

BALTIC PROPERTY MARKET REPORT 2015



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Introduction



Ricardas Cepas
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Dear Reader,

We are proud to present the latest copy of Baltic Property Market Report 2015. The brand new issue provides an opportunity to take a consolidated look at the latest situation of commercial and residential property market in three Baltic countries as well as the relevant update on property related legal and taxation issues.

The Baltic region became a full member of Eurozone with Lithuania being the last member to adopt the euro in 2015. The Baltic countries showed their strength in growing economies, continuously improving domestic consumption, increasing interest and investments from international companies.

The year 2014 was the year of intensive market development with a high number of new projects. Increased demand for office and residential properties has resulted in particularly vast interest for this segment devel-

opment. Increasing retail turnovers and tough competition in the retail market has boosted development of retail chains.

Transaction volume in the Baltics has reached pre-crisis level and set high expectations for 2015. However, the year 2015 is expected to be challenging for all market players. Tense geopolitical situation, increasing competition of property developers and rapidly growing supply in all segments will bring challenges to both experienced market participants and fresh entrants as well. The mid-term outlook of the region will remain solid - prosperous business solutions with timely insights will help benefit from continuous economic development and favorable market situation.

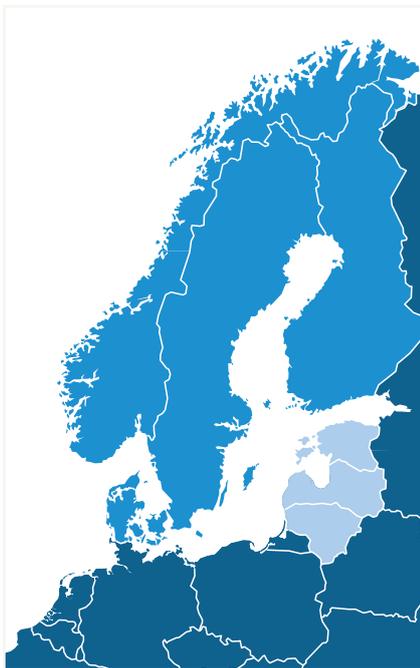
We are sure our new Baltic Property Market Report will be a reliable tool for both new and existing market players to make reasonable decisions and plan for the future.

Regards,
 Ricardas Cepas
 CEO of Newsec Baltics



Investment market

Transaction volume in the Baltics has reached pre-crisis level setting high expectations for 2015.



Newsec's primary markets.

INVESTMENT MARKET

The Baltic region became a full member of Eurozone after the euro adoption in Estonia (2011), Latvia (2014) and Lithuania in 2015. It proved accomplishments of the Baltic States in securing financial stability and stable economic growth. The Baltics will benefit from this, as the currency risk has been removed opening opportunities for new investors and proving the attractiveness of this region.

The Baltic countries showed their strength in growing economies, continuously improving domestic consumption and increasing interest and investments from international companies.

2014 IN BRIEF

The most active investment market last year was Lithuania (40%) and investment volumes in Latvia in Estonia were alike (~30% each). The most active investment segment in the Baltic countries was the office market, which covered half of all investment volume and

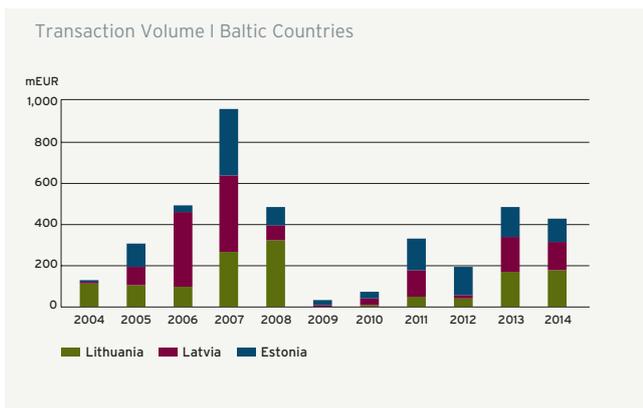
was the highest ever-reaching nearly 210 million EUR. Warehousing and logistics segment was also active - 2014 marked the first time when investment in this segment exceeded investment in the retail segment. Transaction volume in the Baltics has reached pre-crisis level (approx. 425 million EUR in 2014) setting high expectations for 2015.

INVESTORS PROFILE

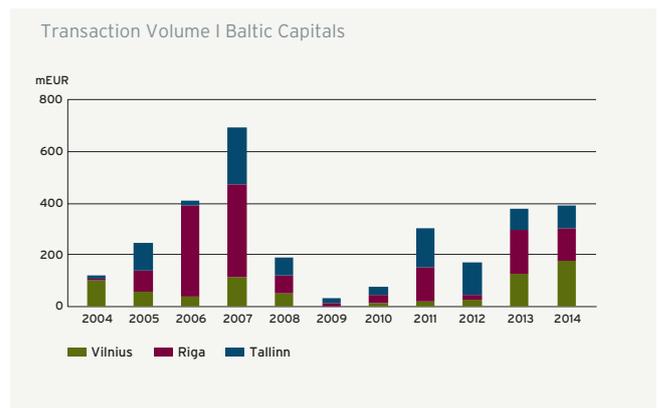
All the existing Scandinavian funds continue enlarging their portfolios, at the same time successfully implementing exits of their first funds.

Key players are Nordic, Baltic and Russian investors. Dominating investor types are international funds with established presence (East Capital, Northern Horizon Capital), local funds (EfTEN Capital, Lords LB) and private investors (Russian, Scandinavian capital, i.e. Capital Mill, Zenith).

Broken down statistics of investors by country of origin show that ~50% are from Baltics, including ~25% of Russian capital raised funds, ~35% Scandi-



Source: Newsec



Source: Newsec



Office market covered half of all Baltics investment volume reaching nearly 210 million EUR.

navian capital, and just above 2% from the western countries.

International investors who were previously unwilling to enter the Baltic region because of relatively small markets, currency risk and lack of liquidity, continue investigating their possibilities to include the region in their investment maps.

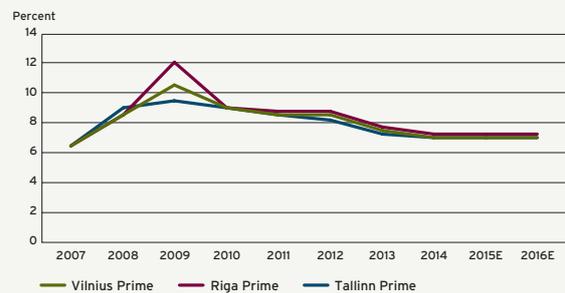
2013-2014 EVOLUTION

Firstly, local funds became solid attracting professional investors. Secondly, the number of private non-professional investors and family offices (Russia and Nordics) increased significantly. Thirdly, greater amount of homework being done by new cross border investors.

YIELDS

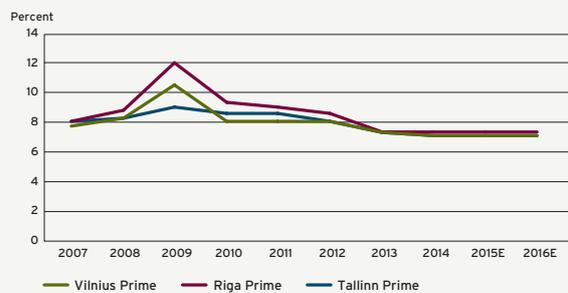
Baltic States are still at an attractive value gap compared to Western European and Nordic. Average yields for prime retail and office assets in 2014 decreased slightly down from around 7.00% to 7.25% on average and secondary properties standing between 8.00% and 9.25%. Yields for prime logistic centers and warehouses vary between 8.50% and 8.75%. Capital cities are the main investment targets in Baltic countries with most expensive yet liquid assets, thus yields for properties in other cities than capitals are higher and reach 9.00%-12.00% on average.

Prime Office Yields I Baltic Capitals



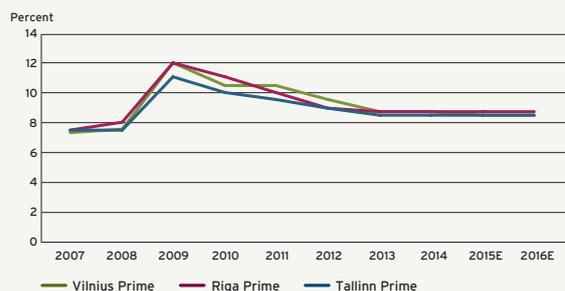
Source: Newsec

Prime Retail Yields I Baltic Capitals

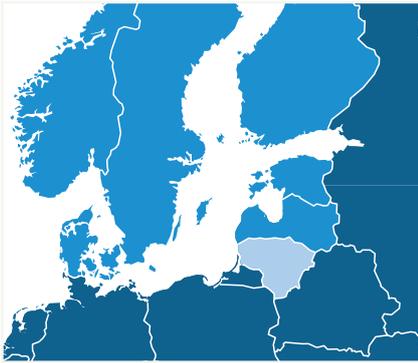


Source: Newsec

Prime W&L Yields I Baltic Capitals



Source: Newsec



LITHUANIA

Economic outlook

Lithuania became a full member of the European Economic and Monetary Union on the 1st of January 2015. Entering the Eurozone ensured deeper integration into the EU and granted more political security. The euro is more than just a currency to Lithuania. The membership of the euro area is a clear message to the EU, third countries and the world - a precondition for more intensive international trade, growth of investment flows, along with increased economic activity in the country and income growth opportunities. Euro stays as assumption to lower country credit risk resulting in lower interest rates to the state and to the private sector.

GDP GROWTH REMAINS HIGHEST IN THE BALTICS

The Baltic States is a region with Lithuania being the largest of its economy. In spite of geopolitical uncertainty and difficulties in Eurozone, in 2014 the gross domestic product of Lithuania increased by 2.9%. Compared to the growth observed in the first three quarters of 2014, the GDP growth rate in the fourth quarter was slower, due to poorer performance results of wholesale and retail trade, transportation and storage, accommodation and food service companies. Construction and industry segments mainly caused the growth in GDP. This shows that the country's economy remains fuelled by the increase in domestic demand. Expectations for further development remains positive and based on Newsec forecasts, GDP

is expected to increase by 3.2% in 2015 and by 3.0% in 2016.

EXPORTS HAVE WITHSTOOD THE TEST OF CHALLENGES

In 2014, exports of goods amounted to 24 billion EUR, imports - 27 billion EUR. Compared to 2013, exports decreased by 0.8%, while imports increased by 1%. The decrease in exports was influenced by a decrease in exports of petroleum products and ground vehicles. In 2014, Lithuania mainly exported to Russia, Latvia, Estonia, Poland and Germany. Goods of Lithuanian origin were mainly exported to the EU (Germany, Latvia, the Netherlands, and Poland) with almost 70% of total exports of goods of Lithuanian origin. Lithuania managed to redirect exports to new markets and avoid drastic decline in export volume, associated with the impact of the Russian embargo.

DECLINE IN UNEMPLOYMENT RATE

In 2014, the unemployment rate stood at 10.7% and was by 1.1 p.p. lower than in 2013. The number of persons employed totaled to 1.32 million, the number of unemployed - to 160 thousand. Over 2014, the number of persons employed increased by 26,200 (2%). Newsec forecasts that the trend will continue and that in two years the level of average annual unemployment rate in the country will fall down to a single digit. During 2015 unemployment rate is expected to fall

below 10% mark and reach 9.6% in 2016.

LOWEST INFLATION THROUGH THE DECADE

Based on HICP, Lithuania's average annual inflation in 2014 was 0.2%. It was by 1 p.p. lower than in 2013 and by 0.4 p.p. lower compared to the European Union rate. In 2014, prices regulated by State and municipal authorities dropped by 2.1%, while market prices increased by 0.1%. With the adoption of the euro, inflation is expected to rise to 1.5% in 2015, mainly because of the prices being rounded up and because of the anticipation of higher wages.

WAGES WILL GROW FURTHER

Domestic consumption is expected to maintain its positive trend; however, the increasing employment, salaries and growing expectations will affect it. In 2014, compared to 2013, average monthly gross wages in the whole economy, including individual enterprises, grew by 4.6%, and totaled to 676 EUR. Salaries in Lithuania are expected to grow due to continuous decrease in unemployment rate and improving business results of the companies. During the first nine months of 2014, Lithuania's enterprises earned 2.7 billion EUR of pre-tax profit, which is 23% more than during the same period in 2013. The results show that the profits were growing twice as fast as personnel costs - by 22 and 11% respectively,

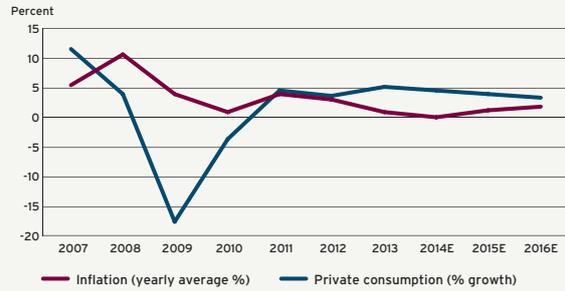
Lithuania became a full member of the European Economic and Monetary Union on the 1st of January 2015.

Economic Indicators | Lithuania



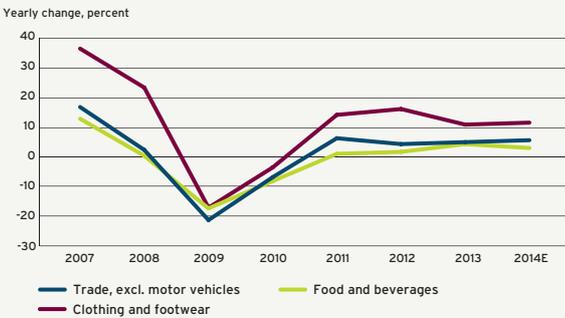
Source: Statistics Lithuania, Newsec

Inflation and Private Consumption | Lithuania



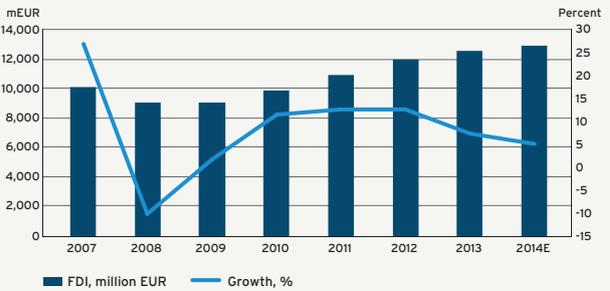
Source: Statistics Lithuania, European Commission, Newsec

Retail Trade | Lithuania



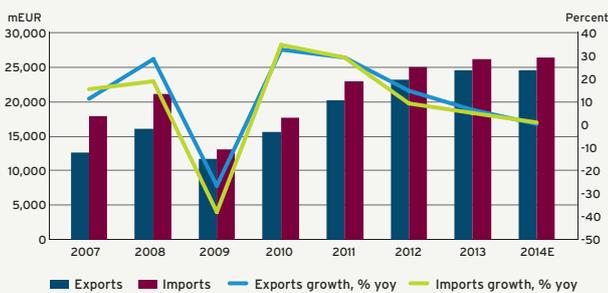
Source: Statistics Lithuania, Newsec

Foreign Direct Investments | Lithuania



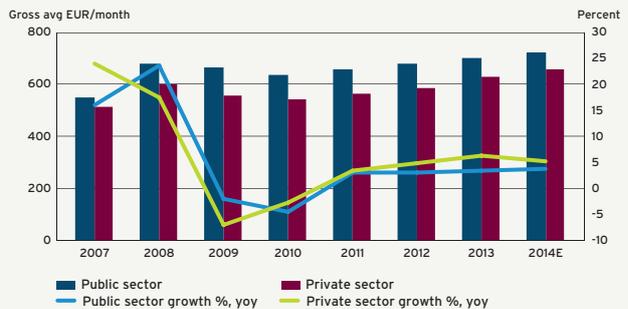
Source: Statistics Lithuania, Newsec

Exports and Imports | Lithuania



Source: Statistics Lithuania, Newsec

Wages and Salaries | Lithuania



Source: Statistics Lithuania, Newsec

The country's economy remains fuelled by the increase in domestic demand.

proving that there is more room for wages to grow. Increasing number of international companies establishing their branches in Lithuania set a higher level of wages - approximately 37% higher than country average.

FDI

In Q1-Q3 2014, the foreign direct investment (FDI) flow in Lithuania was positive and amounted to 450 million EUR. The largest increase was observed in FDI from Germany, the Netherlands, and Sweden, while the largest investments were made in wholesale and retail trade, financial and insurance activities.

Based on the data of 30 September 2014, the largest investment in Lithuania was made by Swedish (25.6% of the total FDI), Dutch (10.4%), German (9.3%), Norwegian (6.6%), Estonian (5.9%) and Finnish (5.5%) investors.

IMPACT ON REAL ESTATE

After several volatile years Lithuania's real estate market have finally stabilized. Growing demand has encouraged developers to start new significant commercial and residential projects. Improvement in retail turnovers stimulated the development of logistics and retail projects, furthermore, activity on previously frozen projects resumed. Healthy GDP growth levels, coupled with decreasing unemployment, are likely to lead to higher consumption and demand, lower vacancy rates and higher rents on the property.



Retail market

Improving consumption indicators and an increase in wages led to growth in the shopping center turnover.

The improving economic situation, wage growth and declining unemployment rates create favorable conditions for the development of the retail space market. Although, despite the positive signals, most of the investments are still directed towards the improvement of shopping center internal problems, updates of the outdated projects, expansion and optimization of the leasable area. Significant amounts of investments in the renewal the leading shopping centers strengthens their position in the market and creates more favorite conditions, attracting new brands to the market. The growth number of new projects is also seen in the grocery retail segment, however at the end of the preparation process for Lidl market entrance; existing market players' investment volume is significantly reduced.

IMPROVING CONSUMPTION

In 2014, the retail turnover increased by 5.6% compared to the same period in 2013. The biggest growth was recorded for sale of audio, video and hardware equipment, also for furniture and lighting in specialized stores; for communication equipment, watches, jewelry (12.6%) and for sale of textiles, clothing and footwear (10.5%). In 2014, the largest increase was observed in retail sale via mail order or via the Internet - by 27.6%. The significant retail growth is affected by weakening consumers' expectations and a decline in the number of inhabitants outside the capital.

Improving consumption indicators and an increase in wages led to growth in the shopping center turnover, however, the number of visitors has been stable. For now, the main goal of shopping center managers

is to improve customer expenditure even further.

NEW DEVELOPMENTS

The total leasable shopping center area in Lithuania amounts to 820,000 sq. m or 0.28 sq. m per capita. 40% of the total supply is concentrated in the most developed city, the capital of the country, Vilnius, with 16 modern shopping centers and a total leasable area of 330,000 sq. m or 0.6 sq. m per capita.

The latest developed retail project in Vilnius was the 1st phase of DomusPro in 2014. Developer TK Development has sold DomusPro to the investment fund Baltic Opportunity in 2013 and started its construction works accordingly. The 2nd phase of ~3,600 sq. m is planned to be developed in 2015.

RENTAL RATES AND VACANCIES | VILNIUS

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Trend 11→ |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Rental rates, EUR/sq. m/month | | | | | | | | | |
| up to 100/150 sq. m | 30-50 | 25-45 | 20-30 | 20-30 | 25-45 | 25-45 | 25-45 | 26-48 | ↔↔ |
| 100/150-350/500 sq. m | 18-30 | 15-23 | 10-15 | 10-16 | 12-25 | 12-25 | 14-27 | 14-28 | ↔↔ |
| > 350/500 sq. m | 12-18 | 10-15 | 8-12 | 8-12 | 10-15 | 10-15 | 12-18 | 12-19 | ↔↔ |
| Anchor tenants | 6-11 | 5-10 | 5-7.5 | 6-7.5 | 6-9 | 6-9 | 7-12 | 7-12 | ↔↔ |
| Vacancy rates, % | | | | | | | | | |
| Well performing SC | up to 5% | up to 3% | up to 5% | up to 3% | up to 3% | up to 2% | up to 2% | up to 2% | ↔↔ |
| Other | 5-9% | 4-9% | 18-20% | 13-15% | 5-12% | 5-8% | 5-8% | 3-6% | →↓ |

Source: Newsec

The main goal of shopping center managers is to improve customer expenditure even further.

Among largest redevelopments in Lithuanian retail market were reopenings of formerly named Gedimino9 (Vilnius) center under new name GO9 in March 2014, and redevelopment of Babilonas (Panevezys) shopping center in January 2015, that reopened as RYO shopping center.

After more than a year of successful operation in Vilnius, IKEA will welcome a new neighbor Nordika Shopping Valley with total area of 40,000 sq. m. Approx. 45 million EUR will be invested in the project and house a large Senukai DIY store along with grocery retailer Rimi Hypermarket, electronics store Elektromarkt and a number of other additional retailers. The project will be developed in two phases and will form a favorable shopping destination in the southern part of Vilnius city.

Shopping centers developer Baltic

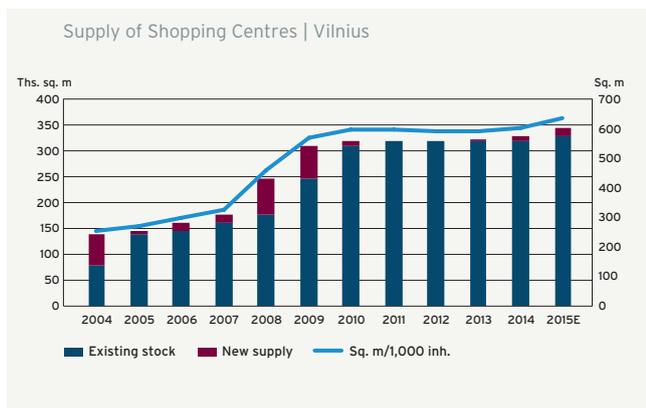
Shopping Centers plans to expand shopping center Mega (72,000 sq. m) up to 102,000 sq. m and increasing number of tenants up to 190. Expansion project is planned to be finished in 2016, after approx. investments of 45 million EUR.

NEW BLOOD ON THE MARKET

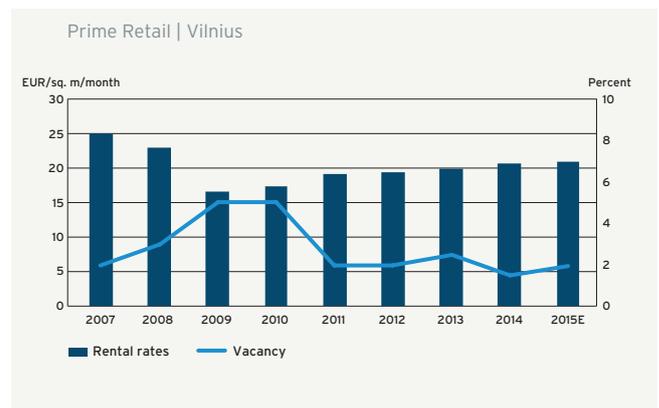
International brands such as H&M, Subway entered and expanded the market. However, major part of the demand was generated from the local retailers seeking to secure the best locations in leading shopping centers and maintain their market positions. In the grocery retailers segment, all major retailers have renewed a lot of their stores along with opening new ones. Grocery retailer's plans for 2015 are set as ambitious as in 2014. New entrant Lidl mainly caused such flurry in the market, being the first "unknown" brand in the market. It

is expected that Lidl will open 25-30 stores in Lithuania and will start its operation after logistics center will be completed in Kaunas. The other "unknown" brand in the market is Fresh Market, as after rapid expansion of stores (26 stores in 11 cities) it throws all the forces to e-commerce development in Vilnius. The main outcome of such intense expansion of stores will be a shift in the market share and decrease of turnover per square meter.

H&M stores became a very important competitor to companies currently holding the largest share of apparel stores in Lithuanian shopping centers. Operating retailers are improving their concepts, modernizing stores and focusing on business class and luxury segment. During 2014, the total area of ~8,200 sq. m H&M stores was opened in Panorama, Go9, Ozas and Akropolis Siauliai. H&M has already signed eight lease agreements



Source: Newsec



Source: Newsec

Favorable consumption market situation will strengthen the position of landlords in raising rents.

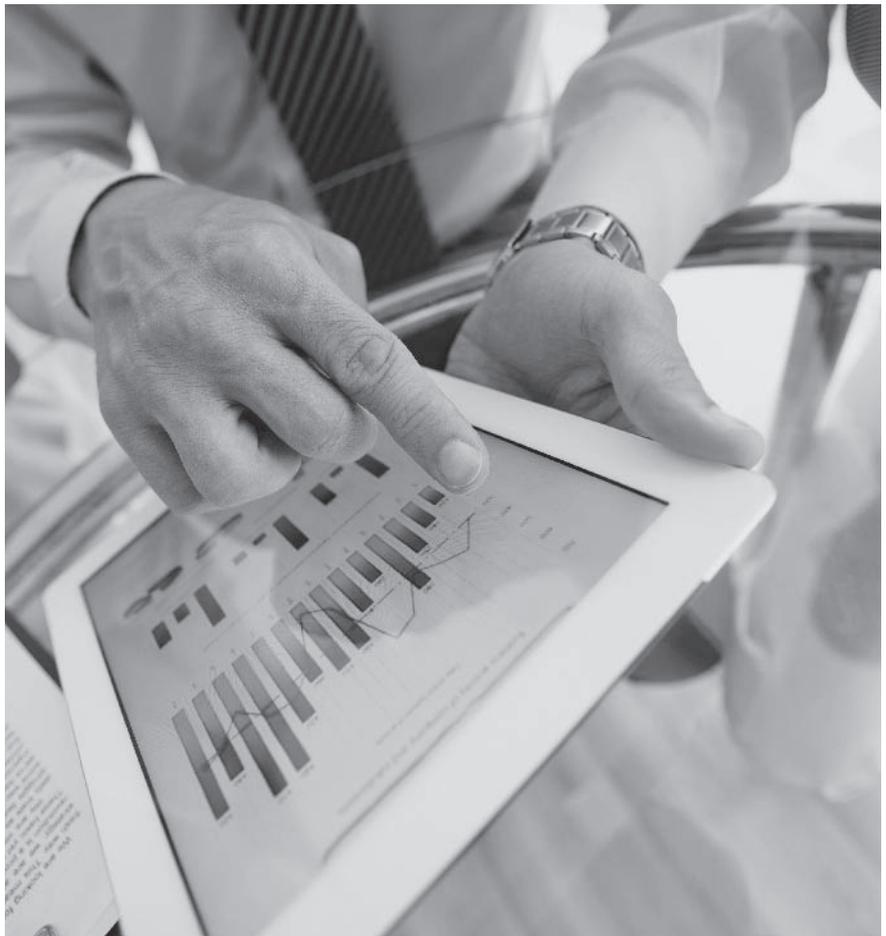
across the country and will continue opening new stores in 2015 (RYO in Panevezys, expansion in Mega, Kaunas).

LOW VACANCY AND INCREASED RENTS

Vacancy in prime shopping centers remained at the minimum levels as the new apparel retailer occupied large areas and intensified competition. Newcomers and successfully operating local brands took place in the weak market players share. Continuously improved turnover/rent ratios in successfully operating shopping centers in all major cities have caused significant rent increases. The tendency is likely to continue in 2015, for both the shopping centers and retail streets.

OUTLOOK

The year 2015 will be challenging and stressful for retail market players in order to maintain the position in the market. However, growing demand and potential entrance of the new brands to the market will encourage local developers to start new shopping center developments. Favorable consumption market situation will strengthen the position of landlords in raising rents.



Office market

Economic growth and increasing interest from foreign investors influenced Lithuania's office market demand.

OFFICE MARKET

Economic growth and increasing interest from foreign investors influenced Lithuania's office market demand. The year 2014 was especially active in the office segment. Record-high occupancy levels turned the market into the property owners market. High demand for office space attracted many developers to get back to planning and developing new business centers.

BURSTING DEVELOPMENT

Vilnius ended 2014 with 404,500 sq. m of modern office stock or 0.76 sq. m per capita. A 5.2% increase, or almost 20,000 sq. m of new office space was delivered in the market by completing three office buildings: Grand Office (10,200 sq. m), 3rd phase of Baltic Hearts (3,300 sq. m) and Atea (6,400 sq. m). Newly offered office space was almost fully absorbed by the end of the year.

Office developments planned for 2015 will exceed the total supply delivered in 2013-2014. It is expected that during 2015 and 2016 Vilnius will add approx. 136,400 sq. m of modern office space. Currently five out of eleven planned projects in Vilnius are under construction.

After a few years of silence in Kaunas market, the year of 2015 will be marked with new supply. An increased interest to investments and favorable labor market has forced the creation of new office supply. Starting with a few smaller scale developments such as Mikrovisata office building (3,600 sq. m), Kaunas market will welcome some large-scale developments in a short time period.

