Realia Group is the region's largest provider of real estate brokerage, valuation, investment and property management services. Realia Group's 1,600 real estate professionals serve our clients throughout Finland, Estonia, Latvia and Lithuania. Total turnover of Realia group in 2015 was €98 million.

Ober-Haus Real Estate Advisors is the largest real estate agency operating across the Baltic region including Estonia, Latvia and Lithuania. Ober-Haus Real Estate Advisors is a highly experienced provider of the most complete property services including residential and commercial real estate services, property management and property valuation services and has, since 1994, grown to employ over 270 real estate professionals in 24 offices across the region.

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

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

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

**Ober-Haus - all real estate services**
2015 EUROMONEY WINNER

Euromoney: Best Overall Advisor & Consultant in Lithuania 2015
 Euromoney: Best Research Advisor & Consultant in Lithuania 2015
 Euromoney: Best Valuation Advisor & Consultant in Lithuania 2015
 Euromoney: Best Agency/Letting Advisor & Consultant in Lithuania 2015

Euromoney, the flagship production of Euromoney Institutional Investor plc. (one of Europe's largest business and financial magazine publishers) is an English-language monthly magazine focused on business and finance first published in 1969.
Ober-Haus Real Estate Advisors is a real estate agency operating across the Baltic region - Estonia, Latvia and Lithuania since 1994. 2007 was the year when Ober-Haus and Realia Group, the real estate market leader in Finland, merged and made the largest real estate company in the Baltic States.
LITHUANIA
CURRENCY
Currency: Euro (EUR)
Since: January 1, 2015

2016 FORECASTS
- GDP growth, %: 2.8 - 3.2
- GDP per capita, €: 13,300
- Private consumption growth, %: 4.0
- Average annual inflation, %: 1.4 - 1.8
- Unemployment rate, %: 8.0 - 9.0
- Avg. monthly gross wage, €: 750
- Avg. gross wage annual growth, %: 5.0 - 5.5

POPULATION

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
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<tr>
<td>Lithuania</td>
<td>3,142,000</td>
<td>3,052,600</td>
<td>3,003,600</td>
<td>2,971,900</td>
<td>2,943,500</td>
<td>2,921,300</td>
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<tr>
<td>Vilnius</td>
<td>531,700</td>
<td>524,900</td>
<td>522,300</td>
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<tr>
<td>Kaunas</td>
<td>329,500</td>
<td>317,300</td>
<td>310,800</td>
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<td>Klaipeda</td>
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<td>Siauliai</td>
<td>114,500</td>
<td>109,700</td>
<td>107,700</td>
<td>106,500</td>
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<td>Panevėžys</td>
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<td>98,500</td>
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ECONOMICS

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<tr>
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<tr>
<td>GDP growth, %</td>
<td>1.3</td>
<td>5.9</td>
<td>3.6</td>
<td>3.4</td>
<td>2.9</td>
<td>1.7</td>
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<tr>
<td>GDP per capita, €</td>
<td>9,049</td>
<td>10,324</td>
<td>11,157</td>
<td>11,821</td>
<td>12,428</td>
<td>12,820</td>
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<tr>
<td>Private consumption growth, %</td>
<td>-4.9</td>
<td>4.3</td>
<td>3.2</td>
<td>5.3</td>
<td>4.6</td>
<td>3.4</td>
</tr>
<tr>
<td>Average annual inflation, %</td>
<td>1.2</td>
<td>4.1</td>
<td>3.2</td>
<td>1.2</td>
<td>0.2</td>
<td>-0.7</td>
</tr>
<tr>
<td>Unemployment rate, %</td>
<td>17.8</td>
<td>14.8</td>
<td>13.2</td>
<td>11.8</td>
<td>10.7</td>
<td>9.4</td>
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<tr>
<td>Average monthly gross wage, €</td>
<td>5.76</td>
<td>5.93</td>
<td>6.15</td>
<td>6.46</td>
<td>6.77</td>
<td>7.12</td>
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<tr>
<td>Average gross wage annual growth, %</td>
<td>-3.2</td>
<td>3.0</td>
<td>3.7</td>
<td>5.0</td>
<td>4.8</td>
<td>5.2</td>
</tr>
<tr>
<td>Retail sales growth, %</td>
<td>-7.1</td>
<td>8.8</td>
<td>4.5</td>
<td>4.5</td>
<td>5.6</td>
<td>5.3</td>
</tr>
<tr>
<td>FDI stock per capita, €</td>
<td>3,286</td>
<td>3,672</td>
<td>4,072</td>
<td>4,321</td>
<td>4,404</td>
<td>4,548</td>
</tr>
</tbody>
</table>

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS
One of the most important events in the country’s economy in 2015 was the introduction of the euro. Seeking to establish itself in the EU structures and expecting cheaper borrowing costs, on 1 January 2015 Lithuania became the 19th member of the euro zone. Following smooth introduction of the euro, support for the new currency increased, although the majority of the population, contrary to the official statistics, believes that the general price level has risen considerably.

In recent years, the decline in prices has mostly been due to the decrease in global energy prices, however, once its impact is over, the annual inflation rate in 2016 should be positive. Despite the recorded negative inflation, in 2015 the prices of various services and certain products considerably increased. In 2015, negative inflation recorded in Lithuania was at 0.7%. Forecasts are for CPI growth of 1.4-1.8% in 2016.

The international environment determined that in 2015 the Lithuanian economy grew much slower than expected. In 2015 GDP grew 1.7%, after growing 2.9% in 2014. Analysts forecast growth of 2.8-3.2% in 2016 and 3.2-3.5% growth in 2017.

The minimum wage in Lithuania was increased from €300 to €325 on July 1, 2015 and will be raised to €350 in January 1, 2016. Another minimum wage increase is expected in the mid of 2016.

Gross wages increased by 5.5% in Lithuania in Q3 2015 (compared to Q3 2014), to €735 per month before taxes. The average net monthly after tax wages in Q3 2015 was €569. Salary growth in 2016 is expected to be 5.0-5.5%.

Unemployment fell to 8.3% in Q3 2015. Analysts project average unemployment of 8.0-9.0% in 2016.

Confidence among Lithuanian consumers is increasing. The consumer confidence indicator in December 2015 as compared with December 2014 increased by nine percentage points to negative 7. In December 2015, 27% of consumers believed that country’s economic situation would improve in the coming twelve months, 22% of them thought that the country’s economy would deteriorate and 47% thought that situation wouldn’t change.

In the first half of 2015, the country’s businesses still tried to adapt to Russian sanctions and the consequences of the fallen purchasing power of Russia for export volumes. Exports in January-November 2015, compared to the same period last year, decreased by 5.7%.

Annual increase of constructions costs was 1.3% in December 2015. In this period, the biggest increase was recorded for renovation of buildings (2.7%) and residential constructions (1.9%).

As of September 2015, direct foreign investment totalled €13.2 bln (2.4% increase compared with start of 2015), which is €4,548 per capita.
Developers continue to implement new office projects in the capital city successfully. Only one project has extended beyond the scheduled deadline – the first stage of QUADRUM (biggest office project in Lithuania from Norwegian developer Schage) was scheduled for the end of 2015, but seems what it will be completed during first half of 2016. So in total six new projects were completed in 2015 bringing 38,000 sqm of office space to the market. After completion of these projects, the total area of modern office premises (A and B class) grew to 546,600 sqm gross lettable area (GLA) at the end of 2015. By floor space, A class constitutes almost 37% of the total modern office premises in Vilnius, and B class 63%. Yet B class office buildings mostly consist of buildings with 2,000 - 6,000 sqm of useful office space (4,500 sqm on average), meanwhile the area of A class office buildings most frequently range between 5,000 - 15,000 sqm (9,500 sqm on average).

High occupancy rates and positive expectations of developers determine further development of business centres. Fears of
In 2017 the Vilnius market will see the completion of another five office projects/stages (currently under construction) and few more planned projects (MG Valda project on Lvoovo Street, M.M.M. Projektais project on Saltoniskiu Street, and others). These projects could bring no less than 60,000 sqm of new office space.

Also more and more developers implement projects that will qualify for international certification of the environmental assessment of buildings (BREEAM, LEED, etc.). Developers believe that the sustainable buildings with cost-cutting solutions will allow for a higher competitiveness among other projects.

Premises are successfully leased while the construction is still in progress, which encourages developers to invest in new projects. In addition to the construction currently in progress, developers in Vilnius are planning at least 10 new projects in the near and far future. However, implementation of these projects will depend both on the overall situation in the market and the ability to find tenants in advance.

**DEMAND**

New large service centres of international corporations established in Vilnius and the development of already operating well-known companies (e.g. development of new services for foreign markets) have given the office premises market a really strong boost. According to data from Invest Lithuania, 57 shared service centres (SSC/BPO) with 12,500 employees are currently operating in Lithuania. And many of these centres continue to expand. The number of service centres in Lithuania has grown stably and has increased almost six times since 2001.

In 2015, 52,700 sqm of office premises was leased in Vilnius business centres, which is 21% more compared to 2014. Demand for modern premises remains sufficiently high and this is reflected in the take-up of new projects. The majority of business centres completed in 2015 had been leased while the construction was still in progress. It is important that expanding or new companies are interested in larger premises of 2,000–5,000 sqm. Newly developed projects can offer various options in terms of the total area or layout for potential tenants.

The vacancy rate of modern offices in Vilnius increased from 3.9% to 4.1% in 2015, and the total space of vacant premises increased to 22,600 sqm. A slight rise in vacancy rates is due to significantly increased supply, because part of the projects completed in 2015 have not been fully leased. Increasing supply in the capital city contributes to slight increase in the overall vacancy rate. At the end of 2015, the vacancy rate for B class buildings was 6.2% (totalling 21,400 sqm), while the vacancy for A class buildings was just 0.6%, totalling 1,200 sqm of vacant space.

Ober-Haus forecasts that vacancy will keep steady in the first half of 2016, still coming huge supply in the end of 2016 and the start of 2017 could raise office vacancy. However, the decisive factor will be the demand level of office premises, which, as 2015 has shown, continues to grow.

**RENTS**

High demand for modern offices and low vacancy rate led to further increases in rents of modern offices in Vilnius. In 2015 office rents increased by an average 6% and now B class office rents range between €8.00 and €13.00 per sqm and A class – €13.50–€16.50 per sqm in Vilnius. Developers of some of the new projects expect to lease their premises for more than €16.50 per sqm as offers cost-cutting solutions, extra fit-out for tenants in highest quality buildings (with internationally recognized certificates like BREEAM, LEED).

Depending on the building, additional costs (single and double net) for tenants are from €2.50 to €4.50 per sqm. Some newly opened business centres no longer provide free parking spaces for their tenants (this used to be the common practice in the market) and charge for parking places additionally instead.

Given that a number of new projects are in progress or have been prepared, Ober-Haus forecasts that office rents in 2016 will remain unchanged in Vilnius. The abundance of projects in progress and planned projects will affect further development of the office market and property prices in one way or another. Since recent years have seen particularly great interest of international and IT companies in the office market in Vilnius and Kaunas (the second largest city of Lithuania), developers of new projects focus on larger international companies in order to offer premises of a certain size (usually larger) and layout in advance. If, however, expansion of any such companies is slower in Lithuania than expected, the developers may face certain difficulties. The development of local capital companies is not so rapid, while the local small and medium-sized enterprises are not yet ready to lease high-class office premises. Therefore, developers should offer tenants competitive rents or even delay some projects until the matter is settled. However, current situation allows developers to expect that the balance between the coming large office supply and demand will be maintained.

**INVESTMENT**

In 2015, there have been many investment transactions and their volumes were smaller only than those in 2007–2008. An investment breakthrough was recorded back in 2013-2014, but 2015 indicators are even more impressive. In total 15 properties (modern office, retail and industrial property worth over €1.5 million) were sold in Lithuania, with a total value of €264 million or by almost 27% more compared with 2014. Unlike in 2014, the retail property sector rather than the office property sector was most active in 2015. In total, 141,400 sqm of retail premises,
50,000 sqm of offices and 5,500 sqm of warehousing/industrial premises have been purchased.

