 (compared to 30% in 2022). The retail property sector took a 12% share of the investments, with the industrial sector occupying the lowest share at 10%.

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Due to the geopolitical situation and record-high interest rates, investors in 2023 were very cautious, leading to decreased market liquidity and a noticeable increase in yields. This trend was particularly evident in the secondary property segment, where significant discounts had to be offered to conclude the sales process. While new and well-located properties did not experience as drastic a liquidity drop, it was still noticeable that investors were reluctant to pay the all-time high prices previously seen in this segment and in addition, expected some discounts. At the end of 2023, yields in Vilnius ranged from 5.5% to 7.0% for higher class offices and retail properties, and 7.0–8.5% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

It can be expected that the European Central Bank's decision to begin cutting interest rates in 2024 will help restore confidence among investors, potentially resulting in a slight decrease in yields. Nevertheless, due to the ongoing geopolitical situation and the persistence of relatively high interest rates, investors are likely to remain cautious. However, a faster decline in yields throughout the year is less likely.

At the end of 2023, a fund managed by Prosperus Asset Management, acquired a 30,000 sqm warehouse from the Norwegian investment company, Nor Property Investments, which had previously purchased the property in 2008. The warehouse is in the Vilnius industrial zone in the Paneriai district on V. A. Graiciuno Street. Details of the current transaction have not been disclosed.

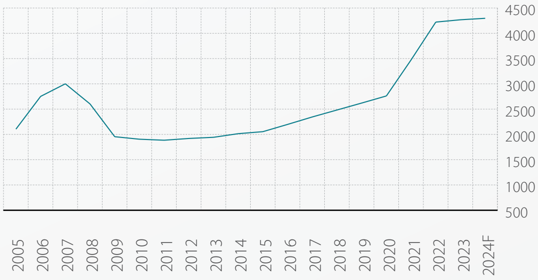
LEGAL NOTES BY SORAINEN

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

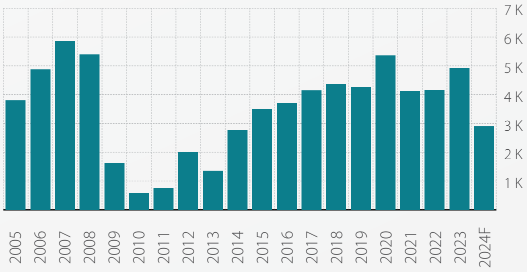
Lease agreements may be invoked against third parties only if registered with the Real Estate Register.

URBAN HUB VILNIUS

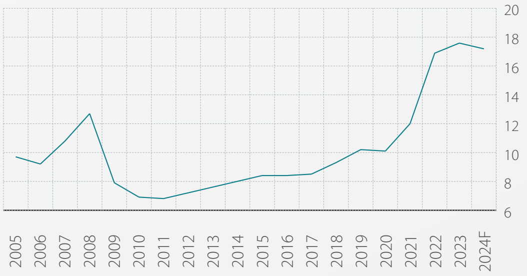
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



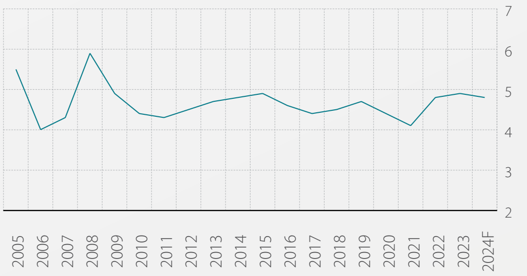
COMPLETED UNITS



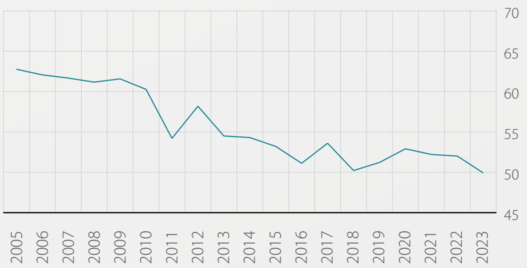
RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



NEW APARTMENT FLOOR AREA, SQM



VILNIUS SNAPSHOT (END-2023)

ANNUAL APARTMENT PRICE CHANGE	+ 1.1 %
NEW APARTMENTS BUILT	4,915
AVERAGE NEW APARTMENT FLOOR AREA	49.9 SQM
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (SQM/without final fit-out)	€1,900 - €3,100
NEW APARTMENT PRICES IN PRESTIGIOUS DISTRICTS (SQM/without final fit-out)	€3,200 - €5,600
NEW APARTMENT PRICES IN CITY CENTRE AND OLD TOWN (SQM/without final fit-out)	€3,800 - €7,000
FINAL APARTMENT FIT-OUT	€500 - €700
RESIDENTIAL INVESTMENT YIELD (city centre)	4.9 %

A DECREASE IN ACTIVITY WIPED OUT PRICE INCREASES IN 2023

PRICES

For the second consecutive year, the declining activity in the residential property market, halted selling price increases in all residential property segments across all regions of Lithuania. Throughout 2023, there were only small, positive, or indeed, negative monthly changes in apartment sales prices, resulting in a purely symbolic price increase for the year.

According to the Ober-Haus, Lithuanian Apartment Price Index, apartment prices in the five major cities (Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys), increased on average by 1.7% in 2023. This was a significantly lower increase compared to the 2022 increase of 19.1%. Overall, depending on the city, apartment prices only increased by 1-3% during 2023. The last time a lower annual price increase was recorded in the country's major cities, was ten years ago, in 2013.

In Vilnius, apartment prices increased on average by 1.1% in 2023 and reaching an all-time high. The average price at the end of 2023 rose to €2,575 per sqm, with prices for newly constructed apartments increasing by 3.2% and 0.7% for older apartments.

Despite the subdued confidence and noticeably reduced activity in the real estate market, most sellers refrained from lowering residential property prices. Overall, market participants adopted a wait-and-see approach. Potential buyers were waiting for a clearer geopolitical situation, lower loan interest rates, or decreased residential property prices. Meanwhile, sellers anticipated the return of buyers to the market and waited patiently. In contrast, housing developers actively promoted their properties by offering various discounts and incentives to buyers, while also scaling back the development of new projects.

Overall, the trend in apartment sales prices in 2023 closely mirrored the country's inflation indicators, reflecting the price changes seen in other consumer goods and services.

At the end of 2023, prices for new build apartments in residential districts ranged from €1,900 to €3,100 per sqm, excluding final fit-out. In Lithuania, new apartments are still generally sold as shells, without any fixtures and fittings. On average, apartments sold in a shell state, require an additional spend of €500–€700 per sqm for flooring, painting, lighting, and bathroom and kitchen installation (economy and middle range).

By the end of 2023, a standard two-room apartment (45–50 sqm) in a soviet-era apartment block located in a residential district, typically cost €85,000–€100,000. The lowest price for unrenovated apartments in older buildings in a typical Vilnius residential district was €1,400–€1,500 per sqm. The price for apartments with new fixtures and fittings could reach €2,500 per sqm.

In Vilnius city centre and the Old Town, secondary market apartment prices ranged from €2,200 to €3,800 per sqm for unrenovated and €2,800 to €6,500 per sqm when renovated. New build apartments were offered for €3,800–€7,000 per sqm without fixtures and fittings. Prices for the best apartments in new, exceptional projects but without final fit-out, were reaching €8,000–€10,000 per sqm.

In prestigious districts (Antakalnis, Snipiskes, Naujamiestis, and Zverynas), older apartment prices ranged from €2,000 to €5,000 per sqm. Prices for newly built apartments ranged from €3,200 to €5,600 per sqm, without final fit-out. In exceptional projects, the prices for new apartments achieved €6,000–€7,000 per sqm.

House prices in Vilnius and its environs increased by up to 5% in 2023. This was a notable change compared to the 15-20% price increase for newly built houses seen in 2022. While construction cost increases slowed in 2023, the continued high demand for smaller-sized and affordable houses contributed to further price increases.

In the detached housing sector (100–200 sqm with land plots of 500–1,000 sqm), located in new housing areas with full infrastructure in the Vilnius district or near city limits (typically 10–20 km from the city centre), houses were sold as shells for prices ranging from €150,000 to €240,000. Prices for semi-detached houses (100–125 sqm with land plots of 250–400 sqm), ranged from €140,000 to €185,000. Full, final fit-outs typically cost €400–€550 per sqm or more.

The price for a fully finished 100–200 sqm detached house within the city limits (city residential districts), ranged between €250,000 and €450,000, and from €350,000 to €900,000 in the city's more prestigious neighbourhoods, where a considerable share of the house price is represented by the high price of land. Prices for houses with a large area and in the most prestigious locations of the city can be as high as €1,500,000–€3,000,000. The record deals for exceptional properties were recently made in the range of €3,500,000–€4,500,000.

In 2023, a significant number of home sellers attempted to adapt to the slower market pace by revising their overly optimistic expectations regarding asking prices. To expedite the sale process, they had to reduce their asking prices to levels acceptable to the market. Meanwhile, sellers whose properties were priced at the then current market value or slightly below, did not encounter major difficulties in selling their properties.

If the anticipated breakthrough for home sellers occurs in the second half of 2024 and buyers start returning to the market (especially if the European Central Bank starts cutting interest rates), it is likely that the residential market will avoid a negative annual change in housing prices. However, given the various global and local challenges, there is a possibility that the housing market recovery will not be rapid, and buyers' desires and purchasing opportunities may take longer to recover than initially expected.

SUPPLY

According to Ober-Haus data, developers built 4,915 apartments for sale (in 52 different projects), in Vilnius in 2023, which is 18% more than the number of apartments constructed the previous year. When considering the last 20 years, this is one of the highest figures, second only to those in 2007, 2008 and 2020, when more than 5,000 apartments were built. Despite a three-fold decrease in sales in the primary apartment market over the last few years, a significant number of apartments were nonetheless completed. This was due largely to the fact that development of these projects had begun during 2021 and 2022.

Throughout 2022, developers built new multi-apartment buildings in 18 out of the 21 districts of Vilnius city. Slightly more than half of the total number of apartments were built in five districts: Verkiai (14.6%), Rasos (10.1%), Pasilaiciai (9.5%), Virsuliskes (8.4%) and Lazdynai (8.7%). In 2023, very low construction volumes were recorded in the Old Town (0.8%), one of the most modest indicators for this district in the last decade. In 2023, only a few projects were completed in the Old Town, with some experiencing delays beyond their planned timelines or even suspended. An increase in supply in this most

prestigious city location can be expected in 2024–2026, when the projects currently in progress or planned for the near future will be completed.

Although the requirement to comply with the A++ energy performance class for new buildings came into force 1 January 2021 (building permit dependent), there were still relatively few such apartment buildings built in Vilnius in 2023. Data collected by Ober-Haus, shows that A++ apartment buildings accounted for only 22.4% of the total number of apartments built for sale in Vilnius in 2023 (5.3% in 2022) — A+ apartments accounted for 56.9% (70.4% in 2022), and A energy rated apartments, for 12.3% (17.4% in 2022). The remaining apartments (8.4%) were built to the B energy performance requirements or lower (6.9% in 2022). Less than half the total number apartments built in in 2024 will be A++ energy class. This means that the highest energy class apartments will only start to dominate the primary market in Vilnius from 2025.

For the first time in 20 years, the average size of apartments built for sale in Vilnius did not exceed 50 sqm. According to Ober-Haus data, in Vilnius, in 2023, the average floor area of a newly built apartment in a multi-apartment building built was 49.9 sqm. For example, from 2020 to 2022, the average floor area of apartments in newly developed buildings was 52-53 sqm. When considering the projects that are currently under construction, or those in the planning stage, it is evident that the average floor area of apartments in the new build market will not significantly change soon. In fact, more spacious apartments are only being designed in higher class projects, which are usually only built in the central part of the city or in prestigious areas.

When considering the volume of apartment construction in 2024, the trend is opposite to that of 2023. Given the number of apartments currently under construction, Ober-Haus estimates that in 2024, around 2,900 apartments will be built for sale in Vilnius, or 41% less than in 2023. The last time such low construction volumes were recorded in Vilnius was in 2014. It is obvious that these low volumes in the primary market over the last two years, and the very rapid increase in interest rates and total development costs, have forced several developers to abandon their development plans or reduce the pace of their developments.

Should the housing market make a stronger recovery during 2024 but developers fail to respond by offering more housing, the market might experience a greater shortage, leading to a rapid increase in housing prices once again. Additionally, there is potential demand for accommodation from the German brigade, which is planned to deploy in Vilnius and Kaunas between 2024 and 2026. Therefore, it is crucial for businesses to prepare for a scenario where faster market recovery can prevent the market from once again becoming out of balance.

DEMAND

When the war in Ukraine began early in 2022, the mood of market participants changed dramatically, and the record activity of 2021 was replaced by a decline across the entire housing market for the second consecutive year. In 2023 residential property market activity in Lithuania dropped by another 14% returning the country's housing market to the activity levels of 2014-2015.

In 2023, Vilnius saw a 9% decrease in apartment sales and a 26% decrease in house sales. On average, 890 apartments and over 68 houses were sold each month in the capital.

After a significant drop in sales in Vilnius' primary apartment market (new build) in 2022, a further decrease was recorded in 2023. According to Ober-Haus data, 2,190 apartments in newly completed residential buildings or those under construction were purchased directly from developers (incl. presales). This was 11% less than in 2022 and 68% less compared with 2021 when record activity in the primary market had been recorded.

The primary apartment market in Vilnius in 2023 reverted to 2013 activity levels. In the period 2022-2023, a rapid downturn in activity was recorded in the primary apartment market not only in Vilnius, but also in other major cities. The prevailing uncertainty in the market created various risks and the potential buyer became much more concerned with the construction deadlines of ongoing projects, financing options at the time of purchase, and their personal financial situation. Consequently, buyers were more interested in housing available in the secondary market, which was already built, equipped and ready for immediate use.

The decrease in activity in the primary market resulted in a record-high number of unsold apartments in completed projects. According to Ober-Haus data, this figure rose from nearly 600 unsold apartments at the end of 2022 to over 1,700 by the end of 2023. This indicates that statistically, the stress level among developers had reached a record high by the end of 2023. When considering the supply-to-demand ratio, developers in Q4 2023, needed around 9 months to absorb the completed supply in Vilnius, as compared to less than 4 months in Q4 2022. However, slightly higher sales in the primary market at the start of 2024 and a significant decrease in the pace of developments could potentially prevent further increases in unsold stock and reduce the stress level indicator throughout 2024.

Looking specifically at the newest projects, 74% of all apartments built in 2023 were sold or reserved by the end of the year. This figure is notably lower than the record high of 95% in 2021 and lower compared to the 87% in 2022.

The Lithuanian housing market results for 2023 and the beginning of 2024 indicate a continued lack of confidence. Record-high selling prices and interest rates are keeping many potential buyers out of the market. They are waiting for more affordable price levels, notable improvements in their financial situations, better economic indicators, and/or stability in the geopolitical situation. It is expected that the overall activity in the different housing sectors will remain sluggish in the first half of 2024. Many market participants expect that the real estate market could start recovering once the European Central Bank initiates key interest rate cuts—anticipated to begin mid-2024. This could boost buyer confidence and encourage their return to the market. However, it is likely to take some time to improve affordability indicators and restore the confidence of potential buyers.

THE MORTGAGE MARKET

As the number of residential property transactions decreased for the second consecutive year, mortgage loan volumes in Lithuania also decreased for the first time in the last decade. According to data from the Bank of Lithuania, new mortgage loans worth €1.74 billion were provided in 2023, a decrease of over 19% compared to 2022. In 2023, new mortgage loans averaged €145 million per month, declining to their lowest monthly volume by the end of the year.

In 2023, the total national mortgage loan portfolio reached a historic high. According to data from the Bank of Lithuania, at the end of the year the total value of outstanding housing loans stood at €12.1 billion. As the nominal Lithuanian GDP increased by 6.6% and the value of total outstanding housing loans increased by 5.8%, the debt to GDP ratio decreased by 0.2 percentage points to 16.8%. This rate is one of the lowest in the European Union (EU average in 2022—42.7%).

With an increased Euribor rate, the annual average interest rate for new mortgage loans in Lithuania almost doubled in 2023. According to data from the Bank of Lithuania, the average annual interest rate on new mortgage loans was 5.47% in 2023 (2.81% in 2022). In October 2023, the average mortgage interest rate reached its peak at 5.88%. However, as the Euribor rate began to decrease slightly and credit institutions offered lower margins to borrowers, the interest rate softened to 5.52% by year end.

Since the average annual growth of wages in Vilnius (10.7%) was faster than the average annual growth in apartment prices (9.1%) in 2023 in Vilnius, the affordability of apartments slightly increased for the first time since 2020. In 2023 an inhabitant of Vilnius could purchase 6.7 sqm in a medium-class apartment for their average (net) annual salary (a 0.1 sqm increase compared to 2022). The income to price ratio in 2023 was the same as in 2018.

RENTS

In 2023, the residential rental market in Vilnius was much steadier compared to the significant fluctuations seen in 2022. During 2022, people and companies fleeing from Ukraine, Belarus, and Russia created additional tension in the Lithuanian real estate market, significantly destabilising this sector. Overall, the rental market remained active due to the increased population and potential home buyers who were more cautious about purchasing. Renting a home became a more affordable housing alternative, sustaining the activity in this sector throughout 2023.

According to Ober-Haus calculations, in 2023, apartment rents increased by 10.2%, after rising 26.7% in 2022. And the number of offers for rental apartments in Vilnius decreased by 5-10% during 2023.

A rapidly growing, professionally managed rental market sector in Vilnius, witnessed record completions in 2023. Investors kept investing in housing projects for long-term rental via renovations of old buildings or new multi-apartment building projects. Not only coliving projects with small-size units, but also standard-size apartments in typical apartment buildings were built. In 2023, another three projects (Solo Society City House Vilnius, Atlas Co-living and WeLoft), were completed or opened in Vilnius, offering over 800 units for long-term rental. After completion of these projects, the number of similar dwellings in professionally managed projects in Vilnius, had increased by over 60% to 2,100 units in total. Another two projects will be completed in Vilnius in 2024, offering almost 300 units for rent.

The outlook for the housing rental sector in 2024 remains positive, especially considering that Vilnius continues to be a rapidly growing city. In 2023 the population in Vilnius increased by almost 3% and exceeded the 600,000 residents mark for the first time in history. Looking forward, another factor that might contribute to the development of the rental market is the planned deployment of the German brigade in Lithuania. Approximately 5,000 troops and their family members are expected to be located in the vicinity of Vilnius and Kaunas. The main deployment will take place between 2025 and 2026, which means there will be a need for sufficient rental units as early as 2024. Ober-Haus expects that overall, residential rents in Vilnius will have the potential to increase slightly in 2024.