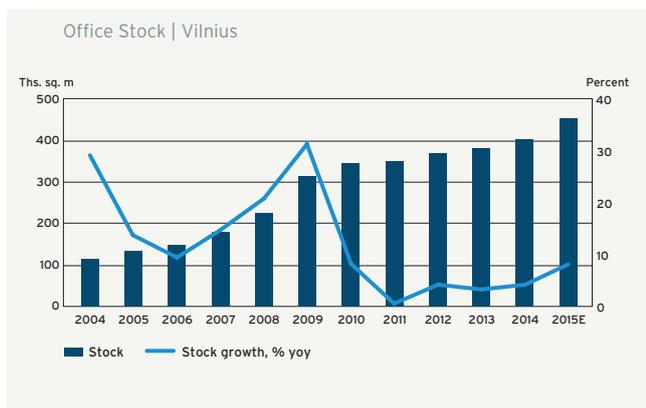
VACANCY AT THE BOTTOM

Since 2010, the market has seen decreasing vacancy rates; at the end of 2014, vacancy in Vilnius CBD was very low. Vacancy in prime offices has fallen

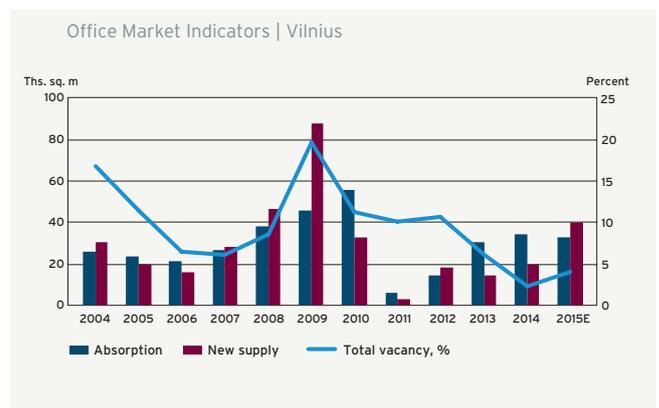
below 2% in average in the beginning of 2014 while in Q4 2014 vacancy for A class properties did not even reach 0.5%, which means that there are almost no available A class offices in the market. The rising demand for business clusters has positively affected B class business centers, especially the ones close to CBD. High demand for quality premises in B class office segment has forced vacancy in this segment to move down at a very quick pace. In 2014 Q1, the average vacancy rate in B class offices stood at 8.5% and in Q4 2014, it decreased down to 3.3%. New projects now target the B class level.

ACTIVE DEMAND

The largest lease transactions and more than half of the space leased in 2014 were by companies working in finance, IT/telecommunications and retail. Shared service centers made the largest rent transactions in 2014 and IT companies use the more than 20%



Source: Newsec



Source: Newsec

Record-high occupancy levels turned the market into the property owners market.

of all office stock in Vilnius. The trend of pre-lease is coming back to Vilnius office market with agreements often signed 6-9 months in advance.

RENT RATES

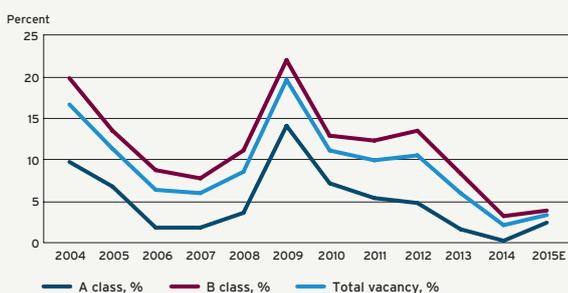
In the end of 2014 the average market rent for prime office premises in Vilnius CBD remained in the range of 14-15.8 EUR/sq. m/month, in other central areas the market rent rates were in the range of 10-13 EUR/sq. m/month, whereas B class offices further from city center were leased for 8.5-11 EUR/sq. m/month.

Record-low vacancy rates turned Vilnius office market into the landlord market, where asking rent rates can be easily increased, however this trend cannot last for a long time as new buildings are coming to the market and the old ones (especially in the prime segment) will be forced to face the competition.

OUTLOOK

Real estate developers in Lithuania has rushed to catch the running train and tried to relocate resources from the development of the residential segment to the office supply direction. Those who are planning and developing now, are experienced and professional developers. Since a significant proportion of new office space will be offered in the A class segment in the market, it will create the need to revise the parameters and requirements of classification and to once again review the objects balancing on class A and B line. Property owners getting the signals from tenants have started already or are planning to invest in the business centers in order to maintain their current class. Naturally, this evaluation will have effect on rental rates in different segments, as at 5-10% higher rent rate tenants will be able to rent premises in higher quality projects.

Office Vacancy | Vilnius



Source: Newsec

Office Rents | Vilnius



Source: Newsec

Industrial market

In 2014, the industrial market saw an outburst in new warehouses.

In 2014, the industrial market saw an outburst in new warehouses. While constructing built-to-suit warehouses, many companies planned for larger space than they need, thus increasing market supply.

SUPPLY

There are approx. 876,000 sq. m of modern warehousing space in Lithuania including Vilnius, Kaunas and Klaipeda regions; however, old, not renovated warehouses and industrial units cover a much greater part of warehousing space. Currently, a major part (approx. 505,000 sq. m) of modern warehouses is situated in Vilnius and Vilnius district. Whereas, there are approx. 190,000 sq. m of modern warehousing and logistics space in Kaunas and approx. 140,000 sq. m in Klaipeda.

NEW DELIVERIES

Warehouse space in Lithuania in-

creased by ~ 80,000 sq. m. and grew by almost 11% in 2014. There have been built around one third of the new space in each of Vilnius, Kaunas and Klaipeda regions. New developments of modern 3PL warehouses in the market comprised of 10 new build-to-suit projects; however, a significant part of premises was offered for speculative needs.

During 2014 there were a few projects for both 3PL and built-to-suit purposes - Transekspedicija (stage II) in Vilnius, Vlantana (stage II) in Klaipeda, Limedika and Sanitex/BLS in Kaunas. There were also five entirely built-to-suit projects completed - Wurth, Hormann and Stengel in Vilnius, Osama in Kaunas and Klasco bulk fertilizer warehouse in Klaipeda.

Three new warehousing and logistics projects were completed and three other projects are expected near the highway Vilnius-Panevezys in 2014. This part of Vilnius region (near the

highway Vilnius - Panevezys) is becoming more and more popular destination for both logistics companies and companies exporting their products to Baltic and Scandinavian countries because of the good accessibility.

Among new warehousing projects, the largest one currently under construction is the LIDL distribution center - it is announced that its area will be 41,000 sq. m and investment will reach 30 million EUR.

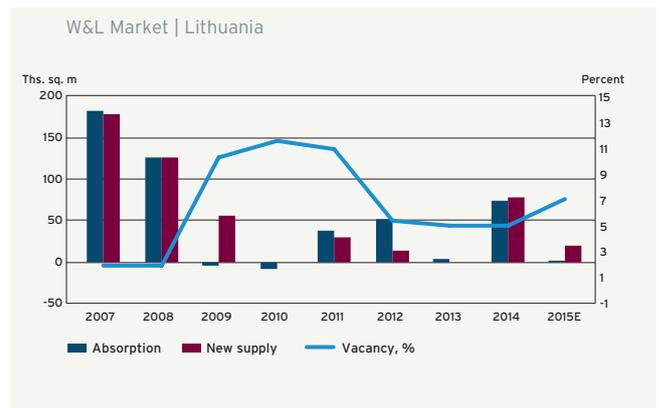
For 2015-2016, 50,000 sq. m of new space is planned in the market. New development is mainly spurred by well-performing logistics, import-export and trade companies looking to develop properties according to their own requirements.

GROWING DEMAND

Market absorption ratio reached 75,000 sq. m in 2014 in the main Vilnius, Kaunas and Klaipeda regions.



Source: Newsec



Source: Newsec

For 2015-2016, 50,000 sq. m of new space is planned in the market.

Tenants already existing in the market made major share of lease transactions and no fresh tenants were attracted. The end users of built-to-suit projects will mostly absorb new projects in the market. Due to expiring agreements, the further tenant migration is expected, especially in the small-scale tenants group.

A new trend that emerged in the industrial premises market is that the premises tenants include the growing number of manufacturers. However, not all newly comers necessarily choose Vilnius region, or even Kaunas and Klaipeda, some are looking for smaller cities and regions as well.

Tenants providing 3PL services transform and diversify activities. It is a tendency to separate services provided in warehouses from transporting or even storage services.

RENT RATES INCREASED

Warehousing rents have returned to

the pre-crisis levels, and after a long time this segment began to recover, with a number of new projects being delivered to the market. However, due to Russia's sanctions on EU countries, logistics and warehouse sector can once again experience a painful shock.

The average rental rates now are in average 3.8-4.8 EUR/sq. m/month for A class buildings in Vilnius prime locations and up to 3.5-4.5 EUR/sq. m/month in Kaunas and Klaipeda. The rent rates also differ according to the size of the tenant.

VACANCY

Low vacancy levels remained at ~5% in combined Vilnius, Kaunas and Klaipeda markets during 2014. Klaipeda has the highest W&L vacancy rate among the largest cities while there are almost no vacant warehousing space in Kaunas.

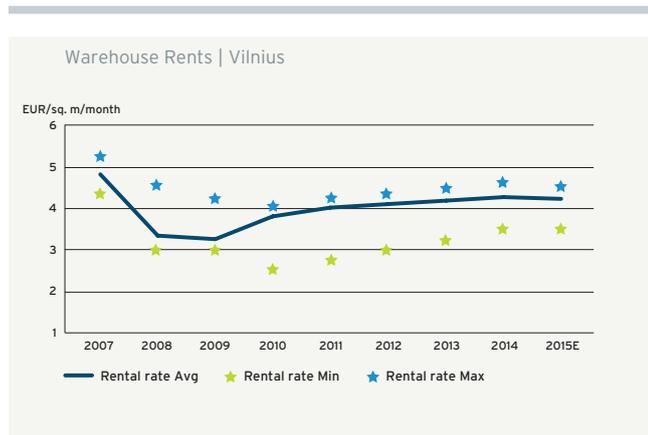
However, it should be noted that the

vacancy in the W&L segment could visibly increase in 2015-2016, if any of the large companies occupying large spaces in current warehouses build their own built-to-suit projects. This trend is already visible in Estonia, where Maxima is investing 30 million EUR into 45,000 sq. m built-to-suit logistics center.

OUTLOOK

The ones Lithuanian producers suffered from the Russian embargo were not the warehouse tenants, so the real risk to this segment was insignificant. Moreover, the annual results of goods importers grew, retail and wholesale indices have improved, providing a favorable environment for the development of the warehouse market. Based on the trends expected in 2015, the storage space market will avoid any negative consequences.

Another important to note tendency is the fact that the retail chains may start developing their own logistics centers and optimize the logistics chain performance. A significant share of retail chain tenants decision to follow the trend could shake up the market and it could be accelerated by the growing rents.



Source: Newsec

Hotel market

In 2014, hotels received estimated number of 1.8 million tourists or 7% more than in 2013.

The recovery of Lithuanian economy started in 2012 and continues still. Developments in the economy as well as the increase of the number of flights in Vilnius and Kaunas Airports are positive factors for the growth of tourism and hotel industries. Hotel market is continuously improving in terms of increasing turnover of accommodation establishments, growing number of guests and occupancy levels.

SUPPLY

In 2011, Lithuania officially joined The Hotelstars Union that provides harmonized hotel classification with common criteria and procedures in the participating countries. In 2014, 209 classified hotels in Lithuania were members of Lithuanian Association of Hotels and Restaurants. The majority of the hotels - 102, to be exact - in Lithuania currently are rated as 3-star or 3-star-plus. There are only 10 5-star and 5-star-plus hotels in Lithuania, located in Vilnius, Palanga, Trakai and Prienai.

The major part of registered hotels is situated in Vilnius and Klaipeda counties that have the largest tourists' flows within the country. According to Lithuanian Association of Hotels and Restaurants there are 59 classified hotels in Vilnius offering 4,005 rooms. The majority of hotel market in Vilnius is formed by 3-4 star hotels that cover 71% of all hotels and 73% of rooms.

The presence of large international hotel operators is mainly focused on Vilnius market - some of the worldwide known brands are actively exploring this market.

NEW DEVELOPMENTS

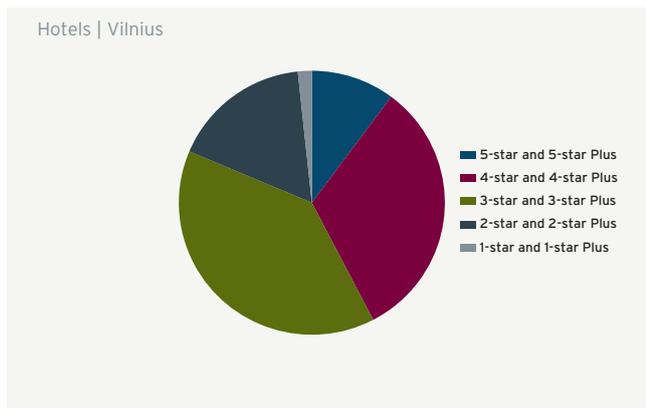
During 2013 - 2014, 9 new hotels opened in Lithuania. 3 new hotels were opened in Palanga, 2 - in Vilnius and one in each Kaunas, Klaipeda, Anyksciai and Druskininkai. The latest ongoing hotel project in Lithuania is the reconstruction of hotel Ambassador in Vilnius - former 2-star hotel will be

reopened as 4-star hotel in the beginning of 2015. Moreover, three new hotels are planned in Vilnius - one in Didzioji Street, one in Pilies Street in the Old Town by MG Valda and one next to the business and entertainment center Forum Palace. The latter will have 130 rooms, the construction is expected to start in 2015. Few smaller projects are planned in Nida and Kaunas.

DEMAND

In 2014, hotels received estimated number of 1.8 million tourists or 7% more than in 2013; the estimated number of foreigners amounted to 1.1 million (more by 6.6%).

According to the Lithuanian Tourism Development Program 2014-2020, one of the main objectives is to develop tourism infrastructure and improve service quality, and one of the criteria for the assessment is the increased number of tourists. It is expected that by the increasing competitiveness of



Source: Lithuanian Hotels and Restaurants Association



Source: Statistics Lithuania

The city of Vilnius is ready for new hotel projects.

the tourism sector in Lithuania, the number of accommodated tourists in Lithuania will reach 2.5 million in 2020.

The majority of foreign accommodated tourists in Lithuania remains from Russia, Germany, Belarus, Poland and Latvia, more than half of foreign tourists - 60% - staying in Vilnius.

INCREASING OCCUPANCY

The occupancy of hotels in Lithuania is highly seasonal, with Q2 and Q3 being the most active in the market. Average occupancy rate reaches 60% in Q3. The occupancy in Q1 and Q4 drops down to around 38%. However, hotel occupancy in Lithuania has been improving since the market downturn in 2009, with the highest rates of occupancy reached by hotels in Vilnius. In 2014, the overall hotel occupancy slightly increased - reached 49% in Lithuania and 64% in Vilnius.

According to Lithuanian Hotel and Restaurant Association single room prices started to increase since the middle of 2010, however prices are still lower by 10-15% than in the peak years.

During 2014, the average rack rate for a standard double room in Vilnius was around 164 EUR in 5-star hotels, 92 EUR in 4-star and 61 EUR in 3-star hotels.

Preferential VAT rates for accommodation services in Lithuania have been set in January 2015 and currently Lithuania has 9% VAT rate for accommodation services. The cancelled preferential VAT rate since 2012 did not have destructive effect on the Lithuanian hotel market. It is expected that preferential VAT rate will increase competitiveness of Lithuanian hotels among other European competitors.

OUTLOOK

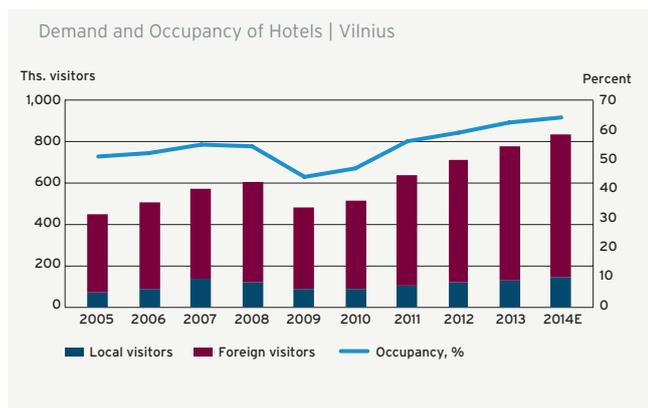
Further growth and positive changes for 2015 and later years is expected due to more positive market conditions along with the economy growth in hotel sector.

The completion of currently developed or reconstructed projects is expected only in 2015-2016, when the entrance of new market players may be counted on as well.

These year Lithuanian hotels will be able to improve their performance due to events of national importance - the events will ensure highest occupancy rates and will provide an excellent opportunity to raise awareness of Lithuania in the world and establish new business relationships.

The city of Vilnius is ready for new hotel projects. One of them could be a 4-star; 200-room hotel located in the central part of the city and may belong to a well-known global network. There is also enough space for 2-3 smaller scale hotels that meet the requirements of 2-3-star classification.

ROOM RATES



Source: Statistics Lithuania

Hotel rooms rates are expected to increase in 2015, and the brought back VAT preferential of 9% will help to achieve higher sales for hotel management.

Residential market

Average apartment prices have increased by 6.6% in Lithuania during 2014.

The country's planned accession to the Eurozone in 2015 has led to high to optimistic expectations in Lithuanian apartment market in 2014. The number of new projects in the market was set very high, followed by largely increased activity in transactions. The transaction volume of 2013 was reached in 2014 in less than 9 months.

ACTIVITY IN TRANSACTION MARKET

Over the first seven months of 2014, the number of apartment transactions in Lithuania increased by 26%, yet in the middle of the third quarter, the growth in the number of transactions stopped. The following 2.7% drop in average monthly transactions allowed maintaining an annual growth of 13% (~ 28,300 transactions per year).

The most significant growth of transactions in the major Lithuanian cities was observed in Panevezys (18%), but the share in the city was only 3.6% of the entire Lithuanian market. The big-

gest part of the apartments have been sold in Vilnius, where annual number of transactions grew by 12%. Compared to 2013, Kaunas had an increase of transactions by 17.6%, Klaipeda - 8.6%, Siauliai - 2.5%.

AVERAGE APARTMENT PRICES INCREASED

The increase in the number of transactions has led to an increase in prices. Average apartment prices have increased by 6.6% in Lithuania during 2014.

The highest growth was seen in Vilnius (13.1%), where the average price grew to 1,112 EUR/sq. m, Kaunas, Klaipeda and Siauliai had a price increase by 10.3%, 12.2% and 12.3% respectively to 580 EUR/sq. m, 770 EUR/sq. m and 470 EUR/sq. m. The lowest price growth of apartments was in Panevezys, where prices increased by 6.4% up to 415 EUR/sq. m.

The total number of Vilnius apartment transactions was more than 8,650 dur-

ing 2014 and it covered ~ 30% of the Lithuanian market. Transaction number of apartments in old buildings slightly diminished and the total share of sales decreased to 47% (53% - 2013). New construction apartments in Vilnius were sold by an average of 210 per month, during the year it amounted to ~ 30% of all sales transactions.

The activity in new apartments segment was seen in both economy and mid-range class segments, however in the second half of the year economy class transaction share has been decreasing. Therefore, projects and prestigious segment in most cases were still in the construction phase.

If in Q4 2014 the growth of the apartments market has taken similar growth rates, the number of transactions could have achieved peak results for the year; with the number of transactions in Vilnius reaching 10,000 per year. However, such growth would signal about an uncontrolled situation and may lead to a higher sales price growth. If the market activity has been slower than had been thought, with a weak prices growth, the market will stabilize and is likely to maintain the sustainability of both the prices and the number of transactions.

NEW SUPPLY

During 2014, the supply in Vilnius apartment market grew significantly; buyers were offered ~ 4,600 new apartments in more than 70 apartment buildings. Taking into account the supply from previous years and the resulting sup-



Source: Centre of Registers

In terms of transactions number, the year of 2015 will be similar to the 2014.

ply before the year-end, buyers could choose from more than 4,000 apartments in both the finished and still under construction projects. The supply of apartments was approximately 1.6 times higher than a year ago. Prestigious segment supply has increased in particular, as very little high-quality properties in attractive locations were under development for several years in a row.

OUTLOOK

If the growth rate of new objects comes to halt, the existing supply could be realized within 2-2.5 years. It is evident that the market participants would not shift suddenly and would have to adapt to both the slower pace of sales and the lower income.

Apartment prices have already increased, and the majority of registered transactions already were concluded at the higher prices. Due to the changed structure of the transaction market, when there is a concentration to mid-level and upper class or even prestige apartments, average apartment price per sq. m may increase even more. We forecast that in the first half of 2015, the market will remain sluggish, especially in the economic segment, and the second half of the year will see a recovery. In terms of transactions numbers, the year of 2015 will be similar to the 2014.

Buyers will purchase the best apartments that are still under construction phase and the average ones will be bought when the building is already



completed. Due to such large supply, ~30% of remaining new construction apartments will be sold after the projects will be finished. The number of remaining unsold apartments will grow thus increasing the unsold apartment stock. Residential segment developers will have to consider making the full finishing and only then offer apartments in the rental market.

Legal and tax overview

The minimum authorised capital in a private company is EUR 2,500.

CORPORATE PRESENCE

What is the most common type of corporate presence?

The most common type of an investment vehicle among both foreign and local investors is a private company or sometimes referred to as a private joint stock company (in Lithuanian *uzdaroji akcine bendrove* or UAB), which is analogous to a Latvian SIA, German GmbH, French SARL or BV in the Netherlands. The owners of the private company (shareholders) enjoy full limited liability.

Describe the management structure of a private company. Are there any participation restrictions applicable to foreigners?

The private company (UAB) can have a four-tier governance structure, comprising the following elements:

- General Meeting of Shareholders;
- Supervisory Council;
- Board (of Directors);
- Chief Executive Officer (CEO).

It is not obligatory to form the Supervisory Council and/or the Board in a company. The Supervisory Councils are rarely established in private companies, but Boards are formed quite often, particularly in larger private companies.

Contrary to the existing practise abroad, in Lithuania the Board does not have direct executive powers. The

Board is responsible for strategic management of a company, election of the CEO and some other decisions related to the company (e.g., decisions to invest in other companies, etc.).

Lithuania's corporate laws do not restrict in any way participation of foreigners in management of Lithuanian companies. Any foreign citizen, irrespective of his/her origin, may be freely elected either to the Supervisory Council or the Board or the position of the CEO.

What is the minimum authorised capital in a private company?

The minimum authorised capital in a private company amounts to EUR 2,500.

Are there any requirements for the number of shareholders in a private company?

The minimum number of shareholders is 1 and the maximum is 249.

Are there any specific requirements for transfer of shares in a private company?

Only fully paid-up shares may be transferred. Other shareholders have the pre-emption right to buy the shares subject to sale.

A shares transfer agreement must be made in a written form. Additionally, the agreement should be notarized if at least 25% of shares are subject to

sale or the price for shares exceeds EUR 14,500, except the cases when securities accounts of shareholders are managed according to the procedure established in security market legislation, i.e. when shares are accounted by the Lithuanian Central Securities Depository through an intermediary (e.g., banks).

The notary fee charged for certification of the shares sale and purchase agreement amounts to 0.4-0.5% of the transaction value and cannot exceed the established cap of EUR 5,800.

The fees charged by the banks and other intermediaries for management of securities accounts are subject to the agreement between a company and a respective intermediary.

What are the major fees involved in incorporation of a private company?

Registration of a private company involves the following major filing and notary fees:

- the stamp duty for preliminary registration of a company name (if any) is EUR 16;
- notary fees for examination and certification of incorporation documents may vary from EUR 70 to EUR 290;
- the stamp duty for registration of a company with the Register of Legal Persons - EUR 60.

No major restrictions are imposed on foreigners willing to invest in real estate in Lithuania.

ACQUIRING REAL ESTATE

Are there any legal restrictions on the ownership of real estate (interests in entities which own real estate) for foreign investors?

A foreigner willing to acquire land into ownership must comply with the origin criteria, which are also known as the European and Transatlantic Integration criteria. To meet the said criteria a legal person is required to be established in or a natural person is required to hold the citizenship or a permanent residency of, one of the following states:

- a Member State of the European Union (EU) or a state that is a party to the European Treaty (Association Agreement) with the European Communities and their Member States;
- a Member State of the Organisation for Economic Co-operation and Development (OECD), a Member State of the North Atlantic Treaty Organisation (NATO) or a Member State of the Agreement on the European Economic Area (EEA).

Land may also be owned by non-Lithuanian citizens having permanent residency in Lithuania.

In addition to the origin criteria, foreigners willing to acquire farmland in Lithuania must comply with the established qualification requirements, among them, to be a registered farmer or have agricultural education, to be engaged in farming activities for at

least 3 years over the last 10-year period, to declare farmland and/or crops for EU support, to generate at least 50% income from farming activities, etc.

As a general rule, there are no restrictions imposed on foreign investors (irrespective of their origin) to acquire interests in Lithuania-based entities which own real estate. However, a foreigner seeking to acquire more than 25% of interest in the entities owning more than 10 ha of farmland is required to comply with all the qualification requirements applicable to the buyer of farmland.

Further, foreigners are free to own any kind of buildings and structures in Lithuania provided they are able to secure the respective rights to the land (e.g., lease) required for operation of the relevant buildings or structures.

Are pre-acquisition agreements commonly used in your jurisdiction? What is their legal effect and enforceability?

Pre-acquisition (preliminary) agreements are quite common in Lithuania. Their content may vary from very general (e.g., setting out the deadlines for due diligence and execution of the main sale and purchase agreement, etc.) to very detailed (providing for the preconditions for closing, calculation of a purchase price, reps & warranties, elaborated termination and liability clauses, etc.).

However, preliminary agreements (letters of intent, heads of terms, memorandums of understanding, etc.) may not be enforced in kind. If a seller refuses to sell property subject to a preliminary agreement (breaches the same), a buyer will only be entitled to claim damages caused as a result of such refusal as well as a contractual fine if such is set out in the agreement.

Under certain circumstances, the preliminary agreement may be recognised by the court as the main sale and purchase agreement.

Describe formal requirements for a real estate sale and purchase agreement

Any real estate which is subject to a sale and purchase agreement must be registered with the Real Estate Register (except for some simple structures which are not subject to the mandatory registration).

The sale and purchase agreement for any kind of real estate must be concluded in a written form and certified by a notary public. The notarized form is not mandatory for acquisition of shares of a company that owns real estate (i.e., in case of a share deal) only in cases described in the Section Corporate Presence, also when the company's shares are paid up by a non-pecuniary contribution, i.e. by way of transfer of real estate into the authorised capital of the company.

Although the absence of registration

The ownership to real estate passes over from the moment it is handed over to the buyer.

of the real estate sale and purchase agreement does not affect its validity in respect of the seller and the buyer, however, only legally registered agreement may be invoked (enforced) against third persons (for further details please see the Section Registration).

An agreement on sale and purchase of structures should explicitly discuss the rights of the buyer in respect of the land under the structures subject to sale. Failure to comply with this rule makes the agreement null and void.

The plan of the land plot must be attached to the sale and purchase agreement of the land plot as its integral part.

With certain exceptions, in case of sale of buildings or premises their energy performance certificates must be submitted to the buyer on the date of entering into the sale and purchase agreement.

Can a sale and purchase agreement of real estate or shares of an entity owning real estate be made in a foreign language?

Although the Law on the State Language requires all transactions between Lithuanian legal and/or natural persons (irrespective of their origin) to be executed in the Lithuanian language, violation of this requirement does not make the agreement null and void.

The Lithuanian text of the agreement may be accompanied by the text in any other foreign language(s), i.e., the agreement may be signed in two or more languages where one of them is Lithuanian. Alternatively, the agreement may be executed solely in a foreign language (save for the exceptions below) and subsequently translated into the Lithuanian language by authorised translators for the purpose of its official use.

Agreements, which require compulsory notarization (e.g., any real estate sale and purchase agreements or shares sale and purchase agreements subject to compulsory notarization (for more details see the Section Corporate Presence), must be executed either in the Lithuanian language only or in any foreign language (or languages) and Lithuanian.

Further, if the agreement (e.g., real estate pre-acquisition or lease agreement) is intended for registration with the Real Estate Register, the Lithuanian text of such agreement must always be presented to the respective registrar, either as part of the executed text of the agreement (when agreement is made in the Lithuanian and any foreign language or languages) or in the form of an official Lithuanian translation (if the agreement is executed in a foreign language only).

Other agreements not mentioned above can and quite often are executed in English (or other foreign language) if the parties to such agreements are

foreign entities or Lithuania-based foreign investors.

Does any third person (governmental authority, etc.) have the pre-emptive right to acquire real estate subject to sale?

The pre-emptive right is enjoyed by:

- co-owners in respect of the parts of real estate owned and intended to be sold by another co-owner. If such pre-emptive right is violated, the aggrieved co-owner has the right to demand, through the judicial procedure, assignment of the buyer's rights and obligations under the sale and purchase agreement concluded by the other co-owner and a third party;
- the State with respect to:
 - i. land plots falling under certain protected areas (e.g., the areas that have been granted the status of Natura 2000, also certain areas of national parks, etc.);
 - ii. forest land plots which neighbour forests of State importance;
 - iii. land intended to be used for public needs, etc. (except when a co-owner sells its part to the other co-owners);
- owners of buildings and structures with respect to the land thereunder;
- certain qualified farmers and users with respect to the neighbouring agricultural land and agricultural land plots in use;
- owners of forest land plots with respect to the neighbouring forest land for sale.