According to the value of purchased property, Estonian, Lithuanian and Swiss capital companies were the leading investors (76% from all investments). The remaining investments attracted buyers from Danish, Swedish, Dutch capital companies. Lowering commercial property yields and expanding geography of investors (for example new investor from Switzerland), signals the attractiveness of the Lithuanian real estate market. During the year office and retail yields declined by another 25 bps in Vilnius to 6.75-8.0%. Theoretically the best properties could be sold for 6.5-6.75%, while warehousing/industrial premises are interested in no less than 8.25-8.5%.

Like in previous years, the capital city attracts major part of investments in real estate. Investment transactions in other cities of the country are, as a rule, related to large and well-functioning shopping centres. Investments in offices or industrial/warehousing premises in other cities are considered to be unattractive and more risky, while steadily operating shopping centres are attractive to investors across Lithuania. In 2015, a rather large part of investment in this area – four shopping centres were sold (the shopping centre Molas in Kaunas was sold twice) – went to other major cities of the country. As a result, the share of investment in other regions of the country accounted for 40%. However, assessing the 2010–2015 statistics, 74% of all investment was made in Vilnius (according to the value of investments).

Steadily increasing office rents and decreasing yields gradually increase the value of commercial property in Vilnius. High-class office rents rose 6% in Vilnius in 2015, while the yield of such premises during the same period decreased on average by 0.25 percentage points – from 7.50% to 7.25%. Thus, the capital value index over 2015 increased by almost 10%; such capital value was last recorded in the second half of 2006 and in the start of 2009. This shows that at the moment, property values are only lower than the price levels recorded at the peak in 2007–2008.

In the beginning of 2015 international investment company Partners Group with its head office in Switzerland, purchased real estate portfolio from Northern Horizon Capital (large part of BPT Optima portfolio) for €163 million. The acquired portfolio includes seven modern office and retail properties in Tallinn, Riga, Vilnius, Kaunas and Klaipeda, totaling 112,000 sqm of space. One of the acquired property is VERTAS business centre in Vilnius with total area of 9,800 sqm.

At the end of 2015 local developer PST Investicijos sold its office building Ulonų Business Centre in Zirmunai district on Verkiu Street. 7-storey office building with total above ground area of 5,050 sqm was sold to Estonian investment fund Eften Real Estate Fund III. Details of the transactions are not disclosed.

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

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

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>SIZE (GLA, sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sostena</strong> – In the start of 2015 one of the biggest car sale, lease and rental companies in Lithuania has finished the construction of B class office building on Ukmerges Street. Four additional storeys with 2,300 sqm of office space were constructed on 3-storey car dealership building, which was built in 2008 and currently accommodates the Jaguar, Volvo, Renault, Dacia and Land Rover showrooms and a car repair workshop. Over 75% of office space was leased to insurance company Compensa.</td>
<td>2,300</td>
<td>Q1 2015</td>
</tr>
<tr>
<td><strong>Business Centre ONE</strong> – At the beginning of 2014, Invalda Privatus Kapitalas, a company of the Invalda Group of companies, purchased unfinished business centre on Ukmerges Street from Siauliai Bank. The 9-storey B class building with 6,000 sqm of office space was opened in Q1 2015. Later this building was sold to Swedish private equity firm Nordic and Baltic Property Group. Asking rents are from €9.00 to 11.00 per sqm.</td>
<td>6,000</td>
<td>Q1 2015</td>
</tr>
<tr>
<td><strong>J. Basanaviciaus 15</strong> – In the start of 2015 Lithuanian and Norwegian company Norvelita has finished the reconstruction of a historical building on J. Basanaviciaus Street. The ground floor is used for retail tenants and the upper floors are for office spaces. The 4-storey building has 1,800 sqm of office space. Asking rents for office and retail premises are from €13.00 per sqm.</td>
<td>1,800</td>
<td>Q1 2015</td>
</tr>
<tr>
<td><strong>PREMIUM</strong> – Local developer Evolis has finished construction of office project on the right side of the river Neris on Sporto Street in Q2 2015. The project consist of two 6-7-storey buildings with a total above ground area of 8,350 sqm (7,300 sqm of office space) and 270 underground and outdoor parking places. One side of the project is facing Neris river and have a beautiful view of the surroundings. The A class energy efficiency building is fully leased to Adform, Bayer, Tele2, Northern Horizon and others.</td>
<td>7,300</td>
<td>Q2 2015</td>
</tr>
<tr>
<td><strong>K29</strong> – Local investment fund Lords LB Asset Management has successfully finished the construction of office building in the new Vilnius business district, on Konstitucijos Avenue. The 8-storey building with 13,800 sqm of office space was opened in Q3 2015. Building is fully leased and already occupied by such companies as American International Group (AIG), Nasdaq, KPMG Baltics, Lindorff, Seesam and others. A total of 580 parking spaces have been provided around the building and in the underground parking. Total investment has reached €32 million.</td>
<td>13,800</td>
<td>Q3 2015</td>
</tr>
<tr>
<td><strong>UNIQ</strong> – In Q4 2015 Vastint (previously operated under the name Pinus Proprius) has finished the construction of A class office building on Gostauto Street. The 7-storey U-shaped building with 6,800 sqm of office space was fully leased to the single tenant - Danske Bank IT service centre in Lithuania (DGITL). UNIQ is the first new office building awarded with LEED Platinum certificate in Lithuania.</td>
<td>6,800</td>
<td>Q4 2015</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>SIZE (GLA, sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>QUADRUM</strong> – Norwegian developer Schage is continuing the construction of the biggest A class office project in Lithuania. With a total area of over 70,000 sqm this project will add around 40,000 sqm of top class office space in Vilnius with BREEAM certification in the new Vilnius business district, on Konstitucijos Avenue. The first stage will be completed in H1 2016 and will bring 25,500 sqm of office space in two buildings. DNB Bank will set up it’s headquarter in the first stage of the new business centre, taking 10,500 sqm of the tallest 17-storey building there. Additional space was leased to Tark Grunte Sutkiene, Avion Express, Newsec, Agrowill Group and other companies. The second stage with the third building is scheduled for completion in the first half of 2017. Asking rents for remaining office premises are €16.50 per sqm.</td>
<td>25,500 (I stage)</td>
<td>H1 2016 (I stage)</td>
</tr>
<tr>
<td><strong>Zalgirio 135</strong> – Local developer Eika is developing B class business centre on Zalgirio Street. The 5-6-storey building with total area of 8,400 sqm will offer around 7,000 sqm of office space and some retail premises on the ground floor in the second half of 2016. This high energy efficiency building will have underground parking for cars and bicycles. The inner yard and the roof terrace will be equipped with recreational and entertainment areas. Over 1,000 sqm of office space was already taken by IT company Devbridge Group. Office space is available at rents from €13.00 per sqm.</td>
<td>7,000</td>
<td>H2 2016</td>
</tr>
<tr>
<td><strong>CITY</strong> – Local developer Hanner is constructing B class business centre on Zalgirio Street. The 5-6-storey building with total area of 20,000 sqm will offer around 17,000 sqm of office space in Q3 2016. This project will have the largest office space per floor in the market (up to 3,500 sqm). Total investments will reach €30 million. Office space is available at rents from €11.00 per sqm.</td>
<td>17,000</td>
<td>Q3 2016</td>
</tr>
<tr>
<td><strong>Delta</strong> – Finnish-based international company Technopolis is developing B class office project in the Technopolis Ozas campus in the territory of Ozo Park. The Technopolis Ozas campus is comprised of three office buildings – Alfa, Beta and Gama. The new two-building and 9-storey complex will offer around 21,000 sqm of office space in the end of 2016. The new project is designed and will be certified according to international LEED green building certification system. Total investments will reach €35 million. Asking rents for office premises are €13.50 per sqm.</td>
<td>21,000</td>
<td>Q4 2016</td>
</tr>
<tr>
<td><strong>Green Hall 2</strong> – After successful completion of Green Hall project in 2009, SBA Concern is building the second A class business centre on the right bank of the Neris River in Upes Street. The project comprises a 7-storey building with 7,200 sqm of office area, which will combine new technologies with the elements of nature and will include geothermal heating which leaves minimal traces of CO2, as well as quiet ventilation creating a healthier environment, energy-saving double facade, etc. Next to the building, there will be an electric vehicle charging station intended for progressive transport. Project will also include a 2-storey underground parking lot. Estimated completion of construction works is the end of 2016. Office space is offered from €16.00 per sqm.</td>
<td>7,200</td>
<td>Q4 2016</td>
</tr>
</tbody>
</table>

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**NEW PROJECTS**

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>PENTAGON</strong> – Local company Realco, is developing a modern B class office building in the territory of Ozo Park, next to Siemens Arena, Ozas shopping centre and Vichy Aquapark. The 7-storey building will bring 13,600 sqm of office area in Q1 2017. Underground and multistorey parking is designed for 406 cars. The building is designed to get A class energy efficiency certificate and will be certified according to international LEED green building certification system. Asking rents for office premises are €13.00 per sqm.</td>
<td>13,600</td>
<td>Q1 2017</td>
</tr>
<tr>
<td><strong>Narbuto 5</strong> – E.L.L. Kinnisvara, one of the leading real estate development companies in the Baltics, has started the construction of an A class office building in Zverynas district, on T. Narbuto Street. The 6-storey building with 4,600 sqm of office space will be completed in Q1 2017. A total of 115 parking spaces will be provided in the underground parking. Project is being developed in compliance with BREEAM. Office space is available at rents from €15.00 per sqm.</td>
<td>4,600</td>
<td>Q1 2017</td>
</tr>
<tr>
<td><strong>Duetto</strong> – In the end of 2015 construction and development company YIT Kausta has started construction of two identical 10-storey office buildings in the Virsuliskes district next to the new western bypass. The total area of the project is 16,700 sqm and total investments will reach €23 million. Completion of the first building with 7,800 sqm of office space is scheduled for the start of 2017.</td>
<td>7,800 (I building)</td>
<td>Q1 2017 (I building)</td>
</tr>
<tr>
<td><strong>MAXIMA / Naugarduko Street</strong> – Local company MAXIMA LT has started the development of the office and retail complex in Naujamiestis district, on Naugarduko Street. The project comprises a 5-storey building with 4,650 sqm of office area and the shopping centre (MAXIMA XX) with total area of 4,700 sqm. Almost 420 parking spaces will be provided around the building and on the shopping centre roof. The completion of the shopping centre is scheduled for Q3-Q4 2016 and the office building is expected to be completed in early 2017. After completion MAXIMA LT will move its employees to the new office building.</td>
<td>4,650</td>
<td>Q1 2017</td>
</tr>
</tbody>
</table>
The stably growing consumption rates in Lithuania continues the steady development of retail premises in Vilnius. In 2015, two shopping centres were opened in Vilnius. In September, the first stage of NORDIKA shopping centre was opened in Naujininkai district (between Vilnius International Airport and the city southern bypass) on the same plot with the Swedish furniture superstore IKEA. With 15,100 sqm of shopping area it is the largest completed retail project since the second half of 2009. Second shopping center was opened in the end of the year – 5,000 sqm sized shopping centre with anchor tenant Rimi is located next to Gelezinio Vilko Street.

At the end of 2015 there were the 26 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable area of 437,900 sqm. Currently Vilnius has 0.82 sqm of shopping area per capita.

In 2016, at least two projects will be built in Vilnius: the extension (3,400 sqm) of DomusPro shopping centre is underway in

END-2015 SNAPSHOT / VILNIUS

TOTAL LEASABLE SPACE IN SHOPPING CENTRES 437,900 sqm
TOTAL SHOPPING CENTRE SPACE PER CAPITA 0.82 sqm
SHOPPING CENTRE VACANCY RATE 0.6%
RETAIL RENTS FOR ANCHOR TENANTS (sqm / month) €8.50 - €13.00
RETAIL RENTS FOR MEDIUM Sized UNITS (sqm / month) €13.00 - €36.00
RETAIL RENTS FOR SMALL Sized UNITS (sqm / month) €50.00 - €70.00
HIGH STREETS RENTS (sqm / month) €17.00 - €40.00

NEW LARGER PROJECT AFTER A SIX-YEAR BREAK

SUPPLY

The stably growing consumption rates in Lithuania continues the steady development of retail premises in Vilnius. In 2015, two shopping centres were opened in Vilnius. In September, the first stage of NORDIKA shopping centre was opened in Naujininkai district (between Vilnius International Airport and the city southern bypass) on the same plot with the Swedish furniture superstore IKEA. With 15,100 sqm of shopping area it is the largest completed retail project since the second half of 2009. Second shopping center was opened in the end of the year – 5,000 sqm sized shopping center with anchor tenant Rimi is located next to Gelezinio Vilko Street.