By the end of 2023, the rent for a typical two-room, old construction apartment in Vilnius residential districts was €380 to €540 per month, and for new build apartments of the same size, from €580 to €720 per month. Maintenance costs are additional.

Rents for fully equipped two-room apartments (old or new) in the city centre and surrounding areas (inc. prestigious districts), ranged from €470 to €1,000 per month, and for three-room apartments from €650 to €1,700. Rents for larger and well-equipped apartments in the Old Town reached €2,000–€3,000 per month, excluding maintenance costs.

Fully equipped houses sized 100–200 sqm on the outskirts of Vilnius were usually offered for rent at €950–€2,000 per month. Rents in prestigious districts like Valakampiai, Antakalnis, and Zverynas, and the city centre or Old Town, are higher, and ranged from €1,500 to €4,000 per month. For bigger houses in the best locations, the rent might be as high as €5,000-€6,000 per month. Maintenance costs are additional.

Since sale prices increased slightly less when compared to the rents for apartments in 2023, the overall gross rental yield increased by ten basis points. In 2023, the average gross rental yield in Vilnius for two-room apartments was 5.0%.

LEGAL NOTES BY SORAINEN

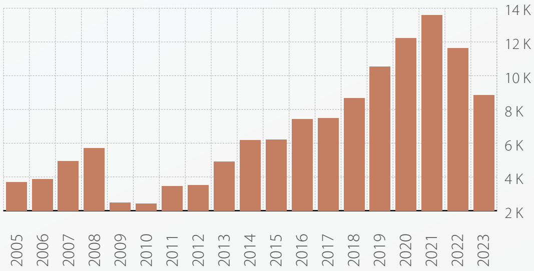
Residential leases are regulated by Lithuanian law more strictly than commercial leases. Lithuanian legislation establishes specific rules related to the condition of leased residential premises, the right of family members to reside with the tenant, termination of the lease agreement (eg a tenant may terminate a lease agreement on residential premises by giving one month's written notice), and eviction of the tenant (this is possible only by court order). However, rent may be agreed freely.

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

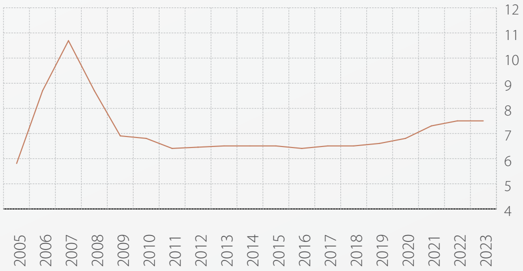
MOODS

VILNIAUS DZIAZAS

LAND TRANSACTIONS IN VILNIUS CITY



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



VILNIUS SNAPSHOT
(END-2023)

TOTAL LAND TRANSACTIONS CHANGE (Vilnius city)	-24 %
TOTAL LAND TRANSACTIONS CHANGE (Vilnius district)	-23 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€550 - €1,600
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€120 - €300
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€30 - €95

DEVELOPERS WERE CHOOSING INVESTMENT OPPORTUNITIES MORE CAREFULLY

PRICES

After a 5-10% price increase for land plots in Vilnius during 2022, prices remained stable throughout 2023. Vendors were expecting to sell land plots at record-high prices. However, the cooled-down real estate market dampened developers' confidence, resulting in much less market activity in the land plots for development segment in 2023. The liquidity of typical land plots for larger developments on the outskirts of the city or residential districts, notably decreased, and at times, even a reduction in the selling price could not attract sufficient interest. Land plots situated in the most attractive areas—such as the city centre or adjacent locations suitable for upper-class projects—drew more interest from investors. However, buyers were cautious about purchase prices and were hesitant to overspend, especially considering the higher development risks.

Asking prices for land plots in the central part of the city or other prestigious districts suitable for residential and commercial development (with detailed plans or a construction permit), are now at €550–€1,600 per sqm, or roughly, €450–€1,200 per gross buildable square metre.

Plots in residential suburbs for multi-apartment developments (with detailed plans or a construction permit) range from €120 to €300 per sqm, which works out at roughly €100–€240 per gross buildable square metre of residential space.

The stable demand for land parcels for individual housing construction on the outskirts of Vilnius kept prices steady in 2023. Land parcels suitable for the construction of individual houses were offered both privately and by developers who prepared entire packages of land parcels for sale (communications are installed, access roads are built, and any other infrastructure is included). At the end of 2023, the price of plots for private homes with partial or full infrastructure was €30–€40 per sqm in the cheaper suburbs, and as high as €50–€95 per sqm in Visoriai, Riese, Bajorai, Kalnenai, and Gulbinai.

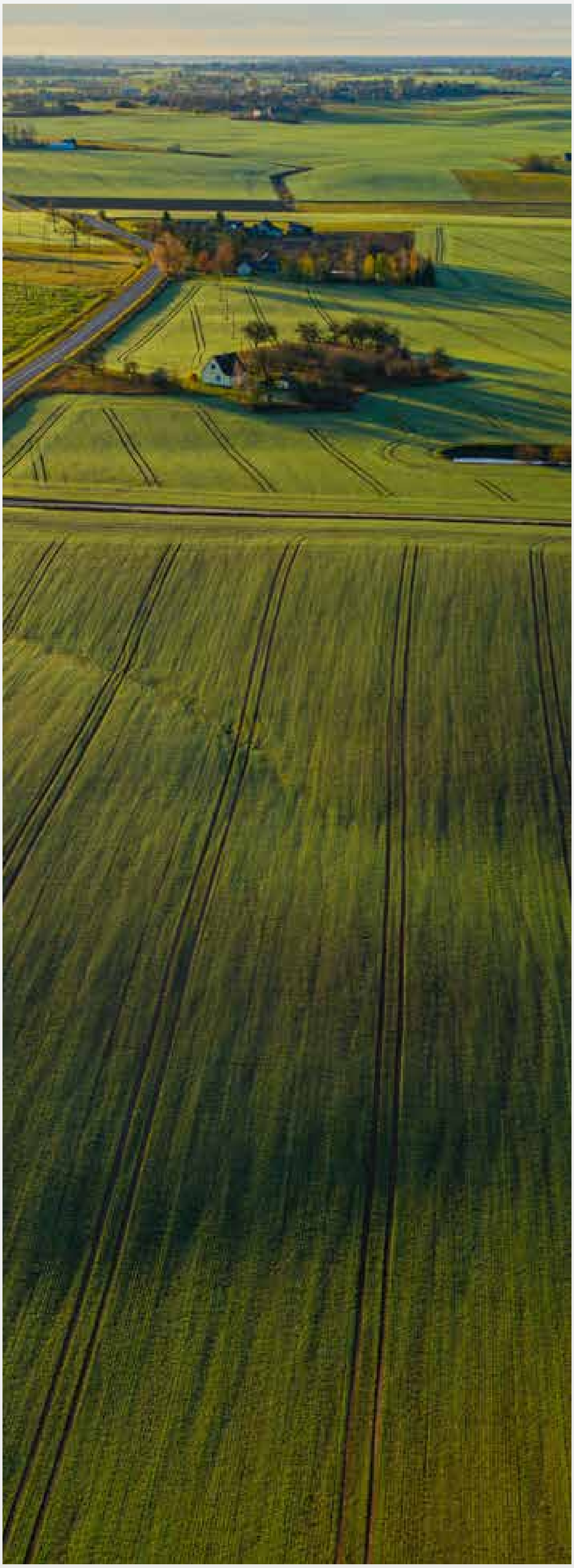
In Lithuania, prices for agricultural land depending on location, land fertility and size, remain at €1,500-€2,500 per hectare for poor quality and smaller-sized plots in less desirable locations, and €6,000-€8,000 per hectare for highest productivity, mid and large-sized plots.

The Law of the Republic of Lithuania on Infrastructure Development that came into effect at the beginning of 2021 defines four infrastructure tax rates for newly planned buildings in Vilnius: €50 per sqm for buildings built in non-priority zones, €30 per sqm for buildings built in priority zones, €18 per sqm for conversion projects, and €15 per sqm for single-family homes. The municipality will use the funds generated solely for the development of infrastructure. This legislation is particularly relevant for developers who plan to build new buildings in non-priority zones where infrastructure is not fully developed. In such zones, the tax burden on developers may represent a significant part of the development costs (e.g. warehousing buildings in the suburbs). The taxes collected, will go to the Vilnius Infrastructure Support Programme and will be used to build pavements, bicycle paths, public transport infrastructure, streets, and the necessary social infrastructure (e.g. a kindergarten or school) and, in certain cases, will replace the priority municipal infrastructure developed at the developer's expense.

DEMAND

According to data from the Central Registry, the total number of land transactions in Lithuania dropped by 14% in 2023, following a 17% decrease in 2022. This decline in activity brings the land market back to levels last seen between 2016 and 2018. The same downturn trend was also specifically registered in the Vilnius region. In 2023, total land transactions decreased by 24% in Vilnius city and decreased by 23% across the Vilnius district.

Despite the overall reduction in activity in the land market, there was still notable interest in smaller plots of land for constructing private houses in the period 2022-2023. The main reason for this interest is the continued expansion of the single-family home sector across the country. Record volumes of house construction were reported nationally and in the Vilnius region. The diminishing size of apartments in multi-storey projects



built for sale has driven buyers to explore living opportunities outside the cities. This trend is evident in the rapid urbanisation of territories near city borders, indicating that people are seeking more spacious housing options. Buyers are not only interested in completed units but are also actively searching for plots of land on which to build private houses.

Investment activity in larger land plots suitable for bigger project development in 2023 resembled that of 2022. The decline in the residential market activity, coupled with high interest rates and a more restricted financing environment, created an unfavourable situation for making larger investments in land. Only financially strong companies could participate in such investments, given that traditional bank financing was almost impossible to obtain. Developers were very cautious about choosing the right spots for future investments and tried not to overpay for them. The situation during 2022-2023 was completely different compared to 2021, when developers were inclined to pay extra due to the rapidly growing real estate market. Despite this, some significant larger investments were concluded in Vilnius in 2023.

In 2023, the real estate development company, the Darnu Group announced the completion of its land acquisition process in the southern part of Vilnius, next to Eisiskiu Road. With these recent acquisitions, the company now owns over 70-hectare territory where it plans to develop a large-scale multifunctional project capable of accommodating up to 13,000-15,000 residents.

In the second half of 2023, a company owned by Maxima LT, purchased former hospital buildings with a 0.66-hectare land plot on Zolyno Street in the Antakalnis district. They are considering developing this site afterwards. Their winning bid of over €5 million was submitted during the auction conducted by Turto Bankas, a state-owned enterprise that centrally manages state owned real estate.

At the end of 2023, the real estate developer, Irec Baltic, acquired a 19-hectare land plot in the Kalnenai district, near Minsko Road. They submitted a winning bid of almost €15 million at the auction, also conducted by Turto Bankas. The developer plans to undertake a large-scale residential project on the site.

At the end of 2023, a joint venture between Eika Asset Management and Etapas Group acquired a site next to the Vilnius Central Railway and Bus Station, where companies plan to begin development on a residential project in 2024. The total investment in the project is expected to exceed €40 million.

LEGAL NOTES BY SORAINEN

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

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

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

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

OBER HAUS

LITHUANIAN REAL ESTATE TAXES AND LEGAL NOTES

ACQUISITION

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

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

- Notary fees are 0.37% on the value of real estate. However, the fees shall not be less than EUR 76 or exceed EUR 5,000 (plus VAT) for one transaction;
- State duties imposed upon the registration of a transfer of real estate are not material (up to EUR 17.19).

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

In case of a share deal the transfer of shares in a real estate holding entity is subject to the notary fee of 0.26% on the value of transaction (the fee shall not be less than EUR 24 or exceed EUR 5,000 (plus VAT)), when:

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

The transfer of shares in a real estate holding entity is subject only to registration of a new shareholder (fee EUR 4.15). Other registration fees do not apply as the direct legal owner of real estate remains the same. The transfer of shares of a real estate holding company is generally exempt from VAT, however, if the value of shares is similar to the value of real estate the transaction from VAT perspective may be considered as sale of immovable property.

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

RENT

VALUE ADDED TAX (VAT):

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

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

CORPORATE INCOME TAX (CIT):

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

WITHHOLDING TAX (WHT):

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

PERSONAL INCOME TAX (PIT):

For local and foreign individuals, income from the rent of real estate located in Lithuania is subject to 15% PIT on gross income for the income amounts (not including employment related income) not exceeding EUR 228,324 per calendar year of 2024, and 20% PIT rate is applied on the part exceeding this threshold. Upon certain conditions (i.e. rental of residential premises) individuals can opt to pay a fixed amount of tax on rent of real estate once a year, if such property is rented to individuals and not to legal entities. In such case individuals should obtain a business certificate for rent of residential premises. However, if the amount of income received from rental of residential premises exceeds EUR 45,000 per calendar year, the excess is taxed as property rental income, without obtaining a business certificate, at a 15% PIT rate (and at a 20% rate when the income from rental of residential premises exceeds EUR 228,324 per calendar year of 2024).

SALE

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

See the applicable notary and registration fees in section “ACQUISITION”.

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

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

VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

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

WITHHOLDING TAX (WHT):

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

PERSONAL INCOME TAX (PIT):

For local and foreign individuals, income from the sale of real estate located in Lithuania is subject to 15% PIT on gross income for the income amounts (not including employment related income) not exceeding EUR 228,324 per calendar year of 2024, and 20% PIT rate is applied on the part exceeding this threshold. Taxable income from the sale of real estate is calculated by deducting the purchase price of the real estate sold and any mandatory payments related to the sale of that real estate from the amount of income received from the sale of that real estate.

EXIT TAX

Starting from 2020 a new exit taxation rule is established in Lithuania. When the assets of a unit (local legal entity, branch or a permanent establishment of a foreign entity), used for the unit's activities in the Republic of Lithuania, are transferred (in other form than sale) to a foreign country and are started to be used for the activities carried out in the foreign country, exit taxes can apply. Such transfer can be considered as an asset sale at market price. The unit at the time of transfer of the asset recognizes the increase in the value of the asset, which consists of the difference between the fair market price of the transferred asset at the time of the transfer and the acquisition price of the asset. The increase in the value of the asset is subject to 15% CIT (taxation can be split evenly over 5 years, if transferred to EEA countries). These provisions do not apply to the transfer of assets for a period of less than 12 months, when the assets are transferred to finance securities or as collateral (advance), or to meet capital requirements for risk mitigation, or for liquidity management purposes.

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.5% to 3% depending on municipalities. In Vilnius, the RET rates established for 2023-2024 are:

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

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

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

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

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

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

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

LAND TAX

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

In Vilnius, the Land tax rates established for 2023-2024 are:

- 0.12% - standard tax rate for individuals and companies;
- 0.24% - increased tax rate for the use of land for commercial facilities (certain conditions apply) and for the land plots that do not ensure sustainable pedestrian mobility in their environment;
- 4% - increased tax rate for the land that is not used. As well, for the land on which advertising is provided in breach of prohibitions and requirements established by the Law on Advertising and when the ruling in the case of an administrative offense has become final for non-fulfilment of these prohibitions and requirements.

Exemption from land tax is available in some cases.

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

LAND LEASE TAX

Users of state-owned land are subject to land lease tax. The tax rate ranges from 0.1% to 4% of the value of the land. The actual rate is established by municipalities. In Vilnius, the land lease tax varies from 0.5% to 4%. Municipalities have an opportunity to apply tax incentives.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INTRODUCTION

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

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

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

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

ACQUISITION OF REAL ESTATE

GENERAL

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

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

LETTER OF INTENT AND HEADS OF TERMS

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

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

CHANGE OF OWNERSHIP

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

LEGAL STRUCTURES OF REAL ESTATE TRANSACTIONS

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

PRINCIPAL LEGAL STRUCTURES

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

SHARE DEAL

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

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

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

- single-tier: accounting of shares is transferred to an independent manager (e.g. a licensed credit institution or financial brokerage firm)

- double-tier: in addition to a single-tier transfer of accounting for shares, the shares in the company are also registered with the Lithuanian Central Securities Depository and an ISIN number is issued.

Costs for switching to single- or double-tier accounting of shares are not yet fixed by law but are slightly lower than notary fees. The notarial fee for certifying a share sale-purchase agreement amounts to 0.26% of the transaction value and is capped at EUR 5,000.

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

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

ASSET DEAL

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

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

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

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

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

SALE-LEASEBACK

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

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

FORWARD PURCHASE

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

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

JOINT VENTURE

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

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

PUBLIC-PRIVATE-PARTNERSHIP PROJECTS (PPP)

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

FORM OF AGREEMENTS

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

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

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

LANGUAGE REQUIREMENTS

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

DUE DILIGENCE

Legal due diligence on target real estate is strongly advisable before investment or divestment. From the perspective of both seller and buyer, due diligence forms a basis for contract negotiations, risk distribution, verification of purchase price, and pre- and post-closing commitments. Due diligence can involve checks on e.g. ownership titles, the target and engineering infrastructure servicing the target, encumbrances, permitted use, third-party rights, public restrictions, lease agreements, agreements for the supply of utility services, or environmental and zoning compliance issues – any information, including material facts, related to the real estate. It should be noted that a general statutory principle exists that if an encumbrance of property is not registered with the Real Estate Register, the Register of Contracts and Restrictions of Rights, or the Register of Acts of Property Seizure, it does not exist until proven otherwise in court.

PRE-EMPTION RIGHTS

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

Certification of real estate sale-purchase agreements by a notary and registration of title with the Real Estate Register respectively involve a notary fee and state duty. The notary fee amounts to 0.37% of the real estate transaction value, capped at EUR 5,000 for transactions that involve one real estate object and at EUR 12,000 for transactions involving two or more real estate objects. State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired. State duty for registration or deregistration of title to each real estate object amounts to EUR 17.19 (increased fees apply for accelerated registration).

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

The notary fee for transfer of shares transactions (when applicable) amounts to 0.26% of the transaction value and is capped at 5,000 EUR. For transactions that involve transfer of the shares of two or more companies, the notarial fee (when applicable) is capped at EUR 12,000.

MERGER CONTROL

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

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

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

RESTRICTIONS

RESTRICTIONS ON ACQUIRING REAL ESTATE

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

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

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

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

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

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

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

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

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

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

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

It should be mentioned that the Code of Administrative Offences


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

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

LEASE AGREEMENTS

GENERAL

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

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

DURATION AND EXPIRY OF LEASE AGREEMENT

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

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

A tenant who has duly performed their obligations under a lease agreement has right of first refusal to renew the lease agreement on its expiry and may terminate a lease agreement following a change in the owner of the real estate. However, if the parties agree, the tenant can waive such rights while signing the lease agreement.