Only legally registered agreements, restrictions and encumbrances remain effective upon the sale of real estate.

Describe the moment of acquisition of the ownership to real estate

The ownership to real estate passes over from the moment it is handed over to the buyer. Unless the parties agree that the sale and purchase agreement itself constitutes a handover deed of real estate and thus, the ownership to the real estate passes over from the moment of entering into such agreement, the handover of real estate is to be documented by a separate handover deed.

Does the seller have the statutory disclosure or warranty obligation?

The seller is bound by the statutory obligation to disclose to the buyer all third parties' rights, mortgages, seizures, on-going litigation and other encumbrances with respect to the real estate subject to sale. If the seller fails to comply with such obligation and is not able to prove that the buyer was aware of the respective encumbrances at the moment of sale, the buyer shall become entitled to claim reduction of the purchase price or termination of the sale and purchase agreement.

The buyer cannot rely on the encumbrances over the real estate and invoke remedy measures against the seller if the seller has notified the buyer of such encumbrances or the buyer could have learned of them from the public registers (such as the Real Estate Register, the Register of Mortgages and the Register of Property Seizure Acts).

What is the effect of transfer of real estate on contractual and other rights, obligations and warranties? Do these pass over along with the title to real estate?

As a general rule, only legally registered agreements, restrictions and encumbrances remain effective upon the sale of real estate.

Transfer of the statutory warranties (e.g., construction guarantees) is normally documented by an additional statement in the sale and purchase agreement or the handover deed declaring the assignment of all seller's rights under such warranties to the buyer. The guarantees issued to the seller by third persons (e.g., bank guarantees, sureties of insurance companies, etc.) are either reissued in the name of a new owner or assigned to the latter.

What are the conditions for termination of the real estate sale and purchase agreement?

As any other commercial agreement, the real estate sale and purchase agreement may be terminated:

- by mutual agreement of the parties;
- by either party's demand if the other party commits a material breach and fails to rectify the same in due course (the parties may agree on what is to be considered a material breach under the agreement; otherwise, the material breach is to be determined based on statutory pro-

visions);

- on other grounds set out in the agreement (the parties are free to establish any grounds for unilateral termination of the agreement either through the judicial procedure or without applying to court).

What are the fees for notarization of the real estate sale and purchase agreement?

The notary fee charged for certification of a real estate sale and purchase agreement amounts to 0.45% of the transaction value and cannot exceed the established caps of EUR 5,792.40, if only one real estate unit is being sold, or EUR 14,481, if more than one real estate unit is subject to the same sale and purchase agreement.

COMMERCIAL LEASE

What are the formal requirements for the execution of a lease agreement?

Any real estate lease must be in a written form.

Lease of buildings, structures or land has to be registered with the Real Estate Register in order to be enforceable against third parties.

With certain exceptions, in case of lease of buildings or premises a copy of their energy performance certificates must be submitted to the tenant.

The landlord is free to sell or otherwise transfer or encumber the leased property, unless otherwise set out in the lease agreement.

Are there any statutory restrictions on a lease term?

In general, the maximum term of any lease may not exceed 100 years. Special rules are applied to the lease term of the State-owned land - it cannot exceed 25 years for the State-owned agricultural land and 99 years for any other State-owned land.

Does a tenant have the statutory right to extend or renew its lease?

A tenant having duly performed its obligations during the validity of a lease, upon its expiry has the priority right against third parties to renew the lease for a new term (if further lease of the property is intended by the landlord). The landlord is obliged to inform the tenant of its right to renew the lease prior to its expiry.

Rent and its adjustment: are there any statutory restrictions on the amount of rent? What is the general market practice?

Generally, there are no such restrictions. Nevertheless, all transactions between the related parties should be effected based on the arm's length principle, i.e., the transactions between the associated parties should be made under such (market) conditions (including rent) as if the parties to the transaction were not associated.

In commercial leases rent is usually established as a fixed fee payable on a monthly (rarely on a quarterly) basis

in advance. A turnover rent quite often is introduced in major retail leases in addition to the fixed (base) rent.

Normally, the rent is adjusted annually based on the local or EU consumer price index.

Alienation: what are the rights of the tenant and the landlord with respect to assignment, sub-lease or placing a charge over a lease?

Typically, the following alienation rules are applied:

- a landlord is free to sell the leased property, also pledge receivables from the lease or assign the landlord's rights to them;
- a tenant has to obtain a prior written landlord's consent for:
 - i. subleasing of the property to third persons (in the office sector, exceptions from this rule are frequently applied for sublease to the related persons (parent or sister companies, etc.));
 - ii. pledging or otherwise encumbering the lease right;
- except for the above-mentioned, neither party has the right to assign all or any part of its rights and/or obligations under the agreement to any third person without a prior written consent of the other party.

What is the common form and length of eviction?

Generally, the landlord seeking eviction of the tenant has to apply to the

court. If the tenant fails or refuses to vacate premises after the adoption of the final decision in favour of the landlord, the latter will need to apply to a bailiff for the enforcement of the court decision.

The length for eviction proceeding depends on a number of circumstances (availability of written evidence, tenant's objections, etc.). In the best case scenario the first instance court's decision (which may still be appealed against) could be expected approximately in 2-3 months after the application to the court.

Although there is no extensive case law as to the landlord's rights to exercise self-defence, commercial leases usually contain the landlords' rights to cut off the supply of electricity and other public utilities, lock the doors, inventory and remove the tenants' property and invoke other similar measures against the tenant refusing to vacate the leased premises.

What are the restrictions on the transfer of title to real estate subject to lease?

The landlord is free to sell or otherwise transfer or encumber the leased property, unless otherwise set out in the lease agreement. The landlord must, nevertheless, disclose to the tenants the intended sale or other transfer of the leased property.

How does the transfer of real estate affect the tenant's rights and obli-

In case no detailed plan is present, development in urbanised areas could be carried out on a basis of the general plan.

gations?

Tenants have the statutory right to unilaterally terminate any lease in case of change of the owner. Further, upon change of the owner of real estate, its lease agreement will remain valid provided it has been registered with the Real Estate Register.

CONSTRUCTION

Describe the common stages of construction (development) process

Spatial planning

As a general rule, new developments in Lithuania are enabled through spatial planning documents: detailed, special (for engineering infrastructure) and general plans.

Developments in urbanised areas can be carried out on the basis of:

- existing detailed plans prepared for specific land plot or area (group of land plots); or
- in case the detailed plan is not present - the general plan approved by the local municipality, and after obtainment of special architectural requirements issued by the director of municipality administration.

New detailed plans in urbanised areas are prepared only if the general plan does not establish specific development regimes (requirements) for the land plot (area) intended for development. If the detailed plan is required, the area to be planned under it must

comprise at least the whole block. The developer has to initiate the planning process and procure its financing by entering into the respective agreement with the local municipality which in all cases acts as organiser of the detailed plan.

Developments in rural areas are normally subject to the general plans.

Environmental impact assessment

It is required to be carried out if the planned development falls under the list of activities established by the Law on Environmental Impact Assessment (the list of such activities is transposed from Directive 2011/92/EU).

Design of the building

It is prepared in accordance with inter alia territorial planning documents, connection conditions obtained from owners and operators of engineering and communication networks and special architectural requirements issued by local municipalities. Additional special requirements are applied to designing of buildings falling within the protected areas (parks, nature reserves, areas of cultural heritage, etc.). For certain buildings expertise of the technical design should be carried out.

Construction permit

It is issued within 10 to 45 business days of the submission of all required documents depending on the extent of construction works to be carried out. The construction permit is valid for unlimited period of time. In the major-

ity of cases the construction permit is issued by the municipal authorities.

Construction works

In the process of construction works, design, technical and State supervisions are carried out.

Completion of construction works

Completion of construction works must be documented either by the completion deed (in case major construction works have been carried out) to be issued by the State commission upon inspection of the works performed, or by the employer's declaration in the approved form which in certain cases has to be certified by a competent State authority.

Describe the main requirements for construction licencing

As a general rule, any legal entity registered in the Republic of Lithuania, also a foreign legal entity having the licence (right) to carry out the construction works in its home country as well as a construction engineer is entitled to engage in construction business in Lithuania.

In all cases a legal person willing to carry out construction works must employ a qualified construction manager.

Special licencing requirements are applied to legal entities willing to engage in construction of buildings of exceptional significance, the characteristics of which are approved by the

Lithuania has a very modern, efficient and reliable real estate registration system.

Ministry of Environment (e.g., all residential and non-residential buildings of 20 metres and higher, etc.). To be eligible to act as a contractor of an exceptional significance building an entity must obtain:

- a qualification certificate confirming inter alia compliance with the respective requirements, also listing the type of construction works (general, mechanical, electro-technical, etc.) permitted to be carried out, etc.; or
- a certificate of recognition of the foreign entity's right to engage in similar type of the construction works in its home country (applicable only to contractors established in a Member State of the European Union or the EEA Agreement or the Swiss Confederation).

Similar qualification requirements are applied in respect of designers and entities willing to engage in designing business in Lithuania.

The procedures of certification and recognition of the right to construct and/or design are pursued by the State Enterprise Certification Centre of Building Products.

What are the statutory guarantee terms for construction works?

The following statutory guarantee terms are applied for defects in designing, construction and technical supervision works:

- 5 years for the structural part of construction works;
- 10 years for defects of hidden elements;
- 20 years for intentionally hidden defects.

REGISTRATION

Does all real estate require to be registered?

Except for certain simple and temporary structures, all other kinds of real estate have to be registered with the Real Estate Register. Only legally registered real estate may be sold or otherwise disposed of.

What rights (if any) to real estate are subject to registration? What are the consequences of failure to register?

All in rem rights and personal rights to real estate, also encumbrances of and various legal facts related to, real estate or restriction of rights thereto (such as seizures, lawsuits, decision of authorities affecting real estate, etc.), may and, in the cases stipulated by the laws, must be registered with the Real Estate Register.

In most cases validity of rights and obligations to, as well as encumbrances of, real estate is not dependant on their registration, and they become effective from the moment agreed by the parties. The exception is applied to some specific rights in rem, in particular, servitudes and usufructs,

which create the rights and obligations to their holders and property owners only upon their registration, unless such rights are determined by the laws.

However, both personal rights (e.g., lease, sublease, gratuitous lease, etc.) and in rem rights to the real estate, as a general rule, may be invoked against third persons only if they have been registered with the Real Estate Register. A tenant cannot rely on the lease against a new owner of the building, if its lease has not been registered with the Real Estate Register at the moment of change of the owner.

What is the procedure for registration of the ownership to real estate?

Two alternative ways for the registration of the ownership to the acquired real estate are available:

- request the notary who has certified the relevant acquisition agreement (the notary will transmit the necessary data to the Real Estate Register electronically); or
- apply to any branch of the State Enterprise Centre of Registers which administers the Real Estate Register.

What time and costs are involved in the registration of real estate (rights thereto)?

The major costs relate to the registration of the title to real estate. Such costs mainly depend on the type of

Dividends are subject to 15% withholding tax.

real estate (land or building/premises), its average market value established by a competent authority by way of massive valuation and the acquirer of the real estate (natural or legal person). In any case the costs for the title registration cannot exceed the established cap-fees EUR 1,448.10 for legal persons and EUR 289.62 for individuals.

Substantially lower fees are involved in the registration of other rights, encumbrances and legal facts pertaining to real estate.

The standard term for the title registration is 10 business days, while any other registration procedures have to be completed within 5 business days. Accelerated registration within 1, 2 or 3 business days is available upon payment of 30, 50 or 100% mark-up on the standard fee, respectively.

How reliable is the registration system?

By virtue of law, data recorded in the public register is deemed accurate and true (prima facie evidence), unless rebutted.

The data of the Real Estate Register provides comprehensive information on the real estate owner, leases, mortgages, seizures and other encumbrances registered in respect of real estate, also on-going lawsuits, decisions of authorities affecting the real estate (e.g., decisions regarding expropriation procedures), etc. Thus, an

investor is able to receive up-to-date data on any real estate at any time.

Is the register publicly accessible?

Data contained in the Real Estate Register, as a general rule, is considered to be public insofar disclosure thereof is not explicitly restricted (e.g., classified information) and complies with the personal data protection requirements.

Normally any person, upon paying the set fee, may order an official record on any real estate registered with the Real Estate Register based on the address of real estate, its identification number, or name or identification number of the legal person.

Access to the data of the Real Estate Register based on the name, surname and/or personal number of a natural person is available only to certain qualified authorities, organisations and officers (e.g., state authorities, notaries public, bailiffs, credit institutions, insurance companies, attorneys-at-law).

TAXATION

CORPORATE INCOME TAX

Tax rate and basis

The standard rate of corporate income tax in Lithuania is 15%. A reduced rate of 5% is applied to small entities complying with the established criteria.

Lithuanian entities are taxed on their income sourced inside and outside

Lithuania except for income sourced through their permanent establishments in countries which are members of the EU or which have the effective Double Taxation Treaty (DTT) with Lithuania and where such income was subject to tax.

Capital gains

Capital gains of a Lithuanian entity or a foreign entity acting via its permanent establishment on transfer of shares are exempt from tax if:

- the transferred shares are of an entity which (i) is registered or otherwise organized in an EEA Member State or a state which has an effective DTT with Lithuania, and (ii) is a payer of the corporate income tax or an identical tax; and
- the transferor holds more than 25% of the total number of shares of that entity for at least 2 consecutive years (whereas in case of reorganisation, for not less than three years).

The aforementioned relief does not apply in respect of transfer of the shares to their issuer.

Capital gains of a foreign entity from the sale of real estate located in Lithuania received otherwise than through its Lithuanian permanent establishment, also income from the real estate lease received from the source in Lithuania, as a general rule, are subject to the withholding tax at the rate of 15%. The withholding tax is imposed on gross income received from the sale

Lithuanian entities are allowed to transfer their tax loss accrued for a tax period to another group companies.

of real estate. After the tax has been paid, the foreign taxed entity is entitled to apply to Lithuanian tax authorities for the re-calculation of the tax on a net basis (i.e., on the difference between the acquisition and sale values (prices) of real estate) and refund of the overpaid amount.

Capital gains generated by a foreign entity in Lithuania from the sale of shares otherwise than through its permanent establishment are not subject to taxation in Lithuania.

Dividends

Dividends paid by a Lithuanian entity to either a Lithuanian or foreign entity are subject to the withholding tax at the rate of 15%, unless the participation exemption can be applied. Dividends paid to a legal entity are tax exempt if a legal entity holds continuously, at least for 12 months, including the date of distribution of dividends, shares carrying more than 10% of the total number of votes in the Lithuanian legal entity (the payer of dividends). The participation exemption cannot be applied in case the recipient of dividends is established or otherwise organized in a tax haven country.

Interest

Interest paid by a Lithuanian entity to a foreign entity is not subject to the withholding tax provided such foreign entity is registered either in a Member State of the EEA or a state that has an effective DTT with Lithuania. In other cases interest paid to non-residents is subject to 10% withholding tax.

Thin capitalization rules

Lithuanian thin capitalization rules apply in respect of the borrowings from the related parties as well as the borrowings guaranteed by the related parties. The debt to equity ratio is 4:1. These provisions do not apply if a Lithuanian company can prove that the same loan under the same conditions would have been granted by a non-related entity.

Tax losses carried forward

Losses, except for the losses incurred as a result of disposals of securities and/or derivative financial instruments, may be carried forward for an unlimited period of time, however, the deduction of such losses from the profits is limited to 70 % of a current year tax profit.

Carrying of losses, except for the losses incurred as a result of disposals of securities and/or derivative financial instruments, shall be terminated if the entity ceases its activities giving rise to the losses for reasons that are not beyond the entity's control.

Losses incurred as a result of disposal of securities and/or derivative financial instruments (except for losses incurred by financial institutions) may be carried forward not longer than for 5 consecutive tax periods, starting from the tax period following the tax period during which the losses were incurred.

Losses incurred by financial institutions as a result of disposals of securi-

ties and/or derivative financial instruments may be carried forward for an unlimited period of time, however, deduction of such losses from the profits is limited to 70 % of a current year tax profit.

Intra-group consolidations

Lithuanian entities are allowed to transfer their tax loss accrued for a tax period to another group company which would reduce its taxable income for the same tax period by the amount of the loss transferred to it.

A foreign entity is allowed to transfer its tax losses to Lithuanian entity if:

- a foreign entity is treated as a resident for the tax purposes in a Member State of the EU, and
- a foreign entity is not allowed to carry forwards its losses in accordance with the legislation in the country of residence; and
- tax losses of a foreign entity were calculated (recalculated) under the provisions of the Lithuanian Law on Corporate Income Tax.

INDIVIDUAL TAXES

Taxation of employment-related income

Employment-related income received by a Lithuanian tax resident from a Lithuanian employer is subject to the following taxes:

- 1) Taxes withheld from the gross salary of an employee:
 - personal income tax at the rate of

VAT is applied to the sale of new buildings, land plots with new buildings or designated for construction.

- 15%;
 - health insurance contributions at the rate of 6%;
 - social security contributions at the rate of 3%;
- 2) Taxes payable by the employer on the top of the gross salary of an employee:
- social security contributions at the rate of 30.98%
 - contributions to the guarantee fund at the rate of 0.2 % (payable only by Lithuanian employers).

Sale and lease of real estate

Capital gains from sale of real estate are subject to the 15% personal income tax.

Full exemption from personal income tax is applied on income of either tax resident or non-tax resident of Lithuania when real estate is sold (i) at least 3 years after its acquisition if the real estate was acquired prior to 1 January 2011 and it was not related to the seller's individual activities or (ii) at least 5 year after its acquisition if real estate was acquired after 1 January 2011. Some further tax exemptions are applied in case of sale of real estate used for residency purpose.

Income received either by a tax resident or non-tax resident of Lithuania from lease of real estate located in Lithuania is subject to the personal income tax at the standard rate of 15%.

Sale of shares

Capital gains generated by a tax resident of Lithuania from sale of shares

not exceeding EUR 3,000 during a calendar year are exempt from the personal income tax. The part of capital gains exceeding EUR 3,000 is subject to the 15% personal income tax.

Capital gains of a non-tax resident from sale of shares are not subject to taxation in Lithuania.

Taxation of self-employed individuals

Income generated by a self-employed individual from his/her individual business activity (after deduction of allowable expenses) is subject to the personal income tax at the rate of 5 % or 15% depending on the nature of the activities.

A self-employed individual is entitled to apply one of the following methods for calculation of the taxable base:

- to decrease the amount of income received by 30% (without providing any evidence of the expenses incurred and deducted);
- to deduct all allowable expenses from income received, provided that the self-employed individual possesses documents proving the expenses deducted (certain limits apply to some type of expenses).

Profit of self-employed individuals is subject to the health and social insurance tax at the rate of 37.5%. The taxable base (profit) cannot exceed EUR 20,688 per year, irrespective of the actual profit generated by a taxable person.

Sale and lease of real estate and shares is not considered to be individual activity of a self-employed individual under the Lithuanian law.

VALUE ADDED TAX (VAT)

The standard VAT rate of 21% is applied only to sale of (i) new buildings (i.e., which are under construction or had been built or materially renovated within the last 24 months prior to their sale), (ii) land plots (parts thereof) together with new buildings and (iii) land plots developed for construction of new buildings (regardless of whether or not the actual construction works are carried out on such land plot). Save for the above-mentioned, the sale of any other real estate is exempt from VAT.

Lease of real estate is VAT exempt, except for lease of (i) residential premises for a term not exceeding 2 months, and (ii) premises, parking sites/lots, garages for parking or keeping of any means of transport or other property with a similar function.

Notably, a VAT taxable person has the right of option for calculation of VAT on sale or lease of real estate that is exempt from VAT, provided, however, that such real estate is sold or leased to a VAT payer. Once chosen, the latter option should be applied for at least 2 years.

Individuals engaged in economic activities are obliged to register as VAT payers in Lithuania if:

The annual real estate tax rate range from 0.3% to 3% of the real estate taxable value.

- the total turnover from his/her economic activities exceeds EUR 45,000 per 12 calendar months; or
- the value of goods acquired from persons established in an EU Member State exceeds EUR 14,000 per 12 calendar months.

REAL ESTATE TAX

The real estate tax is imposed on real estate owned by individuals and legal entities in Lithuania except (i) land, (ii) real estate which is not in use as a result of unfinished construction works and (iii) real estate created or used for private and public partnership.

The annual tax rate is set every year by local municipalities in the range of 0.3%-3% of the taxable value of real estate.

Among other cases, full exemption from the real estate tax is applied in respect of properties designated for inter alia residential and leisure purposes, owned by individuals, provided that the total value of the property falling under the same type of real estate tax exemption does not exceed EUR 220,000. The real estate's value exceeding EUR 220,000 shall be subject to the real estate tax at the rate of 0.5%.

LAND TAX

The land tax is imposed on land owned by individuals and legal entities in Lith-

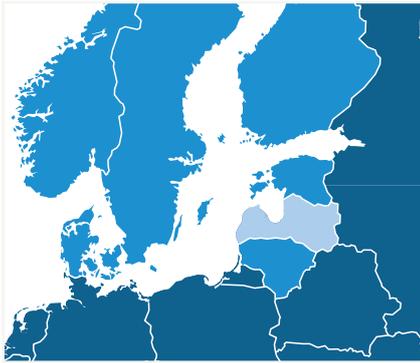
uania, except forest land.

The annual tax rate ranges from 0.01 to 4% of the land taxable value. The particular tax rate to be applied during the next taxable period (calendar year) is set by local municipalities before 1 June of the current year.

STATE-OWNED LAND LEASE TAX

The State-owned land lease tax is charged for the State-owned land leased without holding an auction.

The annual tax rate varies from 0.1 to 4% of the land taxable value. The particular annual tax rate and its payment terms are established by local municipalities within the territory of which the taxable land is located.



LATVIA Economic outlook

GDP CONTINUES TO GROW AT A MODERATE SPEED

Latvia joined the eurozone in January 2014, with the year showing itself to be very interesting but at times quite unnerving. GDP growth during 2014 was revised several times, adjusting to the real situation. The economic growth in Latvia continued throughout 2014, mainly driven by growth in consumption and the recovery of the success of export-oriented industries in the local market. Real estate transactions with non-residents accounted for a significant share of GDP in Latvia last year, making a positive impact on the hotel, retail segments and restaurant business as well. In 2014 private consumption continued to increase, and stimulated GDP growth by 2.4%. Low inflation and an increase in net wages (due to a 0.5% decline in social contributions, as well as a hike in the tax exempt income and tax allowance for dependents at the beginning of the year) raised the purchasing power of workforce. In 2015 wages will continue to grow, while employment is expected to stagnate. The liberalization of the electricity market for households will contribute to rising tariffs in 2015, resulting in an increased inflation (1.5% in 2015).

Our estimations regarding GDP in 2015 are positive, and we foresee a growth of 2.2%. Growth in Latvia will remain moderate for the next two years due to the weak performance of the eurozone, the recession in Russia and the geopolitical situation in Ukraine.

During 2014, S&P increased Latvia's credit rating assessment to A- and assigned the country a stable outlook. Latvia is holding the Presidency of the Council of the European Union in the first half of 2015.

PRIVATE CONSUMPTION

In 2014 private consumption rose by nearly 4%. The growth of private consumption was mostly influenced by an increase of the average salary rate and a low inflation rate. The average annual inflation of 2014 was 0.6%, which is one of the lowest levels in Latvia's growing economy, and it was caused, to a large extent, by external factors.

The inflation in the last quarter of 2014 was primarily impacted by a drop in global oil prices, the direct and indirect influence of which brought down prices for fuel as well as thermal energy. Domestic factors, such as the rise in indirect taxes (a tobacco excise tax), a hike in some regulated prices (water and sewerage tariffs) as well as, to some extent, a gradual rise in income and the impact of one-off costs of introducing the euro also constituted a positive contribution.

The biggest downward impacts on the euro area's annual inflation came from fuels for transport (-3.6%), telecommunications (-1.5%) and non-alcoholic beverages (-3.4%), while financial services (+5.2%), rents (+4.9%), tobacco (+6.3%), hotels, restaurants & cafés and catering services (+4.5%) had the

largest upward impacts.

The latest data indicate that the monthly average wage continues to increase. The growth of productivity next year is expected to be slower, while the rise in wages will also be more moderate in 2015.

According to the Central Statistical Bureau (CSB), the gross monthly average wage in the private sector during 2014 rose by 7.4% year-on-year. The net rise was slightly higher at 9%, which can be explained by favorable changes in taxation legislation: lowering the social insurance payment rate and raising the untaxed minimum and remission for dependents as of January 1, 2014.

In 2015 wages will continue to grow, while employment is expected to stagnate. The liberalization of the electricity market for households will contribute the rising of tariffs in 2015 resulting in increased inflation (1.5% in 2015). Private consumption is expected to maintain its stability at nearly 4% annual growth during 2015.

DECLINE OF UNEMPLOYMENT

In 2014 the expansion of economic activity contributed to a recovery in the labor market - employment and wages increased, however prices rose very slowly.

Unemployment declined from 11.9% in 2013 to an estimated 10.8% in 2014. However, unemployment is expected

Latvian entrepreneurs continued to open new sales markets and achieved the rise in export markets.

to remain in double-digits in 2015. The gradual rise in participation in the labor market (the proportion of the economically active within the working age population) cannot compensate for the drop in the working age population.

There is no reason to forecast any rapid rise in employment. The number of the economically active population will also continue to drop; therefore no substantial contribution to gross domestic product (GDP) can be expected from labor. Thus GDP growth will have to be based on rising productivity.

RETAIL TRADE

In 2014 retail trade, except automotive fuel, continued to grow by 3.2%. The fastest growth was in electrical household appliances in specialized stores, the retail sale of textiles, clothing, footwear and leather goods, and retail sales via mail order houses or the Internet. Due to economic sentiments and rising inflation, the increase in private consumption is expected to slow down in the following years, however retail trade growth is below growth in earnings, while consumers' savings are more stable in 2014.

Due to economic sentiments and rising inflation, an increase in private consumption is expected to slow in the following years, however retail trade growth is still ahead of the growth in earnings and consumers' savings is relatively low.

Consumer confidence in Latvia averaged -9.3 during 2014, reaching an all-time high of -6.2% in July 2014. Consumer confidence and household spending increased in 2014 as compares with the same period of 2013 by 2.4 percentage points. The consumer confidence index also will remain low in 2015, as many Latvians are still burdened with paying back loans and mortgage credits, which will have downward pressure on consumer consumption in the forthcoming years and their willingness to expand into new liabilities towards banks and other financial institutions.

The other indicator that shows an optimistic increase during 2014 is the retail trade confidence indicator (up by 1.1 pp).

FDI

The inflows of FDI decreased in 2014 due to the protracted political instability within Latvia's eastern neighbors, and the related uncertainty of the economic environment as well as the slow economic recovery in the EU. All these reasons this year could be the most significant aspects impacting the decision to postpone the launching of new projects and reducing the inflows of investment. In 2014, accumulated foreign direct investment amounted to 11.8 million EUR and showed a 2% increase if compared with 2013.

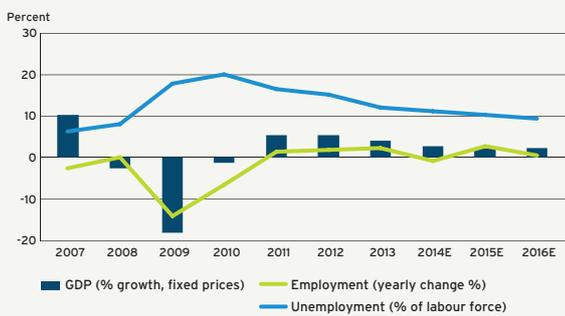
FOREIGN TRADE

Geopolitical circumstances and weak eurozone performance notwithstanding, exports experienced a 2% increase in 2014 compared to 2013. However imports have fallen during the same period by almost 1%.

Latvian entrepreneurs continued to open new sales markets, and achieved the rise in export market shares by diversifying their production and markets as well as by creating new products. The greatest export growth in 2014 was happening in the direction of the European Union countries that are not part of the euro area, e.g., the United Kingdom, Sweden, Hungary and the United States of America. The Russian embargo has had little impact on the dynamic of the export of Latvian goods. Its effects are felt only in some groups of export goods - primarily in the exports of dairy products and fish processing.

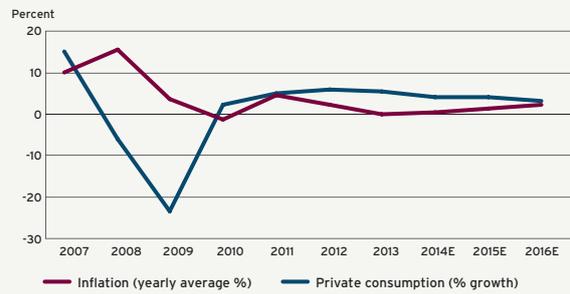
Growth in Latvia will remain moderate for the next two years.