At the end of 2015 there were the 26 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable area of 437,900 sqm. Currently Vilnius has 0.82 sqm of shopping area per capita.

In 2016, at least two projects will be built in Vilnius: the extension (3,400 sqm) of DomusPro shopping centre is underway in
Pasilaičiai district next to Ukmerges Street and the second stage of NORDIKA shopping centre in Vikingų Street next to IKEA. The second stage of NORDIKA will add another 20,100 sqm of retail premises in the mid of 2016. Developers are voicing their intentions to develop larger shopping centres and are becoming more active in locating attractive sites for future projects or are going ahead with the design works for the sites they already have.

German supermarket chain Lidl is continuing the construction of its stores in Lithuania. Still, the opening date is not published yet, but first stores could be opened sometime in 2016. To ensure the distribution of goods Lidl has already completed 41,000 sqm sized logistic centre in Kaunas district. At the same time activities of existing retail chains has intensified resulting in rather rapid increase in investment in both the renovation of existing shops and development of new ones.

However, for some retailers the year 2015 was not successful. In 2013, the Belarusian-managed chain of food stores Fresh Market started its activities in Lithuania. Over a period of several years, Fresh Market opened 26 shops, in Lithuania and planned its further development. This chain also developed its online sales (door-to-door delivery of food products) and had a large market share in this area. However, in July 2015 the operator announced about the termination of its online sales in Lithuania, and a month later – about its withdrawal from Lithuania and closing of all shops. This news neither surprised market players nor affected the retail trade sector. Since Fresh Market leased small size premises for its shops, some of them soon drew attention of other retailers or service providers.

DEMAND

With the recovery of the country’s economy there is a slight increase in domestic consumption. In 2015 retail turnover grew by 5.3%. The biggest increase in turnover was registered by companies selling food, beverages, tobacco, information and communication equipment, cultural and recreation goods, watches and jewelry in specialized stores, which increased by around 15-16%.

At the same time retailers continue looking for attractive premises of various sizes for developing their businesses. The major interest remains in retail premises at successfully operating shopping centres. It is therefore not surprising that the already low vacancy rate in the shopping centres continue to decrease. The vacancy rate of shopping centres in Vilnius decreased from 1.0% to 0.6% in 2015.

However, the recovering economy of the country encourages tenants to look for the premises not only in the shopping centres, but also in other locations in the city. New companies often cannot afford to lease premises in the shopping centres due to the shortage of premises and high rents, therefore they look for various alternatives. For example, due to attractive rents and greater supply various services companies are setting up their businesses in the zones of the Old Town near the railway/bus stations.

In the meantime, there are hardly any available retail premises in the main shopping streets (Gedimino Avenue, Pilies Street, Didžioji Street, Vokieciu Street). In the last few years the face of shopping streets has changed noticeably and clothes, shoes or other accessories are now seldom seen in shop windows. Instead small new food shops, cafes and cocktail bars popular in the evenings are opened in the central part of the city. For example, an international energy company Statoil has opened the new format store (convenience store) on Gedimino Avenue, which offers wide range of food products only for pedestrians.

RENTS

No significant price changes have been recorded in the shopping centres, but the overall price trend remained positive. In 2015, rents increased by another 2-3% in Vilnius shopping centres. However, in the past five years this property sector has shown signs of recovery and since 2010 rents in Vilnius have already increased by 30–35%.

Rents for a medium sized (150-300 sqm) units in a major shopping centres run from €13.00 to €36.00 per sqm and up to €50.00–€70.00 for small sized units. Rents for anchor tenants are €8.50 - €13.00 per sqm.

Rents for retail premises in the high Vilnius streets (such as Gedimino Avenue, Didžioji Street, Vokieciu Street and Pilies Street) went up by 2% in 2015. In the end of 2015, rents for medium sized retail premises (100–300 sqm) in such streets were €17.00 – €40.00 per sqm.

Ober-Haus believes that retail rents will rise slightly in 2016.

INVESTMENT

In 2015, there have been many investment transactions and their volumes were smaller only than those in 2007–2008. An investment breakthrough was recorded back in 2013-2014, but 2015 indicators are even more impressive. In total 15 properties (modern office, retail and industrial property worth over €1.5 million) were sold in Lithuania, with a total value of €264 million or by almost 27% more compared with 2014. Unlike in 2014, the retail property sector rather than the office property sector was most active in 2015. In total, 141,400 sqm of retail premises, 50,000 sqm of offices and 5,500 sqm of warehousing/industrial premises have been purchased.

According to the value of purchased property, Estonian, Lithuanian and Swiss capital companies were the leading investors (76% from all investments). The remaining investments attracted buyers from Danish, Sweden, Dutch capital companies. Lowering commercial property yields and expanding geography of investors (for example new investor from Switzerland), signals the attractiveness of the Lithuanian real estate market. During the year office and retail yields declined by another 25 bps in Vilnius to 6.75-8.0%. Theoretically the best properties could be sold for 6.5-6.75%, while warehousing/industrial premises are interested in no less than 8.25-8.5%.
Typically, 3-5 year lease agreements are common. Triple net leases are not universally used. Double net leases are more common. Marketing costs are either fixed or covered by the service charge. As a rule, contributions to a sinking fund are rarely agreed in the retail market, while use of step rents and turnover rents has increased recently. As a rule, the tenant is responsible for finishing the premises.

Lease agreements may be invoked against third parties only if registered with the Real Estate Register.
NORDIKA Shopping Valley (I stage) – The first stage of NORDIKA shopping centre was opened near IKEA on Vikingu Street in September 2015. Over 15,000 sqm of retail space host over 30 tenants, including Rimi Hypermarket, electronics retailer Elektromarkt, Kotryna (the largest retailer of children goods and toys in Lithuania operating their shops Baby City and Toy City), McDonald’s and others. For the convenience of shoppers, parking space for over 2,000 vehicles has been provided. The developer of the project is the Lithuanian developer VPH.

Rimi (Linkmenu Street) – In November 2015 a new shopping centre was opened on Linkmenu Street (next to Gelezinio Vilko Street) in Vilnius. The main retail trade area is around 5,000 sqm and the anchor tenant is the Rimi grocery store chain. Also other sixteen tenants occupy the shopping centre. For the convenience of shoppers, above-ground parking for around 350 cars has been provided.

NORDIKA Shopping Valley (II stage) – Construction of the second stage of this shopping center between Vilnius International Airport and the city southern bypass will be completed in Q2 2016. The second stage with an additional 20,100 sqm of retail space is already fully leased. The second stage will host another 20 tenants, including Senukai (the Lithuanian home improvement and construction products retail chain), Jysk, The Pier and others. The total investments to both stages with total area of 38,000 sqm will reach almost €50 million. The developer of the project is the Lithuanian developer VPH.

DomusPro (II stage) – After completion of the first stage of shopping centre next to Ukmerges Street in 2014, developer TK Development is finishing the extension of DomusPro. In Q1 2016, an additional 3,400 sqm of retail area will be completed. The second stage is fully leased to Hansa tiles market and the sport club.
as well as near the strategic highways: Vilnius – Kaunas and Vilnius – Minsk.

Warehouses with an area exceeding 10,000 sqm currently make up 58% of the current supply. Warehouses with an area from 5,001 to 10,000 sqm make up 25% of the supply, and the remaining 17% are warehouses with less than 5,000 sqm.

Completion of two warehouses is scheduled in 2016. The Lithuanian company Wirtgen Lietuva is building a 2,400 sqm sales and service centre for its own needs on Liepkalnio Street. WOODLINE, a company that sells raw materials for the furniture and interior industry, is building a logistics centre in Aukstieji Paneriai, on Titnago Street. Another large logistic centre is being developed by Baltic Sea Properties and is scheduled for early 2017.

DEMAND

According to the official statistics overall revenues from services supporting the warehousing and transport sector have decreased in the country in 2015, but positive changes can be observed in revenues of companies engaged only in warehousing and storage services. Revenues from warehousing and transport services decreased by 2.5% in Q1-Q3 2015 and

No great optimism has been seen in the sector of warehousing premises. Developers take on new projects sluggishly and most frequently new projects are developed by companies for their own use.

Only one larger new warehouse was completed in Vilnius in 2015. A warehouse building outside Vilnius city (next to Vilnius-Druskininkai highway) with a total area of 4,200 sqm (including office premises) was completed in second half of 2015. After successful lease of this building there are plans to develop similar size building in the near future. This project increased total leasable area of modern warehousing premises in Vilnius and its surroundings to 469,100 sqm.

Currently 74% of modern warehouse supply is located within the city limits. The bulk of warehouses are developed in the southwestern industrial zones of Vilnius (Kirtimai, Vilkpede, Aukstieji Paneriai and Žemieji Paneriai), as well as near the strategic highways: Vilnius – Kaunas and Vilnius – Minsk.
revenues only from warehousing and storage increased by 6.1% in the same period.

Hardly any major positive or negative changes can be observed in the warehousing premises sector. The demand for new or old warehousing premises in Vilnius and its environs has been stable and is well reflected in the vacancy rate of these premises. The vacancy rate of modern warehouses in Vilnius increased from 4.1% to 4.5% in 2015, and the total space of vacant premises in the end of the year reached 21,200 sqm.

A slight change in the vacancy rate shows that the market of warehousing premises remains stable. Sufficiently strong domestic demand encourages interest not only in new warehouses, but also in industrial premises. Expanding companies often look for the premises of various sizes and quality, however, the choice of vacant premises at the moment is rather poor. This has been the case with industrial enterprises which usually look for the premises on a single site with sufficient space for manufacturing, warehousing, offices and the company’s vehicles on the site. Quite often, therefore, the expanding companies waste their time trying to find appropriate premises or take a decision to develop projects themselves to meet their specific needs.

It is likely that no major changes in the supply and demand ratio will be recorded in 2016. The projects in progress should easily find their tenants and the vacancy rate should remain at 3–4%.

RENTS

Rents for new warehouses were stable in 2015, while rents in old construction warehousing and industrial premises increased by 2%. At the end of 2015, rents for new modern warehouses near the city centre were from €4.50 to €5.20 per sqm, depending on the size. Near or outside the city limits, rents range from €3.50 to €4.20 per sqm. Renovated premises are being offered at prices from €2.50 to €3.00 per sqm. Average and poor quality premises are from €1.50 to €2.00 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

The growing economy of the country and sluggish activities of developers should increase current rents for warehousing and manufacturing premises. Ober-Haus forecast that rents in 2016 will increase slightly by 2-3%.

INVESTMENT

In Q3 2015, the local real estate development company MG Valda completed the construction of the build-to-suit administrative-industrial complex for the bakery Vilniaus Duona (owned by VAASAN group). The 11,000 sqm complex in Aukstieji Paneriai was developed in two stages. After the completion of the complex, MG Valda signed an agreement with Ormina (Ogmios Group) regarding the sale of the remaining 50% of the shares of company owning this property. Details of the transaction have not been disclosed.
## RECENT DEVELOPMENTS

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>SIZE (GLA, sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vilnius-Druskininkai highway</td>
<td>4,000</td>
<td>H2 2015</td>
</tr>
</tbody>
</table>

Local company Realitus has completed construction of warehouse outside Vilnius city next to Vilnius-Druskininkai highway. Logistic centre with 4,000 sqm warehouse premises and 200 sqm office premises was completed in the second half of 2015. Asking warehouse rents are from €4.60 per sqm, offices – €5.80 per sqm. After successful lease of this building there are plans to develop similar size building in the near future.