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES AND SERVICE CHARGE)

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

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

REAL ESTATE FUNDS

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

MORTGAGE

A mortgage is established by a contractual agreement between the parties, which may be executed as a separate agreement or be part of another (the main) agreement. A contractual mortgage requires only the approval of a notary and subsequent registration with the Register of Contracts and Restrictions of Rights, and the Register of Property Seizure Acts. Mortgage registration with the Register of Contracts and Restrictions of Rights, and the Register of Property Seizure Acts is an administrative process (rather than a judicial one, as used to be the case) which is usually done by a notary. As a result of the amendments, the requirement to execute the mortgage in a standard form has been removed.

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

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

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

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

However, under current legislation, the preparation of a detailed plan is mandatory when development of a territory is planned within urbanised areas or within areas that are being urbanised. This may occur in cases where the existing and/or designed engineering and/or social infrastructure of the municipality is insufficient and needs to be developed. Considering the aforementioned, it is likely that a detailed plan would have to be prepared in most cases, i.e. in case of the absence of a detailed plan, construction would not be permitted to be carried out under the master plan. A requirement to prepare a detailed plan may also be provided for in the master plan.

Other key planning provisions are as follows:

- A district (quarter) is the smallest area for planning.
- State and municipal institutions organise the territorial planning documents.
- For detailed plans some corrections are available during the preparation of the technical design.
- Environmental impact assessment and public health impact assessment are carried out prior to technical design (if applicable).
- An information system (TPDRIS) is used in Lithuania for preparation of territorial planning documents in Lithuania and for state supervision of the territorial planning process.
- A territorial planning document enters into force the day after its publication in the register of territorial planning documents.

CONSTRUCTION

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

On 1 November 2024, a new procedure for issuing construction permits will come into force. A pivotal alteration in this process entails the issuance of construction permits based on design proposals, which essentially constitute documentation at the early design stage. However, it is possible that the competent authorities may impose more stringent requirements on this documentation, basically aligning it with the technical design currently required for construction permit issuance. Furthermore, the initiation of construction activities will mandate the submission of a technical detail design specifying the implementation of the solutions provided in the design proposals.

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

The key provisions of the Construction Law are as follows:

- Special requirements for building design (i.e. special architectural, heritage or protected area requirements) do not need to be obtained (they are issued only at the request of the client). However, if the municipal administration, when inspecting a building design, identifies possible violations of the essential architectural requirements of the building (e.g. the building does not blend in with the landscape, the architectural solutions do not correspond to the purpose of the building, the architectural solutions do not form a harmonious, coherent overall whole), the municipality may ask the regional council of architecture to assess the design and issue a statement as to whether it complies with these requirements or not.
- Conditions for connection and special requirements for building design remain valid for five years if a construction permit has not been obtained.
- Mandatory insurance of construction works (replacing mandatory insurance of the contractor's civil liability) and mandatory third-party civil liability insurance of the contractor for expert examination of the building project are required.
- The contractor is required to provide security for performance of its obligations to the client, the total of which cannot be less than 5% of the construction value, valid for at least three years.
- A developer must also provide security to the buyer of real estate against improper performance or non-performance of the contractor's obligations during the construction warranty period (e.g. due to the contractor's insolvency or bankruptcy), which must comply with the same terms and conditions as prescribed for the contractor, as noted above.

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

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

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

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

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

Moreover, developers intending to carry out construction or reconstruction are required: (i) to pay the infrastructure development fee (calculated as EUR X per 1 m^2) or (ii) to contribute to the development of the planned public infrastructure, i.e. to install infrastructure (roads, networks, etc.). The infrastructure development fee must be paid when applying for a construction permit. Please note that considering the changes regarding the procedure for receiving a construction permit, from 1 November 2024, the infrastructure development fee must be paid before giving notice of construction works or starting construction work.

INSOLVENCY

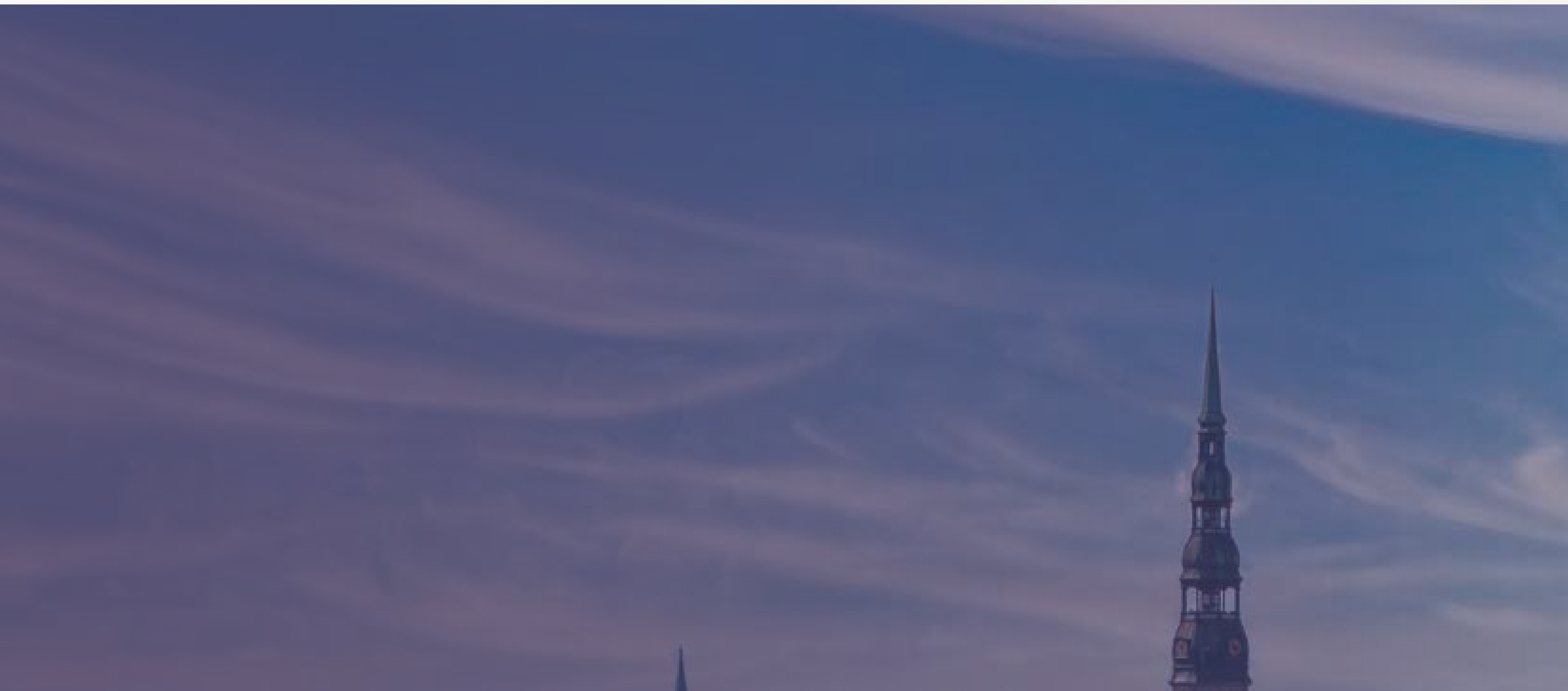
If a company is unable to cover its liabilities in a timely manner and the liabilities of the company exceed the value of its assets, then bankruptcy or restructuring proceedings may ensue.

RESTRUCTURING

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

BANKRUPTCY

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



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Ober-Haus Latvia has 5 offices in Riga, Liepaja, Ventspils, Jelgava, Valmiera and 3 representative offices in Ogre, Daugavpils and Tukums. In total, more than 38 real estate experts work in the country. The quality of Ober-Haus services is trusted by major local and foreign companies, medium-sized and smaller companies, investment funds and private investors.


LATVIA

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COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

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

CURRENCY

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

2024 FORECAST

GDP annual growth, %	2.0
GDP per capita, €	15,860
Average annual inflation, %	2.0
Unemployment rate, %	6.3
Average monthly net salary, €	1267
Average salary growth, %	8

POPULATION	2018	2019	2020	2021	2022	2023
Latvia	1,934,000	1,920,000	1,907,700	1,893,200	1,865,100	1,876,400
Riga	638,000	632,000	627,500	614,600	605,800	614,489
Daugavpils	83,300	82,600	82,000	80,600	79,100	79,229
Liepaja	69,200	68,900	68,500	68,000	67,400	67,335

ECONOMICS	2018	2019	2020	2021	2022	2023
GDP growth, %	4.8	2.3	-3.5	3.1	2.1	-0.4
GDP per capita, €	15,300	14,900	14,400	14,700	15,400	15,443
Average annual inflation, %	2.5	2.8	2.4	3.2	17.3	8.9
Unemployment rate, %	7.4	6.2	8.2	7.8	7.5	5.7
Average monthly net salary, €	742	800	844	916	1013	1174
Average salary growth, %	9.8	7.7	6.2	8.9	7.5	12.3
Retail sales growth, %	4.0	2.3	1.5	2.5	4.2	-1.8

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

THE LATVIAN ECONOMY IS PREPARING FOR A REBOUND IN 2025

Last year (2023), laboured under the influence of high interest rates. In response to high inflation, the leading central banks of the world, among them the European Central Bank (ECB), continued to raise interest rates, beginning in July 2022, and had reached an unexpectedly high level by the fall of 2023, with the long-term goal of securing an inflation rate of 2%.

The main reason for the high inflation is still the unpredictable progress of the war started by Russia in Ukraine. The reduced availability of energy resources and raw materials, and the increase in migration and insecurity of neighbouring countries, are a direct result of the escalation of the military conflict.

Despite the geopolitical background, inflation in the Eurozone and Latvia is decreasing, but at the same time it remains above the expected 2% level. There is no clear signal concerning the reduction of ECB interest rates, although, there are forecasts that this could happen in the second half of 2024.

During the high rates period, the creditworthiness of borrowers significantly deteriorated, and as a result, activity levels, and achievable prices, for the sale of residential and commercial properties began to decline.

According to forecasts from the Bank of Latvia in December of last year, stronger growth is expected in the second half of 2024, but there are concerns about the negative impact of the increase in labour costs on Latvia's competitiveness, and thereby, a return to weak economic growth in general. Weaknesses were highlighted both in the labour market, characterised by a lack of labour, and in the investment opportunities of companies, hampered by obstacles to lending and the construction process itself.

It is expected that the 2023 figures, will show a decline in GDP of 0.4%, which will be replaced by a 2.0% increase in GDP during 2024. However, the Bank of Latvia and other economic experts have highlighted the great uncertainty caused by the global geopolitical situation, the deterioration in consumer confidence and weak growth across the other Baltic states. In 2025, GDP is expected to increase by 3.6%, and in 2026, by 3.8%.

According to the data from the Central Statistics Office (CSB) and the Bank of Latvia, the average annual inflation forecast for 2023 has been raised to 8.9% (in June 2023, the forecast was 8.5%).

It is worth noting, that the average inflation rate in Latvia rapidly decreased in the second half of 2023 and already achieved 1.1% in November 2023. This allows the Bank of Latvia to forecast an average annual inflation of 2.0% for 2024, 2.3% for 2025 and 1.8% for 2026.

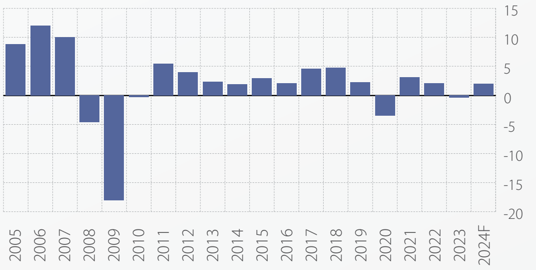
The forecasts of a decrease in inflation are mainly based on the assumption of lower energy and food prices, but the expected increase in wages, estimated to reach 8% due to labour shortages, is causing concern.

The 2024 state budget adopted by the Parliament of Latvia has outlined its priorities as safety, health and education. According to the Bank of Latvia, within the forecasts, weaker economic activity is reflected in an increase in the state budget deficit and the level of state debt. Although additional budget investments help to promote resilience against geopolitical threats, at the same time, an expansionary fiscal policy can increase pressure on inflation and weaken the price competitiveness of the economy.

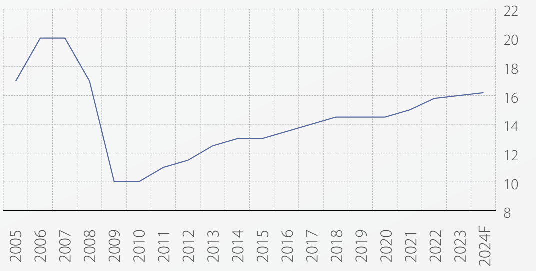
OBER HAUS

OFFICE MARKET

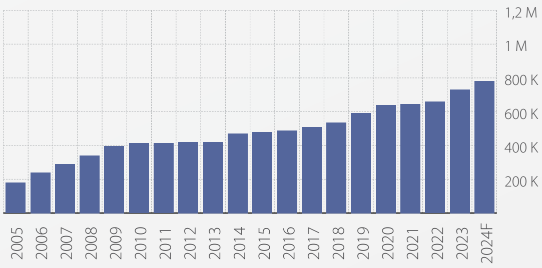
GDP GROWTH, %



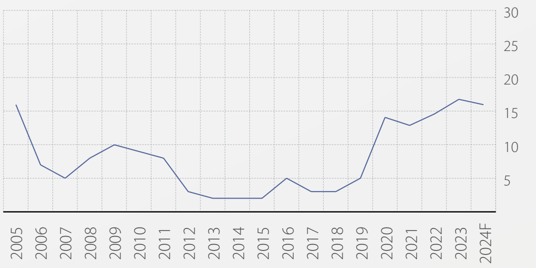
A CLASS OFFICE RENTS, €/SQM



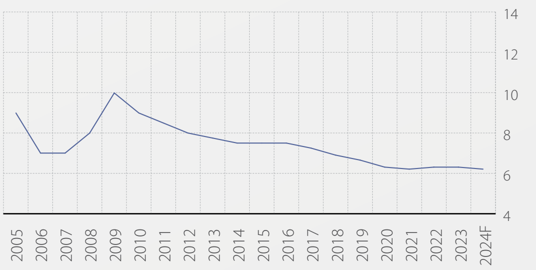
TOTAL MODERN OFFICE STOCK, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



RIGA SNAPSHOT
(END-2023)

TOTAL OFFICE SPACE	730,400 SQM
TOTAL OFFICE VACANCY RATE	12.4 %
A CLASS OFFICE VACANCY RATE	16.8 %
B CLASS OFFICE VACANCY RATE	10.5 %
TOP OFFICE RENTS (SQM / month)	€18.00 - €20.00
A CLASS OFFICE RENTS (SQM / month)	€14.00 - €18.00
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €15.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €5.00

TENANTS HAVE A CHOICE AT LAST

SUPPLY

In 2023, several A and B class office centres were completed in Riga with a total area of 64,600 sqm. Currently, a total of 730,400 sqm of office space is available for lease in Riga, which is a very large supply of new space. Tenants are in a much stronger position with more options to choose from. As a result, new space is selected very carefully, paying particular attention to the location, energy efficiency, total cost, and importantly, sustainability.

In 2024 and 2025 it is expected that in Riga, the total supply of office space will increase by 13%, as developers complete construction of over 100,000 sqm. If this trend continues, Latvia will rival Vilnius and Tallinn with around 850,000 sqm.

Co-working office space is currently very actively used, and every new business centre offers co-working space, which allows the tenant to adapt to the ongoing Hybrid working model, as well as often, saving money. To retain existing tenants, landlords will often refurbish offices, improve energy efficiency with solar panels and updated heating systems and are more focused on tenant's needs.

DEMAND

The share of modern office vacancies (A and B class) in Riga in 2023 has increased from 11.2% to 12.4%. This can be explained by the availability of the new projects. Entrepreneurs were still more active in choosing more energy efficient office space, while also choosing space appropriate for the number of employees. The vacancy rate for B class office space at the end of 2023 was 10.5%, while for A class office space, it was 16.8%.

RENTS

In 2023, there was no major change in office rents since availability had increased. The market has remained more accessible and there are more choices, so for a landlord to attract a tenant, the price needs to be affordable. They are trying to retain tenants by keeping rents stable. Also, this year, the tenant must consider the high extra costs for electricity, heating and so on.

At the end of 2023, rents for A class offices were €14.00-€18.00 per sqm and for B class, €8.00-€15.00 per sqm. A few exclusive office buildings charge a maximum rent of €18.00-€20.00 per sqm with additional charges for utilities and services. The additional total cost per month is €3.00-€5.00 per sqm in A class buildings and €2.50-€4.50 per sqm in B class. More and more tenants are requesting additional facilities in the office centres – for example, car charging stations, additional bonuses, events, and conference rooms. We may see some price variation next year given that there will be even more A class office space available.

INVESTMENT

No larger transactions in the office segment were observed in 2023. Smaller deals were made in residential districts or with poorer quality offices. At the end of 2023, Zunda Towers was put up for sale. The twin, 30-storey towers with a total area of 89,000 sqm are the tallest buildings in Latvia. One tower contains premium offices, and the other, apartments. The purchase price was set at €220 million.

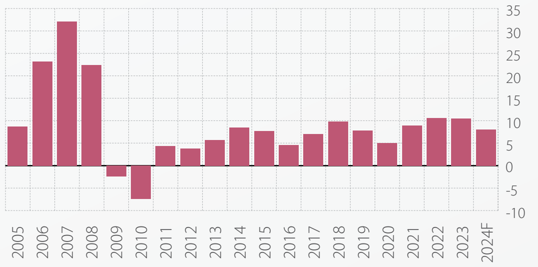
ELEMENTAL

LEGAL NOTES BY SORAINEN

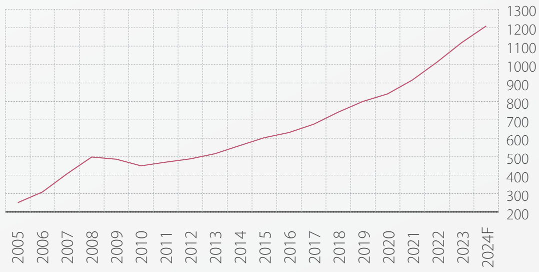
Rents are paid in advance, usually monthly, sometimes quarterly, and are indexed to local or EU inflation. As inflation has slowed down and more office space has become available, lessors have started to agree on indexation caps at the previous level (i..e.. up to 4–6% per annum). In addition to rent, tenants usually pay a maintenance fee and cover their own utility costs, invoiced by the owner or supplier after consumption. Security deposits of two to three months' rent are generally required by the owner or lessor. Real estate tax and property insurance payments are made by the owner and are subsequently charged to and compensated by the tenants.