Economic Indicators | Latvia



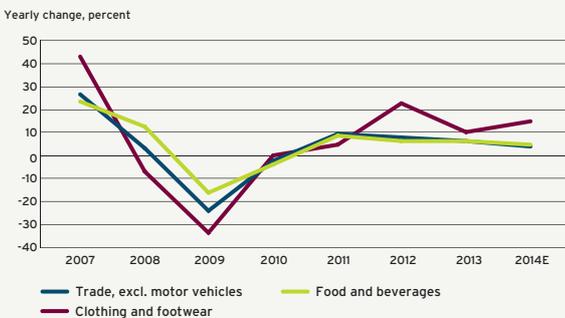
Source: Statistics Latvia, Newsec

Inflation and Private Consumption | Latvia



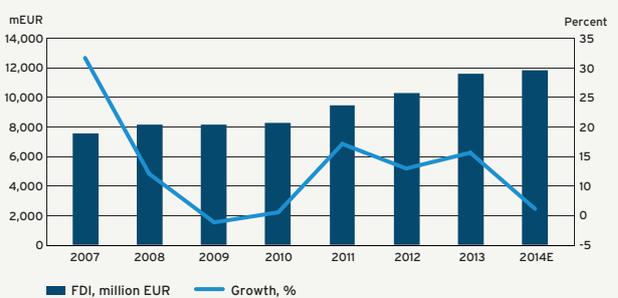
Source: Statistics Latvia, European Commission, Newsec

Retail Trade | Latvia



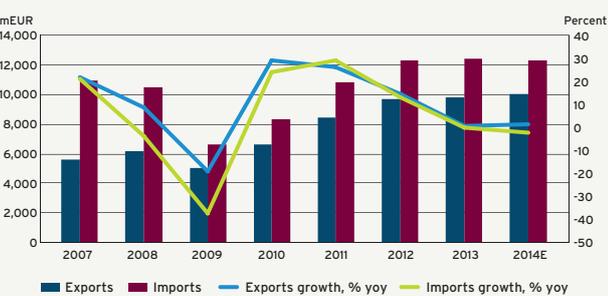
Source: Statistics Latvia, Newsec

Foreign Direct Investments | Latvia



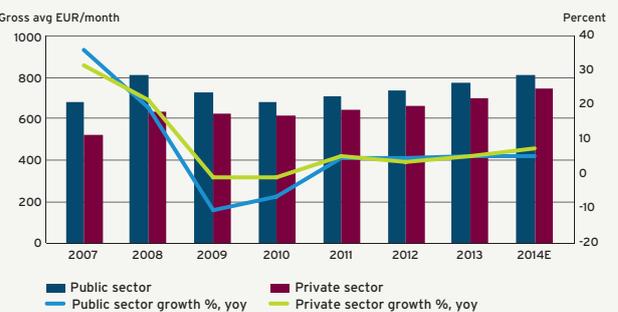
Source: Bank of Latvia, Newsec

Exports and Imports | Latvia



Source: Statistics Latvia, Newsec

Wages and Salaries | Latvia



Source: Statistics Latvia, Newsec

Retail market

Retail trade in Latvia has continued to grow for the fourth year in a row, with total increase by 3.2% during 2014.

Private consumption has a significant role in economic development. Retail trade in Latvia has continued to grow for the fourth year in a row. After the sharp recovery that the country witnessed during the post-crisis period, the Latvian economy has entered a stage of more balanced development, recording slower growth rates compared to the last years. The transition to the euro served as an additional source of consumer caution due to increased concerns about overpaying, so many retailers rounded prices down.

The total increase in retail trade (except automotive fuel) for 2014 was 3.2%. A notable and relatively persistent improvement in consumer purchasing power led to increased activity in retail. Higher real disposable income, in turn, encouraged Latvians to renew their spending on housing and garden items (by 10.8%). Favorable terms provided to non-residents for getting temporary residence permits by acquiring real es-

tate also increased the turnover of the DIY segment (estimated by 8.5%), electrical household appliances (by 18.5%) and furniture (by 6%). Similarly to the previous two years, a strong interest was observed in electronics and appliances with a strong focus on tablets and smartphones. Retail sale via mail order houses or via Internet has increased by 15.7% during 2014. 2014 witnessed accelerating demand for services, including catering, and sales for such items as sports goods, apparel, textiles, jewelry and watches.

SUPPLY OF SHOPPING CENTRES

The speedy and rather smooth transition of Latvia's euro adoption, a healthy business environment and optimistic attitude of people helped the growth of the shopping centers. In Latvia world famous brands are located in the most successful shopping centers, although during 2014 some of them opened brand new large retail areas in the cen-

tre of Riga. The recovery of Latvian retail trade continued accelerating in 2014, and due to the demographic situation here in Latvia has reached the optimal level though the growth of turnover would be more moderate for the next two years.

The total GLA of shopping centers in Riga remained unchanged in 2014, totaling more than 422,000 sq. m, whereas the total leasable area was around 0.65 sq. m. per capita. The last stock increase was in 2010 with the opening of Galleria Riga by Titan Invest. The overall turnover of shopping centers increased by 6%, and vacancy remained stable at around 1-2% in the most successful performers. During 2014 the SC had strong tenant relocation and the expansion of such brands as H&M, Reserved, Mothercare, Lindex and Next, especially after the exit of Varner Baltija. In 2014 the overall market take-up was mainly based on the expansion of existing retailers. Anchor tenants and strong

RENTAL RATES AND VACANCIES | RIGA

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Trend ↕↔ |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Rental rates, EUR/sq. m/month | | | | | | | | | |
| up to 100/150 sq. m | 25-60 | 20-50 | 15-45 | 20-50 | 20-50 | 20-50 | 25-60 | 25-60 | ↔↔ |
| 100/150-350/500 sq. m | 15-30 | 12-30 | 10-22 | 10-25 | 10-28 | 10-30 | 15-35 | 16-30 | ↔↔ |
| > 350/500 sq. m | 9-17 | 8-15 | 6-13 | 7-15 | 7-15 | 8-16 | 10-20 | 10-20 | ↔↔ |
| Anchor tenants | 6-12 | 5-10 | 3-8 | 3-8 | 3-11 | 5-11 | 6-11 | 5-11 | ↔↔ |
| Vacancy rates, % | | | | | | | | | |
| Well performing SC | up to 2% | up to 3% | up to 5% | up to 5% | up to 3% | up to 2% | up to 1% | up to 1% | ↔↔ |
| Other | 10-20% | 12-30% | 15-35% | 15-25% | 15-25% | 15-25% | 5-10% | 5-10% | → ↓ |

Source: Newsec

Anchor tenants and strong players with recognized store brands continued seeking the best locations in 2014.

players with recognized store brands continued seeking the best locations in 2014, which resulted in strengthening the tenant mix in the core centres. The customers of shopping centers experienced the rotation of existing tenants - the opening of H&M and Debenhams stores - and even the closings of several shops throughout the core shopping centers.

GROCERY RETAIL

The leading grocery chains, in particular Rimi Latvia SIA and Maxima Latvija SIA, increased their number of hypermarkets and supermarkets not only in Riga, but also in the other large cities of Latvia. Similar to the previous two years, only one hypermarket Maxima XX Bikernieku located at Bikernieku Street 143 was delivered to the Riga market in 2014.

The biggest new development in 2014

was the shopping centre "RAF Centrs" (with GLA 5,000 sq. m) located in Jelgava and developed by EfTEN Capital. The anchor tenant for this shopping centre is Rimi Latvia (2,600 sq. m). A Rimi Hypermarket was also completed in Ogre in 2014.

IMPROVING PERFORMANCE

Retail is expected to have stable and constant value growth over the next twelve months. Similar to earlier periods, the key driving factor for grocery retailers in the future will be the overall economic situation in Latvia. The turnover of the most successful shopping centres grew by 8 - 10% per annum, with current occupancy at 97% - 99%. The entry of new retail chains like H&M, Debenhams, and Subway shows confidence in the Latvian market and accelerates interest from other solid international players.

The highest growth in turnover is ob-

served in such sectors as apparel, jewelry and watches, sports goods, footwear, electronics and services as well. The average purchase in the best-performing centres has not changed during the last twelve months and constitutes approximately 15 EUR. For some shopping centers the average purchase has increased by an average of 4% in 2014 compared to 2013.

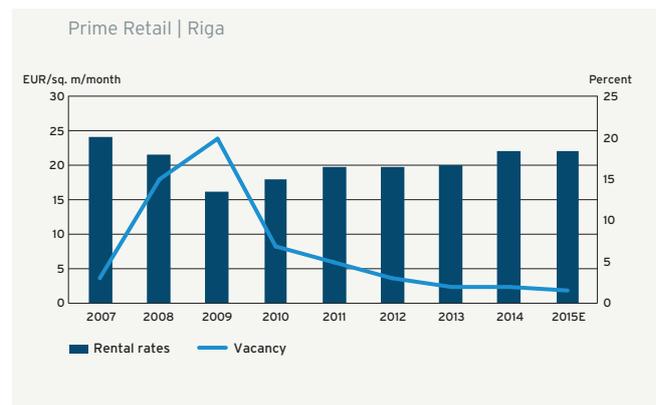
In 2015 due to economic sentiments, a slow-down is expected in retail trade and tenants' performance. As a result, the weakest shopping centres might suffer, and the difference between the best shopping centres and other shopping centres will be more distinctive.

RENTAL RATES

Average rents amount to 20-25 EUR/sq. m/month in the largest shopping centres in prime locations. Usually there are turnover rents provided to



Source: Newsec



Source: Newsec

Rental rates are expected to remain stable in 2015 due to positive retail growth over the forecast period.

tenants in the shopping centers. Rents in shopping centres are set according to the size of the tenant, micro location and vary from 10-60 EUR/sq. m/month, while anchor tenants pay approximately 5-11 EUR/sq. m/month.

Due to a low inflation rate in Latvia during 2013 (0.0%), rent rates stood at the same level for existing tenants in 2014. For new entrances or expansions there was a small decrease in the average rental payment. Rental rates are expected to remain stable in 2015 due to positive retail growth over the forecast period, but at a slower pace, which is a result of slowing economic activity.

ACQUISITIONS, ENTRIES, EXITS AND EXPANSION

Increased activity was observed within different retailing channels in Latvia, creating changes in the local competitive environment. IKI supermarkets owned and operated by Palink were acquired and renamed MEGO by a local grocery retailer - Mego, reducing the number of players within the channel.

The largest UK department store Debenhams has entered Latvia's market, opening a store in one of the most popular shopping centre managed by E.L.L. Real Estate. Continuously improving consumption and joining the eurozone may attract new international retailers in the medium term of 2015-2016.

However some retailers closed their operations at the beginning of 2014. Norwegian apparel retailer Varner

Gruppen chose to exit the Latvian market after nearly 20 years of operation, and closed eight large-format Dressman, Cubus and Bik Bok shops located in the best-performing Riga Shopping centres. Finnish leisure and personal goods retailer Tiimari also left, as its mother company declared bankruptcy and closed six shops.

At the beginning of 2015, five Seppala stores will be closed in Riga, as well as another four in the biggest cities of Latvia outside Riga.

Linstow Center Management has announced the expansion of SC Alfa and SC Origo. The planned expansion projects of Origo and Alfa shopping centres are based on the existing retailer's expansion, tenant mix improvements and possible new entrants such as Sports Direct. The expansion of Alfa's will begin in 2015 and will be delivered in 2017. The expansion of Origo will take place afterwards. These projects will strengthen the position of the aforementioned shopping centres, and might force other big scale developers to abandon their plans, due to the relative market oversupply.

Akropolis has announced plans to start the development of a new shopping centre, thus the total stock could increase in 2016/2017 if construction work starts in 2015. Due to a concept change, another shopping centre might be added to the total stock in 2015.

HIGH STREET RETAIL

The biggest disadvantage in Riga is the absence of a high street. The city only has a few successful high street/retail areas in locations with an active pedestrian flow. The most expensive streets for street retail are Kalku, Audeju and Valnu streets in Old Riga, Elizabetes, Terbatas, Gertrudes and Barona streets in the centre of Riga. Vacancy on the most popular streets is very low. Increased activity was observed in the street retail market in the active center of Riga in 2014, based primarily on the general improvement of the economic situation, consumption and retail sales growth as well as a change in the ownership of good retail properties in such areas as high retail streets in the Riga Old Town the Quiet center and active business center of Riga.

The demand for street retail premises in Riga prime locations increased significantly with several big international brands looking for premises in the city center. During 2014 such international brands as Reserved opened their largest store in the Baltic states, the Apranga Group, leader of retail clothing market in Lithuania and the Baltic States, opened the largest Hugo Boss store in the Northern Europe in Terbatas Street, the center of Riga. Subway also entered the Riga market in 2014.

For secondary locations the rental rates remained stable during 2014, due to the fact that major rental increases were observed in 2013. The increase in rents by 10-15% was noticed only for prime street retail areas in the best locations because of the limited supply.

Office market

In 2014, the office market was mainly driven by comparatively large relocations of the existing players and entrance of several international newcomers.

SECONDARY MARKET OFFICE PREMISES DOMINATING IN RIGA

During the first half of 2014, a slight slowdown of activity in Riga office market was continuing from 2013 due to a relative shortage of vacant good-quality office space, while the second half of 2014 has been characterized as a period of increased activity in this office segment.

Several offices buildings were finished as «built-to-suit» projects for public sector institutions. This process will also continue to affect the vacancy rate for modern B class offices in 2015. The market is showing increased activity by developers and property owners marketing their properties and attracting potential tenants.

In 2014, the office market was mainly driven by comparatively large relocations of the existing players, entrance of several newcomers with established shared service centers and back office

functions, and the expansion of the companies within the current premises. Unfortunately, the trend of pre-lease still did not play any significant role in Riga office market. Tenants were price sensitive and preferred not to engage with a property owner in long term. However, during the Q4 of 2014, a tendency to return to long term agreements (7-10 years) for large leasable areas was noticed.

At the planning stage, several projects most probably will not enter the market in next two years unless they find an anchor to sign a prelease. The new trend of flexible workplaces is not very popular in Riga, as for today there are only several companies providing less working places than number of employees.

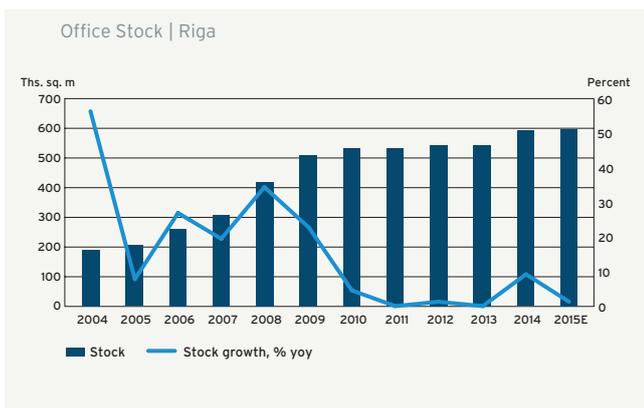
NEW SUPPLY WITHIN EXISTING BUILDINGS

In post-crisis period, construction of "built-to-suit" offices for several public

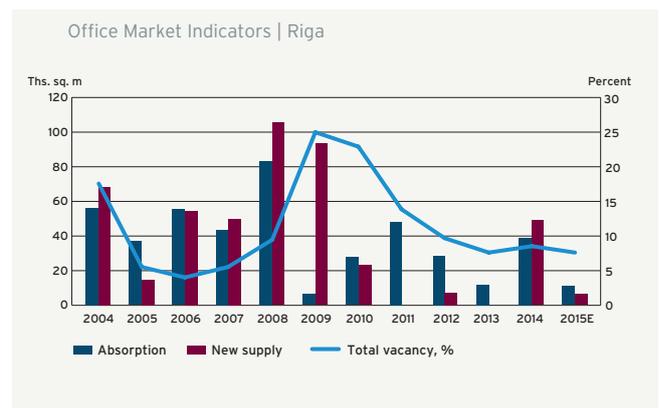
institutions had begun and was completed this year. A major project, the State Revenue Service HQ, was commissioned in the Q2 of 2014. In the Q 4 of 2014, the office building at Vaiņodes Street 1 has been fully reconstructed and complemented with a new building for JSC Latvian State Forests. Some of the business centers increased the leasable office area by reconstructing and adjusting the previous retail/hotel premises to office needs, thus meeting the market demand and providing more leasable office space.

During 2014, the total modern office space in Riga has increased by 9.1% or 49,000 sq. m of leasable office space totaling up to 588 thousand sq. m.

In the Q3 of 2014 LNK Group acquired the ex. Krajbanka headquarter building located in Skanstes Business district. By this transaction the supply for speculative needs has increased by 5,000 sq. m. Lithuanian RE developer Hanner has announced their plans to



Source: Newsec



Source: Statistics Latvia

IT companies as well as SSC/BSC (shared & business service centres) were most active players in the Riga property market, accounting for 50% take-up.

start construction of A-class office center in Skanstes Business district. By these activities the focus has returned to Skanstes district (new CBD), marked by interest in both land properties for development and existing buildings.

PIPELINE FOR 2015

There are two offices projects currently under construction - the second stage of Europa Business Center (3,500 sq. m, estimated completion in 2015), premium offices at Z-Towers (8,000 sq. m, estimated completion in 2017) and reconstruction on Mukusilas BC (2,500 sq. m, estimated completion in 2015).

It is expected that in 2015 Riga office market will increase by approx. 6,000 sq. m of modern office space. Currently only three out of twelve pipeline projects are under construction.

In mid-2015 a "built-to-suit" project of

logistics center "Baltic Logistic Solutions" is planned to be completed, and will include both warehouse and office space. Furthermore, the vacancy of Riga modern office stock will be impacted by Sanitex Baltic office relocation.

LARGEST RELOCATIONS AND PROFILE OF NEWCOMERS

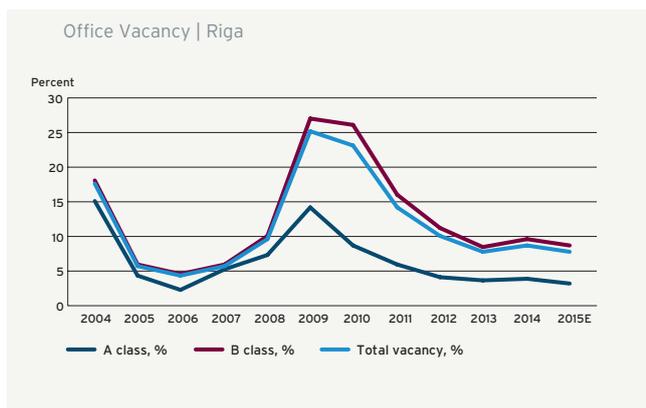
During 2014 the total office absorption in A and B class segment was around 39,000 sq. m, which is almost three times higher than it was estimated during 2013. In 2014, the office market in Riga was driven mainly by the large relocations of the State Revenue Service and other existing players, as well as the expansion of current tenants. The largest relocations occurred in the IT segment due to ATEA Global Services (3,500 sq. m) and EXIGEN Services (4,000 sq. m) decisions.

Some noticeable newcomers to the market should be mentioned - due to

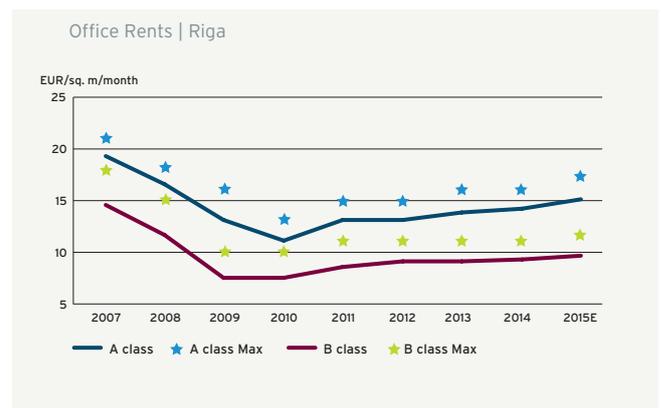
stable economic growth, joining the euro area and offering the possibility to cut business-operating costs, Latvia attracted the interest of global SSC and BPO companies. During 2014, several newcomers entered Riga market, such as CABOT Company, a global specialty chemicals and performance materials company headquartered in the USA, other SSC Allnex, previously related to Cytec, and Aviation Company Primera Air. All three SSC companies are leasing in total 4,000 sq. m office space in B class offices located outside the CBD (Central Business District). During 2015, this trend will continue with the upcoming deals.

INCREASED VACANCY WITHIN EXISTING OFFICES

The total vacancy level in A and B class offices at the end of 2014 was 8.5%, and it has increased by 1 percentage point since the end of 2013. During 2014, vacancy of A class offices remained stable, while vacancy



Source: Newsec



Source: Newsec

Moderate growth in prime rents continued in Riga during 2014 as a result of shortage of new development and low vacancy in prime locations.

level in B class office premises has increased regarding relocation of the State Revenue Service to a newly built office building. During 2015, we foresee the absorption of these still vacant premises due to the limited new supply. A class office vacancy is expected to remain low until new projects are delivered to the market. Newsec has summarized the total vacancy within B class premises and it is more than 46 thousand sq. m. in the beginning of 2015. Despite the existing vacancy, it is still very difficult to find and select appropriate office premises due to limited modern, high quality office supply. A high investment is needed otherwise the only opportunity for the tenants in need for new offices in the city center will have to be the constant monitoring of the market for possible lease expiries within the existing stock of offices. The total vacancy level for A class (3.7%) and B class (9.4%) offices at the beginning of 2015 is 8.5%.

RENTAL RATES

Modern office rent rates remained stable throughout the year although at the end of 2014, an increase by 1 EUR/sq. m of the rent rate bottom limits has been observed for the B class offices. Moreover, market rent for prime offices in Riga CBD increased by 10-20%, due to increased demand and limited supply of A class offices. In the beginning of 2015 the average market rent rates for prime office premises in Riga's center were in the range of 14-16 EUR/sq. m/month, in other central areas the market

rent rates for B class offices were in the range of 9-12 EUR/sq. m/month. Depending on the location and area leased, B class offices further from city center were leased for 7-11 EUR/sq. m/month.

We foresee slight rent increase during 2015 especially for prime offices in Riga CBD and its surroundings.

OUTLOOK

During 2014, the office market has been active on the actions of the developers and property owners. Theoretically, an increase in the modern supply and the vacancy rate in the office market will be observed only in 2017-2018. In case this or next year such projects as "Business Garden Riga", "Ulmana Business Centre", "New Hanza City" and "Skanstes Business Centre" or other office developers will start the construction work, maybe then the supply will increase significantly enough. In 2017, three office projects are expected to be completed, thus increasing office supply by approx. 30 thousand sq. m, and the situation within the office supply in the CBD at least for the next two years the will remain unchanged.

The lack of new supply and a growing demand within the city center will definitely create a shortage of offices in a very near future and will put a huge pressure on the asking rental rates. In 2015, we foresee increased activity in the office market due to necessary expansion or relocation of existing

players and possible newcomers to the market.

The short-term hotel offices and co-working office spaces are demanded; therefore, the developers and office operators are planning entrance or expansion in the market, looking for the office buildings that meet the international requirements.

Industrial market

The "built-to-suit" industrial projects may impact the situation in the speculative industrial market during 2015.

The new supply during the post-crisis period was limited for about four years. The shortage of big-size, vacant premises led to upward pressure on rent rates and the commencement of the construction of new built-to-suit projects and speculative projects. Though there was insufficient supply and growth of high quality industrial premises in 2013, the situation in the industrial market changed in 2014.

Due to very high expectations from landlords, the uncertain geo-political situation in Ukraine and weak economies in the eurozone, the length of making decisions for leasing industrial premises had increased. Activity in the market has been stable, vacancy has increased due to new supply, and landlord expectations have become more realistic. Nevertheless, the development pipeline for large projects is voluminous for 2015/2016, mostly as built-to-suit projects, which may impact the situation in the speculative industrial market.

INCREASED SUPPLY

At the end of 2014, the supply of warehouse and logistics space in Riga and its region consisted of more than 770,000 sq. m. In 2014 the total stock increased by 35,000 sq. m, or 4.8%, providing supply with two new logistic/industrial complexes, such as UA Investor industrial property, or the logistic complex Balt Cargo Solutions that is near Riga, and the expansion of Baltijas Industriālais parks. During the first quarter of 2014, the UA Investor industrial property began its operations with a total GLA of 7,500 sq. m. The logistic complex Balt Cargo Solutions was opened during the third quarter of 2014 with a total leasable area of 25,000 sq. m. The new developments were observed in the area of Riga Freeport also during 2014. Development was observed not only in Riga and the Riga region in 2014, but in the largest cities outside of as well due to a support program implemented by the Investment and Development agency of Latvia together with EU funds to

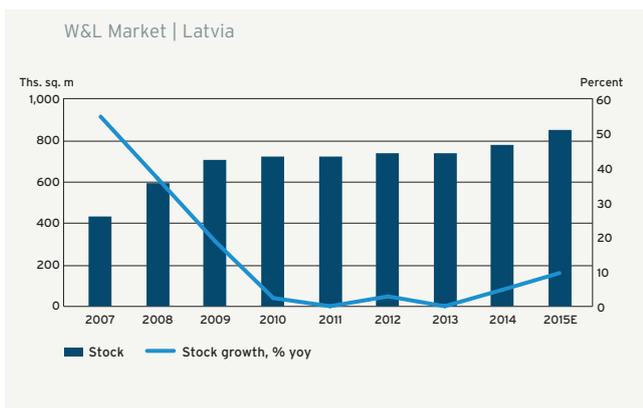
help with financing industrial and manufacturing centres across Latvia.

RENTAL RATES

Rent rates depend on the leased area, location, technical quality of the particular industrial park, and management of the facilities. At the end of 2014, the asking market rents for A class industrial premises were stable - in the range of 3.8 - 4.3 EUR/sq. m/month with a slight decrease of the upper limit. B Class warehouse space rents are lower and now account for 3-3.5 EUR/sq. m/month. Rental rates are forecasted to remain stable with a slight decrease next year.

INCREASING VACANCY

The vacancy rate of industrial premises in the end of 2014 was at 7%. Vacancy during the second half of 2014 increased due to some industrial properties, which were fully vacant for a period. The relocation of one of the largest



Source: Newsec



Source: Newsec

Major lease transactions were concluded due to the favorable geographical location for the logistic centres outside the city of Riga.

wholesale, distribution and logistics company in the Baltics - Sanitex - to a newly built-to-suit logistic complex in Ramava will impact logistic market in Riga region. We forecast vacancy increasing in 2015 due to increasing supply.

STABLE DEMAND

The number of deals during 2014 was lower due to the high expectations of landlords and still limited supply; activity remained at a low/medium level. Major lease transactions were concluded due to the favorable geographical location for the logistic premises in industrial centres outside the city of Riga. The newly constructed logistic centre Balt Cargo Solutions was fully leased to two logistic companies: VIA 3L and Amber Logistics.

The Russian embargo has not had significant impact on the industrial market of Latvia and the demand had remained stable during 2014. The most recent

drop in the value of the Russian ruble has had short term downward impact on transportation, dairy and fish processing companies, mainly for those, focused on the Russian market.

FUTURE DEVELOPMENTS

Currently under construction are some built-to-suit projects (GLA ~70,000 sq. m), and speculative projects with a GLA of 15,000 sq. m. Also, the existing speculative industrial parks are currently considering the possibility of expansion, e.g., in 2015 there are plans to expand the Baltic Business Park in Riga on Piedrujas Street.

The potential new development list for 2015 might include several projects: the long awaited Baltic Logistics Solutions project developed by the company Karsten-Sanitex Group, which has 40,000 sq. m A class logistic centre in the Riga region; the Polipax logistic complex in Marupe with 17,000 sq. m; Lexel Fabrika, which belongs to the in-

ternational corporation Schneider Electric, which began construction work and is scheduled to be finished in 2015 (GLA 10,000 sq. m).

VGP Group has announced plans to start the construction of VGP park Ke-kava with 40,000 sq. m in total. The delivery of new industrial projects to the market will depend very much on the availability of an anchor tenant. Land plots that permit industrial and warehouse development could become objects of interest for end-users.



Source: Newsec

Hotel market

Due to entrance of international hotel chains, the hotel market is approaching over saturation.

Hotel revenues continued to increase during 2014 driven by the consumption and GDP growth, the increasing flow of tourists and the hotel occupancy. In general, all the professionally managed hotels in Riga centre managed to boost their occupancy levels reaching the performance level of 2008.

In 2014, the total number of visitors in hotels and other accommodation establishments grew by 15% in Latvia and Riga city, compared to 2013.

Significant foreign tourist flow increase can be explained in three ways - firstly, Riga city as the European Capital of Culture in 2014 which attracted more tourists; secondly, the 8th World Choir Games in Riga and, finally, a significant growth of non-residents willing to acquire temporary residence permit in Latvia.