## NEW PROJECTS

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>SIZE (GLA, sqm)</th>
<th>COMPLETION</th>
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</thead>
<tbody>
<tr>
<td>WOODLINE logistic centre</td>
<td>5,000 (I stage)</td>
<td>H1 2016 (I stage)</td>
</tr>
</tbody>
</table>

A company that sells raw materials for the furniture and interior industry, is building a logistics centre in Aukstieji Paneriai on Tintago Street. The first stage with 5,000 sqm warehouse premises and 1,000 sqm office premises will be completed in the first half of 2016. Asking warehouse rents are €5.30 per sqm, offices – €8.00 per sqm.

| Wirtgen Group logistic centre | 2,400 | Q3 2016 |

The Lithuanian company Wirtgen Lietuva, which belongs to the German construction equipment group of companies Wirtgen Group, is building a 2,400 sqm sales and service centre for its own needs on Liepkalnio Street. The completion is scheduled for Q3 2016.

| BSP logistic centre | 12,100 | Q1 2017 |

The Norwegian investment company Baltic Sea Properties (BSP) has started the construction of build-to-suit logistic centre in the vicinity of Vilnius next to Vilnius-Druskininkai highway. This logistic centre with 12,100 sqm of warehouse premises and 1,300 sqm of office premises will be completed in early 2017. The project will be leased to the logistic company Rhenus Svoris. A further extension will increase the total area of this logistic centre to over 18,000 sqm.

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**INTERESTED?** For more information on these or other properties, contact Ober-Haus on: **+370 5 210 97 00**
THE EXPANDING COMPANIES WASTE THEIR TIME TRYING TO FIND APPROPRIATE PREMISES OR TAKE A DECISION TO DEVELOP PROJECTS THEMSELVES TO MEET THEIR SPECIFIC NEEDS.
As has been forecast, there were positive changes in the prices of apartments in the country’s major cities in 2015. The major price increase was recorded in the country’s capital. Vilnius continues to be seriously ahead of other regions of the country and remains an obvious leader in the country both in terms of the market activity indicators and positive price changes. Although the results of 2015 are slightly more modest compared with 2014, the recorded total price change in Vilnius following the last recession has been some of the greatest.

Apartment prices in Vilnius increased by 3.6% in 2015, after increase of 5.1% in 2014, according to the Ober-Haus Lithuanian apartment price index. As a result, the average price at the end of 2015 rose to €1,326 per sqm. Since the last lowest price level in May 2010 till December 2015, apartment prices increased by 14.9% (by €172 per sqm). In 2015 prices for new construction apartments increased by 3.9% and old construction apartments increased by 3.4%.
Prices for new construction apartments in residential districts increased by almost 4.0% in 2015 and by the end of the year ranged from €920 to €1,650 per sqm without final fit-out.

In Lithuania new apartments are generally sold shell, which is without any fit-out at all. Apartments sold shell require average of €175-€250 per sqm to fit-out with floors, painting, lights, bathrooms and kitchen.

By the end of 2015, a standard two-room apartment (45-50 sqm) in a Soviet-era concrete block located in a residential district cost from €42,000 to €53,000. Prices of apartments which are in old brick buildings are 10-20% higher. The lowest price for old construction unrenovated apartments in Vilnius residential districts is €700 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €1,050 to €1,800 per sqm for unrenovated and from €1,450 to €3,500 per sqm for renovated apartments. Prices of new construction apartments are now offered for €1,500 to €3,300 per sqm without final fit-out. Prices of new apartments in exceptional projects can exceed €3,500 per sqm.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas), old apartment prices range from €900 to €2,300 per sqm. Prices of newly built apartments range from €1,400 to €2,300 per sqm without final fit-out.

In 2015, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate Vilnius surroundings have increased by 3%.

Detached houses (150-200 sqm with land plots of 600–1,000 sqm) located in a new housing areas with full infrastructure in Vilnius district or near city limits (typically 10–20 km from the city centre) are sold as shell at prices ranging from €110,000 to €160,000. Prices for semi-detached houses (100-125 sqm with land plots of 250–400 sqm) range from €90,000 to €120,000. Full final fit-out generally costs €150-€175 per sqm or more.

The price for fully finished 150-200 sqm sized detached house within the city limits (city residential districts) averages between €170,000 and €340,000, and from €240,000 to €580,000 in the city’s more prestigious neighbourhoods where a considerable share of the house price is represented by the high price of land in these districts.

The prospects of the housing market remain reasonably bright. Buyers continue to enjoy a very wide choice of new residential property, low mortgage interest rates, and the forecasted rise in income. The activity of the housing market is also maintained by moderately rising prices, where housing affordability is not decreasing (income of the buyers’ is growing at a similar rate as house prices). It is likely that in 2016 there will be a moderate price increase in the region of 2–5% in Vilnius.

**SUPPLY**

According to Ober-Haus data, 3,558 apartments (in 44 different projects) were constructed in Vilnius in 2015, which is 27% more than the number of apartments constructed in 2014. Developers can enjoy new apartment sales indicators, therefore the number of new development projects in Vilnius is hardly surprising. The appearance of new developers in the market could be noted, which signals that even inexperienced market players undertake complex development and property sales processes. In any case, buyers have particularly wide property choice opportunities in almost all areas of the city of Vilnius and therefore can take advantage of the current situation.

Looking at the apartment projects, which were constructed in Vilnius in 2015, the major portion of the supply of apartments are middle class apartments that without fit-out sell at €1,450 to €1,850 per sqm and account for up to 58% of the total supply of apartments. The supply of economy class apartments — the selling price of which (without fit-out) is between €950 and €1,400 per sqm — is considerably lower compared to middle class and accounts for 33% of the total supply.

The supply of luxury housing is noticeably growing in the capital city. Developers have become more daring in providing higher class apartments in excess of €2,000 per sqm to the market. Traditionally, these projects are developed in the centre of the city, the Old Town or in prestigious areas. The recovered national economy and new supply caused quite considerable interest of the buyers of more expensive housing. It is however clear that it may take longer to realize more expensive property than less expensive property. The requirements of the buyers of high valued property are sufficiently high, so it is not easy to sell all apartments of a project for top prices in the market, while the realization of less attractive apartments is possible only after some price adjustment. This is particularly important where the supply of luxury residential property is increasing. If only 6% of newly built apartments in Vilnius in 2014 were prestigious high-value apartments, so in 2015 this indicator increased to 9%.

The average floor area of newly built apartments continues to decrease. The average floor area of projects implemented in 2015 was 53.3 sqm, which is 0.9 sqm smaller than those built in 2014. And from 2003 to 2015, the average floor area of newly constructed apartments was reduced by 12.5 sqm, i. e. by almost 19%. The main reason for the decrease in the total area of apartments is not only that smaller apartments are being designed, but also that the number of smaller apartments in a project is increasing. At the moment, the standard practice is that the vast majority of apartments in a project, as many as 50-60%, are two room apartments.

If considered the number of construction cranes operating in Vilnius and the number of future projects presented to the public, it can be stated that the supply in 2016 will also be rich. According to Ober-Haus data, around 3,500-3600 new apartments should be built in Vilnius in 2016. However, further prospects of residential development depends on general trends
of country’s economy and situation in real estate market, also the requirement to design and construct buildings with at least class A energy efficiency enters into force in 2016. Thus, the cost price of apartment buildings to be constructed in the future is bound to increase, which may result in lower profits for developers, a decreasing activity of builders, and a less active establishment of new real estate development companies.

Residential property developers still tend to direct their investments to the development of apartment blocks and no growth in the supply in the individual private house segment has been recorded. In 2015, 160 detached and semi-detached houses were built by developers in and around Vilnius, which is a 6% decrease compared to 2014. The current trend is to build small-scale projects, typically consisting of around 6–12 semi-detached houses. These small semi-detached private houses attract considerable interest, because the buyer is offered a cheaper version of a detached private house. It is expected that the similar amount of houses will be completed in 2016.

**DEMAND**

The residential property market in Vilnius was very active in 2015. Although particularly good results of 2014 failed to be achieved in the apartment sector in 2015, the recorded decrease is only symbolic. Meanwhile, the activity indicators recorded in the sector of private houses are highest in the entire history of independent Lithuania.

Vilnius in 2015 saw a 1% decrease in apartment sales and a 16% increase in house transactions. In 2015 on average 810 sales of apartments and 70 sales of private homes were made in Vilnius each month.

High activity indicators continue to be recorded in the new apartment market and developers carry on successfully implementing and planning new projects. According to Ober-Haus, during the year, 3,150 apartments in newly built buildings or buildings under construction were purchased directly from developers in Vilnius. This is 1% more than in 2014 and by 43% more than was sold in 2013. In 2015, on average over 260 new apartments were sold each month in the primary market in Vilnius.

The growing number of unsold apartments in Vilnius in essence coincides with forecasts since the experience of the previous years also showed that not all apartments in new projects are sold within the time periods envisaged by developers. According to Ober-Haus data, the number of unsold new apartments on the Vilnius primary market increased by 43% during 2015. At the end of 2015 there almost 1,490 unsold newly built apartments in the finished apartment buildings. Some of the apartments do not seem attractive to buyers due to their layout, size, legal status, or other characteristics, but some developers, seeing the activity in the market, do not tend to provide any considerable discounts, i.e. they are ready to offer less attractive properties for longer time periods rather than reduce the prices of such properties.

Therefore, the consistent increase in the number of unsold apartments in Vilnius has been programmed and for the time being it cannot be viewed as overheating of the market. If considered only the most recent apartment building projects (the projects developed in 2015), we can see that as many as 73% of the apartments within these projects have been already sold. For instance, in 2005–2007 (the years of the most activity in the market), of the new apartments constructed in that time period, 85–90% were sold within one year, which means that the selling pace recorded in 2015 is sufficient to ensure that there is no excess of unsold apartments in the market to encourage developers to provide considerable discounts. Also this leads to believe that developers will be able to successfully complete projects already started and will see high activity in new apartments market in 2016.

**THE MORTGAGE MARKET**

The Bank of Lithuania has updated Responsible Lending Regulations (RLR) that will mitigate the risk of over-indebtedness of residents. The updated Regulations come into effect on November 1, 2015. Under the updated RLR, the maximum amount of a borrower’s monthly credit repayment and interest (under all obligations), can’t be above 40% of sustainable monthly income. However, in assessing customers’ applications for a housing loan, credit institutions will have to check whether the customer would be financially able to withstand likely leaps in interest rates. For the calculations, the actual interest rate, but not below 5%, will have to be used. It has also been established that the maximum maturity of credit can’t exceed 30 years, i.e. will be 10 years shorter.

Current mortgage interest rates in Lithuania are at the lowest level. In July 2015 interest rates dropped to an all-time low of 1.7%, but during the year has returned to the same level as in December 2014, i.e. 1.9%.

In the end of 2015 the total value of outstanding residential loans stood at €6.10 bln. Currently in Lithuania, the value of household loans just below 17% of GDP. This rate is one of the lowest compared to other EU countries (EU28 average in 2014 – 49.6%).

A rapid growth in the number of people wishing to borrow funds to purchase housing has been observed in 2015. According to data from the Association of Lithuanian Banks, in Q1-Q3 2015, the main credit institutions in the country provided new mortgage loans amounting to almost €605 million, which is almost 17% increase compared with the same period of 2014. The total value of the loans granted in Q3 2015 was the highest since 2008.

As residential prices are increasing at a slower pace compared to people’s income, the housing affordability has increased slightly in 2015. Currently, an inhabitant of Vilnius can purchase 5.8 sqm in a medium-class apartment for his average (net) annual salary. Current price to income ratio is the highest since 1998.
RENTS

Vilnius saw an average 5% increase in apartment rents in 2015, after rising 5% in 2014.

Typical two-room old construction apartment in Vilnius residential districts rents for €180 to €250 per month in the end of 2015. The same size new construction apartment rent starts from €290 per month. Maintenance costs are additional.