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

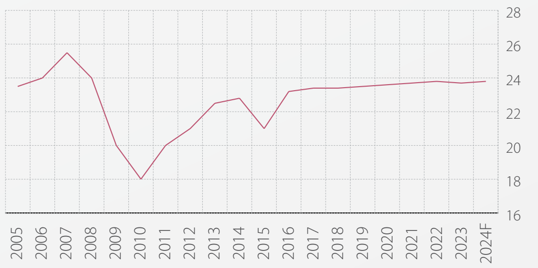
AVERAGE SALARY GROWTH, %



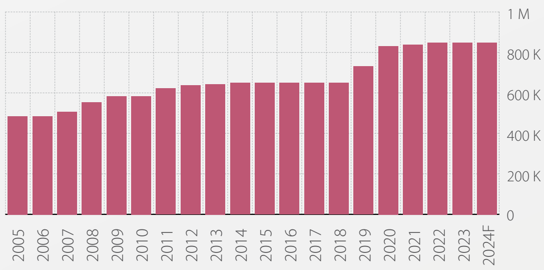
AVERAGE NET SALARY PER MONTH, €



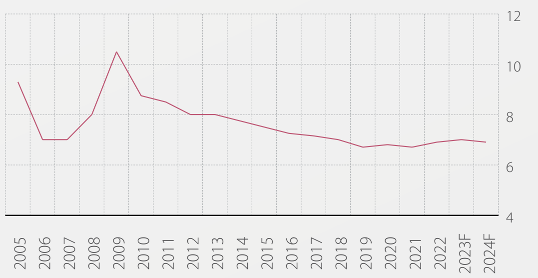
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



RIGA SNAPSHOT (END-2023)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	848,200 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.38 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€8.00 - €10.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€10.00 - €30.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€23.00 - €40.00
HIGH STREETS RENTS (SQM / month)	€15.00 - €35.00

THE NUMBER OF VACANT RETAIL PREMISES INCREASED UNDER THE INFLUENCE OF SHOPPING CENTRES

SUPPLY

Last year continued to test the real estate industry for durability. Many had hoped that after the various upheavals and crises of the last 4 years related to the measures to limit the spread of the Covid-19 virus, Russia's expanded war in Ukraine, the rapidly rising energy and construction costs and the subsequent high inflation, a calmer year might finally arrive and the industry would be able to develop faster than in previous years. However, by the end of 2022, the ECB's decision to raise bank loan interest rates to reduce high inflation did not promise anything positive for the real estate industry in 2023.

In the first months of 2023, no significant impact on the industry from raising interest rates could be observed. However, after the ECB made several decisions to continue raising interest rates, it was clear to everyone that this trend would remain for a longer period of time. It was also clear to many, that this was not the right moment to borrow money. This greatly affected the volume of transactions not only in the residential segment, but also quite seriously, the commercial segment, which resulted in significantly fewer activities and events across the retail segment as a whole throughout the year.

By the end of 2023, the total leasable area of shopping centres in Riga was 848,200 sqm. This figure included traditional shopping centres with a total area of more than 5,000 sqm and at least ten tenants.

The shopping centre, Olimpia, invested €8 million in a reconstruction project, in which for the most part, the offer of sports and leisure shops was expanded.

The Spice shopping centre, completed an interior renovation project, during which, an investment of €9 million, renovated over 7,500 sqm of the centre.

In 2023, Europe's leading retailer, Lidl, continued to strengthen its position in the Latvian market and based on turnover for the second year was one of the top three Latvian retailer chains together with Maxima and Rimi. They opened six new stores between Riga, Mārupe and Salaspils. At the end of 2023, there were already 26 Lidl stores in Latvia, reaching a total store area of 62,400 sqm, with a total sales area of 37,300 sqm. The company also plans to open several new stores during 2024.

Also in 2023, Maxima continued to invest in its development, expanding their unified concept stores throughout Latvia and the other Baltic countries. The concept, includes expanded and brighter sales halls, and more energy efficient technical equipment and lighting. By the end of 2023, the unified store concept had already been implemented in more than 100 Maxima stores in Riga, Valmiera, Daugavpils, Tukums, Jekabpils, Jelgava, Jurmala, Ogre, Saldus, Preili, Aizkraukle, Kraslava, Livani and elsewhere. In total, there were 167 Maxima stores of various sizes across Latvia.

After their reconstruction in 2023, several Rimi stores were re-opened and four new stores were opened in Riga with one in Pinki. In total, 140 Rimi stores were operating in Latvia at the end of 2023. In addition, it is understood that with the conclusion of several important lease agreements there will be further development in 2023, involving the office centres Gustavs and Preses Nams, and the real estate developer VPH, whose planned trade park Fabrika on Valmieras Street in Riga will include, a new large concept store, a Rimi hypermarket.

Other food chain stores, such as Citro, Elvi, Top and Mego, also opened new stores in 2023 or invested in more energy efficient operations.

Last year was the second year of operation in Latvia for the international retail store network, Spar. During the year, Spar opened several new stores already reaching 25 stores throughout Latvia. Currently, more than 13,500 Spar stores are operating in more than 48 countries worldwide.

Also in 2023, there were various important activities by various fashion brands. Sportland opened a new store in the Domina shopping centre, New Yorker and Halfprice concluded their lease agreements to open new stores in the Riga Plaza shopping centre, and the first e-commerce shoe store Eapavi, was opened in Akropole Alfa.

DEMAND

Despite the crises and upheavals of previous years, the vacant space in shopping centres decreased compared to the previous year and the vacancy rate actually dropped to 5.2% by the end of 2023. The demand for retail premises in shopping centres has also been boosted as energy prices reduced.

The negative impact of shopping centres on the demand for premises on retail streets has been significant. Additionally, the closure of gambling premises on these streets due to government restrictions has also contributed to the number of vacant spaces.

RENTS

The rents for small retail premises in Riga in 2023 were €10.00-€30.00 per sqm, in locations with high flows of people and in Old Riga, rents were €15.00-€35.00 per sqm. For smaller premises in more exclusive locations it was also higher. In shopping centres, rents for smaller sized units were €23.00-€40.00 per sqm. The rent for medium sized premises was €10.00-€30.00 per sqm and for anchor tenants, €8.00-€10.00 per sqm.

In the last few years, there has not been a significant increase in rents for retail space in shopping centres. Taking into account the expected increase in filling shopping centres with tenants in 2024, we might expect to see a slight increase in rents in this sector. In contrast, the observed trend of an increasing number of vacant premises on retail streets may lead to a slight decrease in rents.

INVESTMENT

The Indexo Real Estate Fund bought two shopping centres, Rimi Gaiļezers and Rimi Tukums from Norwegian investor holding company, Latpro 2, for €25 million.

The company, F8, purchased the Mols shopping centre, one of the original shopping centres opened in Latvia. The value of the transaction has not been disclosed.

Rimi purchased a 3.6 ha plot of land next to the Akropole Alfa shopping centre in Riga from the Linstow Baltic group, for €8 million.

RECENT DEVELOPMENTS

Food retailer, Elvi Latvija, opened a trade block in Mārupe in 2023. Almost €3 million has been invested in the creation of the retail block and it will be managed by Elvi's franchise partner, Vita Markets. In the same area as the Elvi store, there will also be a liquor store, AlkOutlet, a brand store, Pepco and a Euroaptieka.

The plan for the summer season, is to host various pop-up sales points for home producers, artisan goods and catering companies to operate in the square.

On Juglas Street in Riga, opposite the Saga shopping centre, a new retail and service facility has been opened, which was developed by the real estate developer VPH Latvia and consists of four buildings, the main tenants of which are McDonald's, KFC, Super alko and the PRO BRO GROUP, the express tunnel car wash.

NEW PROJECTS

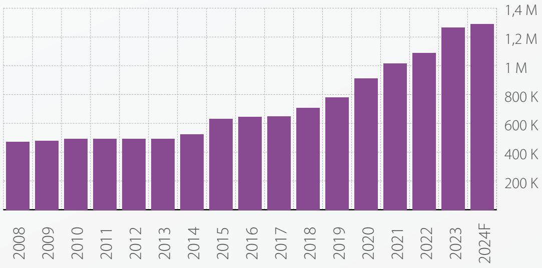
In 2023, planning work continued on the developer VPH Latvia's project – the creation of the retail park, Fabrika, in the territory of the former Rīgas piena kombināts on Valmieras Street in Riga. In an area of approximately 20,000 sqm, not only retail areas will be developed, but also offices, a catering area, a kindergarten, a sports and health centre, and other services. The developers plan to open the new complex at the end of 2024.

LEGAL NOTES BY SORAINEN

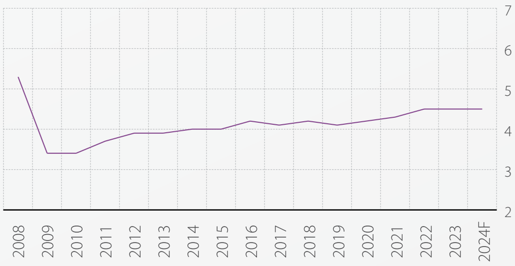
Typically, one anchor tenant or a few medium-size tenants lease each property. As a rule, in large-scale shopping centres, tenants are charged for use of common areas and management of the building, as well as common marketing activities. Rents are indexed to local or EU inflation. The owner usually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

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

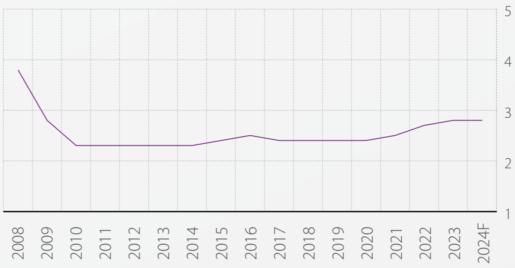
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



RIGA SNAPSHOT
(END-2023)

TOTAL NEW WAREHOUSE SPACE	1,240,000 SQM
WAREHOUSE VACANCY RATE	1.4 %
NEW WAREHOUSE RENTS (SQM / month)	€4.00 - €5.60
OLD WAREHOUSE RENTS (SQM / month)	€2.50 - €4.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€0.90 - €3.50

DEMAND FOR PREMISES IS ADEQUATE, BUT TENANTS ARE CHOOSING WITH CAUTION

SUPPLY

Several new projects with a total warehousing area of around 150,000 sqm were completed in Riga and its surroundings during 2023. These new projects increased the total leasable area of modern warehousing premises by 14% to 1,240,000 sqm.

As heating and utility expenses reached new heights in 2023, businesses continued to calculate their required space and maintenance costs. Although the construction process is still stable, everyone is thinking more about heating solutions and trying to switch from natural gas to LPG to ensure lower heating costs in winter, something that is still very important. The 2022 trend for renting industrial facilities remained – for tenants it was more profitable to rent new premises for a higher fee, but with lower utility payments, than space in old buildings for lower rents, but with higher utility payments.

Despite the challenging context, some large development projects began in 2023. The Eco Baltia plant, PET Baltija, which is one of the largest PET processors in Northern Europe, invested more than €10 million in the development of a new PET processing plant in Olaine. The project is being implemented by Eco Balti, supported by the INVL Baltic Sea Growth Fund, in cooperation with Piche, which is the leading developer of industrial parks in Latvia. The total investment will exceed €35 million. The new factory will be one of the largest and most modern PET processing plants in Europe and one of the largest industrial buildings in Latvia. Its total indoor area, including the production facility, as well as modern well-equipped offices and common areas, will reach approximately 30,000 sqm. The outdoor area will cover approximately 40,000 sqm. Additionally, in Mārupe, Piche has purchased land to build industrial parks with an area of 150,000 sqm, with over 100,000 sqm being built over the next three years.

DEMAND

In common with 2022, the demand for industrial facilities grew in 2023. The only noticeable difference, is that tenants chose facilities more cautiously, choosing slightly smaller units due to high utility bills, and also rented facilities that had newer energy-saving equipment. Despite the influence of various economic and other factors, the demand from renters remained constant. Vacant space decreased during the year, as demand remained higher than the supply. By the end of 2023, the percentage of vacant spaces had increased slightly to 1.4%.

Logistics group, VIA 3L, signed an agreement with logistics real estate developer, SIRIN Development, for the lease of 24,000 sqm of warehouse and office space in the Rumbula logistics park in Latvia. This was the largest lease transaction in 2023 across the Baltic region. Following the trend that speculative projects are already leased at the development stage, this transaction means SIRIN Development had fully leased the premises of the Rumbula logistics park ahead of construction completion. Limited speculative development will continue throughout 2024, continuing the pre-leasing trend.

Investors expect a gradual reduction in interest rates in 2024, which will make the purchase of investment real estate more affordable, that in turn, will increase the demand for investment properties. Additionally, as economic recovery begins to take hold in the second half of 2024, this could push up the prices on the most attractive properties for potential investors.

RENTS

Analysis of the 2023 real estate market, shows that rents in the industrial segment have remained unchanged. The demand for vacant areas is relatively high. Utility cost payments have increased, especially heating, forcing tenants to evaluate how much space they really need.

Inceasingly, warehouse space was reserved even before construction. It is also noticeable that, in common with owners of logistics centres, in the office market, owners began making improvements to their premises, resulting in a lot of heated warehouses.

At the end of 2023, the rents for new warehouses in Riga city and its surroundings were €4.00-€5.60 per sqm, and rents for older warehouses, from poor quality to fully renovated, were €2.50-€4.00 per sqm. Additional costs for tenants were on average, €0.90-€3.50 per sqm. Rent for the multifunctional block in stock-office projects could range from €6.50 to €8.00 per sqm.

For small and older warehouses, and factories and service facilities up to 500 sqm, the average selling price was €450-€550 per sqm. Sales prices for hangars built in the 1980s to 90s, starting at 500 sqm, were on average, €50-€300 per sqm.

INVESTMENT

The East Capital Real Estate Fund IV and Rimi Baltic, part of ICA Gruppen, concluded an agreement by which East Capital Real Estate acquired Rimi Baltic's logistics and office centre on A. Deglava Street in Riga. This purchase was the largest real estate transaction in Latvia during 2023 and the largest logistics building acquisition in the Baltics. The purchase price was €83 million.

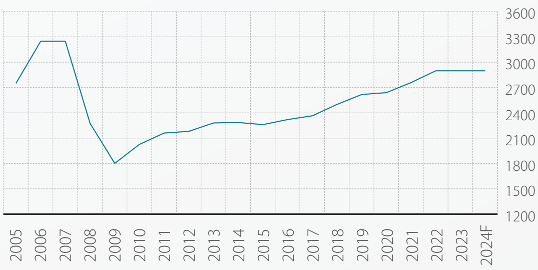
Capital Mill, a real estate investment and development company operating in the Baltics, concluded an ambitious transaction, selling an industrial property in Riga, on Granīta Street, to the investment company, Proks Capital. The plot of land at Granīta Street covers 3.3 hectares, and the building offers almost 10,600 sqm. The property is fully leased to AS ANTALIS, a paper wholesaler, providing packaging and visual communication products and solutions, a subsidiary of the Japanese group of companies, Kokusai Pulp & Paper.

Indexo Real Estate Fund bought two shopping centres for €25 million. The fund, managed by Provendi Asset Management, concluded an agreement with the Norwegian investor holding company, Latpro 2, for the purchase of the Rimi Gaiļezers and Rimi Tukums shopping centres.

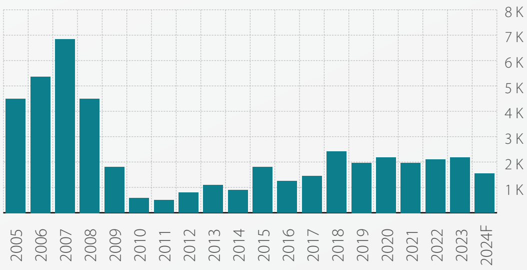
LEGAL NOTES BY SORAINEN

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

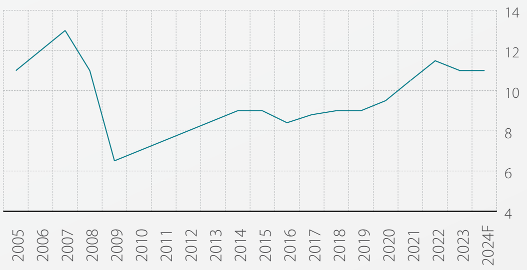
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



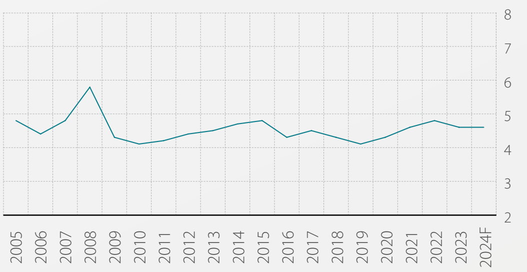
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



RIGA SNAPSHOT
(END-2023)

ANNUAL APARTMENT PRICE CHANGE	- 1.2 %
NEW APARTMENTS BUILT	2,180
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€2,100 - €3,500
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€2,900 - €4,300
PRICES FOR EXCLUSIVE APARTMENTS IN CITY CENTRE & OLD TOWN (€/SQM)	€5,000 - €7,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.6 %

THE SECONDARY MARKET TAKES THE LEAD

PRICES

Apartment prices in Riga decreased by 1.2% in 2023, after an increase of 4.5% in 2022. The main factor contributing to the overall price reduction was the slight downturn in prices for typical older apartments in residential districts. Prices for apartments in Soviet-era buildings decreased by almost 6% and typically ranged from €900 to €1,100 per sqm by the end of 2023. Meanwhile, prices for apartments in higher quality buildings and better locations slightly increased during 2023.

As demand remained limited in 2023, developers started to offer various discounts and gifts to stimulate activity. With demand down for the second year in a row, developers launched fewer new projects and were hesitant to expand their land portfolios.

In 2023, the average purchase price for new project apartment deals in Riga micro-districts was €2,185 per sqm. Most transactions with new project apartments in Riga micro-districts took place in the price range €1,900-€2,400 per sqm.

Prices for new apartments in Riga's city centre were more expensive, they ranged from €2,900 to €4,300 per sqm at the end of 2023, and for apartments in luxury projects and locations, prices had been as high as €7,000 per sqm.

New apartments in the suburbs of Riga were selling for €2,100-€3,500 per sqm by the end of 2023, and were usually sold with final finishing (e.g., kitchen and bathroom).

SUPPLY

According to Ober-Haus data, in 2023, 2,180 apartments were completed in Riga which is almost 4% more than in 2022. But Ober-Haus expects what construction activity will drop by 30% in 2024 with of 1,550 new apartments being built.

The housing market is affected by the rising cost of construction, the jump in inflation and the interest rate hike campaigns by central banks, making loans significantly more expensive than before. Ultimately, the rate factor could become favourable for the real estate market over time, although loan interest rates will remain high in the near term. Real estate market experts also highlight the fact that developers became more cautious at the start of new projects, because with the increase in costs it has been difficult to estimate what the final purchase price of housing will be.