According to the Central Statistical Bureau of Latvia there were 600 various accommodation establishments in Latvia in the end of 2014, which shows the increase by 5%, comparing with

the same period of 2013.

Local and international investors continued to make major investments in new projects located in Riga and Jurmala due to the future hotel market development prospects. In next two three years there are estimations of a sharp increase in the total number of hotels in Riga.

INCREASING SUPPLY

According to the Association of Hotels and Restaurants of Latvia there were 69 rated hotels in Riga in the end of 2014 (87% of them 4 and 3 star hotels).

In 2014 the total Hotel stock increased by 143 new rooms and 164 rooms of existing hotels were fully renovated during 2014. Metropole Hotel reconstruction made by Semarah Group was finished in Q1 of 2014 (88 rooms).

The Mercure Riga Centre Hotel (operated by Accor) was opened in Q2 of 2014 increasing total Hotel stock

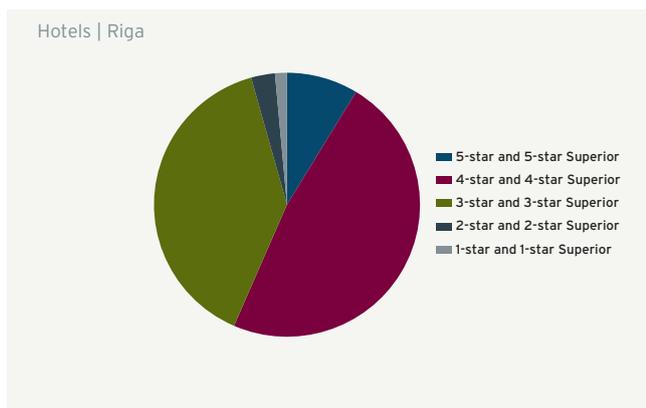
by 143 rooms. During 3rd Q of 2014 Karavela hotel joined the Orbis Hotel Group and started to work with Ibis Styles brand, thus also joining Accor Global Sales and Distribution System. Hotel Ibis Styles Riga 3* now are being operated by Accor, providing 76 rooms.

Due to entrance of international hotel chains, the hotel market is approaching over saturation and in the near future we foresee considerable changes among the Hotel market players.

During 2014 continued trend of re-qualification process when several three-star hotels re-qualified as four-star hotels, while five-star and four-star hotels also upgraded their qualification by one grade. Some hotels operating already for a long time in Riga, last year have passed certification.

DEMAND STRUCTURE AND CHANGES

In 2014, the majority of foreign visi-



Source: Association of Hotels and Restaurants of Latvia



Source: Newsec

The number of international tourists visiting Latvia continued to grow.

tors came from Russia (21%), followed by Germany (13%) and Lithuania (8%).

Analysing the visitors by their country of origin, the largest increase in visitors has been observed from the United Kingdom (an increase of 43% during the nine months of 2014), with Germany in second place (an increase of 37%) and finally Belarus, France and Denmark, with increases of more than 20%. However, no changes or a small decrease in the number of tourists from the Russian Federation, Norway, Poland and United States was observed. The number of tourists from the Russian Federation has dropped by almost 15% during the second half of 2014.

OCCUPANCY INCREASE

The number of international tourists visiting Latvia continued to grow. The flow of tourists in 2014 increased the average occupancy rates in hotels of Latvia and Riga to 47% and 56%

respectively. When analyzing the hotel occupancy rate by the number of stars a hotel has, the highest room occupancy was observed in Riga's four-star hotels.

ROOM RATES

Hotel revenues continued to increase in 2014 driven by the increasing flow of tourists and the hotel occupancy. Some operators were keeping low rates or giving considerable discounts on rooms available to increase the market share, thus other competitors located nearby were forced to do the same. Other hotels, especially 4* hotels, have increased rates by 5% (single room) and by 7% for standard double rooms.

The next two to three years will clarify the most demanded hotel operators because of the expansion of international chains. The future income of large hotels will be mainly determined by the existence of international cooperation agreements.

However this process will not impact segments small high level boutique hotels, which have already engaged their clients with a personal touch and great service.

HOTEL DEVELOPMENT

The hotel market continued to evolve in 2014, providing new hotel developments and new international operators. The local hotel chain Wellton continued their expansion into the market, and at the end of 2014 united six Latvian Hotels. Wellton has expansion plans in the market: they are currently constructing the new Wellton Hotel Riga with 174 rooms, and announced the construction of one more hotel - the Wellton TBA, which will be located at the corner of Marstalu and Minsterejas streets that will have 300 rooms in 2016.

The SemaraH hotel chain is also planning to expand into the market with another hotel which will be located on Raina Boulevard, with its completion expected in 2016/2017. Several other smaller developments are currently under construction or in the process of planning.

The five-star Pullman Riga Centre Hotel in Old Riga is currently under reconstruction and will be operated by Accor. Also the Orbis Hotel Group has plans to expand their activities here in Riga by opening one more three-star hotel near the Riga Central Station. The reconstruction of Kempinski Riga has been ongoing, and might be



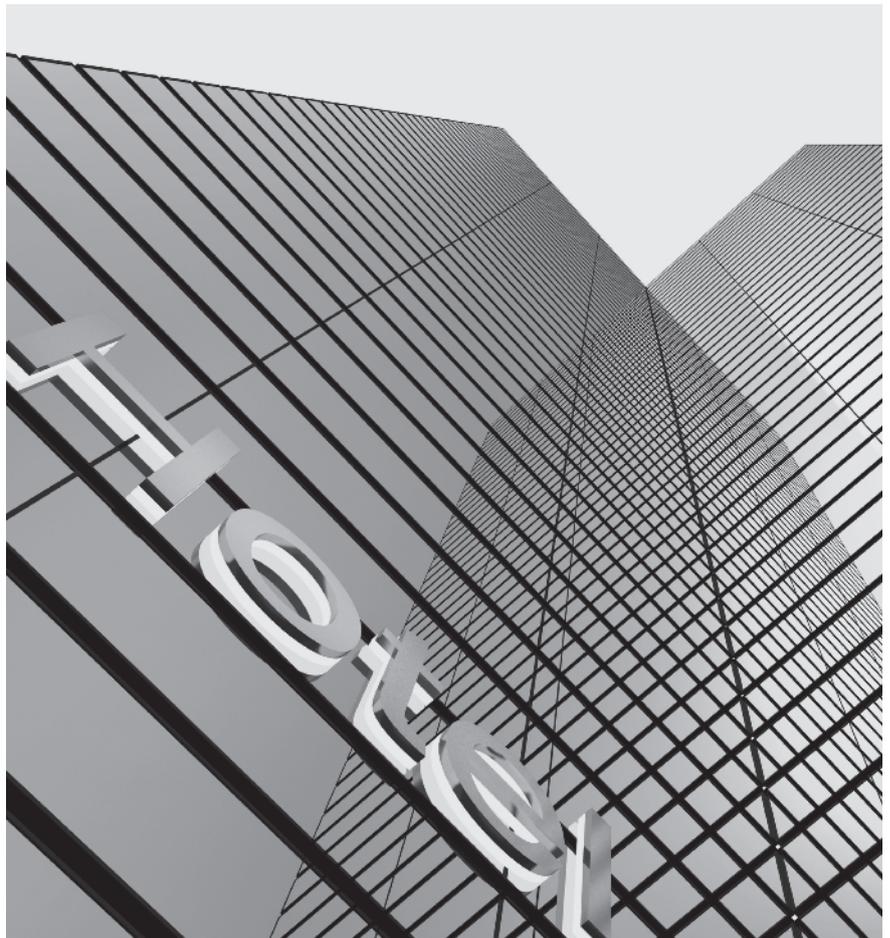
Source: Statistics Latvia

The hotel market continued to evolve in 2014, providing new hotel developments and new international operators.

finished in 2015/2016. Expected to be completed in early 2016, the 139 guestroom Hilton Garden Inn Riga Valdemara is also currently under construction.

RIGA IN 2015

The Latvian Presidency of the EU Council will take place during the first half of 2015. Latvia will take over the Presidency from Italy and pass it on to Luxembourg. This fact will provide a stable income, expected growth in occupancy and rating on the market during the first half of 2015. The second part of the year will be challenging in terms of demand due to the geopolitical situation and weak global economy. Additional supply in Riga will negatively impact the room rate development in Riga. Overall, the average hotel occupancy rates during 2015 will remain stable, the number of visitors will increase to a moderate level, which is expected to have downward pressure on room rates as well due to increasing competition.



Residential market

During 2014 the annual number of transactions in Riga city showed no significant growth and remained at the previous year's level.

Due to increased activity in the residential segment there were number of new projects and fully renovated old projects launched in the market during the last year. Activity of developers, especially in the residential segment has grown in Latvia during 2013 and 2014. More than 1.600 apartments are currently under construction in Riga center and its suburbs, which could be commissioned during the next two years. By the possible changes in the Insolvency Law for private individuals and in the Immigration Law the residential segment activities and future new developments will be affected. Newsec foresees stagnation in this segment and the construction sector as well. New projects currently under construction or in the planning stage could be postponed by developers, and the period of project realization could become very lengthy in order for them to retain their investment.

Due to the increasing activity of non-residents, developers and sellers were focused on this target group, increas-

ing prices per one sq. m to meet the necessary transaction amount to receive the residence permit. Many non-residents have bought more than one apartment in one transaction in favor of smaller apartments gaining higher possibilities to rent them and receive better yield to get a profit. Due to small amount of necessary investment into real estate outside of Riga in order to get temporary residence permit, apartments and other properties (individual houses and land plots) were in demand by non-residents across all of Latvia, especially in Cesis and Ozolnieki. Most non-residents originally came from Russia, China and Ukraine.

Large amount of apartments, which were built in 2007-2008 and affected by the real estate crisis, have been in the market during these last two years, and we are experiencing the absorption of this supply. As it was observed during the last twelve months, management companies of bank-owned property still are playing an important role in the housing market, ensuring to

their clients favourable credit terms and lower apartment prices.

MODERATE ACTIVITY

The activity in the housing market in 2014 has become stable. During 2014 the annual number of transactions in Riga city showed no significant growth and remained at the previous year's level, comprising more than 9,000 deals. The Riga apartment market share is increasing: in 2013 transactions in Latvia's capital city constituted 49% of all transactions in Latvia; during 2014 about 52% of all transactions were made in Riga. Around 17% (an increase of 2 percentage points in 2014) of transactions took place in Riga's centre.

By the possible changes in the Insolvency Law (which could enter into force starting from March 1, 2015) for private individuals and in the Immigration Law (came into force from September 1, 2014) residential segment activities and future new development could be affected. We foresee stagnation in the middle class residential segment in the apartments' price category between 150,000 up to 200,000 due to the low purchasing power of residents. Local residents looking for apartments still remained very price-sensitive in 2014. Many were burdened with paying back mortgages, while banks noticeably tightened their financing standards, so mortgage loan availability was much lower than during the pre-crisis period. As an insurmountable obstacle for young families



Source: Land Book

In 2014 85% of all buyers of newly built apartments in Riga were non-residents. The situation will change during 2015.

is the initial deposit of the purchase of the apartment. Due to this, the government has announced a support program for young families with children who would like to take out loans for the purchase of their first home.

INCREASE IN PRICES

During 2014 a slight increase by 7.5% was noticed in the average price per square meter for new projects in Riga's centre, while old projects in the city center experienced a 10% increase. The demand for new residential projects, both central and non-central, increased during 2014 and accounted for 18-20% of the total number of transactions, but still remained very sensitive to the supply. Despite of a shortage of supply in Riga city, the non-residents chose apartments located outside the Riga city center: in suburbs of Riga or in Riga planning region (especially in Marupe, Babite and Saulkrasti) for receiving a temporary residence permit in Latvia. Prices in other segments have increased by overall market activity in 2013-2014. We foresee the stabilization of prices for apartments during 2015.

The price for old residential projects (Soviet-era and pre-Soviet era buildings) increased by almost 4% during 2014. New projects outside the Riga center have shown an increase of 3% in the average price. However, at the end of 2014 the average price dropped for both new and old central projects due to the non-residents' reduced activity during the fourth quarter of

2014. The months of July and August were very active among non-residents who wanted to jump on the bandwagon and get a residence permit while they are still available.

DEMAND FROM LOCALS

Demand for residential real estate remains high in Riga and the Riga region. The capital city and region around this city is expected to maintain its leading position. Other regions represent much smaller markets, and activity is forecast to remain at the same level. The overall increase in transactions in newly developed projects was caused by banks' subsidiaries selling apartments packed with parent banks' special mortgage offers.

High demand in the residential segment (especially with transactions of apartments) has been observed from non-residents due to the continued interest in obtaining temporary residence permits in Latvia. Eighty-five percent of all buyers of newly built apartments in Riga were non-residents.

During 2014, transactions below 80,000 EUR constituted 80% of all transactions. There was observed an increase by 11.5% for the transactions between 30,000 and 50,000 EUR, with this price segment comprising about 25% of total transactions during 2014. The residents were looking for new projects for a price that was no higher than 1,300 EUR/sq. m. This is the reason of increased transaction

activities outside Riga and in the Riga region. The new projects finished by real estate management companies of banks are more favourable price-wise, providing prices between 1,120-1,360 EUR/sq. m. New projects developed by Hanner, YIT and NCC etc. have shown average prices starting from 1,300 up to 2,250 EUR/sq. m (including VAT).

MOST DEMANDED PROJECTS

In Riga there were more than 1,000 apartments completed during 2014. The most demanded new projects among non-residents in 2014 were Centra nams (2005), Alauksta 9 (Dekarta, 2012), Maras darzi (Latectus, 2008/2013), Gypsum factory (Domuss, 2013), Skanstes majas (Merks, 2014) and Skanstes virsotnes (Merks), Park Alley (Real Estate Jurmala, 2014) and Panorama Plaza (2008). Among local buyers the most demanded projects were new projects of YIT and NCC located in Mezciems and Teika, Jauna Teika (Hanner, 2009), Ezerparka nami (New Europe Real Estate, 2014), Skanstes majas (Merks, 2014), new projects re-developed by real estate management companies of banks such as Lielezeres Apartment House (Pillar, 2013), Varaviksnes nami 3 (Salvus), Liesmas Apartment house (Pillar, 2013), and Liduma 8A and Zalenieku 18 (Ektornet) among others. The most demanded fully reconstructed luxury projects were Residence Lumiere, Elizabeth and Elizabete Garden, all located in the Quiet centre of Riga.

During 2014, transactions below 80,000 EUR constituted 80% of all transactions.

FORECAST

Due to a spike in activity in the residential segment, there were a number of new projects and fully renovated old projects launched on the market during the last year. With changes in the Insolvency Law for private individuals and in the Immigration Law, residential segment activity and future new development will be affected. Newsec foresees stagnation in the newly constructed apartment segment and the construction sector as well. New projects currently undergoing planning process could be postponed by developers.

Newsec prognoses related on apartment's price are not very optimistic; we believe that due to the increase of supply and lower demand, the prices would remain relative stable for the next 2 years.

A slight average price increase in 2015 could be expected in prestigious locations for high class properties mainly due to the trend to apply for permanent residence permits in Latvia for a period of 5 years. The purchase of an apartment with a total transaction volume of more than 250,000 EUR will remain attractive only for non-residents who want to stay and live in Latvia.



Legal and tax overview

Latvia is considered an attractive investment destination in the EU.

CORPORATE PRESENCE

What is the most common type of corporate presence?

The most common type of corporate presence is a limited liability company (a private company) (in Latvian - Sabiedrība ar ierobežotu atbildību or SIA) and a joint stock company (in Latvian - akciju sabiedrība or AS, the same as in Estonian aktsiaselts or AS), owners of which also enjoy limited liability.

Joint stock companies have more extensive corporate governance rules compared to a limited liability company. However, a joint stock company may issue different types of shares unlike a private company. The below overview only covers private companies as the most common company type.

Describe the management structure of a private company. Are there any participation restrictions applicable to foreigners?

A private company shall be managed only by the Board of Directors and the shareholders. In addition, the Supervisory Board can be formed.

There are no participation restrictions applicable to foreigners. Any foreign citizen, irrespective of his/her origin, may be freely elected either to the Supervisory Board or the Board of Directors of a private company.

In December, 2014 amendments to the Commercial Law were initiated with the Latvian Parliament (Saeima) in order to determine that a private company shall have at least one member of the Board of Directors which is a Latvian citizen or Latvian non citizen (holder of a Latvian non citizen passport); citizen of an European Union (EU) Member State, European Economic Area or Switzerland. It was intended for the amendments to come into force from 1 January 2015, however, due to a negative legal opinion provided by Saeima's Legal Office, the consideration of amendments is currently suspended.

What is the minimum authorised capital in a private company?

The minimum authorized share capital of a private company is EUR 2,800.

Are there any requirements for the number of shareholders in a private company?

The minimum number of shareholders is 1 and the maximum number is unlimited.

Are there any specific requirements for transfer of shares in a private company?

In case the shares of a shareholder are sold, other shareholders have the right of the first refusal. A shareholder may donate of, exchange, or otherwise alienate shares (except sell) only with a consent expressed in the decision of

the shareholders, unless it has been otherwise specified in the Articles of Association.

If a shareholder alienates shares, the subsequent division of the register of the shareholders shall be made. Each division shall be certified by the chairperson of the Board of Directors or an authorised member of the Board of Directors with his or her signature and by the alienor of shares and the acquirer of shares with his or her signature. The signatures of the chairperson of the Board of Directors or an authorised member of the Board of Directors, the alienor and the acquirer of shares shall be notarized.

What are the major fees involved in incorporation of a private company?

The notary fee for notarization of the form of application to the Register of Enterprises is EUR 26 per person. The form of application to the Register of Enterprises shall be signed by all of the incorporators.

The notary fee for certifying signature of the Member of the Board of Directors is EUR 19.02 if signed by a foreign person with no personal identification number in Latvia, and EUR 26.11 if signed by a person with an identification number in Latvia.

The notary fee for certifying document copies is EUR 2.5 per page. Necessary certifications by the notary public usually take 1 - 2 business days.

The acquired agricultural land has to be used for agricultural activities.

The costs for opening a start-up account will depend on a bank.

State fee for registration in the Commercial Register is EUR 142.29. The fee for publication of announcement in the official gazette *Latvijas Vēstnesis* is EUR 27.03.

ACQUIRING REAL ESTATE

Are there any legal restrictions on the ownership of real estate (interests in entities which own real estate) for foreign investors?

Persons from EU countries

Natural persons and legal entities of the European Union (EU) Member States, European Economic Area States and the Swiss Confederation may acquire real estate in ownership under the same conditions as Latvian citizens and Latvian registered legal entities.

Persons from non-EU countries

Foreigners from non-EU countries are prohibited to acquire:

- 1) land within city limits (urban land title to):
 - land in national frontier areas;
 - protected coastal areas of the Baltic Sea and the Bay of Riga, and other public bodies of water, except for the areas where construction is permitted according to the municipal territorial plan; and
 - agricultural and forest land falling within city limits and as indicated in the municipal territorial plan.

2) rural land title to:

- land in national frontier areas;
- land in nature reserves and zones of other protected territories in nature reserves;
- land in protected coastal areas of the Baltic Sea and the Bay of Riga;
- land within the protected zones of public bodies of water, except for the areas where construction is permitted according to the municipal territorial plan;
- agricultural and forest land as indicated in the municipal territorial plan; and
- land within mineral deposits of national importance.

It is to be noted that foreign (non-EU countries) persons are not prohibited from acquiring shares in a company which owns real estate in Latvia. However, there are certain restrictions on the companies themselves in connection with acquisition of land in Latvia.

Land in Latvia can be acquired by a private company (business company) registered in the Republic of Latvia or another EU Member State, European Economic Area States or the Swiss Confederation and which has been also registered as a Latvian taxpayer:

- where more than half of the share capital is owned by Latvian citizens, citizens of the EU, European Economic Area States or the Swiss Confederation, Latvian state or municipality;
- where more than half of the share capital is owned by natural persons

or legal entities from those countries with which the Republic of Latvia has entered into international treaties on facilitation or protection of investments (if the agreement is entered into after 31 December, 1996, the agreement must specifically foresee the right to acquire real property);

- where more than half of the share capital is jointly owned by several entities referred to in the paragraphs above.

If any changes in the above mentioned preconditions occur after acquisition of real estate (including land) through a private company, then in order to maintain the ownership the change must be notified to the city or county council, which grants or denies permission to continue to hold an ownership over the particular property.

Acquiring of agricultural land

Apart from the general real estate acquisition principle, new restrictions on certain transactions with agricultural land have been recently introduced.

The agricultural land has to be used for agricultural activities. One natural person or legal entity is allowed to acquire ownership of up to 2,000 ha of agricultural land (or even less if such has been specifically determined by the respective local municipality). This restriction does not include rented agricultural land and land which is a subject of receipt of single area payments (held before the new limits came into force).

Pre-acquisition agreement does not entitle to claim the real estate in an event of non-conclusion of the main purchase agreement.

In order to control that the agricultural land is used for its purpose, rather than investment transactions, certain criteria must be met: relevant professional education, prior activities and income from agricultural production, clear information of the true beneficiaries and the absence of tax debts. Moreover, the person, who meets the formal criteria, has to ground the plans of use of the land before the local municipality and receive its consent to acquisition of such land in ownership. In addition there are also new legal obligations concerning lease of agricultural land. Notwithstanding the mentioned, it is possible to buy up to 10 ha of land for the household plot without the above mentioned restrictions.

Certain norms related to the above restrictions will come into force only on 1 July 2015.

Are pre-acquisition agreements commonly used in your jurisdiction? What is their legal effect and enforceability?

Pre-acquisition agreements are common in Latvia. Often prior to acquiring real estate a purchaser is willing to perform due diligence of the real estate. The pre-agreement serves as a confirmation that the purchaser wishes to buy the property, but is, nevertheless, retaining the possibility to refuse the property if any circumstances not acceptable for the purchaser are discovered.

The essence of the pre-acquisition

agreements is rather that of a conditional agreement aimed at conclusion of the purchase agreement in the future. The pre-acquisition agreement does not entitle to claim the real estate, even if identified and for which the price has been agreed upon in the pre-acquisition agreement, but merely entitles to claim conclusion of the purchase agreement regarding the real estate.

The liability of the party for failure to comply with the pre-acquisition agreement may arise not for the failure to deliver the property or for failure to pay the purchase price, but rather for the failure to conclude the purchase agreement, and this liability may be expressed in compensation for losses.

It is often the case that parties in the pre-acquisition agreements state the performance of particular activities before the conclusion of the purchase agreement and the contractual penalties, if the other party due to unjustified reasons refuses to conclude the purchase agreement.

Describe formal requirements for a real estate sale and purchase agreement

According to the applicable laws and regulations of the Republic of Latvia, the ownership title can be transferred only if the real estate is registered in the Land Register (except for some simple structures which are not subject to the mandatory registration). In addition, it is the presumption of

law that a person (natural person, legal entity, state or municipality) registered with the Land Register as the owner of the real estate is considered to be the lawful owner having full control of the property.

In any transaction involving the transfer of the ownership title, it is of the utmost importance to have the property registered in the name of the buyer as soon as possible in order for the buyer to obtain all rights of the owner with respect to third parties.

As a real estate purchase agreement should be filed with the Land Register as part of the items needed to register the changes in the ownership title, this agreement must be expressed in writing. One original copy of the purchase agreement must be filed with the Land Register in order to register the changes.

Can a sale and purchase agreement of real estate or shares of an entity owning real estate be made in a foreign language?

The law stipulates that in order to register the title to the purchaser documents have to be submitted to the Land Register in the official language (Latvian). In case if the contract is not concluded in Latvian, the contract along with its translation into the official language, certified by a notary, has to be submitted to the Land Register.

In practice bilingual contracts are of-

The right of first refusal shall be properly exercised.

ten made - in Latvian and a foreign language - stipulating that the text in Latvian shall prevail. In such case the contract with a notarized translation into the official language does not have to be submitted to the Land Register.

Sale and purchase agreement of the shares of an entity might be made in any language.

Does any third person (governmental authority, etc.) have the pre-emptive right to acquire real estate subject to sale?

Latvian law recognizes the following pre-emptive rights :

- if the real estate is located in the territory of the municipality, then the respective municipality enjoys the pre-emptive right (with certain exceptions, such as selling the apartment or selling ownership share of the real estate (i.e. without selling the whole real estate));
- co-owners of the real estate enjoy the pre-emptive right;
- an owner of a building has the pre-emptive right, if the building is located on the land owned by another person and the land is an alienated property in accordance with the data of the Land Register;
- the pre-emptive right is contracted under an agreement;
- within the scope of the de-nationalization process, former owners of the land (if they have not received equal land plot or compensation)

have the pre-emptive right to acquire (among other things) buildings and construction objects that are located on the land plot;

- the State has the right of first refusal in respect of real estate situated in protected environmental areas (for example, a nature reserve or national park). Similarly, the state (or the municipality) has the right of first refusal in respect of building which is a cultural heritage.

When buying a building or land, it is important to make sure that the person who has the right of first refusal has been properly offered to exercise this right. If the person, who has the right of first refusal, has not been able to exercise the right due to the fault of the seller, the person has the right of redemption (i.e. the right to buy out the property from the acquirer within 1 year after the sale).

Describe the moment of acquisition of ownership to real estate

The ownership title to the real estate passes over from the moment it is passed over to the buyer in accordance with the stipulations of the agreement between the contracting parties. In order to perfect the sale and purchase of the real estate and make sure that it is binding on third parties, the transfer of the ownership title must be registered with the Land Register.

Land Register (its database is accessible to public) provides the principle of public credibility, which has two-fold

meaning:

- anybody may legally rely on the registers in the Land Register;
- nobody may refer to lack of information, if it has been registered with the Land Register.

Does a seller have the statutory disclosure or warranty obligation?

The Civil Law of the Republic of Latvia establishes the duty of the seller to disclose to a buyer all defects and encumbrances known to the seller - both physical and legal defects that could be reasonably expected to be known by the seller.

If the seller fails to comply with such obligation and is not able to prove that the buyer was aware or must have been aware of the respective defects or encumbrances at the moment of the sale, the buyer can submit a claim for the indemnification of losses or annulment of the transaction. The buyer cannot rely on this particular right if the seller has properly notified the buyer of such defects or encumbrances or the buyer could have obtained the necessary information from the public registers.

What is the effect of transfer of real estate on contractual and other rights, obligations and warranties? Do these pass over along with the title to real estate?

Encumbrances registered in the Land Register (for instance, servitudes,

Land Register provides the principle of public credibility on real estate's status.

etc.) are not affected in the event of the change of the owner and remain binding on the new real estate owner as well. In addition, the parties may individually agree on other contractual commitments concerning the property in the course of transaction, and they are either ended or transferred to the new owner.

If the lease agreement is registered in the Land Register, then it is binding on the new owner, and the new owner can terminate the lease only under the procedure established by the lease agreement itself or by laws and regulations applicable to any lease.

If the lease agreement is not registered in the Land Register and the new owner decides to terminate the lease, the former owner is liable for the damages arising out of premature termination. Nevertheless, the new owner must respect and grant a reasonable time to the lessee to vacate the premises.

The lease agreement of residential premises is binding upon the new owner irrespective of whether it is registered with the Land Register or not, and the new owner may terminate the lease agreement only under procedure set out in the laws and regulations, however, the list of such cases for termination is strictly limited and the procedure of termination is strictly regulated.

It is to be noted that any existing construction documentation (technical

designs, construction permits, guarantees, etc.) related to the real estate must be re-registered in the name of the new owner in an event if the latter wishes to continue the construction process which has been commenced before the change of the ownership title of the construction object.

What are the conditions for termination of the real estate sale and purchase agreement?

As any other commercial agreement, real estate sale and purchase agreement may be freely terminated by mutual agreement of the parties, except if such actions can influence the rights of any third party.

Unilateral withdrawal from the purchase agreement is not permitted even if the other party does not perform its obligations. As an exception, the purchase agreement may be unilaterally terminated pursuant to a claim in the following cases:

- where the party has been compelled to enter into the purchase agreement through the acts of bad faith of the other party, or by fraud or duress; or
- due to the defects in the purchased property that, based on the circumstances, could not have been reasonably expected to be known to the buyer; or
- due to the excessive loss suffered by one of the parties; or
- if the seller has lost its interest in the performance of the contractual

obligations due to the buyer's payment delay; or

- on other grounds set out in the purchase agreement (the parties are free to establish any other grounds for the unilateral termination of the purchase agreement either through court process or outside of court).

What are the fees for notarization of the real estate sale and purchase agreement?

The law stipulates that contracts based on which title to the real estate is changed may be concluded under procedure of a notarial deed or under private procedure. Privately concluded transaction on acquisition of real estate does not have to be certified by the notary.