Rents for fully equipped two-room apartments (old or new) in the central part and prestigious districts of Vilnius range from €240 to €570 per month, and for three-room apartments from €290 to €820 per month. Rents for bigger and good equipped apartments in the Old Town can be from €800 to €1,100 per month. Maintenance costs are additional.

Fully equipped houses of 100–200 sqm in the outskirts of Vilnius are usually offered for rent at €600 to €1,100 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and city centre or Old Town are higher and vary from €850 to €2,000 per month. Maintenance costs are additional.

Buy-to-rent has become more attractive investment option among non-professionals in the market, because the interest rates offered by credit institutions are very low and other investments are too complicated to manage. Buyers often choose a sufficiently profitable form of investment by purchasing one or two room apartments in various areas of Vilnius. At present, the overall gross rental yield in the city centre is about 4.5–5.0% and in residential districts – 6.0%.

Ober-Haus expects residential rents will retain the upward trend and will increase 2-3% in 2016.

LEGAL NOTES BY SORAINEN

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

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>PRICE (per sqm)</th>
<th>COMPLETION</th>
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<tbody>
<tr>
<td>Kraziu Namai – In the end of 2015 construction and development company Merko has finished the construction of the cost-effective low-rise complex in the city centre on Kraziu Street. Two A+ class energy efficiency apartment buildings with 25 apartments and few commercial premises has an underground parking, a children’s playground in the inner courtyard, terraces, etc. 2-4 room apartments range from 43 to 123 sqm. At the end of 2015 over 90% of the apartments were sold. Asking prices of the available apartments without fit-out are from €3,100 to €3,200 per sqm.</td>
<td>€3,100 - €3,200</td>
<td>Q4 2015</td>
</tr>
<tr>
<td>Lighthouse II – In the end of 2013 local developer MG Valda has finished the construction of the first stage of a new residential project in the Fabijoniskes district. The second stage with 127 apartments was completed in the second half of 2015. One to four room apartments range from 37 to 92 sqm. New residents can control heating in every room separately and meter readings are taken automatically and they can be observed and analyzed. Fenced territory and car parking lot are surveyed by CCTV cameras. Apartments are sold without or with fully fit-out. Sales price of the available apartments are from €1,300 to €1,600 per sqm. Total investments into the second stage has reached over €7.0 million. Over 80% of the apartments have been sold.</td>
<td>€1,300 - €1,600</td>
<td>H2 2015</td>
</tr>
<tr>
<td>Zalgirio Namai – In the second half of 2015 local developer NT Investiciju Sprendimai has finished the construction of A class energy efficiency apartment building in the Snipiskes district on Zalgirio Street. A 7-storey residential building with 61 apartments has a heat recovery ventilation system and a heated floor with temperature control equipped in every apartment. The apartments on the seventh floor include a terrace. One to four room apartments range from 30 to 100 sqm. Sales prices of the available apartments without fit-out are from €1,600 to €1,900 per sqm. Around 85% of the apartments have been sold. The developer plans to build the second apartment building in the same location.</td>
<td>€1,600 - €1,900</td>
<td>H2 2015</td>
</tr>
<tr>
<td>Solo City – In Q2 2015 construction and development company YIT Kausta has finished the second a 6-storey apartment building with 42 apartments in the Virsuliskiu district next to the new western bypass. One to three room apartments range from 39 to 67 sqm. Sales price of the available apartments without fit-out are from €1,250 to €1,500 per sqm. Underground parking costs €5,800 per space. Almost 70% of the apartments have been sold or reserved.</td>
<td>€1,250 - €1,500</td>
<td>Q2 2015</td>
</tr>
<tr>
<td>Ozo Namai – In the end of 2015 local developer Hanner has finished the construction of three buildings in the territory of Ozo Park. The 5-storey buildings comprise 260 apartments ranging in size from 33 to 78 sqm. Sales price of the available apartments without fit-out are from €1,350 to €1,750 per sqm. Around 70% of the apartments have been sold or reserved.</td>
<td>€1,350 - €1,750</td>
<td>Q4 2015</td>
</tr>
<tr>
<td>Zirmunu 48E – Local company Statybu gausa has finished construction of a 9-storey residential building in the Zirmunai district on Zirmunu Street. The building with 27 apartments was finished in Q3 2015. 1-4 room apartments range from 34 to 92 sqm. Around 45% of the apartments have been sold or reserved. Sales price of the available apartments without fit-out are from €1,550 to €1,800 per sqm.</td>
<td>€1,550 - €1,800</td>
<td>Q3 2015</td>
</tr>
<tr>
<td>Eitminu 12 – In the end of 2015 local company Anreka has finished another residential building with 144 apartments in the Pasilaiciai district on Eitminu Street. 2-3 room apartments range from 44 to over 89 sqm (including spacious glazed loggias or terraces). Almost 80% of the apartments have been sold. Sales price of the available apartments without fit-out are from €950 per sqm.</td>
<td>from €950</td>
<td>Q4 2015</td>
</tr>
</tbody>
</table>
### Recent Developments

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>PRICE (per sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hilltown</strong></td>
<td>€106,000 - €116,000</td>
<td>2015</td>
</tr>
<tr>
<td>– In 2015 local developer Kalnenu projektai has finished construction of the first stage of settlement with seventeen row houses in the Kalnenai district (a district in the southern part of the city). All 110 sqm sized row houses have been already sold. Currently company is developing the second stage. 112 sqm sized row houses without fit-out and with land plots of 120-180 sqm are sold for €106,000-€116,000.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fiziku Namai</strong></td>
<td>€1,200 - €1,400</td>
<td>Q3 2015</td>
</tr>
<tr>
<td>– In Q3 2015 construction and development company Merko has finished the construction of a 6-storey apartment building with 38 apartments in the northern part of Vilnius in Visoriai district. 1-5 room apartments range from 36 to 112 sqm. At the end of 2015 over 50% of the apartments were sold. Asking prices of the available apartments without fit-out are from €1,200 to €1,400 per sqm.</td>
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</tr>
</tbody>
</table>

### New Projects

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>PRICE (per sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domino Namai</strong></td>
<td>€1,350 - €1,550</td>
<td>Q4 2016</td>
</tr>
<tr>
<td>– A two-building residential project in Jeruzale district on Mokyklos Street. The 3-6 storey buildings comprise 113 apartments ranging in size from 30 to 92 sqm. The price of apartments without fit-out ranges from €1,350 to €1,550 per sqm. At the end of 2015 over 30% of the apartments were sold. The project is being developed by local company Eika and will be completed by the end of 2016.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bendoreliai</strong></td>
<td>€750 - €1,000</td>
<td>2016</td>
</tr>
<tr>
<td>– After successful completion of 72 row houses settlement in Bendoreliai, next to the Old Ukmerges road, local developer Markeris is continuing the development of the second stage. In the second stage will be 61 row houses and 98 apartments. 110 sqm sized row houses with land plots of 200-300 sqm and without fit-out are sold for €88,000-€105,000. Sales price of 57-97 sqm sized apartments are from €750 to €1,000 per sqm. The second stage will be completed till the end of 2016. After the development of the second stage it will be the largest raw houses settlement in the vicinity of Vilnius.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Naujoji Pilaite (9th quarter)</strong></td>
<td>€1,250 - €1,400</td>
<td>Q1 2016</td>
</tr>
<tr>
<td>– Local developer Vilmestos projektai is finishing the construction of another three residential buildings (A9, B9 and C9) in Pilaites district on I. Simonaitystės Street. The 4-storey and A class energy efficiency apartment buildings with 153 apartments will be fully completed by the start of 2016. The price of apartments without fit-out ranges from €1,250 to €1,400 per sqm. At the end of 2015 over 80% of the apartments were sold.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Rivera</strong></td>
<td>€1,900 - €2,500</td>
<td>Q2 2016</td>
</tr>
<tr>
<td>– Construction and development company YIT Kausta has started the development of the new residential project in Zirmunai district on Sporto Street. On the right side of the Neris river there will be three 4-6 storey residential buildings with 82 apartments. 2-4 room apartments range from 34 to 94 sqm. The apartments on the ground floor will have terraces. Construction will be completed in Q2 2016. The price of apartments without fit-out ranges from €1,900 to €2,500 per sqm.</td>
<td></td>
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</tbody>
</table>
### Uzupio Vartai
- In Q3 2015 local investment fund Lords LB Asset Management has started the development of the luxury residential project in Uzupio district on Polocko Street. In order to retain the classical facade elements of the historical building next to the Old Town, part of the building will be restored and the rest will be a new-build. The 3-4-storey residential building comprise 37 apartments ranging in size from 34 to 93 sqm and commercial premises on the ground floor. At the end of 2015 over 30% of the apartments were sold. The prices of the available apartments without fit-out are from €2,500 to €3,500 per sqm. Construction will be completed by the end of 2016.

### Antakalnio Parkas
- Local company Antakalnio parkas is continuing the development of residential project in the Antakalnis district. The 8-storey building with 120 apartments and commercial premises on the ground floor will be completed in Q2 2016. All apartments will have glazed balconies, and some apartments will have wide terraces. There will be around 150 underground and outdoor parking places. Sales prices of 33-74 sqm sized apartments without fit-out are from €1,400 to €1,800 per sqm. At the end of 2015 over 50% of the apartments were sold.

### Linkmenu Lakes
- Local company Realco has started the development of the new residential project in Snipiskes district. This residential area will be developed in two stages and consist of five 5-storey residential buildings with 551 apartments. In the first stage will be developed two residential buildings with 248 apartments ranging in size from 28 to 92 sqm. The first stage of construction works will be complete in Q3 2016. The price of apartments without fit-out ranges from €1,350 to €1,550 per sqm.

### Naujamiescio Namai III
- During 2014-2015, local developer Vilbra has completed the construction of two stages of a new residential project (242 apartments) in the Naujamiestis district on Savanoriu Avenue. After successful completion of these stages, Vilbra is continuing the development of the third stage with 154 apartments. The 5, 7 and 9-storey residential buildings comprise apartments ranging in size from 38 to 106 sqm. Asking prices for apartments without fit-out are from €1,800 to €2,100 per sqm. The third stage will be completed till the end of 2016. At the end of 2015 over 50% of the apartments have been sold or reserved.

### Interested?
For more information on these or other properties, contact Ober-Haus on: +370 5 210 97 00
LITHUANIA / RESIDENTIAL MARKET / 31

“3,558 apartments (in 44 different projects) were constructed in Vilnius in 2015, which is 27% more than in 2014.”
lower than their real market value. Despite the growing interest, the total price level of the parcels of land for development in 2015 in Vilnius remained broadly unchanged.

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

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

Prices for plots for private homes with partial or full infrastructure stay flat during 2015, and are €20 - €85 per sqm, to as high as €45 - €85 per sqm in the cheaper suburbs, to as high as €45 - €85 per sqm in Riese, Bajorai, Kalnenai, Gulbinai.

**DEMAND**

Total land transactions in Lithuania decreased 1% in 2015, according to the data of the Central Registry.

A growth in the number of transactions involving land parcels...
Private land is usually leased for agriculture. Lease of state-owned land under privately held buildings is very common.

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

An individual or legal person together with related persons cannot acquire (own) more than 500 ha of agricultural land. Besides the 500 ha limit, for acquisition of agricultural land additional conditions apply (e.g., three years’ experience in agriculture and other requirements that the potential buyer must meet).

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

The state-owned Lithuanian Radio and Television Centre sold a 7.26 ha parcel of land with buildings in Virsuliskes district on Tuju Street to the real estate development company MG Valda. The developer plans construction of residential property in this territory. The asking sale price was €4.6 million (the sale of the lease right of part of the state-owned parcel of land).

The construction and development company YIT Kausta purchased a site on Raitininku Street which includes Sarunas Hotel and Sarunas Marciulionis Basketball Academy. On this almost 1 ha site the developer plans construction of residential and commercial property. The construction work should commence in the second half of 2016. No details of the transaction have been disclosed.
LITHUANIAN REAL ESTATE TAXES AND LEGAL NOTES
In Lithuania, real estate can be acquired either directly (asset deal) or by acquiring shares in a company holding real estate (share deal).