According to observers, buyer activity compared to the end of 2022 has increased slightly, but is still moderate, even weak. Real estate viewings are underway, but clients are in no rush to make a decision. Sellers of new and renovated projects are in no hurry to reduce prices, but are gradually starting to accept the stagnation of price increases.

Major developers continue to develop their projects, but small developers have put some of their projects on hold.

The number of apartments offered from new projects increased by 40% during 2023. In total, there were around 580 of these apartments in Riga left unsold at the end of 2023 (415 at the end of 2022) with an average asking price of €2,220 per sqm.

DEMAND

In Riga, the number of sales transactions recorded in the new-build apartment market in 2023 decreased by 6% (2,170 transactions in total) when compared to 2022. However, the total sales volume on the new apartment market in 2023 reached €305 million, 5% more than in 2022, due to price increases: the price per square metre of registered transactions increased by 14% on average compared to 2022.

The decline in market activity was recorded in all market segments – it affects both the cheapest and often, the energy-inefficient housing in Soviet serial buildings, as well as the more expensive first-time market. The number of reservations in newly built residential projects is also lower than usual. Buyers are in no hurry to book apartments under construction, preferring to wait until the project is completed.

Looking at the number of new-build apartment transactions, most (37%), took place in the price range from €100,000 to €150,000. They were mainly two-room apartments with an average area of 60 sqm both in the micro-districts of Riga and its centre.

In 2023, most of the new-build apartment transactions in Riga micro-districts took place in the price range from €2,200 to €2,400 per sqm. This represented 22% of the total number of transactions. This has signalled a change with respect to the previous three years, when most transactions had taken place in the range €1,600-€1,800 per sqm.

The 2023 distribution of transactions based on the number of rooms in an apartment, shows that mostly two-room apartments (46%) were purchased. This is similar to what had been observed in 2022. Relatively fewer transactions took place with three-room (35%) and one-room apartments (10%), while there were very few for four-room apartments purchased (8%).

RENT

The prospects for rental apartments in Riga are strong, with the popularity of rental apartments growing. This was partly facilitated by the high interest rates, which made mortgage loan payments more expensive during 2023. As a result, some potential apartment buyers currently prefer to rent instead.

A paradigm shift is evidently taking place in the rental segment, as residents begin to accept the new reality regarding not only the ratio of rent to potential loan payments but also some of the other advantages of renting. This model corresponds strongly with the real estate market across western Europe, where residents value mobility and the possibility of adapting their place of residence to the needs of their life at any given stage.

There is a particularly active rental market in the city centre, where owners are more willing to find a reliable tenant for their apartments than to put them up for sale, realising that good real estate is a great investment.

The owners carefully consider the amount of the monthly rent and adjust the prices according to the market requirements, to find a tenant or keep the existing one before the approach of the big bills that arrive during the heating season. The pace of the transaction is determined by the price's relevance to the market and the quality of the property – there are apartments that are rented out in a few hours or days, and there are those that cannot find a tenant for several months, usually because they are large-area objects. Some of the rental property ads come from Latvian residents who go to work abroad and want to rent their property during their absence. Also, there are still families who spend the winter season in warmer countries and choose not to leave the property empty, but rather rent it for a short term, for example, three to five months. The demand for quality rental housing is very high, so this is the right time for owners to put their property on the rental market.

With significant amendments to rent legislation, the legal framework in Latvia is currently the most advanced in the Baltics and protects the interests of both landlords and tenants in a very balanced way. In addition, the law now also motivates market participants to work in official workplaces. Consequently, institutional players are entering the rental market – several companies, including Bonava and YIT Latvija, have directly developed their real estate portfolio in the rental market. For example, YIT have built and commissioned two projects with a total of 250 apartments in Riga and 90 apartments in Bonava. Renting is one of the alternatives to choose, for example, for young families, because at the end of 2023 the rent for a two-room apartment in a new, modern house was around €500-€550 per month, while the total loan payment for the same apartment was as high as €700-€750 per month. Of course, it takes time and needs additional investment to fully develop such projects, but some developers and investors have focused on it.

Rents for standard apartments in residential areas range from €200 to €400 per month for one-room apartments, in the city centre, €400 to €600 and for exclusive apartments in the city centre and old town, €800-€1,200 per month.

Rents for two-room apartments in residential areas are €250-€450 per month, in the city centre, €550-€700 per month and for exclusive apartments in the city centre and old town €900-€1,400 per month.

Three-room apartments in residential areas rent for €500-€800 per month, in the city centre, €600-€900 per month and for exclusive apartments in the city centre and old town €1,000-€2,000 per month.

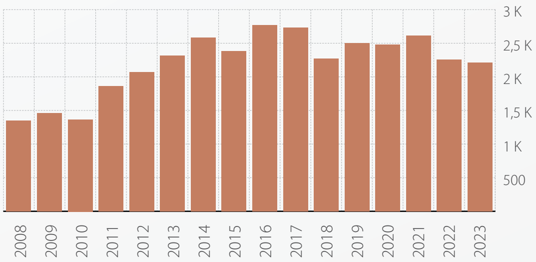
LEGAL NOTES BY SORAINEN

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

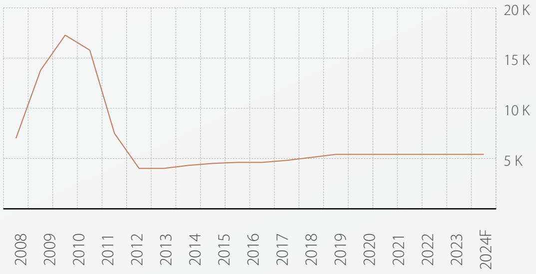
In 2022, major amendments to the Law on Residential Properties were adopted, which establish a new legal status for an association of apartment owners, as well as determining the rights and obligations of a community of apartment owners when performing economic activities or employing a natural person. Amendments regarding decision-making relating to apartment buildings were also adopted in 2022, aiming to improve the process of decision-making by apartment associations and introducing the opportunity for apartment owners to participate in general meetings and vote in person or remotely.

MONOPARK

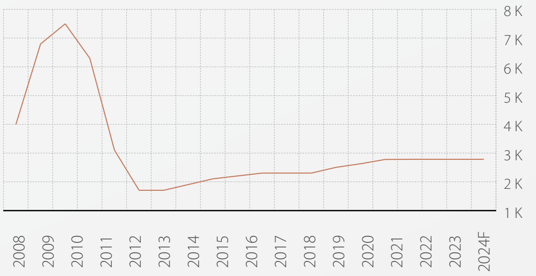
LAND TRANSACTIONS IN RIGA CITY



LAND PRICES IN RIGA CITY, €/100 SQM



LAND PRICES IN RIGA DISTRICT, €/100 SQM



RIGA SNAPSHOT
(END-2023)

TOTAL LAND TRANSACTIONS CHANGE (RIGA CITY)	- 2 %
TOTAL LAND % **TRANSACTIONS (RIGA CITY)** (RIGA DISTRICT)	2,211
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€400 - €1,100
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€70 - €300
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€30 - €90

DESPITE REDUCED ACTIVITY, LAND OWNERS REMAIN CALM PRICES

PRICES

In 2023 the transaction volume of individual residential land plots in Riga city decreased by one third. One reason, is the ongoing price increases for construction materials and making it more difficult to predict the total costs of construction projects. Another reason is the rise in the Euribor rate.

Land offers on the market have increased. Buyers are waiting and watching to see what will happen with the real estate market and the interest rates. The owners are in no hurry to reduce prices, because keeping the land does not require them to spend a great deal and they are waiting for the market to recover. Currently, transactions usually take place with land plots where the owner has an urgent need to sell and is ready to reduce the selling price.

In general the prices in 2023 were the same as in the previous year. There were more offers than usual for the purchase of land in Ķekava (€50-€65 per sqm), and Carnikava (€45-€50 per sqm), for new neighbourhood developments. Plot prices in suburbs were €30-€90 per sqm.

For commercial land, near highways and adjacent to Riga, prices were €20-€45 per sqm, with commercial land in Riga neighbourhoods achieving €20–€100 per sqm. Prices varied depending on the land's location and the communications infrastructure that was available.

DEMAND

According to official data, the number of transactions for individual residential land plots in Riga city itself, decreased by 2% compared to 2022. In 2022 there were 2,250 transactions and in 2023 this decreased to 2,200.

Most of the activity was in the Riga suburbs, where the plots most in demand were 1,000-1,600 sqm. Prices largely rose in the most popular districts in Riga, Mārupe, Babīte.

There is still little interest in plots of land without communication infrastructure. Customers are ready to pay more for the land where it will have all communications already established. Banks also noted that requests for loans for building houses had decreased. Construction costs only continue to rise.

Similar to other real estate transactions, the purchase of construction land often takes place with the assistance of bank financing. However, currently, the rise in the Euribor rate means a significantly higher projected monthly loan payment, thereby reducing the average loan amount that a borrower can afford. In the current conditions, more people choose to buy a ready-made house, because the construction costs have also increased, and under these conditions of price fluctuation and inflation, it has become more difficult to predict the total costs of a house construction project.

INVESTMENT

The land market was fairly inactive in 2023. Over 20 significant plots of land (with a price above €400,000) waere sold in Riga with a total value of approximately €18 million, in comparison to 33 significant plots of land sold in 2022, with a total value of almost €60 million. In addition, there are not many large, strategically located plots of land left within Riga's borders.

At the end of 2023, Linstow Baltic increased its real estate portfolio in Latvia, acquiring seven plots of land next to the planned Satekles business centre. The total area of the newly purchased plots is over 9,000 sqm, and the total value of the transactions was €4 million.

In 2023, one of Latvia's leading retailers, Rimi Latvia, purchased a 3.6 ha land plot next to the Alfa Akropole shopping centre in Riga. The transaction was concluded for €8 million. This was the largest land deal by area and value in Riga during 2023.

LEGAL NOTES BY SORAINEN

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

OBER HAUS

LATVIAN REAL ESTATE TAXES AND LEGAL NOTES

ACQUISITION

- Upon acquisition of land or land and buildings, or a building property which includes a residential building (including function-related buildings) or non-residential buildings and related engineering structures by a natural person, a 1.5% stamp duty is levied on the property value. In case of acquisition of a property by a legal person, a 2% stamp duty is charged on the value of the property, but not more than EUR 50,000.
- If legal title is transferred under a deed of gift, a 3% stamp duty is levied on the property value, but not more than EUR 50,000.

The reduced rates may apply in the following cases:

- If legal title is transferred to spouses, children, parents, siblings, stepsisters/stepbrothers, grandchildren, great-grandchildren and grandparents, for registration of legal title in Land Register, a 0.5% stamp duty is charged on the value of a real estate (RE), but not more than EUR 50,000.
- As of July 2016, the reduced rate of 0.5% is applied to registration of the rights to the property with the land register for a RE, which is obtained through statutory government assistance and the value of which does not exceed EUR 100,000; in case the value of such RE exceeds EUR 100,000, the stamp duty is EUR 500 plus 1.5% of amount exceeding EUR 100,000.
- If a RE is invested in the share capital of a company, a 1% stamp duty is payable on the investment value, but not more than EUR 50,000.

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

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

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

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

RENT

VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

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

PERSONAL INCOME TAX (PIT):

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

A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filed.

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

If a person has not registered the lease agreement with the Latvian tax authorities, nor has it registered for commercial purposes with the tax authorities, the income from lease will be subject to progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 78,100), 31% (annual income above EUR 78,100) with no deduction for expenses associated with rental activities.

SALE

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

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

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

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

The taxpayer may recover input VAT paid on the acquisition if the property is used to make taxable supplies. VAT-registered traders may opt to charge VAT on supplies of used real estate (generally exempt) if the sale is made to a VAT registered person (option to tax approach). Share sale is out of scope of VAT and related input VAT on service directors related to non-taxable supply would not be recoverable.

CORPORATE INCOME TAX (CIT):

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

Sale of RE by non-residents would be subject to 3% CIT on gross proceeds. This tax must be either withheld by the Latvian purchaser or, in case the transaction is between two non-residents, declared and paid by the non-resident seller. CIT Act allows non-residents from EU or Double Tax Treaty (DDT) countries to pay 20% on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence. According to the Latvian CIT Act, if a taxpayer has received income from the sale of direct participation shares one has held for at least 36 months, then it is possible to reduce the dividends included in the tax base by the amount of income received from the sale of shares. However, this exemption does not apply in case of sale of real estate rich company's shares.

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

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

Re-evaluation of RE

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

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

PERSONAL INCOME TAX (PIT):

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

The capital gains tax return must be submitted once per quarter (if the gain exceeds EUR 1,000) or once per year (if the gain is below EUR 1,000).

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

- RE held for at least 60 months and registered as the seller's primary residence for at least 12 months before the sale during the period of 60 months is PIT exempt;
- RE held for at least 60 months, provided that during 60 months prior to the sale it has been the sole RE of the taxpayer;
- The sole RE has been the only one in possession and has been reinvested before or during the 12 months period

from the sale into another RE of the same function.

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

A person selling RE for commercial purposes must register with the tax authorities and such capital gains would be part of business income and would be subject to progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 78,100), 31% (annual income above EUR 78,100).

REAL ESTATE TAX (RET)

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

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

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

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

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

Also, there is 50% tax relief available for energy-efficient buildings in Riga. Tax relief will be granted for newly built or fully renovated buildings that are delivered for occupancy after 2023. Energy-efficient buildings eligible for relief mean newly built or fully renovated buildings with international certification such as BREEAM International New Construction, BREEAM Refurbishment and Fit-Out, LEED BD +C or DGBN certificate with at least a 55% rating.

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

3% RET applies to structures that are environmentally degrading, have collapsed, or endanger human safety. The same rate of 3% is also applied for newly constructed buildings in case the permitted construction period has expired. The tax is applicable from the next month following the expired date and will be charged till the month the building is maintained in line with statutory procedures. The rate will be charged on the highest cadastral value of the related land and the cadastral value of the building itself.

Unused agricultural land is taxable:

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

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

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

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

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

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

Currently in discussion there is a draft bill regarding recalculation of RE cadastral value for tax purposes as of 2025. According to provisions introduced to the public, it is planned that there will be two cadastral values for each cadastral object: the fiscal cadastral value and universal cadastral value. One of them will be used for the calculation of taxes, state fees, but the other one will be used for other purposes (the draft bill is silent on what "other purposes" mean.

[1] *A person is considered to be performing activities for commercial purposes if:*
- There are three or more similar transactions a year or five similar transactions over three years, or
- Income arising from the transaction exceeds EUR 14,229 in a taxation year except for sale of private property,
- The economic nature of the activity or the amount of property owned by the individual indicates a systematic action to obtain remuneration.

TITLE TO REAL ESTATE, LAND REGISTER

Title to real estate is transferable and must be registered with the Land Register. In addition to land plots, buildings can also be registered with the Land Register. In general, buildings are considered to be a part of the land beneath them. However, as a result of the land reform in the 1990s and due to formation of long-term lease relations, a land plot and a building on it may belong to different owners. In order to end these long-term leases with regards to apartment buildings, the parliament passed the Law on Compulsory Termination of Shared Property in Privatized Apartment Buildings, which grants the apartment owners the right to buy out the land attached to the building for its cadastral value, thus ending the long-term lease relations. Additionally, the so-called "building right" was introduced in 2017. The building right allows construction of a non-residential building on another person's land with the right to use the building as a separate property during the term of the building right. Construction of residential buildings is prohibited under the building right set-up. The building right is a transferable and mortgageable right with a minimum term of 10 years and must be registered with the Land Register in the name of the person entitled to construct a non-residential building or an engineering structure on a land plot encumbered by a building right.

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

For the convenience of users, the Land Register and State Land Service continue to increase their mutual cooperation, thus reducing information overlap and the number of documents needing to be filed in order to register any changes in relation to property. Certain changes can be registered with the Land Register and State Land Service simultaneously by submitting a joint application to both registers. The Land Register keeps only those records the basis of which is an agreement, will or court judgement, or for which the law otherwise specifically requires registration. Other records, such as encumbrances arising from the law, are kept by the State Land Service. It should, however, be noted that Land Register data and State Land Service data in respect of the same real estate may still sometimes not match and any differences in the data kept by both registers might burden further action with real estate, including transfer of title.

ACQUISITION OF REAL ESTATE

GENERAL

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

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

LETTERS OF INTENT AND HEADS OF TERMS

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

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

Recently, the Supreme Court decided that in certain cases pre-purchase agreements can be subject to title claims by the buyer. Thus, if the parties wish to achieve non-binding effect of the document, it must be specifically agreed upon.

CHANGE OF OWNERSHIP

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

ASSET TRANSFER VS SHARE TRANSFER

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

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

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

Asset transfer involves the following benefits and drawbacks:

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

PORTFOLIO DEALS

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

FORM OF AGREEMENT

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

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

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

LANGUAGE REQUIREMENTS

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

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

DUE DILIGENCE

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

RIGHTS OF FIRST REFUSAL

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

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

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

However, the right of first refusal has not disappeared for other authorities and persons, for example specific regulation covers execution of rights of first refusal to agricultural land, whereby the Latvian Land Fund and the lessee of a particular land plot have rights of first refusal. Under specific circumstances rights of first refusal may exist in relation to property located in a special economic zone, a nature protection zone, a harbour territory, or where the property is a cultural monument of state significance. Rights of first refusal may be also agreed upon between the parties or established by law in other cases. Should the building and the land plot have different owners, the owner of the building situated on the land plot to be sold has a right of first refusal to the land plot, and vice versa. Additionally, co-owners of real estate have rights of first refusal to the undivided share of immovable property being sold.

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

In many cases, a person with right of first refusal, such as a co-owner of real estate who is not given the chance to exercise their right, acquires a buy-out right with regard to the new owner. This right entitles a person denied the possibility to exercise the right of first refusal to acquire the property from the new owner on the same terms. A buy-out right can be exercised within one year of the registration of the new owner's ownership title with the Land Register.

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

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

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

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

MERGER CONTROL

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

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

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

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

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

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

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

Restrictions on real estate acquisition in Latvia apply to land plots and are stipulated by the Law on Land Privatisation in Rural Areas. A Latvian or EU citizen; a citizen of the EEA, Switzerland or an OECD country; or a legal entity registered in Latvia, the EU, the EEA, Switzerland or an OECD country, which is registered as a taxpayer in Latvia, can generally acquire land without any additional limitations. Natural persons and legal entities which do not comply with these requirements should be aware of restrictions on the acquisition of land in Latvia and must obtain a formal permission from the local municipality to acquire the land. Acquisition is more heavily restricted in certain specific areas such as coastal areas and heritage protection zones. Restrictions pertaining to use of real estate should also be checked beforehand.