If the transaction on acquisition of real estate is concluded under procedure of notarial deed, then the following fees are charged for making the notarial deed:

- EUR 15.65, if the transaction amount is up to EUR 1,424;
- if the transaction amount is from EUR 1,425 to EUR 7,115, then EUR 15.65 plus 0.9% of the transaction amount which exceeds EUR 1,424;
- if the transaction amount is from EUR 7,116 to EUR 28,458, then EUR 72 plus 0.7% of the transaction amount which exceeds EUR 7,115;
- if the transaction amount is from EUR 28,459 to EUR 71,145, then EUR 236.34 plus 0.5% of the

Construction of residential buildings on land owned by another person will not be allowed in future.

transaction amount which exceeds EUR 28,458;

- if the transaction amount is from EUR 71,146 to EUR 142,288, then EUR 471.11 plus 0.3% of the transaction amount which exceeds EUR 71,145;
- if the transaction amount is more than EUR 142,289, then EUR 705.89 plus 0.1% of the transaction amount which exceeds EUR 142,288.

COMMERCIAL LEASE

What are the formal requirements for the execution of a lease agreement?

There is no compulsory legal form for commercial lease agreements. Therefore, lease agreements can be entered into in a freely chosen form at the discretion of the contracting parties. If the lease rights are to be registered with the Land Register, then the requirement for written form of the lease agreement shall be complied with.

The lease becomes effective as of the date indicated in the lease agreement and it does not necessarily need to coincide with the date of signing.

Registration of the lease agreements with the Land Register is not compulsory. However, it is advisable in case the lessee wishes to ensure that the lease agreement will be binding in respect of the third parties and will remain effective in the event that the owner of the real property changes. Registration in the Land Register can

only be done by agreement thereon by both the lessor and the lessee. The lease agreement may be drafted and signed in any language, however in an event it is registered with the Land register, the latter requires a respective Latvian translation to be provided.

Are there any statutory restrictions on a lease term?

There is no statutory requirement as to the term of commercial lease. It depends solely on the agreement of the contracting parties.

If the lessee wishes to create autonomous pieces of property on a leased land plot (construct a building which is a separate property and is not owned by the land owner), then the minimum validity period of the lease agreement is 10 years; furthermore, such lease has to be registered with the Land Register.

It is contemplated that in future legal framework will change by restricting further formation of joint property (when land and building is not a single property, while considered separate and autonomous pieces of property), because a number of draft laws, including the Civil Law have been submitted to the Saeima (the Parliament) of the Republic of Latvia which stipulate that:

- further on, construction of residential buildings on land owned by another person will not be allowed;
- it will be possible to construct non-residential buildings and engineer-

ing communications on other's land only on the grounds of such contract that vests the eligible person with right to construction development for a period of time established in the contract which may not be shorter than 10 years and provided that after maturity of the contract for construction rights the buildings shall be deemed to be appurtenance of the land and property of the land owner, unless the parties have agreed on demolition of the building.

Currently the draft laws are still being circulated and reviewed by the Saeima, thus there is no information on their final wording (actual provisions). It is planned that the appropriate changes in the Civil Law shall come in force on 1 January, 2017.

Does a tenant have the statutory right to extend or renew its lease?

In respect of commercial lease, the law does not provide for the rights of a lessee to extend or renew the lease term; however, such rights could be individually agreed upon in the lease agreement.

Rent and its adjustment: are there any statutory restrictions on the amount of rent? What is the general market practice?

There are no statutory restrictions on the amount of the rent under commercial lease contracts. Parties usually agree on a fixed fee payable on a

The new construction law significantly shortens the procedure of coordination of the construction intent.

monthly (sometimes on a quarterly) basis in advance.

It is a common practice in Latvia that the rent is adjusted annually based on the consumer price index or other formula agreed individually by the involved parties. Turnover rent quite often is introduced in major retail leases in addition to the fixed (base) rent.

Alienation: what are the rights of the tenant and the landlord with respect to assignment, sub-lease or placing a charge over a lease?

The right to assign

In accordance with provisions and principles of the Civil Law, the lessor can freely assign the lease (for instance, in case of the change of ownership) without any prior consent of the lessee. The lessee may assign the lease upon prior consent of the lessor.

The right to sublease

The lessee may sublease the property only if such rights are agreed in the lease agreement or upon prior consent of the lessor and the terms and conditions of sublease may not provide for broader rights in respect to the object of the lease than those provided for under the main lease agreement (for example, cannot exceed the term of the main lease agreement).

What is the common form and length of eviction?

The Civil Law expressly prohibits arbitrary eviction of the lessee, even

if such right is included in the lease agreement. Regardless of the fact that any of the parties may have the right to unilaterally withdraw from or request termination of the lease agreement, the lessor must allow a reasonable time period for vacation of the leased premises.

If the premises are not vacated, the lessor must claim at court for eviction of the lessee, as well as for the recovery of rent and damages. A person who fails to comply with the requirements regarding the vacation of leased premises must compensate all damages.

What are the restrictions on the transfer of title to real estate subject to lease?

Latvian laws and regulations do not provide for specific restrictions. The lessor is free to sell or otherwise transfer or encumber the leased property. Restrictions could be imposed as a result of pre-existing contractual relationships, for example, providing for the rights of first refusal to the lessee to the object of lease in case of a sale thereof.

How does the transfer of real estate affect the tenant's rights and obligations?

Change of the lessor of the real estate may not serve as reason for the lessee to terminate the lease and the lessee must continue exercising its rights and fulfilling its obligations based on the

initial lease agreement. In the event that the lease agreement is not registered with the Land Register, the new owner of the real estate is not bound by the lease agreement and may terminate in accordance with procedure set by Latvian laws and regulations.

CONSTRUCTION

Describe the common stages of construction (development) process

Territorial planning

Usually, the territorial plan of the local government and, if developed or required by the laws and regulations, also the detailed plan or local plan of the land plot establishing specific development regimes (requirements). According to documents of the territorial planning, the location of engineering communications, roads, infrastructure, etc. is designed and planned.

Environmental impact assessment

is required in case the planned construction falls within the list of particular activities established by the laws and regulations of Latvia and could constitute a possible environmental risk.

General construction procedure

Application concerning intention of construction and building permit

The person initiates construction by filing an application to the construction board about the preliminary plan of construction (intention), as well as documents referred to in the General

All construction businesses shall register with the construction business entities' register in order to provide services.

Building Regulation and the Special Building Regulation, also lodging a minimum draft of the construction design (schematic design), except for cases when development of the respective design is not necessary.

If the preliminary plan of construction conforms to the territorial plan and the submitted documents comply with the laws and regulations a building permit is issued. A decision of the municipal authority on issuance of the building permit is an administrative act.

The issued building permit does not grant the right to commence construction work. The issued building permit grants the right to commence fulfilment of conditions stipulated therein - obtaining of technical regulations and commencement of designing work.

Depending on the preliminary plan of construction the building permit shall be issued within 7, 14 or 30 days as of submission of the preliminary plan of construction to the construction board. Term of issuance of the building permit depends on the level of construction intent (reconstruction, renovation, construction of a new building, type of the building etc.).

Disputing of the building permit. The decision on building permit can be disputed within 1 month. Disputing of the building permit suspends validity of the building permit. Disputing or appealing of a building permit issued for construction of objects of national interest does not suspend its validity.

The building permit may be annulled in case the procedure of construction established by law is not complied with, construction work is not commenced within one year after the building permit is obtained, or other requirements set out by the law are not complied with.

Designing work

After the building permit is received development of a construction design is commenced. If the building permit is disputed, the designing may be continued during the period while the building permit is disputed or appealed at the customer's risk.

If the construction design is developed in line with all requirements set out in the building permit and laws and regulations the construction board makes a notation in the building permit about fulfilment of all conditions for designing included in the building permit.

In cases prescribed by law the customer (employer - according to FIDIC rules) has to ensure performance of expert examination of the construction design.

Performance of construction works

The construction works can be commenced after the construction board has made the notation in the building permit about fulfilment of all conditions for designing referred there; fulfilment of conditions for commencement of construction works, and the building permit has become non-appealable - the term of its disputing has passed.

In cases prescribed by the law the customer has to ensure performance of author's supervision and building supervision.

Monitoring of construction

Monitoring of construction is performed by the construction board and the building inspectors.

The building inspector has the right to inspect and verify a building either during the construction works or its operation. The building inspector verifies whether the construction works are commenced in line with requirements of the laws and regulations, as well as whether the building or its parts are operated pursuant to the designed type of use.

The construction works may be suspended if construction works do not conform to the construction design and laws and regulations, if unwarranted construction or deviations from the construction design are discovered and in other cases established by laws and regulations.

The building permit may be annulled, if the customer fails to comply with provisions of the law or other statutory regulations regulating construction, if the conditions set in the building permit and laws and regulations are not fulfilled at all, are not duly fulfilled or are not fulfilled within the time period set in the building permit, as well as in other cases stipulated by law.

Only registered real estate may be sold or otherwise disposed of.

Issuance of an occupancy permit

Putting of the building into operation is performed by a special commission established by the local government which after receiving of an appropriate application from the owner of the building assesses the readiness of the building for operation and issues an act on acceptance of the building for operation. On the basis of the occupancy permit the ownership of the building is registered with the Land Register.

Describe the main requirements for construction licensing

As a general rule, any legal entity registered in the Republic of Latvia, also foreign legal entity having a licence (right) to carry out the construction works in its home country as well as a civil engineer is entitled to perform commercial activities in one or several fields of construction in which an individual for independent work in accordance with the laws would require a builder's practice or architect's practice certificate (e.g. engineering research, design, construction expert-examination, construction works' management, construction supervision), business entity shall register in the Construction Business Entities' Register.

A business entity may apply for registration in the Construction Business Entities' Register if:

- the business entity employs at least one architect, performer of engi-

neering research, designer, construction expert, construction work manager or building supervisor on the basis of an employment contract and the relevant person has the right to independent practice in respective fields of construction or a member of the board is a specialist (this condition shall not apply to partnerships, at least one member of which is a construction operator, and to individual operators who are specialists);

- the specialist employed by the merchant is not concurrently a specialist in employment legal relations with more than two other operators registered in the Construction operator Register.

A business entity is not entitled to implement works in the field of construction in which it does not have a relevant specialist.

Building practice or architect's practice certificates shall be granted, the period of validity of certificates shall be extended or certificates shall be cancelled by the competent certification authorities, a list of which has been published by the Ministry of Economics. The certification authority shall register a building practice or architect's practice certificate in the Building Practice and Architect's Practice Certificate Register established by the Ministry of Economics.

In order to receive a building practice or architect's practice certificate, a person shall submit the following to

the certification authority:

- an application regarding granting of the certificate;
- documents verifying education (if a person has acquired the relevant education and professional qualifications in a foreign state, then a certificate of recognition of the foreign entity's right to engage in similar type of the construction works in its home country); and
- an approved list of construction activities, in implementation of which the respective person has participated. The employer, the commissioning party, the object and location thereof, the time of implementation of the works and the participation level of the person shall be indicated in the list. The list shall be confirmed by the employer and a certified specialist responsible for the implementation of the respective works.

What are the statutory guarantee terms for construction works?

The minimum statutory guarantee term that must be applied regarding construction defects is 2 (two) years and the actual length of the term is negotiated with the person who has ordered the performance of the construction works.

REGISTRATION

Does all real estate require to be registered?

All real estate must be registered with the Land Register except for tempo-

Personal income tax has been decreased to 23% as from 1 January, 2015.

rary structures, engineering structures and certain other structures exempt under law. Only registered real estate may be sold or otherwise disposed of.

What rights (if any) to real estate are subject to registration? What are the consequences of failure to register?

Ownership rights must be registered with the Land Register. Other rights (for instance, servitude rights, lease rights, encumbrances) are not mandatory registered; however, in practice persons enjoying such rights usually opt to register them to exclude risks and to ensure that their rights will be binding towards third parties and new property owners. Other rights, if not registered with the Land Register, will not be valid as against any third parties.

What is the procedure for registration of the ownership to real estate?

Registration procedure

Based on the stipulations set by the purchase agreement, the party that is responsible for the performance of the registration procedure must submit the necessary documentation to the branch of the Land Register system based on the location of the property. The necessary documentation can also be submitted through the mail. If the documentation is correct and is submitted to the Land Register in accordance with the applicable laws and regulations, the Land Register registers the filed documents

within 10 (ten) days.

Necessary documentation in case of the standard transaction

- Application to the Land Register. Parties will need to notarize the signatures on the application to the Land Register in order to change the ownership title.
- Payment of the state fee. The applicable state fee may be paid in advance (please note that if the payment is made in advance, the requisite bank statement must be at least 2 days old) or at the Land Register at the time of submission (please note that the public authorities of Latvia do not accept payments in cash).
- Original copy of the purchase agreement.

Please note that the additional necessary documentation can vary based on the individual situation. For example, in the situation when in accordance to law the sale of the real estate was subject to offering the right of first refusal to the local municipality, the Land Register will ask for an appropriate document received from the municipality that it has refused to execute its right of first refusal before registering its ownership title to the purchaser.

On 1 January, 2105 amendments to the Cabinet of Ministers' Regulations on Application Forms to the Land Register came into force. Generally, the amendments were made in order to decrease the administrative load to the applicant - the number of enclosed documents has been minimized, pro-

viding that the acknowledgements shall be expressed in the application itself instead of enclosing as separate documents. Also the information to be included in the application has been specified, thus the records made with the Land Register on the grounds of the application shall be more accurate.

What time and costs are involved in the registration of real estate (rights thereto)?

Registration time

If the documentation is correct and is submitted to the Land Register in accordance with the applicable laws and regulations, the Land Register registers the filed documents within 10 days.

Registration costs

As to the costs, as the signatures on the application to the Land Register must be notarized, the services of the notary public for preparing and certifying the application will be approximately EUR 70.

State fees of the Land Register vary based on the entry to be made. The substantially lower fees will be applied in registration of, for example, encumbrances and legal facts pertaining to the real estate.

In order to register ownership title change based on the real estate purchase agreement, the state fee is calculated as follows:

- 2% of the value of property con-

Companies are not taxed on the sale of shares.

sisting of land and buildings or property consisting only of a non-residential building or buildings and engineering installations associated therewith, while no more than EUR 42,686.15;

- 6% of the value of the residential property (apartment), if the acquirer is a legal entity conducting business;
- 1% of the value of the real estate if it is contributed in the share capital of a capital company;
- 3% of the value of the real estate acquired on the basis of a donation agreement.

Reduced state fees are applied if the acquirer is a close relative (children, parents, spouse, brothers and sisters, half-brothers and half-sisters, grand children, great grandchildren and grandparents) - 0.5 % of the value of the real estate.

State fees are not payable if re-registration of real estate in the Land Register is necessary due to re-organization process.

State fee for registration of real estate at the Land Register shall be calculated from the highest transaction value or cadastral value.

The state fee for corroboration of title with the Land Register is estimated by applying factor 1.5, if the documents for change of title are submitted to the Land Register later than within 6 months as of the execution date of the sale and purchase agreement (or another deed of transaction pertaining

to change of title).

How reliable is the registration system?

By virtue of law, data recorded in the public register is deemed accurate and true (prima facie evidence) unless rebutted. The registration system is reliable, and it reflects all actual and historical data registered at the specific time. The registration duty is imposed on the parties to the transaction; therefore, conformity of the entries with the actual situation for the most part depends on activities of the parties to the transaction.

The data of the Land Register provides comprehensive information on real estate owner, leases registered, encumbrances registered in respect of the real estate, as well as court decisions, liens etc.

Is the register publicly accessible?

Data about cadastral numbers, addresses, owners, registered encumbrances and prohibitions is publicly accessible to any person without any restrictions. The documentation based on which the entries in the Land Register are made is not publicly available. The Land Register will only show as public information the fact that the particular entry is made and state the basic information.

TAXATION

CORPORATE INCOME TAX

Tax rate and basis

Latvia has an attractive corporate tax system. The corporate income tax (CIT) rate is maintained at a low rate of 15%. The tax basis is accounting profits adjusted for tax purposes. Latvian registered companies are taxed on their worldwide income.

Capital gains

Capital gains are taxed as ordinary income except for gains from the sales of shares which are exempt from taxable income.

If real estate (or shares in a company with Latvian real estate constituting 50% or more of its assets in the year of sale or in the previous year) is sold to a Latvian resident by a non-resident, the resident purchaser must withhold 2% withholding tax from the entire purchase price.

Dividends

Disbursement of dividends to a domestic company is not subject to corporate income tax. Dividends paid out to a non-resident legal entity are not subject to withholding tax. Exceptions apply to companies located in statutorily designated low tax zones. Dividends paid to natural persons are subject to 10% withholding tax except if such individual is resident in a statutorily designated low tax zone. Dividends paid to statutorily designated low tax zone are subject to 15% withholding tax (or

VAT payers have the option to charge VAT on sale of used real estate.

if interim dividends are paid 30%).

Interest

Withholding tax does not apply to interest payments made to non-resident related companies provided that the recipient is not located in statutorily designated low tax zone.

Thin capitalization rules

Thin capitalization rules are not applicable to interest paid to Latvian or EU banks, or to banks in double tax treaty countries. Deductibility of interest paid to other lenders is restricted based on a 4:1 debt to equity ratio, or if the interest rate exceeds more than 1.57 times the market average rates as determined by the Bank of Latvia.

Tax losses carried forward

Losses incurred through 2007 can be carried forward for 8 years. Losses incurred from 2008 can be carried forward indefinitely. Where a change of control occurs in the shareholders (more than 50%) a company can utilize its tax losses if it continues for five years the same business it carried on during the two years before the change of control. When companies are reorganized by merger or spin-off, it may be possible to continue utilizing losses accrued.

Intra-group consolidation

Latvian law does not provide for tax consolidation. It is no longer possible to transfer losses within a group.

INDIVIDUAL TAXES

Taxation of employment related income

Salary and benefits paid to an employee resident in Latvia are subject to personal income tax and social insurance contributions.

Personal income tax is withheld by the employer at a rate of 23%.

Social insurance contributions are payable at the rate of 34.09% of which 10.5% is paid by the employee from gross salary and benefits received and 23.59% is paid by the employer on the gross amount of salary and benefits paid up to a maximum salary/benefits amount of EUR 48,600.

Sale and lease of real estate

Capital gains from the sale of real estate are subject to personal income tax at the rate of 15%. The gain is calculated as the difference between acquisition value and sale value. Exemptions apply to residential real estate which has been owned for a period of at least 5 years and has been the declared residence of the owner for at least 12 months prior to sale.

If real estate (or shares in a real estate company) is sold by a non-resident to a resident that carries on business activity (company or individual) the 2% withholding tax of the sale amount (entire purchase price) applies. The sellers in jurisdictions with which Lat-

via has concluded a double tax treaty will be allowed to recalculate the tax based on the 15% tax of the actual gain (acquisition costs less sale value).

Income from leasing of real estate is generally treated as business activity and is subject to personal income tax at a rate of 23%. If an individual leases/rents real estate and holds the real estate as a personal capital asset without deducting business expenses for tax purposes, the income is taxed at the rate of 10%. In such case the individual is required to register with tax authorities as carrying out business activity and is required to submit the related lease agreements to the tax authorities.

Sale of shares

Sale of shares in a real estate company is subject to capital gains at the rate of 15%.

Taxation of self-employed individuals

Income from self-employment (after deduction of valid business expenses) is subject to personal income tax at a rate of 23%. A self-employed individual must pay social insurance at a rate of 30.58% on a minimum amount equal to the mandatory minimum monthly salary but can choose to pay the social insurance in a higher amount.

VALUE ADDED TAX (VAT)

The standard rate of Latvian VAT is

Since 2013 municipalities are delegated to choose real estate tax rate following government-determined principles.

21%. Certain supplies qualify for the reduced rate of 12%. Exports and transits as well as certain services treated as supplied outside Latvia may be zero rated (exemption with credit).

Property leases are subject to 21% VAT. Renting property to individuals for residential purposes is exempt.

The sale of land and buildings, other than unfinished, newly built or refurbished, is exempt. However, VAT payers have the option of charging VAT on the sale of used real estate.

The sale of unused real estate is subject to 21% VAT on the sales price, while taxable value for sale of unfinished buildings is the difference between sales value and acquisition price. If a refurbished building is sold within one year of completion, VAT is charged on the difference between its selling price and value prior to refurbishment.

Sale of development land is subject to 21% VAT.

Input tax is recoverable on the development or refurbishment of buildings intended for taxable supplies. If the property is sold within the period of one to ten years of completion, then a portion of the VAT originally recovered must be repaid to the State.

Resident taxpayers are required to register for VAT upon reaching a

threshold of EUR 50,000 of taxable supplies during any 12-month period or upon reaching the threshold of acquisition of goods from another EU Member State of EUR 10,000.

REAL ESTATE TAX

The municipalities determine the real estate tax rate for property located in their territory based on binding municipal regulations. The rates can range from 0.2 to 3% based on the below maximum rates:

- 1.5% of the cadastral value of land, buildings and engineering structures;
- 0.2-0.6% of the cadastral value of residential real estate or any part of a non-residential building that is functionally used for living; and
- 3.00% of the cadastral value of uncultivated farmland or derelict buildings.

If a municipality has not set the rates by binding regulations the above rates apply.

The cadastral value is determined by the State Land Service considering the type, location and use of a particular property, transaction prices over the previous two years, and other factors. Although cadastral value should be approximated to the market price, cadastral value is not always up to date and may be lower than current market prices. Local municipalities calculate the tax charge and notify the taxpayer

by sending a calculation and payment schedule.

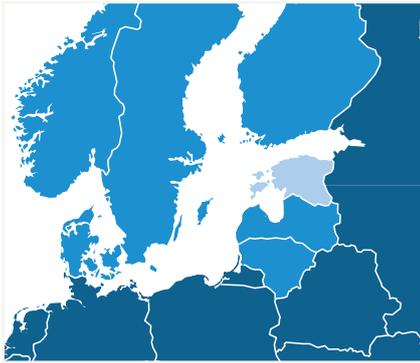
Newly constructed or reconstructed buildings used in business are exempt for one year after completion. Other relief is available under the Real Estate Tax Act or determined by municipalities.

LAND TAX

There is no separate land tax in Latvia. The real estate tax is imposed on land and other types of real property.

STATE-OWNED LAND LEASE TAX

There is no separate land lease tax in Latvia. In addition to the lease payment the lessee shall pay the real estate tax for leased land owned by.



ESTONIA

Economic outlook

STATISTICAL CORRECTION IN GDP CALCULATION

As a part of the eurozone, Estonia has experienced an echo of all the troubles and difficulties the eurozone had to face in 2014. Still, even though economic growth in the euro area amounted to just over zero, Estonia managed to increase its GDP to just below 2%. - In 2015 and 2016 the Estonian economy is expected to accelerate gradually, by 2.5% and 3.5%, respectively. Economists see improvement in external demand, as the (still poor) economic indicators of Estonia's main trade partners have started to demonstrate signs of improvement in the end of 2014.

The Estonian business sector was not very active in the field of investment last year, which was caused by poor demand and overall uncertainty. In 2015 an increase in investment is expected, based on the increase in the business sector's loan portfolio. The government is expected to invest less, as investments from the state revenue in 2015 and the stock of the EU investment subsidies will decline in 2016.

CONTINUOUSLY DECLINING VOLUMES OF FOREIGN TRADE

The volume of Estonian exports continued to experience a decline in 2014 (-2% compared to 2013), accompanied with declining imports (a decrease of 1.5% compared to 2013). The decrease in Estonian foreign trade in 2014 is to a significant extent due to the Russian market. Still, there are some positive signs from European markets along

with efforts of Estonian business to find alternative trade partners, which allow for the expectation of some improvements in 2015 and 2016.

FORECASTED GROWTH IN DOMESTIC CONSUMPTION

In recent years, domestic consumption in Estonia has been growing at approximately 4% annually, with a bit of a slowdown in 2014 (+3.7% compared to last year). Consumer prices, which remained at the same average level in 2014 as they were in 2013, are expected to rise again next year due to an increase in excise taxes, a weak euro and an increase in food prices. Due to this, private consumption in Estonia is expected to increase by 3.8% and 3.5% in 2015 and 2016 respectively. Published results of retail trade for 2014 show an enhanced growth in sales of clothing and footwear against a background of a slight slowdown in growth rate of sales in the food segment.

Estonian inflation demonstrated a significant slowdown: from 2.8% in 2013 to 0.3% in 2014. After a decline in commodities prices in 2014 affected most of all prices in the transportation sector, in 2015 inflation is expected to increase to 1.8% and to 2.5% in 2016.

NUMBER OF PEOPLE OF WORKING AGE IS DECLINING

Estonian labour market indicators have been quite positive, especially compared to other countries of the eurozone. The unemployment rate has been dropping since 2011, hav-

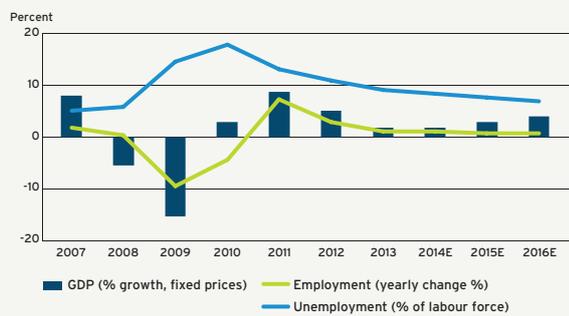
ing reached 8% in 2014. This level is expected to persist also in 2015 and 2016. A worrisome trend is the drop in the number of people of working age, which will bring along a new cycle of wage growth in 2015-2016 and beyond. The gap between the growth rates of wages and productivity will narrow in 2015-2016 when economic growth is expected to accelerate.

HISTORIC MAXIMUM IN FDI

In 2014, the total amount of FDI in Estonia was 16.5 billion EUR (y-o-y increase by 5%), which is a historic high. However, the growth rate is declining (compared to +12% in 2012 and +7% in 2013). Being a quite safe place to invest in, Estonia also has disadvantages, such as a small volume for its economy and relatively low number of challenging projects with attractive returns. In 2015 the growth in the volume of FDI may increase due to a "capital run" from Russian market. In 2016 we expect stabilization in FDI volume.

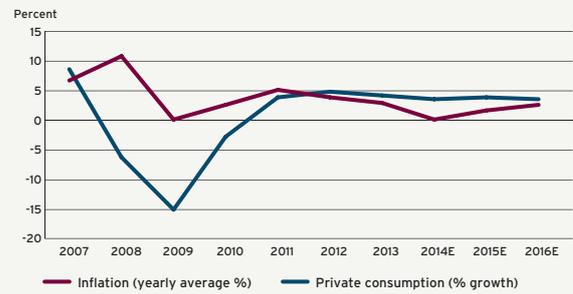
Improvement in external demand from Estonia's main trade partners will be seen in 2015.

Economic Indicators | Estonia



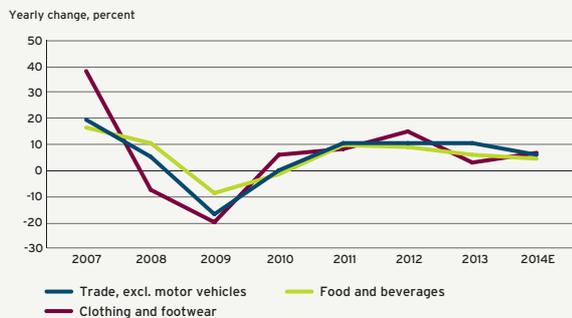
Source: Statistics Estonia, Newsec

Inflation and Private Consumption | Estonia



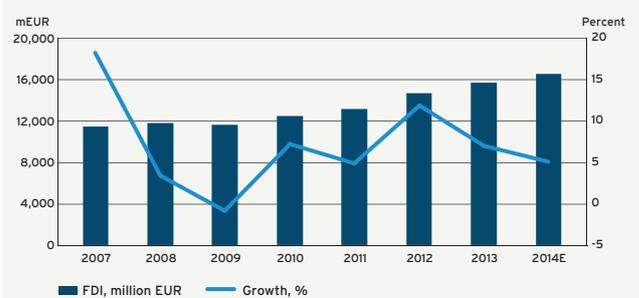
Source: Statistics Estonia, European Commission, Newsec

Retail Trade | Estonia



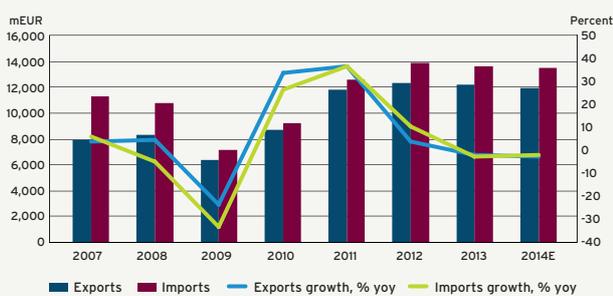
Source: Statistics Estonia, Newsec

Foreign Direct Investments | Estonia



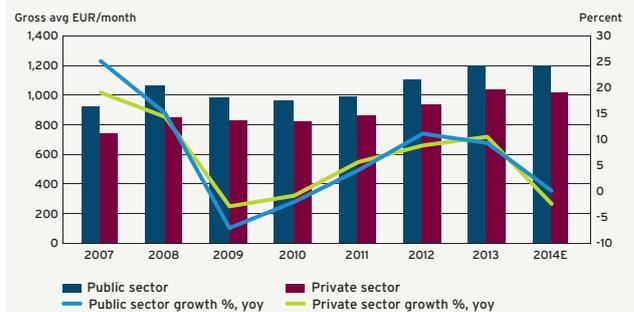
Source: Bank of Estonia, Newsec

Exports and Imports | Estonia



Source: Statistics Estonia, Newsec

Wages and Salaries | Estonia



Source: Statistics Estonia, Newsec

Retail market

The supply of well-located new shopping centres is still below demand, so the retail market continues to be ruled by landlords.