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

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

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

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

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

The transfer of shares in a real estate holding entity is not subject to registration fees (as the direct legal owner of real estate remains the same). The transfer of shares in a real estate holding company is not taxed with any VAT.

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

### RENT

**VALUE ADDED TAX (VAT):**

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

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

**CORPORATE INCOME TAX (CIT):**

For local Lithuanian entities, income from rent of real estate is considered taxable income, which is in general subject to 15% CIT under regular taxation rules of company business activities (i.e., companies’ profit is taxed). Reduced CIT rate applies for small companies – entities with fewer than ten employees and less than EUR 300,000 in gross annual revenues can benefit from a reduced CIT rate of 5%.

**WITHHOLDING TAX (WHT):**

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

**PERSONAL INCOME TAX (PIT):**

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

### SALE

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

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

In case of an asset deal, taxation questions are more straightforward. Separate tax aspects applicable to a direct disposal of real estate are described below.
VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

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

WITHHOLDING TAX (WHT):

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

PERSONAL INCOME TAX (PIT):

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

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.3% to 3% depending on municipalities. In Vilnius, the RET rates established for 2016 are:

- 1% - standard RET rate;
- 0.7% - for cultural, leisure, catering, public educational or hotel buildings;
- 3% - for actually used real estate, that is not 100 percent completed, or for real estate that is not used at all, or not used for its intended purpose, or is abandoned or unattended.

Residential and other personal premises of individuals are exempt from tax where the total value of EUR 220,000 is not exceeded, whereas the excess value is subject to 0.5% RET. Total non-taxable value is increased by 30% to real estate held by families which meet certain criteria. Tax base is the average market value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (performed every 5 years) or using the replacement value (costs) method. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

LAND TAX

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

Land tax rates range from 0.01% to 4% depending on local municipalities. In Vilnius, the Land tax rates established for 2016 are:

- 0.2% - standard rate;
- 0.4% - for the use of land for commercial, industrial and warehousing purposes;
- 3% - for the land that is not used.

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

In 2012 the methodology used to calculate the land tax was changed and there was a transitional period set for the period 2013-2016 in case the taxable value increases. Therefore the land tax expenses has been increasing gradually. In 2016, 20% of the taxable value increase (calculated as the differences between taxable values in 2012 and 2016) is deducted from the current taxable value. As of 2017 land tax will be applied on 100% of tax base.

LAND LEASE TAX

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

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

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

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

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

LEGAL NOTES

LETTER OF INTENT AND HEADS OF TERMS

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

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

CHANGE OF OWNERSHIP

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

LEGAL STRUCTURES OF REAL ESTATE TRANSACTIONS

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

PRINCIPAL LEGAL STRUCTURES

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

SHARE DEAL

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

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

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

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

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

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

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

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

**ASSET DEAL**

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

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

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

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

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

**SALE-LEASEBACK**

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

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

**FORWARD PURCHASE**

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

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

**JOINT VENTURE**

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

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

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

FORM OF AGREEMENTS

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

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

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

LANGUAGE REQUIREMENTS

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

DUE DILIGENCE

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

PRE-EMPTION RIGHTS

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

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

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

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

Merger Control

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

Irrespective of whether it is a share or an asset deal, an anticipated concentration must be notified to the Lithuanian Competition Council, whose consent to a concentration is required where the combined total income of the undertakings concerned (received from the Lithuanian market) is over EUR 14.5 million for the financial year preceding the concentration and the aggregate income of each of at least two undertakings concerned (received from the Lithuanian market) is over EUR 1.45 million for the financial year preceding concentration.

RESTRICTIONS ON ACQUERING REAL ESTATE

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

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land, inland waters and forest unrestrictedly, except for acquisition of agricultural land. In the latter case the total area of agricultural land possessed by either a natural or a legal person and persons related to them is limited to 500 ha. For the purpose of this restriction related persons means: (i) spouses, parents together with their children; (ii) persons who directly or indirectly (via an entity in which a person has not less than 25% of votes) have more than 25% of the votes in an entity; (iii) legal persons in which the same person has more than 25% of the votes. Besides the 500 ha limit, for acquisition of agricultural land additional conditions apply (eg 3 years’ experience in agriculture).

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

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

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

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

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

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

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

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

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

GENERAL

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

Lease agreements may be invoked against third parties only if registered with the Real Estate Register.
DURATION AND EXPIRY OF LEASE AGREEMENT

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

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

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

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

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES AND SERVICE CHARGE)

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

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

LEGAL NOTES

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

REAL ESTATE FUNDS

MORTGAGE

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

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

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

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Based on new regulation on territorial planning, which entered into force on 1 January 2014, municipal master plans are the main territorial planning documents. If a municipality fails to prepare a detailed plan, construction on a land plot may be carried out according to a master plan. The procedure for detailed plan preparation has been shortened from 125 business days to 75 business days.

Other new key planning provisions:

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

• a new information system for preparation of territorial planning documents in Lithuania and for state supervision of the territorial planning process (TPDRIS) has been introduced;

• a territorial planning document enters into force from registration with the register of territorial planning documents.

CONSTRUCTION

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

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

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

A new Construction Law rule came into force from 1 November 2015, which establishes that after completion of construction, the real estate and its rights in rem must be registered with the Real Estate Register no later than three months after receipt of the deed of completion of construction.

A certificate of energy efficiency of a building should be obtained before issuance of the certificate of completion of construction or confirmation of compliance. Moreover, as of 9 January 2013, the certificate of energy efficiency of a building should be obtained before sale or lease of the property. The certificate should be placed in a visible location in hotel, administrative, commercial, services, catering, transport, cultural, educational, sports, medical treatment and recreational buildings (when the area used is more than 500 m²). A certificate of energy efficiency of a class “A” building will be a requirement from 1 November 2016.

The contractor, the architect and the technical supervisor of the construction are liable for collapse of the object or defects. From 1 January 2014, the warranty period calculation procedure has changed: warranty periods (5, 10 and 20 years) will be calculated from the date of transfer to the developer (customer) of all construction works carried out by the contractor and or from completion of construction work.

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

INSOLVENCY

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

RESTRUCTURING

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

BANKRUPTCY

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

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

GDP annual growth, % 2.7
GDP per capita, € 13,040
Average annual inflation, %: 1.7
Unemployment rate, %: 8.9
Avg. monthly gross wage, € 849
Average monthly gross wage annual growth, % 4.6
Retail sales growth, % 4.5
FDI stock per capita, € 6,686

POPULATION 2010 2011 2012 2013 2014 2015
Latvia 2,120,500 2,074,600 2,044,800 2,023,800 2,001,500 1,986,100
Riga 673,400 659,400 649,900 643,600 643,400 641,000
Daugavpils 96,000 93,600 90,900 89,200 87,400 86,400
Liepaja 78,900 76,900 74,800 73,500 71,900 71,100

ECONOMICS 2010 2011 2012 2013 2014 2015
GDP growth, % -0.9 5.5 5.6 4.2 2.4 2.4
GDP per capita, € 8,674 9,873 10,800 11,480 12,020 12,500
Private consumption growth, % -8.8 5.3 5.7 6.2 4.8 3.6
Average annual inflation, % -1.1 4.4 2.3 0.0 0.6 0.4
Unemployment rate, % 18.7 15.4 13.9 11.3 10.8 9.4
Average monthly gross wage, € 633 660 685 716 765 812
Average gross wage annual growth, % -3.4 4.3 3.8 4.5 6.8 6.1
Retail sales growth, % -2.0 2.4 7.3 3.8 3.6 5.5
FDI stock per capita, € 3,890 4,512 5,017 5,716 5,995 6,420

SOURCE: LATVIAN DEPARTMENT OF STATISTICS, MINISTRY OF FINANCE OF LATVIA
Despite Russian economic sanctions, GDP increased 2.4% in 2015, well above the 1.6% GDP growth in the Eurozone in 2015. Forecasts are for GDP growth of 2.7% in 2016. GDP growth in 2014 was 2.4%, while in 2013 it was 4.2%.

Inflation in Latvia still remains low; it stood at 0.4% in 2015, while it was 0.6% in 2014. Forecasts are for inflation growth of 1.7% in 2016.

The minimum wage will increase €10 on January 1, 2016 and will be €370. The minimum wage was increased for the third year in the row, and the total growth over the past three years is €85. Personal income tax will remain at the level of 2015 and will be 23% in 2016. In its 2016 budget, the government supported the implementation of a differentiated non-taxable minimum.

At the end of 2014, the government approved a bankruptcy law that should have entered into force on March 1, 2015. The law stipulated the return of mortgaged property to a bank, thus ending credit obligations. Property buyers, which choose to take a credit with possibility of returning the mortgaged property, have a substantially bigger down payment requirements.

A housing guarantee program began to act in 2015. Commercial banks issue loans to families, and the state provides loan guarantees to those banks that have concluded cooperation agreements. The idea of the guarantee is to reduce the first payment for new families when they purchase or build housing. The amount of the guarantee depends on the number of children.

The new law on securing a residence permit by investing in real property entered into force on September 1, 2014. The law states that an investment of at least €250,000 in one item of real estate is necessary to receive a temporary residence permit. These regulations have not been changed and are still in force despite efforts of various political forces to end this program.

Latvia adopted the euro as its national currency in January 2014. Lats, the former national currency of Latvia, will continue to be changed to euro by the Bank of Latvia at the rate of 0.7028 Latvian lats (LVL) to one euro (1 LVL = 1.4299 EUR).
Total office area at the end of 2015 stood at 736,700 sqm. The amount of office space added in 2015 was 8,700 sqm.

In 2015 Nordic and Baltic Property Group completed the reconstruction of an office building at 13 Janvara Street with a leasable space of 2,100 sqm. One more reconstruction was carried out by the owner of Mukusalas Biznesa Centrs. The reconstruction of a former metal forging factory added 3,600 sqm of B class office space at the end of 2015.

Hanner is continuing to develop a successful project, Jauna Teika. New office space is located on the first three floors of a residential building at Ropazu Street 10 in Teika district. 3,000 sqm of office space was available for tenants at the end of 2015.

The company has also started to develop a A class office building at Sporta Street 11 with a total leasable area of 14,000 sqm. This project is scheduled to be completed in 2017, which will resolve some A class office space shortage problems in Riga.
Ober-Haus expects to see a GLA of 5,600 sqm of new office space available by the end of 2016. The owners of Mukusalas Biznesa Centrs are continuing to develop their successful business center by rebuilding the historical Carl Zeiss factory, and in 2016 tenants will have access to high quality offices with a total space of 3,900 sqm. In addition, Katrinas Osta, a new project near the Port of Riga, will add office space with a GLA of 1,700 sqm.

Linstow is preparing to expand the retail center Origo, which will also include 8,200 sqm of B class office space.

New office buildings are mainly being built by developers. Potential tenants are reviewed before the completion of projects, but clients are cautious since there are chances for project completion dates to be postponed. The left bank of the Daugava River is developing rapidly, and projects from the developers Domuss and Vastint could add 120,000 sqm to the market. The big advantage of this location is its close proximity to Riga International Airport. That would help to interest large international companies that are interested in renting large spaces on a single floor. This is proven by contracts with companies like Cabot, Allnex, and Primera Air, but at the moment supply is limited.

DEMAND

A substantial deal was made in 2015 when IMG Services moved to SWH Biznesa Centrs from Jupiter Center and took 1,000 sqm to optimize their expenses. As companies expand, they are looking for additional office space. To their existing office on Brīvības Avenue, Accenture added a new office on Krasta Street. Both deals involved about 1,600 sqm of office space. The private medical clinic DiaMed expanded and at the end of 2015 opened a new clinic with a total space of 1,000 sqm on Brīvības Avenue 214. The telecommunications operator Tele 2 is also continuing to develop its SSC (Shared Service Center) on Mukusalas Street. The international chemicals industry company ALLNEX opened a service center with a total area of 1,300 sqm in the Astra Business Center on Gunāra Astras Street 1.