ACQUISITION OF AGRICULTURAL LAND

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

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

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

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

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

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

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

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

ACQUISITION OF LAND IN URBAN AREAS

A Latvian or EU citizen; a citizen of the EEA, Switzerland or an OECD country; or a legal entity registered in Latvia, the EU, the EEA, Switzerland or an OECD country, which is registered as a taxpayer in Latvia, can generally acquire land plots in urban areas without any additional limitations. Non-EU, non-EEA or non-Swiss citizens and legal entities, as well as legal entities and citizens of non-OECD countries, must obtain a formal permit from a local municipality to acquire the land. However, this only applies to the acquisition of land. This means that apartments or buildings may be acquired (also by non-EU, non-EEA and non-Swiss citizens, as well as legal entities and citizens of non-OECD countries) without further restrictions or limitations, unless the land beneath them is also included in the deal. In most cases, however, ownership of an apartment also comprises an indivisible part of the land plot co-owned by all apartment owners in the building; thus, a formal permit still must be obtained from a local municipality.

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

SANCTIONS AGAINST THE RUSSIAN FEDERATION

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

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

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

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ENCUMBRANCES

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

MORTGAGE

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

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

PROPERTY MANAGEMENT

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

MANAGEMENT OF RESIDENTIAL BUILDINGS

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

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

LEASE AGREEMENTS

GENERAL

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

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

DURATION AND EXPIRY OF LEASE AGREEMENT

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

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

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

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES)

Latvian law sets no specific procedure for payment of security deposits or for the payment of rent under lease relations. As regards residential tenancy, there are regulations that govern the calculation of rent payments; however, the existence of these regulations does not preclude parties from freely agreeing the amount of rent. The Residential Tenancy Law limits the total security deposit to the sum of two months' rent.

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

PPP & INFRASTRUCTURE

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

INVESTMENT FUNDS AND REAL ESTATE

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

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

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

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

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

CONSTRUCTION

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

ACQUISITION OF DISTRESSED ASSETS

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

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

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

OBTAINING A TEMPORARY RESIDENCE PERMIT

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

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

Citizens of the Russian Federation and Belarus are prohibited from obtaining a temporary residence permit based on investment in real estate.

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

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Ober-Haus was established in 1994 and has now three offices in Estonia located in Tallinn, Tartu and Jõhvi with more than 60 real estate experts working across them. Our professional team provides a wide range of real estate services such as residential and commercial real estate mediation and advisory services, property valuation, real estate consulting, property management and market research and analysis.

ESTONIA

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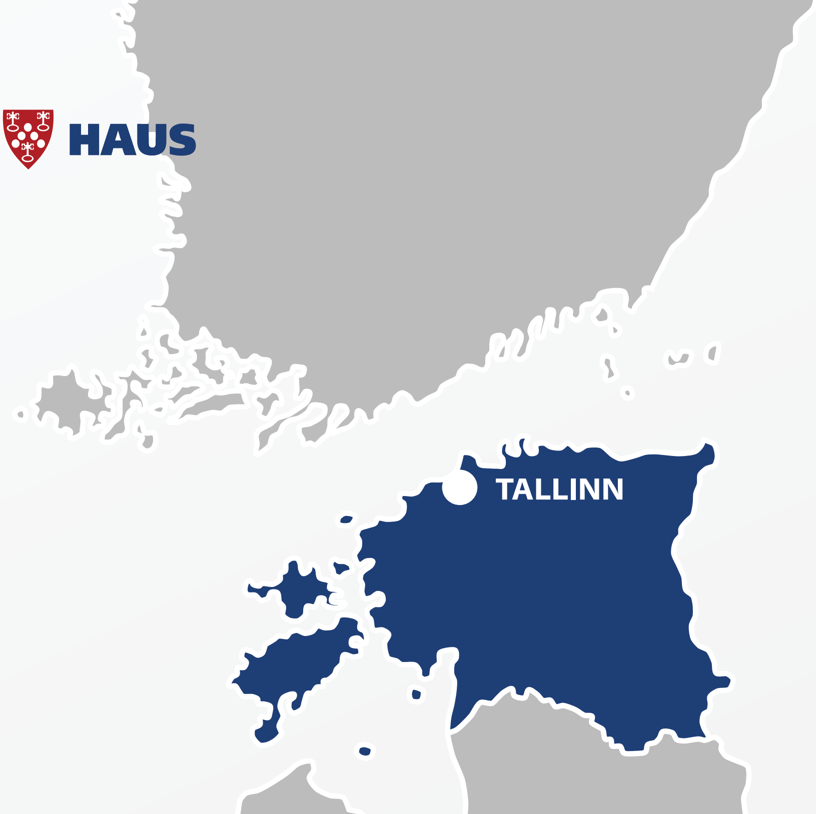
COUNTRY OVERVIEW



GEOGRAPHY & SOCIAL

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

CURRENCY

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

2024 FORECAST

GDP annual growth, %	-0.6
GDP per capita, €	28,000
Private consumption annual growth, %	-
Average annual inflation, %	3.2
Unemployment rate, %	7.6
Average monthly net salary, €	1,524
Average salary growth, %	6.6
Retail sales growth, %	-
Exports annual growth, %	-
Imports annual growth, %	-

POPULATION	2018	2019	2020	2021	2022	2023
Estonia	1,319,100	1,324,800	1,329,000	1,330,000	1,357,700	1,366,500
Tallinn	433,000	435,000	437,000	438,500	453,900	461,300
Tartu	96,500	97,000	95,100	94,800	97,400	98,300
Narva	56,100	55,250	55,200	54,000	53,600	52,900

ECONOMICS	2018	2019	2020	2021	2022	2023
GDP growth, %	3.9	5.0	-2.9	8.3	-0.5	-3.1
GDP per capita, €	19,600	21,000	20,200	22,800	27,000	27,600
Private consumption growth, %	4.6	3.3	-2.5	7.3	-1.3	-3.0
Average annual inflation, %	3.4	2.3	2.0	5.0	19.4	9.2
Unemployment rate, %	5.6	4.4	7.3	6.2	5.6	6.4
Average monthly net salary, €	1,098	1,162	1,189	1,255	1,360	1,449
Average salary growth, %	7.1	5.9	2.3	7.8	11.7	11.4
Retail sales growth, %	6.6	6.9	0.9	14.3	2.0	-8.0
Exports annual growth, %	4.3	6.6	-7.0	24.4	17.0	-16.0
Imports annual growth, %	6.1	4.4	-2.1	26.6	23.0	-17.0
FDI stock per capita, €	16,586	18,931	21,154	23,145	24,800	27,400

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

THE RECESSION IS DRAGGING ON

The year 2023 was more difficult for the Estonian economy than expected, and the recession will last longer than previously predicted. The country's GDP fell by 3.0%, with another 0.4% decrease expected in 2024.

Opportunities for companies to achieve sales in the domestic market have been limited with people feeling uncertain about the future, leading them to spend less and save more. Meanwhile, sales in foreign markets have been constrained by the key markets for Estonian exports performing more poorly than the European economy overall, and by the exchange rate appreciating against the Nordic countries. The rise in production costs also played a major role. Uncertain times and high interest rates have not favoured new investment.

The impact of the recession will be increasingly felt in the labour market. Businesses have so far tried to avoid cutting jobs, despite the downturn in the economy, enabling total employment figures to remain at their highest ever level for two years. Employers have been able to hold onto employees based on the expectation of an imminent revival in the economy and because real wages have fallen, reducing labour costs.

Any potential growth in wages will be restrained as the labour market cools. Reduced demand for labour and lower inflation will help apply the brakes. The collective wage agreements that have already been signed in the public sector, together with the rise in the national minimum wage will make it harder for wages to fully adapt to the weaker economic climate in 2024.

The purchasing power of people will continue to improve. Based on the average wage, it has recovered half of what was lost a little over a year ago, but recovering the other half will take longer, as wages will rise more slowly in future, even as inflation reduces.

The inflation rate will continue to slow down. The cost of the Consumer Basket has seen no major change for more than half a year, and the current figure of 4-5% is a consequence of the low reference base from a year ago.

It will be increasingly difficult to compile the state budget. Support from fiscal policy to underpin the economy will be appropriate in the coming years, when the economic cycle is likely to be weaker than usual. The budget is however already in a persistent deficit. Growth in tax revenues will most probably be less than earlier forecast, and so there is increasing pressure to curtail the growth in expenditure or find new sources of revenue to prevent the debt spiral becoming steeper.

From 1 January 2024, the monthly minimum wage in Estonia was increased to €820. Average gross wages in Estonia increased by 11.1% in 2023, to €1,827 per month before taxes. The raise was one of the biggest in recent years. Salaries are expected to increase by 6.6% in 2024.

Unemployment was at 6.8% at the end of 2023 and is expected to increase to 9.0% by the end of 2024.

In 2023, average annual inflation was 9.2% but is expected to decline to 3.4% in 2024, falling to 2.4% in 2025.

In 2023, the construction price index was up 6.1% in comparison to the average for 2022. In Q4 2023, the construction price index increased by 0.9% on the previous quarter. The index was 2.2% higher than in Q4 2022. In Q4 2023, the biggest increase of 5.6% was recorded for labour costs. Construction costs for residential buildings increased by 1.8%, for industrial buildings, by 2.4%, and for office buildings the increase was 1.4%.

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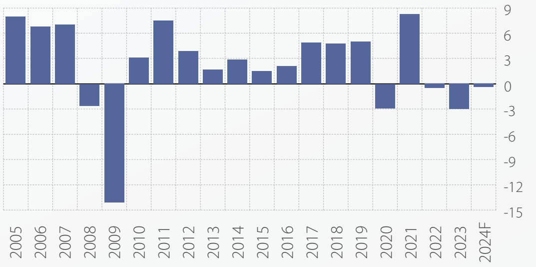
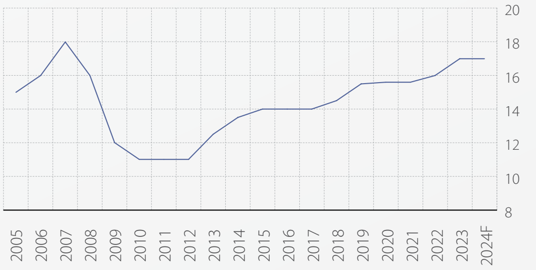
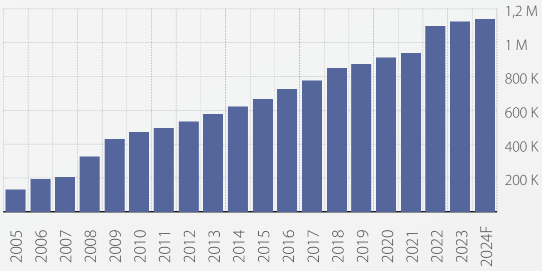
GDP GROWTH, %



A CLASS OFFICE RENTS, €/SQM



TOTAL MODERN OFFICE SPACE, SQM



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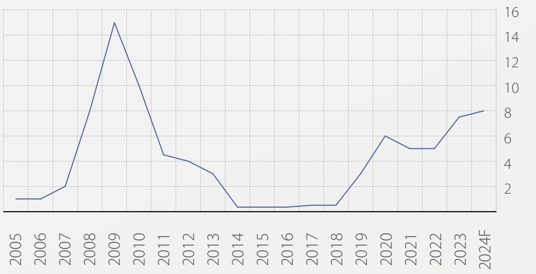
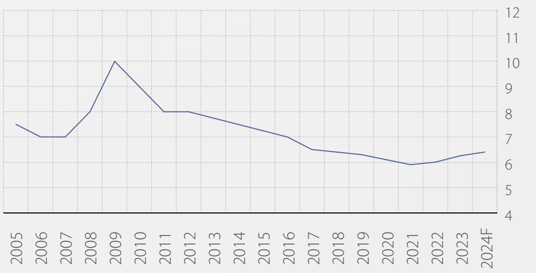


A CLASS OFFICE INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2023)

TOTAL OFFICE SPACE	1,124,900 SQM
A CLASS OFFICE VACANCY RATE	7.5 %
B CLASS OFFICE VACANCY RATE	10.0 %
TOP OFFICE RENTS (SQM / month)	€22.00
A CLASS OFFICE RENTS (SQM / month)	€16.00 - €21.00
B CLASS OFFICE RENTS (SQM / month)	€9.00 - €15.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €4.50

VACANCY LEVELS INCREASED DUE TO WEAK DEMAND

SUPPLY

Four new office buildings were completed in 2023, bringing nearly 29,000 sqm of office space to the market. This is almost twice less than in 2022. After the completion of these projects, the total area of modern office space had increased by 2.7% to 1,124,900 sqm by the end of 2023. The completion of several projects was delayed or halted due to the economic recession, high construction costs and reduced demand.

In 2023, no new office construction projects were started in Tallinn. Only one office building, with 13,000 sqm of GLA, will be completed in 2024. During 2025, five larger office buildings with a total of 70,000 sqm of rental space should be completed in Tallinn. The office complex named Porto Franco, was supposed to be completed in 2022, but it was delayed for various reasons.

One of the largest office complexes in Estonia with 28,000 sqm of A class office space, should be completed 2024/2025. The total area of the complex will be 77,000 sqm, including apartments, parking, and retail space and will be developed by Kapitel. The plot is in the Central Business District (CBD), opposite the Radisson Blu Hotel Olümpia. The planned investment is around €100 million.

The office building of Swedpank and Elisa in the Hippodrome quarter was to be completed in 2024, totalling approx. 40,000 sqm, but construction has not yet started. Swedbank will be relocating to the Arter quarter.

The EBS (Estonian Business School) plans to build a 30-storey residential and office building on Lauteri Street together with Metro Capital. Construction should begin this year.

The real estate developer, Invego is building a business campus near the city centre on the site of a former factory in Kalamaja, and the anchor tenant will be the global technology company, Wise. A total of approx. 50,000 sqm of commercial space will be built, with an investment volume of approx. €75 million.

In 2026, Merko plans to build a 10,000 sqm office building next to its residential project in the Veerenni quarter.

Throughout, location, parking, quality and other added value aspects have become more and more important to clients.

DEMAND

Since Q1 2023, in combination with the economic recession, the vacancy rate for office space began to increase, especially in B class offices. Vacancy levels have also increased on A class. At the same time, there is demand for new space in the city centre in prestigious locations and for office spaces of above average quality, such as the Arter quarter.

At the end of 2023, the vacancy rate of A class offices stood at 7.5% and around 10% for B class. Most of the potential clients for A class office spaces are linked to international companies and their representative firms, including IT, medical, legal and finance. Although the economic forecasts for 2023 were optimistic, the vacancy rate has nevertheless started to increase.

Due to the economic downturn, several companies have started to reduce their staff, and several companies have also left Estonia due to increased costs and the political situation.

One of the reasons for the decrease for working from a home office, which during the Covid-19 pandemic.

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

RENTS

Although demand has eased through 2023, there is no outright decline in A class rents. Above all, there is pressure on rents for B class premises. By the end of 2023, the rents for A class offices were €16.00-€21.00 sqm and for B class offices, €9.00-€15.00 sqm. Rents for individual, smaller and exclusive A class offices can be €22.00-€25.00 sqm, on the upper floors of high-rise buildings. Rents can also be higher in the CBD. In the suburbs, rents for offices located in less desirable locations or in older buildings, are €4.00-€6.00 per square.

INVESTMENTS

In 2023, as in 2022, international investors were very cautious, and no significant investments were made. The uncertainty has been increased by the second year of recession. At the same time, local investors continue to look for suitable objects.

At the start of 2024 Mainor Ülemiste signed an agreement for the purchase of all shares belonging to Technopolis Ülemiste and will once again become the sole owner of Tallinn's office project, Ülemiste City. The transaction will enter into force after receiving permission from the Competitions Authority. The value of the transaction is not known, but this represents almost a fifth of the total office space in Tallinn. In addition, there is another 30 ha of land to be developed next to the current project to provide up to 500,000 sqm.

LEGAL NOTES BY SORAINEN

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

Rent is typically indexed to local inflation. Sometimes, an index floor and cap are used to limit the risk of excessive changes, especially considering Estonia's high inflation rates in 2022 and 2023.

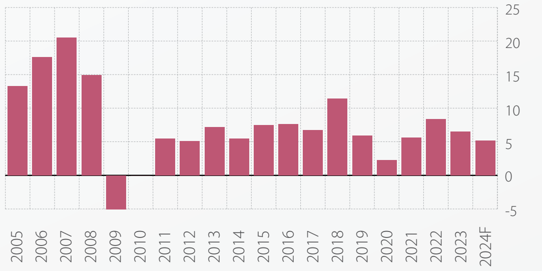
Triple net leases are common for commercial properties but not universally used, and there are often variations and disagreements over, for example, which costs are related to property maintenance, which are CapEx and which are landlords' internal costs. There have also been some offerings on the market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

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

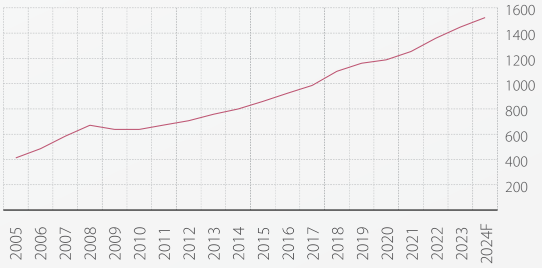
Quite commonly, payment of rent and costs is secured by rent deposit and less often by bank or parent company guarantee. Generally, the rent deposit amount is 1–3 months' rent.

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

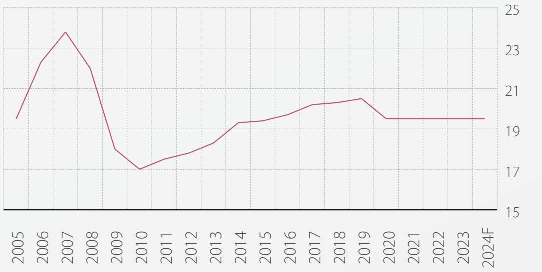
AVERAGE SALARY GROWTH, %



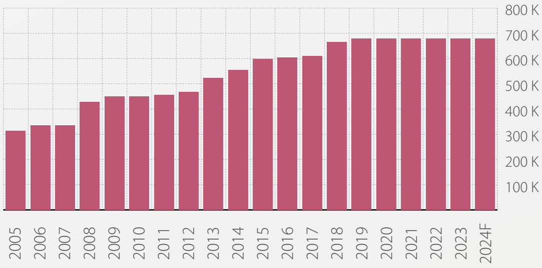
AVERAGE NET SALARY PER MONTH, €



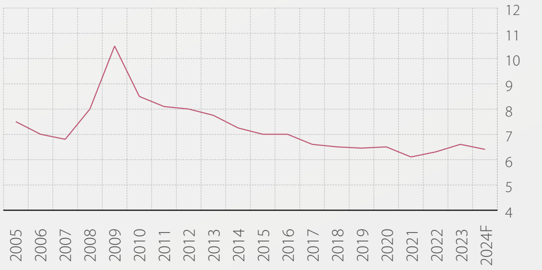
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELD, %



TALLINN SNAPSHOT (END-2023)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	678,300 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.47 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €13.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€13.00 - €20.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€35.00 - €70.00
HIGH STREETS RENTS (SQM / month)	€20.00 - €35.00

AS COMPETITION INCREASES, CONSUMPTION DECREASES

SUPPLY

In 2023, as in the period 2021-2022, no larger traditional type shopping centres were opened in Tallinn. At the end of 2023, there were 42 traditional shopping centres (including those with 5,000 sqm of GLA and over), with a total leasable area of 678,300 sqm. Based on official population figures, Tallinn currently has 1.47 sqm of shopping centre area per capita. In addition, Tallinn is home to an undisclosed number of foreigners and refugees and its shopping centres frequently attract residents from neighbouring municipalities.