UNSATISFIED DEMAND FOR QUALITY RETAIL STOCK PERSISTS

Development in the Estonian retail trade segment goes in positive way: despite volatility, in money terms the total volume of Estonian retail trade in 2014 was more than the number of the pre-crisis year of 2007. Due to a rather low supply in 2010-2012, the unsatisfied demand in the segment of new retail premises is still existent in Tallinn and other regional centers of Estonia.

The total GLA of modern retail premises in Estonia is over 900,000 sq. m, with over 600,000 sq. m of this located in Tallinn. As of the end of 2014, almost 333,000 sq. m of that amount are speculative stock in shopping centres. After several quiet years, active development in the retail segment started again in 2013 as the market got over 25,000 sq. m of new retail space. The Key word for the recent years in terms of retail development

was expansion - derived from demand, landlords have added space to Kristiine, Rocca-al-Mare and Mustikas shopping centres. That allowed Debenhams to enter the market and for H&M, who, first entered in 2013, expand to 4 locations by the end of 2014.

The volume of new retail space delivered to the market in Tallinn in 2014 came over total volume of the last four years.

This volume includes completion of the large-scale extension of Ülemiste Centre owned by Linstow, which has now become the largest shopping mall in Tallinn. In 2014 retail premises development has arrived to Põhja-Tallinn, where only food markets were developed so far. New shopping centre with GLA of 15,000 sq. m has been opened in Stroomi. Kaubamaja has also decided to move out of City Center to Haabneeme (Viimsi Parish), where new shopping centre of ca 10,500 sq. m is

to be completed in 2015. Finnish real estate owner and developer Citycon (a new owner of Kristiine Center) does not exclude further extension of Kristiine and Rocca-al-Mare SC (permitted by established Detail Planning). Construction works of another significant retail development project, Moekombinaat by ProCapital, located just next to Ülemiste Centre, has already started. In 2016 this shopping centre will bring to the market another 60,000 sq. m.

RETAIL SEGMENT IS RULED BY LANDLORDS

In 2014 vacancy in well-performing shopping centres in Tallinn remained below 1%, with rents stabilizing. The supply in this market segment is still below demand, so the retail segment continues to be ruled by landlords. The occupancy rate on the main shopping streets of Tallinn is also close to 100%. Vacancy in the old amortized premises persists at 8 - 10%. In order to

RENTAL RATES AND VACANCIES | TALLINN

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Trend ↑↓→ |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Rental rates, EUR/sq. m/month | | | | | | | | | |
| up to 100/150 sq. m | 25-55 | 20-50 | 15-40 | 15-40 | 15-45 | 17-50 | 17-50 | 17-50 | ↑ |
| 100/150-350/500 sq. m | 15-30 | 12-30 | 9-25 | 9-25 | 10-29 | 10-30 | 10-30 | 10-30 | ↑ |
| > 350/500 sq. m | 9-17 | 8-15 | 6-13 | 7-15 | 7-15 | 8-16 | 9-16 | 9-16 | → |
| Anchor tenants | 7-10 | 7.5-10 | 7-9 | 7-9 | 7-9 | 7-10 | 8-10 | 8-10 | → |
| Vacancy rates, % | | | | | | | | | |
| Well performing SC | up to 1% | → |
| Other | 8-10% | 9-10% | 18-20% | 15-20% | 10-15% | 8-10% | 8-10% | 9-10% | ↑ |

Source: Newsec

Derived from the rapid development of e-trade, the retail trade sector will face major structural changes.

maintain occupancy and rentals, the landlords of older retail premises are facing a need to make some additional investments.

Prime rent in Tallinn shopping centres is as high as EUR 50/sq. m/month and average rent is above EUR 17/sq. m / month. Anchor tenants pay from 8 to 10 EUR/sq. m/month. Retail segment was the least affected by the financial crisis, and it did not experience significant stress in terms of rentals. Derived from stable demand, rental level and occupancy rates have been stable during last three years. No major changes in rentals are expected before 2016. After 2016 the market is expected to become saturated, and further development of rentals will depend on the occupancy situation, development activity and purchasing power of the population.

Due to the end of terms of many tenant agreements, the year 2014 was marked

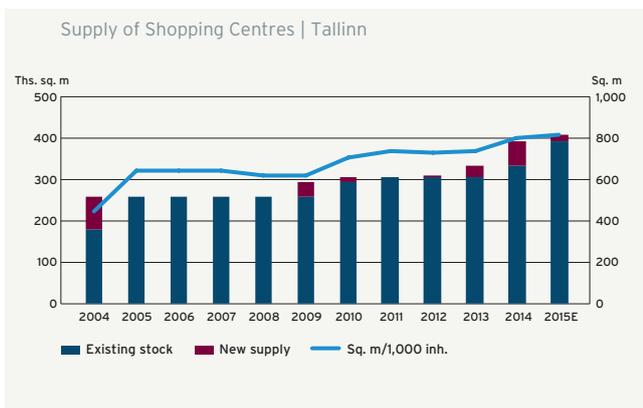
with a differentiation of the shopping centres by segments: the landlords of centrally located malls have made efforts to attract more prestigious and expensive brands, whereas those oriented to definite area of the city and regional shopping centres were trying to make tenants set more democratic and affordable prices for their client segment. For example, Viru Keskus, located in the heart of Tallinn, has considerably changed its' tenant set in 2014 by replacing lower of mid-price class retailers with more expensive international brands (River Island, Massimo Dutti, Högl, Salamander instead of Baltika, Terranova, Seppäla). In the largest shopping mall in Tallinn - regionally-oriented Ülemiste Centre - largest H&M shop in the city is located along with the other fast fashion brands shops.

RETAIL TRADE OUTSIDE THE SHOPPING MALLS

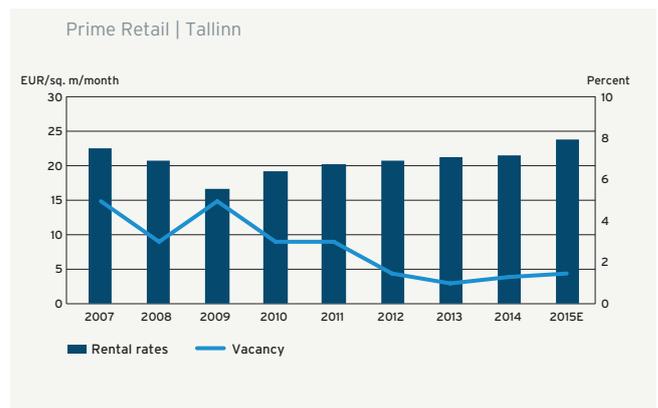
Major part of street retail facilities are located in the Tallinn Old Town, as well as on the first floors of both office and residential buildings in the City Center. Among the tenants of street retail facilities are fashion brand boutiques and beauticians also dentists, pharmacies etc. Street retail segment in Tallinn City Centre is quite stable, with comparatively equilibrated supply and demand.

Construction materials retailers, Bauhof and K-Rauta, are also expanding. Bauhof has got new premises in the renovated and expanded Mustikas Shopping Centre.

However, the outlet segment of retail market is still not represented in Estonia: large-scale project of Gate Tallinn close to Pärnu Road at the area of 62 ha announced by Trigon Capital



Source: Newsec



Source: Newsec

Although Estonia holds fourth place in Europe by retail space per capita, developers still see potential in Tallinn.

is still „on the paper“, and the start of development has yet to be announced. Construction works at Ameerikanurga Retail Park at Tallinn border in vicinity of Tartu Road were stopped for indefinite time.

Derived from the rapid development of e-trade, in the mid-to-long prospective, the retail trade sector will face major structural changes related to a decrease in the demand for physical retail space, and replaced with the need in facilities for warehousing and distribution of goods purchased via the internet.



Office market

The focus of development activity in Tallinn has come from the outskirts back to the city center.

CENTRALISATION AND SPECIALISATION

The focus of development activity in the office segment in Tallinn has come from the outskirts back to the city center. Another aspect, which is continuously important for the Tallinn office market, is specialization, where financial institutions and advisors tend to concentrate in CBD, while IT-companies, wholesalers, medical companies etc. are expected to form clusters in more distant B-grade locations with cheaper rents and free parking zones. Smart sector companies are concentrated in Ülemiste City, and the technology sector in Mustamäe and Science Park Tehnopol.

As of beginning of 2014, 23% of business companies registered in Tallinn were working in wholesale and retail sectors, followed by companies of professional, scientific and technical activities (16%), construction and activities in the field of real estate (8%

each), transportation and logistics (7%). During last 5 year period, the most rapid growth was observed in the field of art and entertainment, education and administration. The most slowly growing business sectors (apart of construction) were transportation and logistics, manufacturing, as well as wholesale and retail.

By the number of employees, the major part of Tallinn business companies are rather small: over 90% of Tallinn companies employ less than 10 people. Companies, employing from 11 to 50 people, make up 5% of total. 537 companies (1%) have from 51 to 249 staff members, and only 99 companies are employing more than 250 people.

The revival of development activity in the office premises segment started in 2012: after two years of silence, developers delivered ca 60,000 sq. m of new offices to the market in 2012 and 2013. That include Selvaag building in City Center (4,000 sq. m of rentable

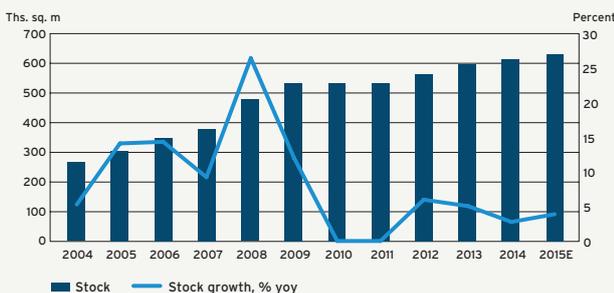
space), Navigator in CBD (7,000 sq. m of rentable space). Over 17,000 of rentable office space has been commissioned in Ülemiste City.

Many new projects were also started in 2014, but actual delivery accounted for just below 19,000 sq. m, as several already-started large-scale projects will be delivered in 2016-2017. New delivery of 2014 include B-grade offices out of city center, such as Metallī Ärihoone and Green Office Building in Kristiine (3,100 and 2,500 sq. m of GLA, respectively), Mentori Ärimaja in Mustamäe (1,500 sq. m), a new building in a large-scale development project Ülemiste City at Lõdtsa 5 (Metallitsehhi, 9,800 sq. m), as well as the renovated Creative House in Põhja-Tallinn.

TREND TOWARDS TENANTS' MARKET

In 2014, the Tallinn office market has gotten over its state of deficit and is gradually moving towards the tenants'

Office Stock | Tallinn



Source: Newsec

Office Market Indicators | Tallinn



Source: Newsec

Office market has gotten over its state of deficit and is gradually moving towards the tenants' market.

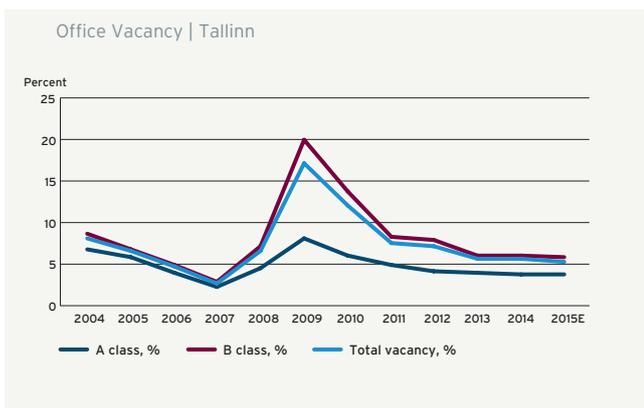
market. Tenants' bargaining power is increasing along with completion of new office projects that tightens competition among landlords. This trend is expected to deepen in the next 2 to 3 years, taking into account developers' plans. The volume of new development of 2015 and 2016, currently declared by developers, is ca 75,000 sq. m and 33,000 sq. m, respectively (in both A- and B-grade). Although the actual volume of the started projects derived considerably, we expect more moderate newer development volumes: in 2015 4,997 sq. m and 19,480 sq. m in A and B grade, respectively, followed by 21,699 sq. m in A-grade and 11,200 sq. m in B-grade in 2016. The largest share of new office buildings will be located in the central business district and in the city center, including almost 20,000 sq. m in Maarki Ärimaja in City Center, where preparation works have already begun.

Top rent in A+ grade premises is currently estimated around 16-17.5 EUR/

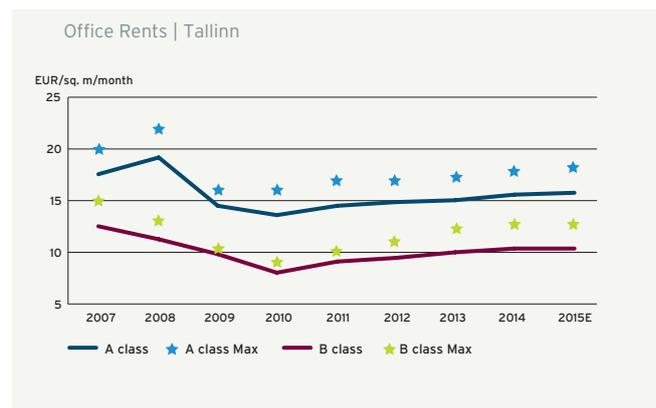
sq. m/month, A-grade - 13.4-17.5 EUR/sq. m/month. Average rent in B-grade offices stand at the level of 8-12.5 EUR/sq. m/month, although rental level in quality buildings with sufficient parking located close to the City Centre goes up to 10-12 EUR/sq. m/month.

In 2014 vacancy remained at the level of the previous year: below 4% in A-grade and 6% in B-grade, with a slight decrease in A-grade. Such segmentation is derived from market demand: despite moderate optimism at the macro level and definite uncertainty caused by geopolitical reasons, tenants realize that at the end of the day total expenses at new quality premises will be lower compared to amortized B-grade spaces. Thus the completion of significant volume of new stock will bring along a downside correction in occupancy rate and rentals in B-grade. Also it will create a better position for negotiation for the tenants of C-grade premises.

Large premises (over 500 sq. m) are available mainly under pre-lease conditions in the new developments or under preliminary arrangements with landlord, when a weaker tenant takes leave. As developers have already launched new speculative projects in the market, it is thought that development activity at current rents and construction prices has become profitable again, while risk level of development activity still stays reasonable. Considering comparatively low vacancy rates, recent increase of rents, and expected new office stock in following years, the market is believed to reach its relative equilibrium, where demand for office premises is relatively well balanced with both the existing and planned supply. In such situation the rent level will be the most affected in old and/or not so well located premises, where vacancy rates are expected to increase after completion of new projects. The market relative equilibrium reached by the beginning of 2014 will be broken to some extent, and in 2015 it is expected to become more client-driven.



Source: Newsec



Source: Newsec

Industrial market

Moderate growth in inner consumption versus the continuous decline in the exports have resulted in concentrated demand.

DEMAND CONCENTRATED IN THE CITY OF TALLINN

Activity in the industrial and warehouse real estate market segment depends on the situation in both external and internal trade, as well as the industrial sectors. Moderate growth in inner consumption versus the continuous decline in the volumes of export, import and transit have resulted in concentrated demand in this real estate market segment within the borders of Tallinn. Different from the office and retail, logistics and industrial segment is less dependent on central/capital city location, and rental levels and vacancies are rather comparable throughout the country (assuming strong locations in vicinity of main roads). Still, the capital-city enjoys higher business activity - vacancies in Tallinn decline much faster than in the regions. What is most in demand are premises in Mustamäe (on Kadaka Street and Laki Street) and Lasnamäe (the area of Punane

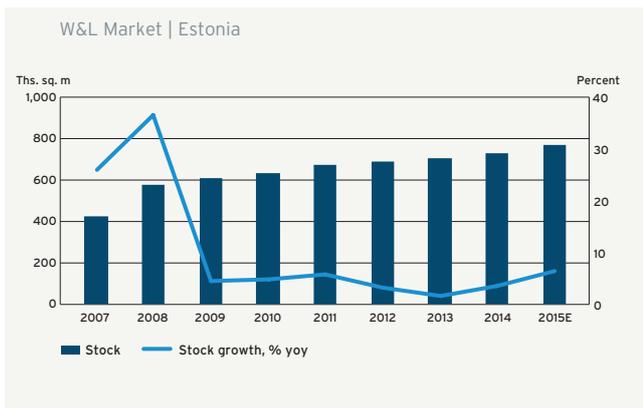
Street). Tenants mostly request premises up to 1,000 sq. m in new or renovated high-quality buildings. A significant share of demand for industrial premises in Estonia is created by foreign enterprises. This means that in future demand may be affected by growing heating and electricity prices, as well as salaries.

We believe that with the recovery in foreign trade volumes, demand will again focus in industrial parks out of the city. Over half of such facilities in Estonia are situated in Harju County (in which Tallinn is located), close to Tallinn Airport, the largest ports and main motorways. The largest industrial parks in this area are Tännassilma, Jüri, and Mõigu. Another two comparatively large regions with a developed industrial and logistics infrastructure are Tartu County and Pärnu County, followed by Central and Southern Estonia. The share of industrial facilities located in Ida-Viru County, along the northern coast of Estonia, is currently

small, but this region has great development potential.

DECREASE OF REAL ESTATE INVESTMENTS BY PRIVATE COMPANIES

Real estate investment volumes by Estonian enterprises have been growing for over three consecutive years since the second half of 2010. According to the preliminary data for 2014, the total volume of real estate investments decreased more than 13%, due to the overall uncertainty on the market. This decline was driven by almost one-third reduction in investments into acquisition of buildings. Although, due to low interest rates, in 2015 we expect some increase in investments by the companies, who are able to prove their solvency to the banks. This also depends on ability of the enterprises of transport and logistics sectors to re-orient their activities accordingly to changes in economical and geopolitical situation.



Source: Newsec



Source: Newsec

The investment activity in the industrial building segment remains high.

GROWING BUILT-TO-SUITE DEVELOPMENT VOLUME

In 2014, 24,000 sq. m of new industrial and warehousing premises were delivered in Harjumaa. However this volume was delivered with one single project - built-to-suite premises for Logistikika Pluss at Nurmevälja Industrial Park, Iru. This is significant growth after just a total of 10,000 sq. m in 2013. The construction price level is still too high to make developers interested in speculative projects. In July, 2014 AS Transiidikeskus launched container terminal expansion which will allow handling around 450,000 TEU annually. However, regional centers also attract remarkable amount of companies operating in industrial segment due to cheaper workforce compared to Tallinn.

In 2015 a large-scale 45,000 sq. m logistics complex by Maxima will be completed in Harju County, which will create ca 350 jobs. This will be an im-

portant project for the Estonian market. Other large projects currently under development in Harju County are the B Warehouse in VGP Park Nehatu (22,000 sq. m) and Smarten Logistics (17,000 sq. m).

The difference between rental rates in new/renovated and old industrial and warehousing facilities located in Tallinn and Harju County remains around two times, while the rental level remains stable. Prime rental level goes up to 5 EUR/sq. m/month. At secondary locations, rental rates are below 3 EUR/sq. m/month. In 2015 there is an increase in maximum rent that has been forecasted (to approximately 5.2 EUR/sq. m/month), which is derived from demand. Premises at secondary locations and of lower quality will be let out at the same or slightly lower rates. The average vacancy will remain at ca 7%; while the proportion among vacant spaces of different grades may be subject to change.

The investment activity in the industrial building segment remains high. Smaller transactions prevail on the market: acquisition of buildings for own use. Yields have stabilized. Domestic investors came back to the market.



Source: Newsec

Hotel market

During the last three years, the growth in demand in the hotel market has been stable.

LOW DEVELOPMENT ACTIVITY IN HOTEL SEGMENT

Tourism as a segment makes up ca 3-4% of the Estonian economy, and together with indirect effects - up to 7%. Since 2010, tourism in Europe has shown a strong recovery in general. Estonia has made a number of efforts to attract tourists, including the status of Tallinn as European Culture Capital in 2011, the opening of a Tallinn-Helsinki-St. Petersburg ferry-line and the rapid development of Tallinn Airport in the creation of new transport connections with many European target markets (especially low-cost flights). These efforts also included an increase in the number of direct flights to Tallinn, the active promotion of Estonia in media by both the private and open sector and continued growth in outbound tourism from several larger European markets. In May 2014 the Port of Tallinn opened a new cruise pier which is able to receive larger vessels. Activity of the national air transportation company

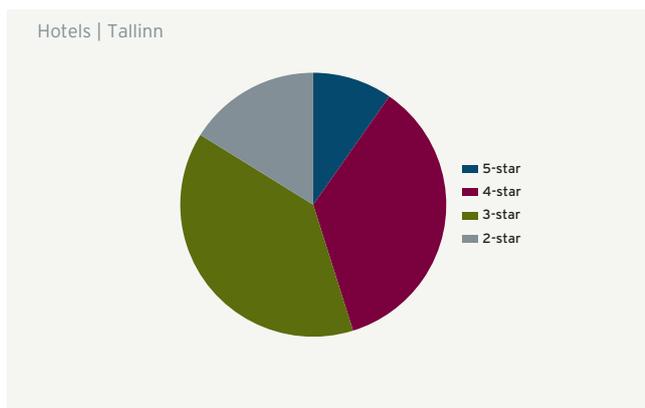
Estonian Air is stable: it services half a million passengers annually.

The total number of accommodation establishments (including hotels, hostels, guesthouses, B&B, rental apartments) in Estonia is over 1,300, of which 139 are located in Tallinn. Estimated number of hotels in Estonia is approximately 120, of which half is concentrated in the capital and Harju County, surrounding the city. 13 hotels are situated in the second largest Estonian city of Tartu, 12 - in the resort city of Pärnu, 10 - at Saaremaa and other islands. A major part of the hotels is not rated (including such international brands like Swisotel, Radisson Blue, Sokos). Classified hotels have mostly 3 stars; 6 out of 8 4-star hotels are situated in Tallinn; 2 of 3 highest (5-star) class hotels are also located in Tallinn.

During the period between 2008 and 2013, only two new hotels were opened in Tallinn: Meriton Conference & SPA Hotel and the Old Town Garden Hotel.

Located on the main square of Tallinn, the historic Hotel Palace, which changed ownership, was closed for renovation from the summer of 2013 until August 2014. In mid-2014, the boutique hotel Kolm Õde, also located in the Old Town of Tallinn, changed ownership. At the beginning of 2014, Sokos Hotel Viru has given part of its spaces to a new business-class hotel called Estoria, which has 93 rooms.

In May 2014, a new 115-room hotel was opened in the historic resort town of Narva Jõesuu. In Tartu, construction of a new hotel in the Old Town on Ülikooli Street started in the summer of 2014. In 2016 the Tallinn Hilton, with 202 rooms, will be opened to replace the Reval Park Hotel & Casino in Tallinn's city center. Apart from the Hilton, French hotel chain Accor has also shown interest in the Estonian hotel market.



Source: Estonian Hotels and Restaurants Association



Source: Statistics Estonia

In 2014, the number of Asian tourists increased, possibly indicating a new positive trend.

STABLE OCCUPANCY RATE, GROWING ADR

During the last three years, the growth in demand in the Estonian hotel market has been stable at 4-5% annually. According to the preliminary data, the number of tourists visited Estonia in 2014, remained to the same level of 2013. During the first 11 months of 2014 Estonian hotels and other accommodation establishments hosted 2.87 million tourists, 1.86 million of which were foreign citizens.

Over 40% of foreign tourists accommodated in Estonia are citizens of Finland. Their share in the total number of incoming tourists as well as the total number is stable. Sixteen percent of tourists accommodated in Estonia come from Russia, although as of the first 10 months of 2014, the number of incoming Russian tourists decreased by 4% and most probably will decrease further. Tourists from Germany, Great Britain, Sweden and other Baltic coun-

tries make up together a one-fifth of total number of tourists accommodated in Estonia. This number has been growing except for the number of tourists from Lithuania and Sweden.

The average occupancy rate has remained stable since 2011. In Estonia the average occupancy rate was at ca 44%, which is 8 points above (the lowest) result of 2009. In Tallinn this indicator was at 62% (18 points above that of 2009). According to preliminary data for 2014, the average occupancy rate in Estonian hotels in total slightly decreased (to 43%). In Tallinn, hotels had an occupancy rate of 64%.

During the high season (May to September), occupancy rate in Tallinn hotels achieve 70%-84%, although the average occupancy rate in Estonia is only 43%-58%. Highest occupancy rates (over 90%) are enjoyed mostly by the several large Tallinn hotels located in the city center (eg. Sokos Hotel, owned by operator of Finnish origin

and hosting to large extent Finnish tourists). Smaller locally-owned hotels and accommodation facilities of other types located situated out of the capital city are occupied less than 10% during the low season.

The average daily room rate is driven by Tallinn hotels, where value of this indicator is ca 1/5 more than the Estonian average. In 2014, the market average ADR increased in Estonia by 4% compared to 2013 and accounted for 33.5 EUR/night, which is a historic high. In Tallinn as a result, the 2014 ADR was at 40.8 EUR/night (+4% compared to 2013), which is also a historic high. Taking into account current occupancy rates, significant changes at hotel market of the major Estonian cities are not expected. Growing utility costs will probably further raise room rates (assuming that demand will persist at least at the current level).

The further development of the hotel sector depends on developments in European economy and general geopolitical situation. The tourists flow to the north is often re-directed because of the natural disasters in Asia and unstable situation in the Northern Africa. In 2014, the number of Asian tourists increased, possibly indicating a new positive trend, which will maybe compensate the decrease in number of Russian tourists.



Source: Statistics Estonia

Residential market

Despite the increase in supply, prices for new apartments are still going up.

SLOWDOWN IN GROWTH IN TRANSACTION ACTIVITY IN TALLINN

The Estonian residential market is to large extent driven by the market in Tallinn, where approximately half of the all transactions are concluded. In Estonia the total apartment market activity increased by 2.7%, whereas the total value of transactions amounted to over 960 million EUR, while the average price per sq. m increased by 10.6% to 932 EUR. The largest market, Tallinn, demonstrated a decrease in number of transactions dealing with apartments by 3% compared to 2013. At the same time, the average price increased by 15% to 1,450 EUR/sq. m. In order to maintain demand, a downward correction in the asking price is expected in 2015. The demand for new apartments persists, the supply in the new apartments segment has increased as well, which has resulted in an increase in the segment of old(er) apartments. Growth in demand is continuously de-

veloping because of the comparatively poor living conditions of Estonian population compared to European average standard and the new apartment development growth during the boom could not cover the shortage. On the background of declined loan capacity of Estonian household (due to overheat during the boom), there is a significant gap between the actual and solvent demand. Still this issue may be reduced with the expected further growth in monthly salaries, which hopefully will allow higher owner financing as well as an enlarged monthly repayment amount.

INCREASED SUPPLY DID NOT BRING PRICES DOWN

The total area of apartments commissioned during 2012 made up only one-fourth of the total volume of 2007-2008. In 2013 volume of both, construction permits issued and commissioned buildings, decreased by ca 25%. As a result of 2014, volume of

construction permits issued in Tallinn for apartment houses construction is expected to slightly decrease in 2015. At the same time the volume of committed apartments increased compared to the last year. This demonstrates improvement in realistic planning by the developers.

Despite the increase in supply, prices for new apartments are still going up, although we expect this growth to slow down or stop, restricted by demand and transaction prices with amortized apartments. Despite the increase in the supply of new apartments in Tallinn in 2014, the number of new construction permits issued has been declining since 2013. Asking prices for new apartments at favorable locations start from 2,300 EUR/sq. m. In more exclusive projects the asking price starts at 2,800 EUR/sq. m and can go up to 4,400 EUR/sq. m.

If at the beginning of 2014 market activity was expected to increase in Tallinn, then by autumn it became obvious that uncertainty, caused by both economic and political factors, spread to the residential segment. Taking into account the current economic and geopolitical situation, the increase in new apartments supply is expected to slow down in 2015.



Source: Estonian Land Board

Legal and tax overview

Establishment of a company in Estonia is easy and cheap.

CORPORATE PRESENCE

What is the most common type of corporate presence?

The most common type of an investment vehicle among both foreign and local investors is a private limited liability company (in Estonian *osäühing* or *OÜ*), which is analogous to a Latvian SIA, German GmbH, French SARL or BV in the Netherlands. The owners of the private company (shareholders) enjoy full limited liability.

The other common investment vehicle type is a public limited liability company (in Estonian *aktsiaselts* or *AS*) whose owners also enjoy limited liability, but it has a higher minimal share capital level (EUR 25,000 compared to EUR 2,500 in case of private companies) and more extensive corporate governance rules compared to a private company. However, a public limited liability company may issue different types of shares unlike a private company. The below overview only covers private companies as the most common company type.