There is still high demand for office space in the vicinity of Skanstes Business Center, but supply is very limited. Ober-Haus can see the trend that companies are trying to optimize expenses and are therefore looking for office space that is a more suitable size and cheaper. Reverta, the largest distressed asset management company in the Baltic States, to optimize expenses has moved from the main office building of Citadele Bank, therefore freeing up 2,000 sqm of office space. The company moved to Reverta Group’s own building at Brīvības Street 148A and occupy 1,600 sqm. The free space in the Citadele office building was rented out to an IT company.

There is a problem with larger spaces in office buildings. For example, if a tenant is looking for a space of more than 1,000 sqm on a single floor, such possibilities are non-existent. Considering the limited supply of quality office space, clients are ready to consider options even when buildings have not yet been completed. The office vacancy rate in Riga decreased to 6% in 2015. The main reason was new tenants in B class offices. The vacancy rate of B class offices decreased to 8% and A class offices remained at the level of the previous year with 2%.

There is strong demand for small offices and space over 2,000 sqm in new office buildings. It is expected that recently started development projects will meet these requirements.

RENTS

Prices have remained at the level of previous year. Rents are from €11.00 to €15.00 per sqm for A class offices and from €7.00 to €10.00 per sqm for B class offices.

Utilities and service charges in A class buildings range from €2.50 to €5.50 per sqm per month.

INVESTMENT

The year 2015 was considerably quiet in matters of investments. The most important deal was when the Estonian real estate fund EFEN Real Estate Fund II purchased its seventh property in Latvia, a building on Duntes Street 6 with a total area of 12,700 sqm. The total amount of the deal has not been publicized.

Regionala Investiciju Banka bought an office building with a GLA of 5,000 sqm on J. Alunana Street 2 for €14.7 million from MC ESTATE at the start of 2015.

LEGAL NOTES BY SORAINEN

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

Lease agreements for both business centres and office space are of rather good quality, though typically the owner prepares a standard lease agreement, in favour of the owner. On transfer of title, only lease agreements registered with the Land Book are binding on the new owner of real estate. Transfer of title to real estate does not entitle a tenant to terminate a lease agreement. This can be done only at the discretion of the new owner of real estate.
# Recent Developments

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>SIZE (GLA, sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jauna Teika II – In the end of 2015 developer Hanner finished residential building with first three floors available for office premises with GLA of 3,000 sqm. Main tenant is Bigbank. Rents are around €11.00 per sqm.</td>
<td>3,000</td>
<td>Q4 2015</td>
</tr>
<tr>
<td>NBP Central Offices – In the second half of 2015 renovation was completed of the building at 13. Jāņava Street 3, which has office space of 2,100 sqm. Rents are around €13.00 per sqm. On the first floor Narvessen has opened a store, and Premium Medical moved here from an office building on Duntes Street. The developer was Nordic and Baltic Property Group, a private investment group that earlier invested in Latvia by purchasing other office buildings: Unity, Business Center 117 and Astra Business Center.</td>
<td>2,100</td>
<td>H2 2015</td>
</tr>
</tbody>
</table>

# New Projects

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>SIZE (GLA, sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katrinas Osta – This office building with 1,700 sqm of office space is scheduled to be completed in the middle of 2016. The advantage of this building is its close proximity to the Port of Riga, and this favorable location will no doubt be of interest to companies working in the port business. Development is being done by SIA Catri, a local developer.</td>
<td>1,700</td>
<td>MID-2016</td>
</tr>
<tr>
<td>Place 11 – At the beginning of 2017, the developer Hanner plans to complete an office building on Sporta Street 11 with the office space of 14,000 sqm. This will be the first A class office complex built during the past 4 years in Riga and will have a BREEAM international sustainability certificate.</td>
<td>14,000</td>
<td>Q1 2017</td>
</tr>
<tr>
<td>Mūksusalas Biznesa Centrs – The owners of this business center will finish construction of this A class office building with a total space of 3,900 sqm in the first half of 2016.</td>
<td>3,900</td>
<td>H1 2016</td>
</tr>
<tr>
<td>Ulmaņa Office Park – The developer Domuss started to work on the project that includes this office park on K. Ulmaņa Avenue in Pārdaugava. The first phase, which will be completed in Q2 2017, will include an office building with an area of 5,550 sqm.</td>
<td>5,550</td>
<td>Q2 2017</td>
</tr>
<tr>
<td>Z-Towers – The construction of Z-Towers continues, which construction process has been taking place since 2006. There will be 8,000 sqm of office space on 10 floors. Construction will be completed in 2017. The developer is AS Towers Construction Management.</td>
<td>8,000</td>
<td>2017</td>
</tr>
<tr>
<td>Business Garden Riga – The developer Vastint is working on this office complex in Pārdaugava. Two 5-storey buildings with the office space of 14,300 sqm will be completed in the first stage. When the project is completed, the total area available for lease will be 43,000 sqm. Construction is scheduled to start at the beginning of 2016.</td>
<td>43,000</td>
<td>N/A</td>
</tr>
</tbody>
</table>

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TOTAL OFFICE AREA AT THE END OF 2015 STOOD AT 736,700 SQM. THE AMOUNT OF OFFICE SPACE ADDED IN 2015 WAS 8,700 SQM.
There were no new shopping centers (counting those over 5,000 sqm of GLA with over 10 tenants) opened in Riga in 2015. At the end of 2015, there was 649,000 sqm of total leasable space in shopping centers in Riga. Currently Riga has 1.01 sqm of shopping area per capita.

Ober-Haus expects leading shopping center operators will increase supply in 2017-2018, since several new shopping centers are planned and the expansion of existing ones is anticipated. Regardless of the geopolitical instability in the East and difficult situation in Europe, which makes the future uncertain, the Latvian retail market continues to grow. Retail sector growth in 2015 was 5.5%, which also means good results from retail center performance indicators.

The shopping center Olimpia, which was sold in the start of 2015, has started the reconstruction of the second floor in 2014 in order to create 30 outlet-type stores, but works had not finished.
The Old Town has lost its consumers from Russia, who were in 2016. Also these are plans to open a new shopping center in Zolitude Street and another one in Riga on Kurzemes Avenue in 2015. Maxima has opened new store in Pļaviņas city on Daugavas 2016 to 2018. reach €75 million, and the project will be implemented from Rimi Baltic operations. The total amount of the investment will renovate its central warehouse and office building to support its Avenue and Kekava. ICA Gruppen has decided to expand and Deglava Street 110. Additional stores are planned on Vienibas Mārupe and increased the number of stores in Riga by adding RIMI has opened new stores in Dobele, Rēzekne, Jākabpils and cities in Latvia. For example, the shopping center developer Small, functional shopping centers are being opened in regional centers will include shopping centers, entertainment areas, and 257 and a project called Zunda on Daugavgrivas Street. Both development of Akropole. It is known that Akropolis Group plans to develop one multifunctional center on Riga Maskavas Street 257 and a project called Zunda on Daugavgrivas Street. Both centers will include shopping centers, entertainment areas, and office buildings. Small, functional shopping centers are being opened in regional cities in Latvia. For example, the shopping center developer RIMI has opened new stores in Dobele, Rēzekne, Jākabpils and Mārupe and increased the number of stores in Riga by adding a store in Agenskalns and expanding an existing building on Deglava Street 110. Additional stores are planned on Vienibas Avenue and Kekava. ICA Gruppen has decided to expand and renovate its central warehouse and office building to support its Rimi Baltic operations. The total amount of the investment will reach €75 million, and the project will be implemented from 2016 to 2018.

Maxima has opened new store in Pļaviņas city on Daugavas Street and another one in Riga on Kurzemes Avenue in 2015. Also these are plans to open a new shopping center in Zolitude in 2016.

DEMAND

The Old Town has lost its consumers from Russia, who were the largest clients for the shops in this district. Serviced guests from Russia decreased 24.8% in Q3 2015 compared to Q3 2014. This worsens the fragile situation and has led to a decrease in retail turnover in the central parts of Riga. But regardless of the situation, the city center still has only 2.5% of vacant space, and tenants frequently change.

Riga city center and Old Town traditionally remain entertainment areas within the city and demand for space suitable for bars, clubs and restaurants remains high, although availability is limited.

The first KFC, a popular player in the international market, was opened in the Old Town in summer 2015. Max Burgers and other small eateries opened next to Subway and Coffee Inn.

In January/February of 2016 on Vaļņu Street in the Old Town, the first Statoil store will be opened, where clients will be able to purchase most popular products: sandwiches, hot dogs, coffee, fresh baked goods, ice cream shakes, etc.

The most prestigious areas are located on Tērbatas, Elizabetes and Dzirnavu streets. The number of luxury stores, which are preferred by Russian tourists, could drop in the future.

Shopping centers are still experiencing high demand for retail space to be rented. Most successful shopping centers have fully rented out their available space, and owners or operators can focus attention on improving their services.

The availability of space in the largest shopping centers at the beginning of 2016 is 0% at Spice and Spice Home, 0% at Alfa, 0.8% at Mols, 1.5% at Origo, 0.5% at Galeria Centrs, 1.0% at Riga Plaza, 1.2% at Dole, and 0% at SC Domina.

Spice, Alfa, and Riga Plaza, the most successful shopping centers, are still benefitting from increased turnover, but they are experiencing a decreasing number of visitors. Shoppers are planning their purchases more carefully and not spending extra. At the same time, the number of single purchase is increasing, which is increasing the total turnover of shopping centers.

The number of shoppers visiting Riga Plaza, which is managed by CBRE, increased in 2014. The opening of an H&M store and the first H&M Home Department strongly contributed to this, as well as increased availability of children’s merchandise. In 2015 Calzedonia Group opened a Calzedonia clothing store and Intimissimi underwear store, as well as other stores: Lakstos, Ecco, Aleksandra, Aldo, Adidas, KidZone & Toys Planet, Milan, Subway, Drogas, Levi’s, Kuoshi.

The development of Domina Shopping is being spurred by the opening of new stores with brands not present before and by reconstruction and improvement of existing stores. The most important and largest new tenants are the restaurant Lido and the clothing store H&M, but the most important reconstruction has been done in the Lindex and KidZone & Toys Planet stores.

Spice has added to their list of tenants another international
brand store Michael Kors and also their first store opened by KAZAR. Long-term participation has ended with one of the longest operators, Bergs.

DUNE London, which offers accessories and shoes, opened in Galerija Centrs first store in Latvia.

In Alfa at the moment there is a demand for rental space, and the owners plan to put more attention on the food sector by cooperating with Lido. In 2015 the popular American brand SKECHERS opened a store.

RENTS

In 2015 substantial changes in rents in stores in the center of the city cannot be seen, and rents vary from €15.00 to €35.00 per sqm. In high traffic areas in the Old Town, rents are between €20.00 and €60.00 per sqm.

In 2015 rents in shopping centers did not change: €5.00 per sqm is the lowest price (over 1,000 sqm), from €15.00 to €35.00 for medium-sized spaces (150–300 sqm), and €25.00–50.00 (less than 100 sqm). Anchor tenants pay between €5.00 and €9.00 per sqm.

INVESTMENT

The real estate market became more active in 2015. Investors from Scandinavia and the Baltic States showed the most interest in the market. Interest from the CIS is moderate. Investors from the USA entered the market. The target properties of investors in 2015 were shopping centers and office buildings.

In February 2015, the Swiss investment company Partners Group purchased a real estate investment portfolio in Poland and the Baltic States for €163 million from BPT Optima, which is a subsidiary of the Danish investment company Northern Horizon Capital. The investment includes Olimpia, a shopping center.

At the beginning of 2015, Hili Ventures, a Malta-based corporate group, through their real estate management company Hili Properties in Latvia, purchased a real estate package that consists of nine retail centers throughout Latvia. The deal amounted to €22 million. Five of these retail centers are located in Riga, two in Daugavpils, one in Tukums, and one in Aizkraukle. The company added a total of 18,500 sqm of rental space and 27,000 sqm of total building space to its real estate portfolio.

In 2015, one of the world’s leading U.S. based real estate investors Blackstone (Blackstone Real Estate Partners Europe IV fund), has entered into an agreement to acquire 34% of Agasti’s operational business subsidiary, principally made up of Obligo Investment Management AS. One of the Obligo investment funds owns Alfa, Mols and Dole shopping centres in Riga.