All major retailers – Coop, Selver, Maxima, Rimi and Prisma – plan to expand. The most active are Selver and Prisma. However, existing traditional shopping centres like the Tallinna Kaubamaja Group, Kristiine and Rocca-al-Mare are also planning expansions and are looking for suitable locations.

In Q1 2023, the German supermarket chain Lidl opened its 6th store on Akadeemia street in Tallinn. Then, in Q4 2023, construction of the Lidl store in the Kristiine district began, which will be completed in Q4 of 2024. In addition, stores are being planned in the northern districts of Tallinn and Lasnamäe. Lidl has also bought several plots of land in preparation for constructing further stores.

The local discount chain, A1000 Market, opened its 4th store in Tallinn and plans to continue expanding.

The trade/services sector has been significantly affected by declining consumption and very high inflation. In Q1 2024, Linnamäe Prisma, operating out of the Linnamäe centre, will close its store. During the same period, the Finnish furniture retailer, ASKO/SOTKA will leave the Estonian market, and all their shops will close.

Based on prices adjusted for inflation, the sales revenue of Estonian retail companies decreased by 8% in 2023 compared to 2022.

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

DEMAND

Despite consumption rising sharply in 2021, after the Covid-related restrictions were lifted, it started to slow down in the second half of 2022 and continued to decline in 2023.

At the end of 2023, the vacancy rate in Tallinn's largest and most popular shopping centres, Kristiine, Viru, Rocca al Mare and Ülemiste was close to zero.

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

Demand has also been affected by the VAT rate, increasing from 20% to 22% since 1 January 2024. In addition, new tax increases are expected from 1 May 2024.

RENTS

While closures and restrictions put pressure on the retail sector in 2020 and some landlords were forced to offer heavy discounts to existing tenants, the situation stabilised in 2021 with increased consumption. In 2022, there was pressure to increase rents. However, in 2023, amidst the ongoing recession and decreased consumption, decisions regarding rent adjustments between tenants and landlords were generally delayed.

In shopping centres at the end of 2023, rents for medium-sized premises (150-300 sqm) were €13.00-€20.00 sqm, and for smaller units, €35.00-€70.00 sqm. Rents for anchor tenants run at €9.00-€13.00 sqm.

In 2023, while the number of tourists began to rebound compared to 2022, local residents' consumption witnessed a decline. Although rents remained relatively stable throughout 2023, vacancy rates began to rise.

INVESTMENTS

In 2023, as in 2022, international investors were very cautious and no significant investments were made. The uncertainty has been increased due to the second year of recession and declining consumption. If anything, these investors want to exit their investments. However, at the same time, local investors continue to look for suitable objects.

At the end of 2023, Pontos announced that it will sell its stake in the Viru Keskus shopping centre, which boasts a leasable area of around 29,000 sqm and nearly 100 operating shops. Following approval from the Estonian Competition Authority, the Finnish investment company, has successfully concluded the sale of this shopping centre in Tallinn to Estonian real estate companies Kapitel and Tristafan. Pontos and Kapitel have been partners in the development of Viru Keskus since its construction in 2004. The parties have chosen not to disclose the value of this transaction.

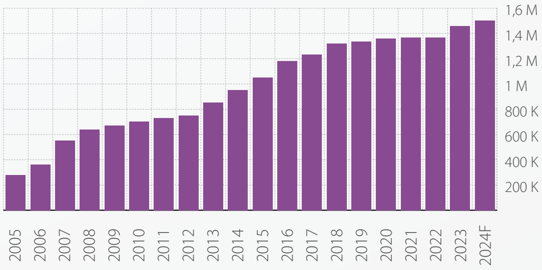
In Q4 2023, Coop, bought first floor premises in the development project Teatri Maja, a luxury residential development in the heart of Tallinn. The purchase price has not been disclosed.

LEGAL NOTES BY SORAINEN

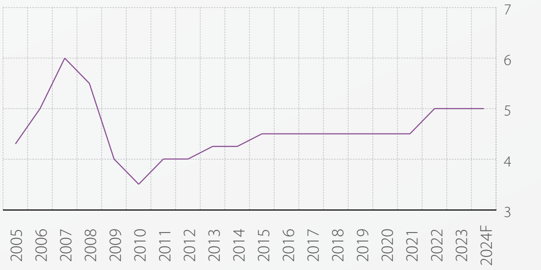
In most aspects, retail-based premises are let out on terms similar to office spaces. One major exception is that for retail, turnover-based rent is widely used.

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

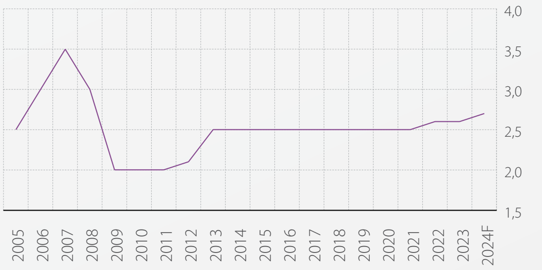
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



TALLINN SNAPSHOT
(END-2023)

TOTAL NEW WAREHOUSE SPACE	1,457,000 SQM
WAREHOUSE VACANCY RATE	4 %
NEW WAREHOUSE RENTS (SQM / month)	€4.00 - €6.00
OLD WAREHOUSE RENTS (SQM / month)	€2.50 - €3.50
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.50 - €2.50

CONSTRUCTION OF TWO LARGE LOGISTICS CENTRES COMMENCED

SUPPLY

In 2023, 90,000 sqm of new warehouse space was completed in Tallinn and Harju County providing modern warehouse space of 1,457,000 sqm by the end of that year. And another 110,000 sqm is under construction.

During 2023, logistically attractive locations in the suburbs continued to be popular, because they allowed businesses to combine their warehouse, office and retail needs. Six new stock-office projects were completed, bringing almost 41,000 sqm of space to the market and a further eleven projects totalling 70,000 sqm will be completed in 2024.

The recession that was provoked by the Covid-19 pandemic has changed and continues to change the business models of many companies, and the demand for logistics space and solutions has increased thanks to the growth of e-commerce. Warehouse-office type spaces in valued locations are particularly in demand.

DEMAND

In 2023, clients showed increasing interest in the adjacent areas of Tallinn, the district of Tartu Rae and the areas along the Tallinn ring road. Exchange projects, which are available in various places around Tallinn, especially in Lasnamäe, Haabersti and Mustamäe districts, were also popular. The popularity of the Vana-Narva Road area has grown.

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

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

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

The vacancy rate of warehouse premises in the Tallinn region was at 4% by the end of 2023, and in the stock-office sector it was 3%.

RENTS

Due to the economic recession and the decrease in consumption, warehouse rents in Tallinn and Harju County did not change significantly in 2023. The rents increase was noticeable only in smaller stock-office type objects and so-called mini-warehouses.

At the end of 2023, the rental prices for new modern warehouses in more attractive locations were €5.00-€6.00 sqm. Rents near or outside the city limits were €4.00-€5.00 sqm. Renovated objects are available at €2.50-€3.50 sqm. Average and low-quality spaces are €1.50-€2.50 sqm.

As 2024 began, the duration and impact of the ongoing recession on the industrial and warehouse sectors for the rest of the year remained uncertain.

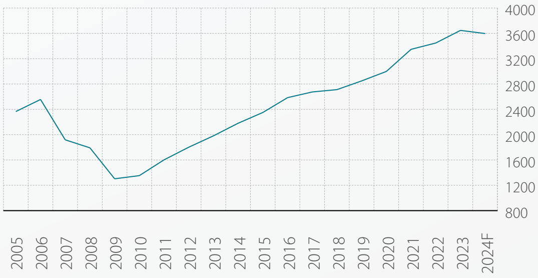
INVESTMENTS

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

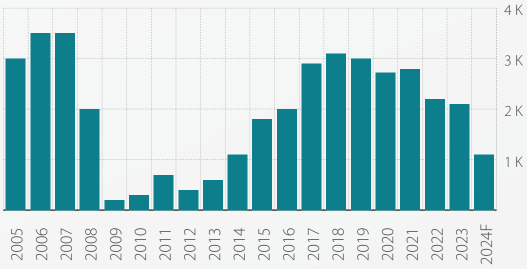
LEGAL NOTES BY SORAINEN

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

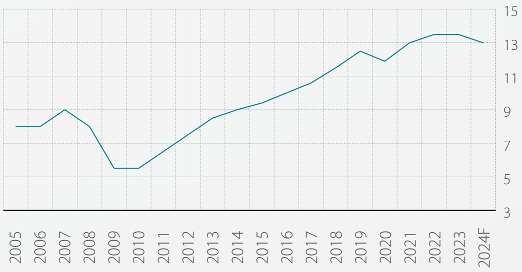
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



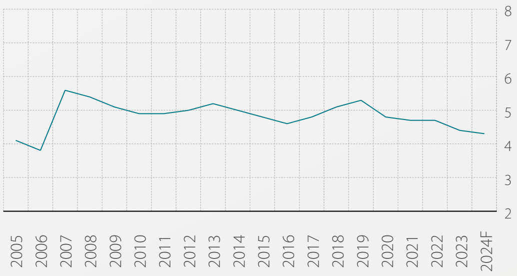
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



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TALLINN SNAPSHOT
(END-2023)

ANNUAL APARTMENT PRICE CHANGE	+ 3.8 %
NEW APARTMENTS BUILT	2,100
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€1,800 - €2,800
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€3,000 - €5,000
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€4,500 - €7,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.4 %

RENTAL OFFERS INCREASE AS SALES OF NEW PROJECTS DECLINE

PRICES

The average price per square metre of an apartment in Tallinn increased by 3.8% in 2023, reaching new heights, with an average price of €3,084 by the end of the year. Compared to previous years, the price increase had slowed down significantly. The reason for the increase were the new apartments transactions, the construction of which had already started in 2022, rising incomes, and high inflation expectations/forecasts.

In Q4 2023, the average price for a new apartment in Tallinn reached €4,205 sqm (based on known transactions). The annual increase in the price per sqm was 16%, but when this is compared to the previous quarter, the average price was at the same level.

The average price of an apartment on the secondary market was €2,797 sqm in Q4 2023, an average price increase of nearly 3% compared to a year ago.

In 2023, the number of apartments on offer continued to grow. At the same time, the introduction of new development projects to the market decreased significantly. In Lasnamäe, Tallinn's largest district, no significant new projects were started during 2023.

By the end of 2023, the average price of a new two-room, 50 sqm apartment in Tallinn was €193,000 (€4,100 sqm).

The areas with the highest price levels were northern Tallinn and Kristine, where a new, two-room apartment costs an average of €224,500 (€4,700 sqm) and €209,500 (€4,500 sqm) respectively. In northern Tallinn, the average price was significantly skewed by transactions in the Kalamaja area.

The average price of a two-room apartment in the Tallinn secondary market was €125,300 (€2,670) sqm. The region with the highest price level was the Kesklinna district, where a two-room apartment on average costs €172,400 (€3,600) sqm. The cheapest secondary market two-room apartments are in the Lasnamäe and Mustamäe districts, priced at €108,800 and €109,500 (€2,290 and €2,400 sqm), respectively.

New apartments with final furnishings cost €4,500-€7,000 sqm in the city centre and €3,000-€5,000 sqm in residential areas. The offer prices of individual, very exclusive projects, can be in the price range €8,000-€11,000 sqm.

Well-renovated flats in the Old Town cost €4,500-€7,000 sqm.

In popular places near the city with park forests such as Pirita, Nõmme or Kakumäe, the prices of modern apartments are €2,500-€3,500 per sqm.

RENTS

In 2023, the number of offers continued to increase and rental prices came under pressure. At the end of the year, the rental stock was about 15% higher than at the end of 2022. Due to the continuing economic recession, consumer uncertainty, increased daily expenses, and rising interest rates, rents have started to adjust and decreased by 5-10% since Q3 2023.

At the end of 2023, the asking price for rental apartments in the suburbs of Tallinn was €9.00-€14.00 sqm and €12.00-€15.00 sqm in the city centre for apartments in period buildings.

The price of a new rental apartment in the city centre is €14.00-€19.00 sqm, and in the suburbs, €11.00-€16.00 sqm. Average micro apartment rents can exceed €30.00 sqm. The price of a parking place might also be included in the rental price of an apartment.

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

The most active rental market in Tallinn is in the city centre, as well as in the Lasnamäe and Mustamäe districts. The average rental term is usually 1 year.

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

The gross rental yield of Tallinn apartments was 4-5% in 2023, depending on the type and location of the apartment.

Owners generally negotiate rental agreements of short duration (up to one year) and are conscientious with tenant background checks.

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

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

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

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

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

Several large investors have already entered the rental market (LHV Pension Fund, and EfTEN Capital). In 2022, EfTEN Capital entered the residential rental market, and in Q2 2023, Bonava entered the Tallinn rental market with new apartments. There are several larger than average residential rental projects planned, but considering today's economic recession, the situation in the construction market, inflation, and interest rate increases, the specific time when each project will be launched on the market is not known or guaranteed.

SUPPLY

In 2023, a total of 2,100 new apartments were completed in Tallinn, which is 5% less compared with 2022 and 25% less compared with 2021. Due to the economic recession, several projects have been stopped and postponed. The number of residential development projects has decreased in all city districts.

At the start of 2024, there were apartments for sale in almost 50 newly developed projects in Tallinn and in another 20 projects in the immediate vicinity of the city. The apartments of several projects are for sale, but construction has yet to begin.

According to preliminary estimates, approximately 1,000-1,200 new apartments should be completed in Tallinn during 2024.

DEMAND

In 2023, the number of apartment transactions in Tallinn decreased by 12.0%, but the total financial volume decreased by 13.6%. During 2023, an average of 175 new apartments sold each month, which is 25% of all apartment transactions in the city.

If in 2021 the demand for new apartments exceeded the supply, and most of the apartments were reserved and sold before the building was completed, then in contrast, from Q3 2022, the demand decreased sharply. In 2023, the impact of rising interest rates on the housing market began to bite, and this effect will continue in 2024.

Over ten apartments were sold during 2023 with purchase prices exceeding €1 million, most of them by the sea. The most expensive of these was sold for €3 million in Tallinn in the Kalamaja district.

PRIVATE RESIDENCES

The private house market of Tallinn and Harju County in 2023 could be characterised primarily by a decrease in the number and financial volume of transactions and a small decrease in prices. In 2023, there were a total of 1,208 transactions with houses in these two areas, and the financial volume was €295 million.

In Tallinn's popular and valued districts Kristiine, Pirita, Nõmme and Haabersti, the number of offers for sale has also started to grow. The most expensive private house put on the market achieved over €3 million.

The number of transactions decreased by 18.5% in 2023 compared to 2022, and the financial volume reduced by 20%. The average transaction price in 2023 was €244,900 and the median price was €217,700. The average transaction price fell by 1.3% in 2023.

More recently built, albeit smaller and more economical houses with modern technical solutions, were purchased most often. The number of transactions for objects more expensive than the average has declined.

In Harju County and Tallinn, the number of transactions decreased by 6% in Q4 2023 compared to the same period the previous year, and by 23% when compared to Q3 2023. The number of offers for sale in Q4 2023 rose by approximately 50% compared to the corresponding period in the previous year.

In today's private housing market, a new or up to 5-year-old detached house sized 100-140 sqm with modern technical solutions and an economical heating system priced €250,000-€380,000 or a terraced house priced €190,000-€300,000 is preferred.

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

THE MORTGAGE MARKET

In 2023, the decrease in the number of transactions, reflected the decrease in the number of home loan applicants and the volume of loans. In 2023, the purpose of taking the loan was primarily to buy or change a home. The purchase of real estate for the purpose of renting it out decreased sharply, as the interest rates increased to the degree that the rental yield was no longer attractive for real estate investors as compared with previous periods. Most home loans were in the amount of €110,000-€130,000. The average housing loan amount in the country increased by €12,000 during the year and reached €125,000. The price of real estate varies greatly from region to region, and it also correlates with loan amounts. The most expensive residential property is in Tallinn and Harju County, and there, the average loan amount is €147,000. During 2023, this amount increased by €13,000.

The average loan length was about 25 years to 2022, the loan period has been extended somewhat. Most new home loans (60%) were taken out with a co-borrower. Half of all borrowers provide up to €30,000 self-financed. Approximately one fifth of borrowers have used existing real estate to cover self-financing, with 29% of borrowers contributing 15-25% of the transaction price as self-financed, and 35% contributing at least 25%. A-energy class real estate accounted for approx. 10% of new loans and the interest started at approx. 1.4%.

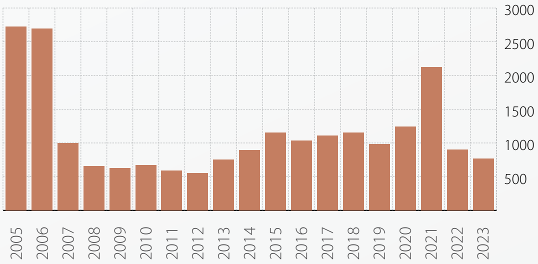
In Q4 2023, the average housing loan interest rate was 5.73%, which is 1.52 percentage points higher than at the same time the previous year. The cost of long-term loans for Estonian companies has also risen rapidly. In Q4 2023, the interest rate was 6.49% compared with 5.05% in Q4 2022.