Describe the management structure of a private company. Are there any participation restrictions applicable to foreigners?

The private company (*OÜ*) can have a two-tier governance structure consisting of:

- Shareholders;
- Management Board,

or a three-tier governance structure (as in public companies) entailing:

- Shareholders;
- Supervisory Board;
- Management Board.

It is not obligatory to form the Supervisory Board in a private company. Supervisory Boards are formed quite often in larger private companies or if there are several shareholders in order to implement specific corporate governance rules agreed between the shareholders in shareholders' agreements.

The executive body of a private company is the Management Board whose members represent and manage the company, deal with the actual every day running of the company.

The Supervisory Board is responsible for strategic management of the company and election of the Management Board. The Supervisory Board plans activities of the private company, organises the management and supervises the activities of the Management Board. The consent of the Supervisory Board is required for conclusion of transactions by the Management Board which are beyond the scope of everyday economic activities.

Shareholders adopt certain decisions in respect of the private company, e.g., approving of annual reports, payment of dividends, mergers, liquidation, division, increasing or decreasing share capital, etc. Shareholders elect and recall members of the Supervisory

Board and in case there is no Supervisory Board, members of the Management Board.

Specific corporate governance rules may be adopted internally and also set forth in the Articles of Association of a company.

Estonia's corporate laws do not restrict in any way participation of foreigners in management of Estonian companies. Any foreign citizen, irrespective of his/her origin, may be freely elected either to the Supervisory Board or Management Board of a private company in accordance with the general rules concerning board members.

What is the minimum authorised capital in a private company?

The minimum authorised share capital of a private company is EUR 2,500.

Are there any requirements for the number of shareholders in a private company?

The minimum number of shareholders is 1 and the maximum number of shareholders is unlimited.

It should be noted that in case of a private company each shareholder has shares of a specific nominal value, e.g., if the share capital is EUR 2,500 and there are two shareholders, then each shareholder owns shares of the nominal value of EUR 1,250.

Are there any specific requirements

Foreigners can acquire real estate in Estonia on conditions similar to Estonian residents.

for transfer of shares in a private company?

A shareholder may freely transfer shares to another shareholder.

Upon transfer of shares to a third person, other shareholders have the right of pre-emption within one month after having received the shares sale and purchase agreement. The seller shall submit the shares sale and purchase agreement executed between the seller and the third party (purchaser) to the Management Board of the company who shall promptly notify the other shareholders of the entry into the share purchase agreement. The Articles of Association may prescribe that the transfer of shares is permitted exclusively in case of the fulfilment of an additional condition, primarily, that a resolution of the other shareholders, the Management Board, the Supervisory Board or another person is required to transfer a share. It may also be stipulated in the Articles of Association that the right of pre-emption does not apply upon transfer of shares.

A share transfer agreement of a private company must be in a notarized form. In case the shareholders' list is kept by the Estonian Central Register of Securities (ECRS), i.e., the shares of a private company are registered in the ECRS, notarization of the share transfer agreement is not required.

What are the major fees involved in incorporation of a private company?

The registration of a private company involves the following notary fees and state fees:

- the notary fees for examination and certification of incorporation documents depend on the share capital of the company. In case the share capital is EUR 2,500, the notary's fees would amount to EUR 21 plus VAT, in case the share capital is EUR 25,000, the notary's fees would amount to EUR 45.40 plus VAT;
- the state fee for registration of the company with the Commercial Register is EUR 145.

ACQUIRING REAL ESTATE

Are there any legal restrictions on the ownership of real estate (interests in entities which own real estate) for foreign investors?

Generally, foreigners have the right to acquire real estate similarly to Estonian residents. However, there are two main exceptions when acquisition of real estate by foreigners is restricted:

- acquisition of real estate in border regions of Estonia. Citizens or legal persons of countries which are not contracting parties to the European Economic Area (EEA) Agreement need a permission of the Government to acquire such real estate. The permission is issued only based on the reasons significant to the state;
- acquisition of land plots which include more than 10 hectares of agricultural or forest land. Such land

plots can be acquired only by:

- i. Estonian citizens and citizens of another country which is a contracting party to the EEA Agreement or a Member State of the Organisation for Economic Cooperation and Development (OECD) without any restrictions;
- ii. legal persons of the OECD or EEA Contracting State if the legal person has been producing agricultural products/doing forest management for 3 years immediately before the acquisition of the land plot or upon the authorization of the county governor;
- iii. legal persons other than from the OECD or EEA Contracting State can acquire forest or agricultural land only with the authorisation of the county governor and if: a) the entity has been producing agricultural products/engaged in forest management in Estonia for at least one year and b) a branch of the legal entity is entered in the Estonian Commercial Register.

Any other land plots can be acquired without restrictions.

There are no restrictions imposed on foreigners (irrespective of their origin) to acquire interests in Estonia-based entities which own real estate.

There are no limitations on the maximum area of agricultural or forest land owned by a foreign investor.

Are pre-acquisition agreements commonly used in your jurisdiction?

All real estate transactions require notarization.

What is their legal effect and enforceability?

According to Estonian law the pre-acquisition agreements have to be notarized in order to be enforceable. Notarized pre-acquisition agreements or notarized contracts under the law of obligations (that do not include real rights agreement and can therefore be conditional) are commonly used in complicated transactions. Additionally, in some cases pre-acquisition agreements are concluded without notarization, however, such agreements are not enforceable.

Describe formal requirements for a real estate sale and purchase agreement

The notarization requirement applies to a sales agreement as well as a real right contract on transfer of ownership to real estate. Usually, these two agreements are included in one document which furthermore contains the application for the Land Register to register the change of the ownership. In order to complete the sale and purchase of real estate, the transfer of the ownership must also be registered with the Land Register of Estonia.

Can a sale and purchase agreement of real estate or shares of an entity owning real estate be made in a foreign language?

Yes, if a party to a notarial act requests, a notary may prepare a notarial agreement in another language if the notary

is sufficiently proficient in the corresponding language.

All applications to the Land Register must be submitted in Estonian, i.e., an official translation of the application and real right agreements are needed before the submission.

Does any third person (governmental authority, etc.) have the pre-emptive right to acquire real estate subject to sale?

The most significant pre-emptive right under Estonian law is the one belonging to the co-owners. With one exception this pre-emptive right is applied to any sale of a legal share of real estate held in co-ownership. The only exception is the apartment ownership where, in case of sale of an apartment, owners of other apartments located in the same building have no pre-emptive right.

In addition to the co-owners' pre-emptive right, several laws provide for further pre-emptive rights. According to the Heritage Conservation Act, the state and a local government entity have the right of pre-emption for real estate under heritage protection. The Nature Conservation Act stipulates the right of pre-emption for the state in respect of certain natural conservation areas as well as land plots located in the coastal building exclusion zone and restricts the use of real estate in these areas. According to the Principles of Ownership Reform Act, tenants who live in a restituted building have the joint right of pre-emption to that building.

Describe the moment of acquisition of ownership to real estate

The title to real estate is acquired upon the respective entry in the Land Register.

Does a seller have the statutory disclosure or warranty obligation?

Generally, a seller is required to disclose any relevant aspect of the target. Otherwise, the seller will be liable for any defects that may not be discovered in the course of usual inspection.

What is the effect of transfer of real estate on contractual and other rights, obligations and warranties? Do these pass over along with the title to real estate?

In case of a transfer of real estate, all real rights and obligations in respect of the real estate pass over to the acquirer. Also rights and obligations under the lease agreements pass over along with the title. Any other contractual rights and obligations may be assigned to the acquirer of real estate upon agreement.

The contractor's or designer's warranties/guarantees in respect of a newly constructed building remain valid upon transfer of real estate.

What are the conditions for termination of the real estate sale and purchase agreement?

A real estate sale and purchase agree-

Lease agreements survive transfer of ownership of any real estate.

ment can be terminated:

- by mutual agreement of the parties;
- by either party's withdrawal if the other party commits a fundamental breach of the agreement and fails to rectify it in due course (the parties may agree on what is considered to be a fundamental breach under the agreement; otherwise, it has to be determined on the basis of statutory provisions);
- on other withdrawal grounds set out in the agreement.

What are the fees for notarization the real estate sale and purchase agreement?

A notary fee charged for certification of a real estate sale and purchase agreement depends on the value of property. For example, if the value of the real estate is EUR 1 million, then the notary fee is approximately EUR 3,000; if the value of the real estate is EUR 10 million, then the notary fee is approximately EUR 11,000.

Parties to a real estate sale transaction are free to agree whether the notary fee is to be covered by both of them or by a particular party.

COMMERCIAL LEASE

What are the formal requirements for the execution of a lease agreement?

There are no mandatory formal requirements for the execution of commercial real estate lease. A tenant may

demand from the landlord that a notation regarding the lease contract be made in the Land Register. Such entry in the Land Register secures the tenant's rights in case of transfer of the real estate by excluding the new landlord's right to terminate the lease due to the change of ownership.

Are there any statutory restrictions on a lease term?

No. However, if a lease agreement has been concluded for a term exceeding 30 years, then after the first 30 years, either party may terminate the agreement without indicating the reason, by giving the other party a three-month prior notice.

Does a tenant have the statutory right to extend or renew its lease?

No. However, in case of residential lease, the tenant may claim extension of the lease term for up to 3 additional years, if terminating of the agreement would bring along serious results for the tenant or his/her family.

Rent and its adjustment: are there any statutory restrictions on the amount of rent? What is the general market practice?

There are no statutory restrictions on the amount of rent. However, the tenant may contest the amount of rent if unreasonable benefit is received from the lease of a residential space.

In case of residential lease, an agree-

ment on periodical increase of rent is valid only if:

- the lease term is at least 3 years;
- the rent is increased not more often than once a year; and
- the limits or principles of calculation of increase are set forth in detail in the lease agreement.

General market practice is that in case of commercial premises, rent is increased (adjusted) annually according to the consumer price index.

Alienation: what are the rights of the tenant and the landlord with respect to assignment, sub-lease or placing a charge over a lease?

A tenant may assign the lease only upon the landlord's consent. Also subletting is allowed only on the landlord's consent, but the landlord may not withhold its consent without a material reason.

There are no restrictions on encumbering a lease with a pledge or a similar right.

What is the common form and length of eviction?

First, the landlord should file a claim to the court demanding that the tenant vacate the premises. Court proceedings can take anywhere between a few months to a couple of years. This depends greatly on the circumstances and on the actions the tenant takes, e.g., whether the tenant opts to dispute

Real estate development process has a clear step-by-step regulation.

the judgment of the court of the first instance. A court resolution in effect can be enforced by a bailiff on the landlord's request. In frames of the execution proceedings, the bailiff first gives to the tenant a term of up to 30 days to voluntarily comply with the court resolution and leave the premises. After this term has passed without success, then the bailiff will evict the tenant, if necessary, with the help of the police. Having said that, enforcement proceedings can prove to be cumbersome if the tenant is not willing to cooperate. In such cases the enforcement proceedings can drag on for a rather long time.

What are the restrictions on the transfer of title to real estate subject to lease?

There are no such restrictions. It should be noted that in case of transfer of the title to real estate subject to lease, the lease will remain in force.

How does the transfer of real estate affect the tenant's rights and obligations?

The tenant's rights and obligations remain in force in case of transfer of real estate. A new landlord may terminate the lease agreement, by giving a three-month prior notice, within three months as of the date of acquiring the real estate, unless the lease agreement is registered with the Land Register. A residential or commercial lease agreement can be terminated only if the new landlord strongly needs these premises for its own needs.

CONSTRUCTION

Describe the common stages of construction (development) process

Enacting of a detailed plan

In densely populated areas (such as towns), any developing and construction works are subject to a detailed plan enacted by the rural municipality entity. A detailed plan sets forth specific requirements for the construction works, such as intensity of construction, maximum allowed height of buildings, etc.

Environmental impact assessment

It will need to be performed when the planned constructions falls under the list of particular activities established by the laws.

Designing works

The design of a building is prepared in accordance with the designing conditions issued by the rural municipality entity. If the rural municipality entity has enacted a detailed plan, then the designing conditions are issued in accordance with such detailed plan. In certain cases, expertise of the design documentation is required.

The construction permit

It is issued in respect of a specific land plot and not to a certain natural or legal person. The validity period of a construction permit is not limited, but a construction permit becomes invalid if the construction works are not commenced within 2 years as of the date of issuance.

Carrying out of the construction works

As a rule, supervision of the owner should be carried out by a competent person during the construction works. The process of construction works should be covered in a record of construction works, reports on covered works, minutes of working meetings, as-built drawings and certificates of building materials.

Applying for authorisation for operation

After completion of the construction works and before the commencement of operation of the newly erected or reconstructed building, the owner must apply for authorisation for use. The respective certificate is issued by the rural municipality entity if the construction works have been carried out duly in accordance with the design documentation.

Describe the main requirements for construction licencing

In order to be permitted to perform the construction work a person must:

- be registered as an undertaking (a company or a sole proprietor); and
- be registered in the register of economic activities by filling a specific application with information on the planned field of activities, information on competent person(s), contact details etc.; and
- have a corresponding legal relationship with a competent person (a person who is holding a professional

Estonia has a strong land register system ensuring the legal certainty of real estate ownership.

qualification and has completed a higher education in an appropriate field and has three years' experience in positions related to his or her profession) or, if the person is a sole proprietor, he or she must be a competent person.

The above requirements also apply to:

- design works;
- conducting site investigations;
- conducting energy audits;
- owner supervision;
- expert assessments of building design documentation;
- expert assessment of construction works;
- issuing energy performance certificates;
- engaging in project management.

What are the statutory guarantee terms for construction works?

Under Estonian law, the statutory construction guarantee is an obligation assumed by the building contractor to ensure that building operations performed by the contractor comply with the terms of the corresponding contract and that the construction works or any part thereof built by the contractor will, if used for its intended purpose and properly maintained, remain for a specified period of time the safety and usability properties and the high quality required for the use of the construction works as a whole or of any part thereof.

The following statutory guarantee

terms are applied for construction works:

- construction guarantee - for at least 2 years from the date on which the building is completed;
- guarantee for equipment permanently incorporated in the construction works in the course of construction - for at least 6 months.

REGISTRATION

Does all real estate require to be registered?

Yes.

What rights (if any) to real estate are subject to registration? What are the consequences of failure to register?

All real (in rem) rights to real estate are subject to registration, including ownership right, servitudes, real encumbrances, mortgages, building rights and real pre-emption rights. The real rights are created and cease to exist only upon registration thereof with the Land Register. Pre-emption rights under Estonian law, such as co-owners', municipality's and state's pre-emption rights, are not subject to compulsory registration.

What is the procedure for registration of the ownership to real estate?

Along with the agreement for transferring of the ownership (real right agreement), a specific notarized application to the Land Register has to be signed.

Both the real right agreement and application for the registration of the ownership are submitted to the Land Register by the notary. The registration procedure may take up to one month as of the submission.

What time and costs are involved in the registration of real estate (rights thereto)?

Notary's fees (including deposit fees if notary's account is used) and state fees need to be paid.

The amount of the notary fees depends on the value of the real estate (or rights thereto). For example, if the value of the real estate is EUR 10 million, then the notary fee is approximately EUR 11,000.

Registering the title of the new owner to real estate may take up to a month as of the submission of a notarized application to the Land Register. If the former real estate is divided into separate real estates, then the registration of the new real estate may take up to three months.

Note that in addition to the notary fee and in order for the transfer to be registered in the Land Register, the state fee must be paid. The state fee is charged for the registration of ownership with the Land Register. The amounts of the state fee mainly depend on the transaction and the value of property. The state fee cannot exceed the established cap of EUR 2,560, irrespective of the transaction value.

Corporate profits are not taxed until distributed.

How reliable is the registration system?

The registration system is reliable, and a bona fide third party can rely on the correctness of the data of the Land Register.

Is the register publicly accessible?

Yes. Information from the Land Register regarding data of the land plot, ownership, encumbrances and mortgages can be accessed by any person electronically from the e-Land Register for a small fee (EUR 3) or at the Land Registry departments. Verification of identity is needed.

TAXATION

CORPORATE INCOME TAX

Tax rate and basis

The Estonian corporate income tax system is rather unique since only profit distributions are taxed. Retained (re-invested) earnings are not subject to the corporate income tax until distributed. Therefore, the Estonian corporate income tax system shifts the moment of corporate taxation from the moment of earning the profit to the moment of its distribution (deferred corporate income tax).

The corporate income tax is charged on direct profit distributions such as dividends and on implicit distributions, including fringe benefits, gifts and donations, and expenditures/payments not related to the business activities

of the company.

The above profit distributions are taxed at company level with the income tax at the rate of 20/80 (25%) from the net amount of the distribution, which is equivalent to 20% from the gross amount.

The same corporate income tax rules apply in respect of foreign companies' permanent establishments located in Estonia, i.e., permanent establishments are not taxed with the income tax until profits derived by such permanent establishments are withdrawn from Estonia by the foreign parent companies.

Note that under certain conditions profit distributions are not subject to the corporate income tax (e.g., dividend payments made at the expense of dividends or permanent establishment profits received from other EEC countries, provided the participation criteria are fulfilled).

Capital gains

Profits of Estonian resident companies, including those received in the form of capital gains, are taxed only upon the distribution of such profits. There are no tax reliefs available for the distributions of profits at the expense of capital gains.

Capital gains of a foreign entity from the sale of real estate located in Estonia and also rental payments received by non-residents for the lease of immovable property located in Estonia as well as movable property subject to

registration in Estonia are subject to the Estonian withholding income tax at the rate of 20%.

The income tax is not, as a general rule, imposed on gains received by non-resident companies from the sale or exchange of shares in Estonian companies. There is, however, an exception which relates to sale of shares in real estate companies, i.e., companies where at the time of transfer or during some period within two years immediately preceding the transfer, more than 50% was directly or indirectly made up of immovable property or structures as movables located in Estonia, and in which the non-resident at the moment of transfer held at least a 10% shareholding. Capital gains from sale of shares in a real estate company are taxed at the general income tax rate of 20%.

Dividends

There is no withholding tax on dividend distributions, irrespective of the residence of the recipient or the recipient's legal status (i.e., a legal person or individual).

In other words, profits are only taxed upon distribution with the corporate income tax as described previously.

Interest

There is no withholding tax on interest payments to non-residents (unless transfer pricing regulations apply).

Thin capitalization rules

Estonia has no thin capitalization rules.

No income tax is imposed on sale of real estate used for residency purposes.

Tax losses carried forward

Due to the fact that the classical system of corporate taxation, where corporate profits are taxed upon their accrual, is not used in Estonia, there is also no need for such system and there are no loss carry forward rules in Estonia.

Intra-group consolidations

Intra-group consolidations are, as a rule, tax neutral, i.e., if no profits are distributed out of the company/companies in the course of the intra-group consolidation, no tax consequences arise.

INDIVIDUAL TAXES

Taxation of employment related income

Payroll taxes subject to payment in Estonia from salaries or similar monetary remuneration (e.g., additional remuneration, bonuses, holiday pay, compensation upon cancellation of employment contract, etc.) are as follows:

Taxes payable by the employer:

- Social tax: 33% from the gross amount;
- Unemployment insurance premium (employer's part): 0.8% from gross amount.

Taxes payable by the employee (withheld by the employer):

- Income tax: 20% from the gross amount, from which relevant deductions are made (including the basic monthly exemption of EUR 154, em-

ployee's unemployment insurance premium and mandatory funded pension premium);

- Unemployment insurance premium (employee's part): 1.6% from the gross amount;
- Mandatory funded pension premium: 2% from the gross amount (obligatory for employees who were born in 1983 or later; optional for employees who were born before 1983).

The taxable period for payroll is a calendar month, and the taxes must be reported and paid to the tax authority by the tenth (10th) day of the month following the taxable period.

Sale and lease of real estate

Generally, capital gains from sale of real estate are subject to the 20% personal income tax.

Full exemption from the personal income tax is applied on income of both resident and non-resident individuals derived from sale of real estate which is used for residency purposes. This tax exemption is not applied to more than one transfer in two years. Some further tax exemptions, as well as certain deductions from taxable income (for example housing loan interest, training expenses, etc.), are provided by domestic law.

Rental income received either by a tax resident or non-tax resident of Estonia from lease of immovable property located in Estonia is subject to the income tax at the rate of 20%.

Note, that rental income from lease of movable property (in the case of resident persons) and movable property, which is subject to registration in Estonia (in the case of non-resident persons), is also subject to the income tax at the rate of 20%.

Sale of shares

Capital gains derived by an Estonian resident individual from sale of shares are generally subject to the income tax at the rate of 20%.

Capital gains of a non-resident from sale of shares are generally not subject to taxation in Estonia, except for capital gains derived from sale of shares in a real estate company, i.e., companies where at the time of transfer or during some period within two years immediately preceding the transfer, more than 50% was directly or indirectly made up of immovable property or structures as movables located in Estonia, and in which the non-resident at the moment of transfer held at least a 10% shareholding. Capital gains from sale of shares in a real estate company are taxed at the general income tax rate of 20%.

Taxation of self-employed individuals

Income generated by a self-employed individual from his/her individual business activity is subject to the personal income tax at the rate of 20%.

A self-employed individual who is registered as such in the Estonian Commercial Register is allowed upon calculation of the taxable base to deduct from

The only state tax applying to real estate in Estonia is the land tax, which is relatively low. There is no real estate tax as such.

the income derived expenses related to his/her business activities, provided that such expenses are duly documented (except for certain expenses deduction of which is not allowed under the applicable law).

Self-employed persons who derived income during the taxable year are obliged to make quarterly advance income tax payments during the next year (3 quarterly payments for 3 quarters following submission of the annual income tax return).

Profit of self-employed individuals is subject to the social tax at the rate of 33%, whereas a minimum social tax obligation calculated from the minimum monthly limit determined annually by the state budget is subject to payment regardless of the amount of income received. Advance social tax payments have to be paid quarterly.

VALUE ADDED TAX (VAT)

The Estonian VAT legislation is based on Council Directive 2006/112/EC (recast of the Sixth Directive of the Council of the European Community (77/388/ECC)). VAT is levied on supply of goods and services at the standard VAT rate of 20%. The reduced rate of 9% applies to books, periodicals, certain listed medicines and accommodation services. The VAT rate on export of goods and certain services is 0%. Some supplies are VAT-exempt, such as insurance, banking and financial services.

In Estonia a person (including a self-employed person) is obliged to register as a VAT-liable person if the amount of taxable supply from the beginning of the calendar year exceeds the amount of EUR 16,000. However, voluntary registration is possible also prior to reaching the aforementioned threshold.

As a rule, immovables are tax exempt in Estonia. However, there are certain exceptions in respect of which the general VAT exemption does not apply and which are taxed at the general VAT rate of 20%. These exceptions are as follows:

- an immovable object if an essential part thereof is construction works or a part of construction works which is to be transferred prior to the commencement of use of the construction works or a part thereof;
- an immovable object if an essential part thereof is construction works which has been significantly improved, or part of such construction works which is to be transferred prior to the post-improvement resumption of use of the construction works or a part thereof;
- a land plot if the plot does not contain any construction works.

A building is deemed to be significantly renovated, if the costs related to the improvements exceed at least 10% of the acquisition value of the construction works or a part thereof before making of the improvements.

Note also that the seller of an immovable object may voluntarily add VAT to the sales price of the immovable object (which is exempt from VAT under the general tax exemption rule) upon prior notification of the Tax and Customs Board. If upon sale of an immovable object VAT is added voluntarily, a reverse VAT charge applies under which the buyer (and not the seller) is subject to transferring the VAT amount into the state budget.

REAL ESTATE TAX

There is no real estate tax in Estonia.

LAND TAX

The land tax is calculated on the assessed value of land at the rates between 0.1 and 2.5 depending on the municipality. The tax is paid by the owners of land or by the users of land specified by the Land Taxation Act. The tax is paid generally in two instalments by 31 March and 1 October. Starting from 2013 land used for residential purposes and corresponding to certain criteria is exempt from the land tax.

STATE-OWNED LAND LEASE TAX

There is no state-owned land lease or similar tax in Estonia.



THE FULL SERVICE PROPERTY HOUSE IN NORTHERN EUROPE



Today, Newsec employs over 550 professionals in over 20 offices and covers all parts of the commercial property market. Newsec provides services to most of the leading property owners, investors and corporates in the region.

Newsec - The Full Service Property House in Northern Europe - is by far the largest specialized commercial property firm in Northern Europe.

With over 600 professionals in 20 offices Newsec covers all parts of the commercial property market. Newsec provides services to most of the leading property owners, investors and corporates in the region.

Newsec manages more properties and carry out more transactions, more lettings and more valuations than any other firm. We have the largest research team. Together this gives us depth and breadth of the market.

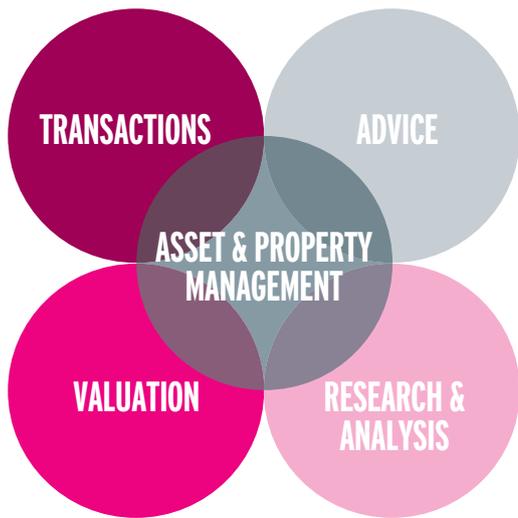
As in many other geographical regions the vast majority of the transactions take place between local players. It is therefore vital to have a strong local presence in every country in order to find the right counterpart. We also have an exclusive collaboration with BNP Paribas Real Estate - one of the leading advisors in Europe.

Newsec is a stable and long-term player. The company was founded in Sweden in 1994. The founding family have been the main owners from the start, with the rest of the company owned by key executives in the Group.

Newsec is divided in five Business Areas, and is without question the market leader in each of them.

The main thing that differentiates us from other advisors is that we offer all relevant expertise in all seven countries.

The Newsec Group is highly research-driven - for instance we carry out our own macroeconomic analysis - and we produce a unique five-year forecasts for all relevant data for all submarkets of interest in Northern Europe.



Newsec offers a comprehensive range of services in the business areas of Transactions, Advice, Asset & Property Management, Valuation and Research & Analysis.

NEWSEC ASSET & PROPERTY MANAGEMENT

- Property strategy
- Profitability analysis
- Investments (in the property)
- Financial administration
- Accounting service
- Lease administration
- Leasing
- Renegotiation
- Tenant relations
- Property development technical planning
- Property caretaking
- Trimming operations
- Handlings faults in property

NEWSEC TRANSACTIONS

- Sell side representation: advise, marketing, negotiations
- Buy side representation: advise, DD, valuation, negotiations
- Corporate Finance
- Retail, logistics / industrial, office
- Residential
- Infrastructure / Wind Power

NEWSEC RESEARCH & ANALYSIS

- Situation in the region, Baltic/Nordic market overviews
- Tailor made solutions based on the analytical research
- Forecasts on RE market development
- RE portfolio analysis and recommendations on its optimization
- Concept development
- Highest and best use scenario consulting
- Financial analysis, cash flow and analysis
- Business plans

NEWSEC ADVICE

- Portfolio Allocation
- Corporate Real Estate
- Strategic advisory and Leasing brokerage
- Office
- Logistics / Industrial
- Retail & Urban Development
- Residential
- Tenant mix strategy

NEWSEC VALUATION

- Real estate valuation
- Business valuation
- Movable property valuation
- Due diligence
- Construction monitoring



VILNIUS | RIGA | TALLINN | BRUSSELS

With over 140 legal professionals, LAWIN is ideally positioned to provide the highest-calibre, specialized legal services both domestically and in a pan-Baltic dimension. The LAWIN Real Estate practice is a team of highly experienced lawyers who provide top-tier, innovative advice for clients on a broad range of commercial real estate and construction matters in Estonia, Latvia and Lithuania.

- We often act as equal members in the project management teams of major development projects, from planning on paper till opening for business and further operation or sale.
- LAWIN continues to be the principal legal adviser on real estate matters in all international infrastructural projects.
- Long record of LAWIN's close work with the largest real estate investors in some of the countries has resulted in by far the biggest volume of transactional practice.

- LAWIN is proud to have advised the largest institutional real estate investors present in the Lithuanian market.

- European Law Excellence Centre (ELEX) Brussels office is an extension of LAWIN practices at the heart of the EU. ELEX is a cross-practice group of highly experienced LAWIN lawyers who provide legal advice for clients on a broad range of EU laws.

For nearly two decades, our practices and lawyers in Estonia, Latvia and Lithuania are continuously top-ranked by the most prestigious international legal directories Chambers Global and Europe, Legal 500, and IFLR 1000. LAWIN is the exclusive member in the Baltic States for Lex Mundi - the world's leading network of independent law firms with in-depth experience in 100+ countries. More: www.lawin.com

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