LEGAL NOTES BY SORAINEN

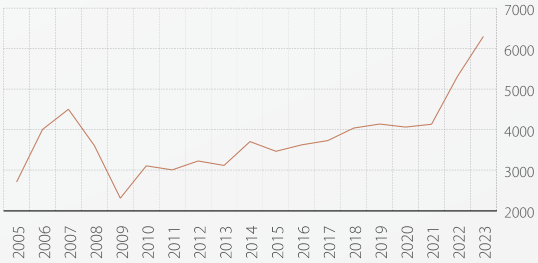
Rents are usually payable monthly, in advance. Tenants generally pay for their own utilities based on invoices directly to the service providers after use. Generally, normal wear and tear is allowed and is at the landlord's own risk. Quite commonly, payment of rent is secured, e.g. by a rent deposit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

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

LAND TRANSACTIONS IN TALLINN CITY & DISTRICT



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



TALLINN SNAPSHOT (END-2023)

ANNUAL LAND PRICE CHANGE (TALLINN AND HARJUMAA)	+19 %
TOTAL LAND TRANSACTIONS CHANGE (TALLINN AND HARJUMAA)	-15 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (SQM)	€600 - €2,000
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€250 - €700
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€90 - €160

AS THE SUPPLY INCREASED, THE NUMBER OF TRANSACTIONS DECREASED

In Tallinn and Harju County, the number of residential land transactions in 2023 decreased by 15% and the financial volume decreased by 23%. Nevertheless, the average price per plot increased by approx. 19% in 2023 and the average price of residential land in Tallinn was €290 sqm (median price €180 sqm). The price per square metre of a land plot is significantly influenced by its construction rights and size.

During 2023, the supply of undeveloped residential and commercial land essentially doubled compared to 2022. In the city of Tallinn, the number of offers has increased less compared to the neighbouring municipalities of the city. There are about 25% more offers in the city of Tallinn compared to a year ago. Across Harju County as a whole, an average drop of roughly 40% in offer prices is evident, while in the city of Tallinn, offer prices are relatively stable. The reason is the limited supply and small selection compared to the other nearby municipalities of Tallinn. Several development projects with a detailed plan or a detailed plan that is being processed, have come up for sale.

Nevertheless, in 2023 few deals with residential land plots were made in the most prestigious locations of the city, and several off-market block transactions took place also.

Tallinn boasts the highest prices for undeveloped residential land, particularly in its central and nearby areas where large-scale construction rights are predominantly acquired for residential or commercial development, while suburban areas feature smaller housing estates. The diminishing transaction activity in Tallinn's residential land market, coupled with the rising interest in neighbouring municipalities like Viimsi, Harku, and Rae, indicates a growing preference for areas offering lower land prices and more open space.

Most transactions for medium-sized plots take place in municipalities located in the immediate vicinity of Tallinn, depending on the availability of utility networks and connections, in the price range €140,000-€190,000 (€100-€150 sqm) and in the valued areas of Tallinn such as Nõmme, Pirita, Kakumäe, where the price range is €200,000-€300,000 (€150–€200 sqm). Single, very exclusive, larger than average plots with a view to the sea or a significantly larger building volume can exceed €1 million, but such transactions are exceptions in the market and very rare. As a rule, the price for segments that are part of larger plots is lower than that of larger plots due to the scale effect.

In Harju County, plots located in the vicinity of Tallinn (up to 20 km from the city centre) and in the immediate vicinity of settlements with developed infrastructure are the most valued. Nõmme, Kakumäe, the Pirita region, the seaside region of the western side of the Viimsi peninsula, especially with a view of Tallinn and the sea, the Haabneeme and Viimsi towns, Tabasalu town and its nearby seaside region are rated above average. The east side of the Viims peninsula, the Muuga Garden City area, Peetri and Jüri town, Saku town, Keila city, Saue city and the Laagri area, and the Muraste-Suurupi village area are rated average.

The demand is practically non-existent in new residential areas with insufficient infrastructure and on plots located more than 30 km inland from the centre of Tallinn. In these areas, transactions are rather random, and prices are highly volatile.

In 2023, the average price of commercial land in Tallinn and Harjumaa was €177 sqm, for production land it was €45 and for mixed land, €149 sqm.

LEGAL NOTES BY SORAINEN

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

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

OBER HAUS

ESTONIAN REAL ESTATE TAXES AND LEGAL NOTES

ACQUISITION

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

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

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

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

Transfer of real estate is generally exempt from VAT, but there are certain significant exceptions. Transfer of a new or significantly renovated apartment or building or a building land, is subject to 22% VAT. Parties can also opt to add VAT on a voluntary basis, provided that it is not a dwelling. In case of a VAT exempt supply of the real property, the adjustment period for input VAT is 10 years. Estonian has also implemented a domestic VAT reverse charge mechanism on certain sales of property between VAT liable companies.

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

RENT

VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

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

As of 2025, the CIT rate will rise to 22% and the lower 14% rate will be abolished.

WITHHOLDING TAX (WHT):

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

PERSONAL INCOME TAX (PIT):

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

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

As of 2025, the PIT rate will rise to 22%.

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

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

SALE

VALUE ADDED TAX (VAT):

Transfer of real estate is generally exempt from VAT, but certain exceptions are in place. Transfer of a new or significantly renovated apartment or building or a building land, is subject to 22% VAT. Parties can also opt to add VAT on a voluntary basis, provided that the real estate is not a dwelling. In case of a VAT exempt supply of the real property, the adjustment period for input VAT is 10 years. There is also a domestic VAT reverse charge mechanism implemented on certain property sales. Transfer of shares in a real estate company is also generally exempt from VAT. However, transfer of shares in a real estate company could be subject to VAT in case the real estate owned by the company is a new or significantly renovated apartment or building, or a building land.

CORPORATE INCOME TAX (CIT):

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

SPECIAL RULES FOR DOMESTIC INVESTMENT FUNDS

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

PERSONAL INCOME TAX (PIT):

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

REAL ESTATE TAX (BUILDINGS/PREMISES)

There is no real estate tax in Estonia.

LAND TAX

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

The tax rate varies between 0.1% and 1% 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.

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

Most real-estate-related transactions have to be notarised to be considered legally valid. Estonia employs a constitutive property registration system, by which registration in the Land Register confers the title in itself. This makes verifying titles simple and transactions secure. At the same time, the requirements for notarisation and documentation can make other aspects of the transactions cumbersome and time-consuming.

TITLE TO REAL ESTATE, LAND REGISTER

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

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

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

ACQUISITION OF REAL ESTATE

GENERAL

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

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

Real estate consists of land and things permanently attached to it, such as buildings and standing timber. In general, it is not permissible to transfer a building separately from the underlying land, except if a building title is established and then transferred. A building title provides its owner with the transferable and inheritable right to erect and/or own a construction permanently attached to a land plot that they do not own for a specified term of up to 99 years. In that case, the building forms an essential part of the building title, not of the land. Building titles can be transferred separately from the land plot. In recent years, building titles have commonly been used to construct and establish ownership over renewable energy projects on land plots, such as wind parks and solar parks.

LETTER OF INTENT AND HEADS OF TERMS

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

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

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

ASSET TRANSFER

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

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

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

Existing lease agreements remain valid after the transaction.

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

SHARE TRANSFER

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

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

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

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

PORTFOLIO DEALS

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

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

SALE-LEASEBACK

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

This arrangement requires the following checks:

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

FORM OF AGREEMENTS

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

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

LANGUAGE REQUIREMENTS

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

DUE DILIGENCE

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

PRE-EMPTION RIGHTS

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

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

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

TAXES

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

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

CONCENTRATION CONTROL

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

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

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

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

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

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

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

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

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

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

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

ENCUMBRANCES

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

A notation of a lease agreement may be entered into the Land Register, which ensures that on change of ownership of the real estate the new owner may not terminate the lease agreement on that ground.

MORTGAGE

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

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

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

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

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

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

Break options, giving the tenant the right to break the lease early, are sometimes agreed on, but are relatively rare, unless the agreement is entered into for a longer period of time (e.g. for 10 years).

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

In common market practice, rent increases are generally permitted annually and are generally set at Estonian CPI, or a fixed rate (such as 3–5% yearly). However, considering the high inflation rate in Estonia and increased electricity and gas prices over the last year, parties are paying more attention to the rent increase clauses in the lease agreements than before. Therefore, the rent increase ranges have also increased, and a maximum rate of 7% is no longer unusual.

The right to assign or sublet the lease is not often given and usually requires the prior written consent of the landlord.

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

LANDLORD'S LIEN

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

PPP & INFRASTRUCTURE

GENERAL

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

CONCESSIONS

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

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

SALE-LEASEBACKS

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

REGULATED REAL ESTATE FUNDS

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

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

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

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

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

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

CONSTRUCTION

Under the Building Code, construction means the erection, construction, installation or demolition of a construction work (i.e. buildings or civil engineering works) or any other operations in relation to the construction work that leads to the creation of that construction work or to a change in its physical properties. Construction work also means shifting soil or layers of paving to a degree that has a significant and permanent impact on the surrounding environment and is functionally related to construction work.

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

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

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

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

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

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

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

DISTRESSED ASSETS

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

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

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

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

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

SORAINEN

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EUR 156 million

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Project value: EUR 5.6 billion

Legal Adviser

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Advising the independent power producer Sunly on raising around EUR 200 million to build and expand its renewable energy portfolio in the Baltics and Poland. Sunly will use the capital for further development of its 17.9 GW pipeline for solar and wind power in the Baltics and Poland.

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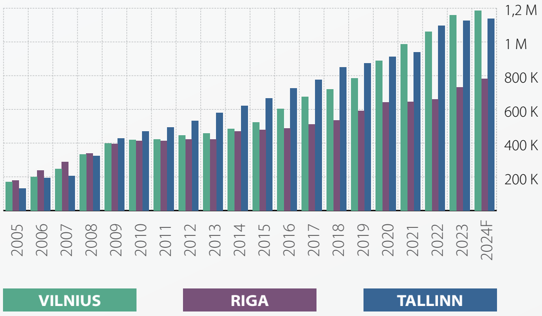
OBER HAUS

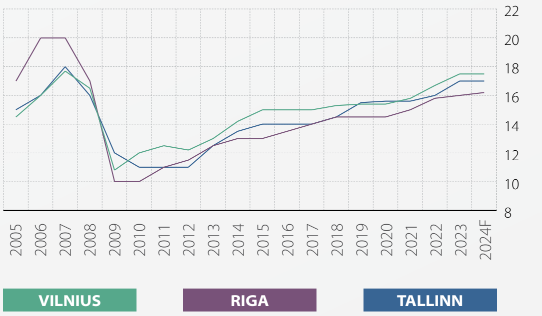
DATA CHARTS

OFFICE

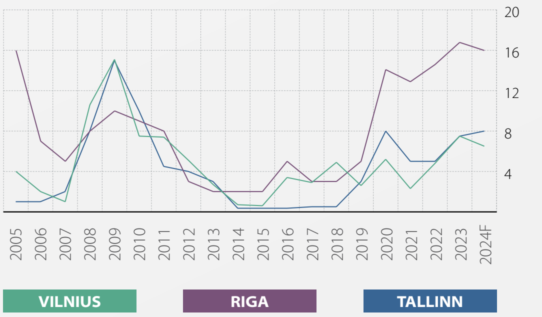
TOTAL MODERN OFFICE STOCK, SQM



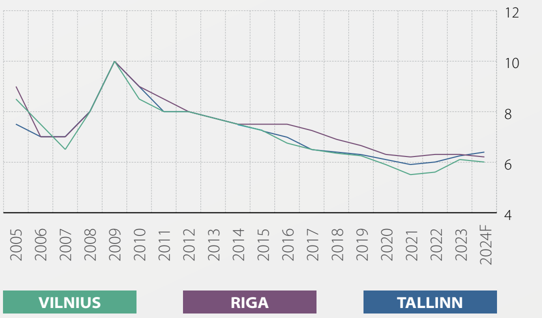
A CLASS OFFICE RENTS, €/SQM



A CLASS OFFICE VACANCY RATE, %

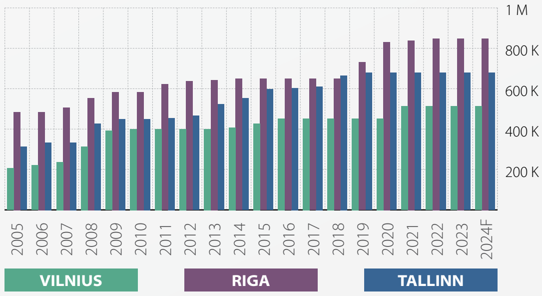


A CLASS OFFICE INVESTMENT YIELDS, %

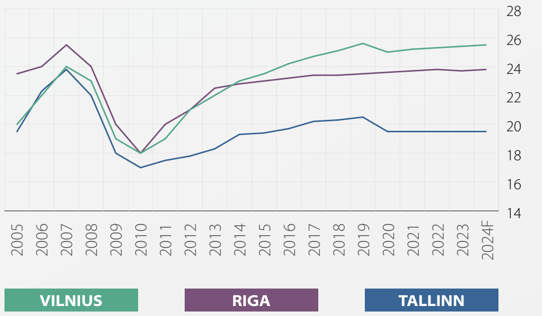


RETAIL

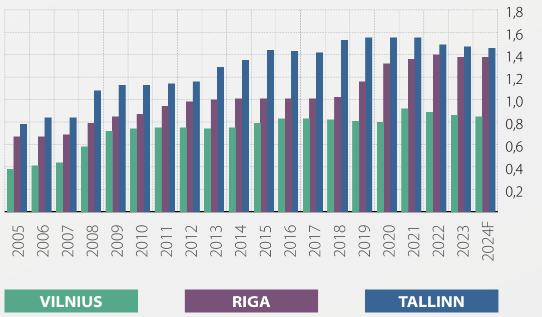
TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



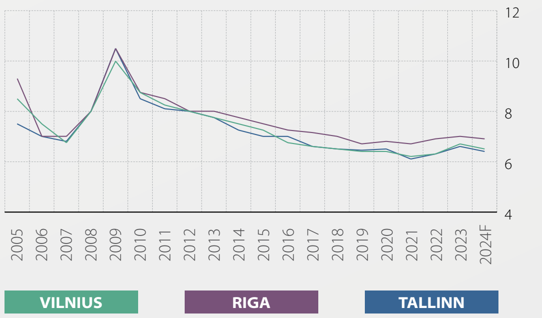
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL SHOPPING CENTRE SPACE PER CAPITA, SQM

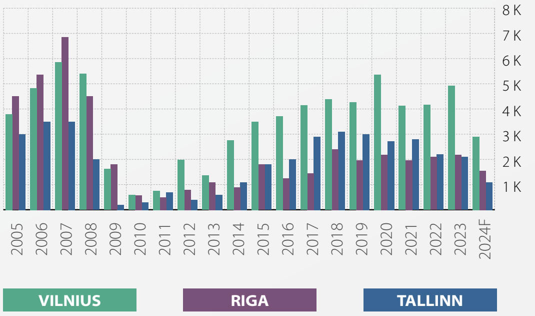


RETAIL INVESTMENT YIELDS, %

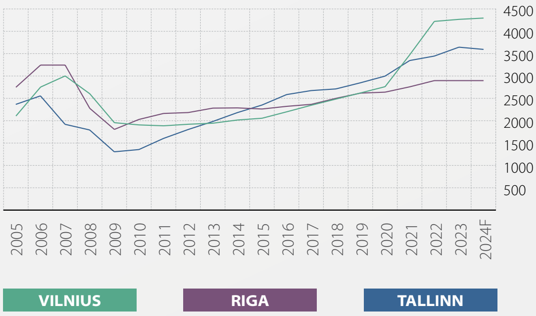


RESIDENTIAL

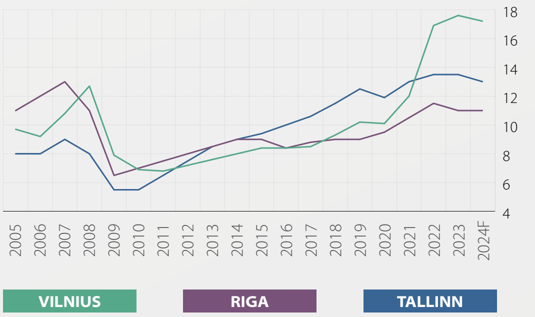
COMPLETED APARTMENTS



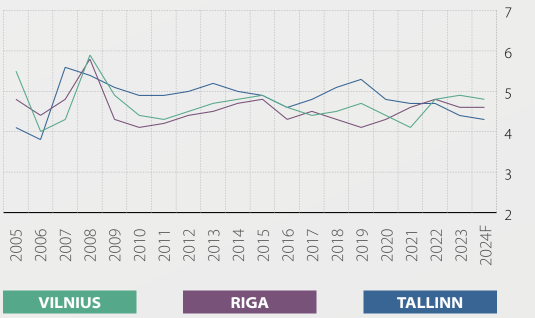
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM

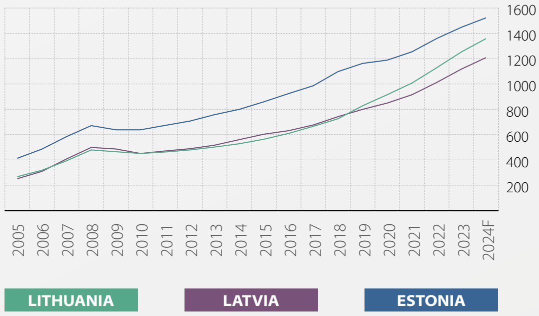


CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

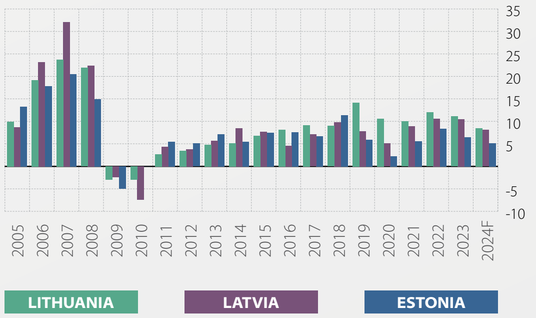


ECONOMICS

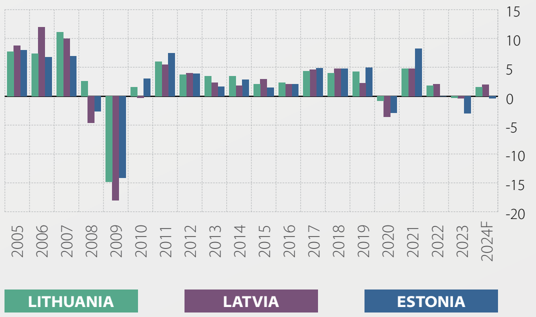
AVERAGE NET SALARY PER MONTH, €



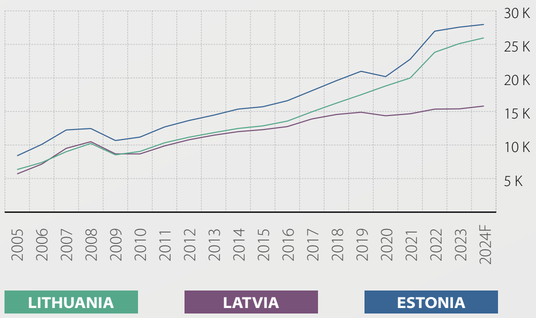
AVERAGE SALARY GROWTH, %



GDP GROWTH, %



GDP PER CAPITA, €



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