SIA Dīksna, the owner of the fashion and entertainment center Rīga Plaza, has acquired territory next to this center, therefore increasing its territory by more than 24,000 sqm.

In the next three years, McDonalds will invest approximately €5 million in Latvia and continue to expand its network to include self-service kiosks.

At the beginning of 2015, Saules, a small retail chain, joined the ELVI franchise. Saules stores originated in Daugavpils and over the past 23 years have opened in 62 locations throughout Latvia. To develop further, the ownership of Saules made the decision to join the ELVI franchise and change stores under ELVI concept.

LEGAL NOTES BY SORAINEN

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Size (GLA, sqm)</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Depo DIY</strong></td>
<td>22,000</td>
<td>Q1 2015</td>
</tr>
<tr>
<td>At the start of 2015, Depo DIY closed its store on Krasta Street 52 and opened a new store-warehouse with a total area of 22,000 sqm at Krasta Street 36, thereby ensuring a wider range of goods and more comfortable shopping for visitors.</td>
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</tr>
</tbody>
</table>

## New Projects

<table>
<thead>
<tr>
<th>Description</th>
<th>Size (GLA, sqm)</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alfa</strong></td>
<td>+17,800</td>
<td>2017</td>
</tr>
<tr>
<td>The shopping center Alfa next to the cinema Cinamon will be expanded. The total area of Alfa will be expanded from 93,000 to 117,000 sqm. The area available for rent will therefore expand from 47,800 sqm to 65,600 sqm. The new building will have three floors: two for shopping and a third for entertainment and restaurants. Alfa will also be equipped with underground parking. The project is scheduled to be finished in 2017.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Origo</strong></td>
<td>15,750</td>
<td>2018</td>
</tr>
<tr>
<td>Next to the shopping center Origo, there are plans to build a 5-storey multifunctional complex, including office space on the two upper floors and a shopping center on the first three floors. The planned total area of the complex is 40,200 sqm, including 15,750 sqm for retail lease, 9,000 sqm for office area, and 8,200 sqm for the basement, where there will also be underground parking of 5,600 sqm for 150 cars. The planned investment for the project is €50 million. The project is scheduled to be finished by 2018.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Riga Akropole</strong></td>
<td>60,000</td>
<td>N/A</td>
</tr>
<tr>
<td>AKROPOLIS LV, a subsidiary of the AKROPOLIS GROUP, will develop a multifunctional center Akropole, still start of construction and opening date is still in question. Over the past few years, Akropole is the largest development project, it will be built on a 14.8 ha plot of land on Maskavas Street 257. This project will yield an additional 60,000 sqm of retail space, where approximately 200 tenants will be able to find a place for shops. The anchor tenant will be Maxima XXX. Additional space for recreational and other types of commercial activity will also be available in Akropole. The completed project will provide 7,400 sqm of office space.</td>
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<td></td>
</tr>
</tbody>
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All projects that were started at the end of 2014 and in 2015 have been successfully completed and have started to operate. Several projects were developed for own needs.

Four new projects with GLA of 111,000 sqm were built in 2015. The total amount of modern industrial space in Riga and its immediate surroundings reached almost 631,000 sqm at the end of 2015. Most facilities are located along major highways outside the city.

In Ķekava Municipality, Sanitex completed warehouses having an area of 44,000 sqm, and in Mārupe Municipality Polipaks developed a production and logistics center with an area of 35,000 sqm.

On Krustpils Street 35 in Riga, Lexel Fabrika developed a production area of 10,000 sqm for their own needs.

One of the largest projects offered for lease was a renovated warehouse and production facility in Jelgava. It was offered by NP Properties and has an area of 22,000 sqm.

Only one large logistics park is scheduled to be developed in 2016, VGP Park Kekava.

At the end of 2015, there were free areas in several popular logistic centers. Olaine Logistics Park has 6,500 sqm of available warehouse space. The owner of the park is the Lithuanian company Baltijos Statybu Valdymas, which belongs to Girteka Group. At the moment, this property is occupied by Girteka Group, but buildings are being offered to customers that are not part of this group.

Dommo Business Park is offering 5,000 sqm of space because its anchor client, Yusk, is reducing its size.
DEMAND

As availability of free space increases, the interest of investors in new warehousing projects decreases, except when there is a contract with a tenant and facilities are built to suit a special client. This kind of cooperation is offered by all the largest developers of industrial buildings. In 2015 the vacancy rate in the industrial sector increased from 3.0% to 3.5%.

The greatest demand is for warehousing and production facilities of 500 to 1,000 sqm in Riga and the environs of Riga.

Most supply of free space is outside Riga, for example in Olaine or Jelgava. There are spaces available with larger areas and cheaper prices, but demand is mostly for warehousing and production facilities in Riga.

Largest deal in lease market was when Trialto Latvia moved from Dominante Park to Avers Center on Getlinu Street 18. A total 12,700 sqm was rented out. Trialto Latvia provides full 3PL logistics services and wholesale and customs warehousing.

RENTS

Rents for warehouses did not change in 2015. Rents for warehouses in Riga now range from €4.00 to €5.00 per sqm for new buildings, and on the surrounding ring road and in renovated buildings rents range from €1.50 to €3.50 per sqm.

While in Riga and the environs of Riga rents are €4.50–5.00 per sqm, 30–50 km from Riga same kind of buildings can be rented for €3.00–3.50 per sqm.

INVESTMENT

SIA Agora JK sold an industrial facility with a GLA of 3,845 sqm on Saremas Street 3 in Riga for €1.7 million in Q1 2015. The buyer was SIA Granits.

In Q1 2015, MC Properties an bought office and warehouse building with a GLA of 2700 sqm on Zeltinu Street 131 in Marupe for €1.8 million. The seller was Zeltinu Centrs.

Balt Cargo Solution bought office and warehouse buildings with a GLA of more than 12,000 sqm on Kleistu Street 24 in Riga for €2.5 million in Q3 2015. The seller was Tamro.

LEGAL NOTES BY SORAINEN

Industrial leases are quite simple; finance and construction opportunities are readily available. Rents are indexed to local or EU inflation. Usually, the parties conclude triple net lease agreements where the tenant pays all maintenance costs. Projects are usually built for the specific needs of the owner or the intended end-user.
VGP Park Ķekava – VGP plans to develop the first phase of 20,000 sqm in the spring of 2016. The entire project will consist of 60,000 sqm of warehouse space on a land plot of 14,000 sqm. The project will be at the intersection of the A7 and A5. The A7 is an important highway also known as the Via Baltica and is only 18 km from Riga. The project will be developed by VGP and will provide turnkey solutions from the concept to the handover of the final building approval and future expansion.

NEW PROJECTS

**DESCRIPTION** | **SIZE (GLA, sqm)** | **COMPLETION**
--- | --- | ---
VGP Park Ķekava – VGP plans to develop the first phase of 20,000 sqm in the spring of 2016. The entire project will consist of 60,000 sqm of warehouse space on a land plot of 14,000 sqm. The project will be at the intersection of the A7 and A5. The A7 is an important highway also known as the Via Baltica and is only 18 km from Riga. The project will be developed by VGP and will provide turnkey solutions from the concept to the handover of the final building approval and future expansion. | 20,000 (I stage) | Q2 2016 (I stage)

INTERESTED? For more information on these or other properties, contact Ober-Haus on: +371 6 728 4544
ONLY ONE LARGE LOGISTICS PARK IS SCHEDULED TO BE DEVELOPED IN 2016, VGP PARK KEKAVA
Apartment prices in Riga rose by 0.4% in 2015 due to the rise in prices of Soviet-era apartments. Prices for new projects in the city center dropped 2%, and prices for new projects in residential districts fell 3%. Such a reduction in prices for new apartments had not been seen since 2009. It should be noted that the drop in prices was not typical of the entire segment and mainly affected new projects built for the residence permit program. New projects with prices up to €120,000 did not experience a reduction in price. In some cases, owners offer limited price reductions. For example, the SEB subsidiary Latectus offered a special reduction in price for its project Maras Darzi for only twenty-four hours and the turnout was very high. In 2015 the event was organized 2 times; the first time 11 contracts were concluded and the second time 15 were concluded. The buyers were mostly locals.

Prices of new apartments in the city center and the Old Town ranged from €2,100 to €4,000 per sqm at the end of 2015, and...
prices for very exclusive projects reached as high as €6,000 per sqm. The high price is a result of the small area of the Old Town and the fact that mostly foreigners invest money in the Old Town.

New apartments in the suburbs were selling from €1,200 to €1,750 per sqm at the end of 2015. New apartments are usually sold with everything finished except the kitchen.

Prices for apartments in Soviet-era buildings rose 0.9% and stood at an average of €655 per sqm at the end of 2015. Prices concrete block apartments are significantly lower than prices for new projects and first time buyers often choose apartments in Soviet-era buildings.

**SUPPLY**

Almost 1,800 new units were delivered in Riga in 2015. Despite a decrease in prices in the new projects market, Ober-Haus expects more than 1,500 new apartments to be completed in 2016.

At the end of 2015, there were almost 3,100 unsold apartments available on the primary market, which can be compared with the end of 2014, when there were 2,000 unsold apartments available. It can therefore be concluded that the rate of sales of apartments in new projects has decreased compared to 2014.

At the beginning of 2015, there was restructuring of buyers and banks, but in the second half of the year, banks began more active lending, and buyers took the opportunity to buy apartments according to their income. The decrease in sales must be related to previously developed projects, some of which were built to sell to foreign buyers wanting to obtain a residence permit. The year 2015 was characterized by high demand for new economy class projects having a small area, good design, and energy efficiency.

A state guarantee program for new families, which was introduced in 2015 and provides a minimum of the first payment, has contributed to the upturn in the market. This guarantee program allows locals to buy properties in a safer way, and they have therefore become more active.

For projects that were completed in 2015 (such as Jauna Teika, Salnas Street 21, Skanstes Majas, YIT Majas: with full interior decoration and good quality), sales indicators were very good, and it is likely that sales of new and good quality apartments with small but well considered planning will increase in 2016.

Ober-Haus expects that the most successful developers will continue the construction of new projects as planned. Hanner will continue their project with two new residential buildings. New developments are expected also from YIT construction, NCC Housing, Domuss, and Merks. According to information provided by developers, the sales price for one sqm in new apartments should be approximately €1,400–1,600 to be worthwhile.

Portfolios belonging to the subsidiaries of banks have decreased very rapidly. Some companies have concluded that there is no sense of offering illiquid properties on the market for a long time. By sharply reducing the price of such objects and selling relatively cheap, they can optimize their losses. These subsidiaries must nevertheless still be regarded as important market players. Some banks are investing in unfinished new apartments and then completing the finishing work as a way to make profits in the current market.

**DEMAND**

Changes in the structure of demand that began in 2014 continued to affect the market in 2015. The segment of the market that was focused on the demand created by residential permits has restructured following changes in the law, which now states that the price of the real estate purchased must be above €250,000 rather than €142,000 as it was before. This new property price level is quite high compared to the previous level and now corresponds to the exclusive segment, though activity in this market remains. Without analyzing the origin of buyers, we can say that roughly 70% of people buying apartments above €250,000 in Riga are foreigners.

Because of changes in the laws regulating residential permits and decrease in the availability of bank loans, market activity in the apartment segment in 2015 decreased by 8% and the average price of a deal decreased almost 21%.

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

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

In new projects, small apartments with a total of 60–70 sqm have the highest demand. These are usually three-room apartments. This trend is proven by the new Hanner apartment building complex in Jaunā Teika. Before the building was completed, 80% of the apartments had been sold. A developer has to be farsighted, because though clients are looking for properties with a price up to €100,000, they are also looking for good infrastructure, good planning, and an understandable concept of further development.

Demand for apartments in buildings of the pre-war period in the central part of city remains high. Potential buyers are looking for apartments between 50 and 80 sqm that have been renovated, have two or three separate rooms, and are priced between €60,000 and €100,000. If there is no elevator in the building, interest in apartments above the third floor is substantially lower. Local residents also express interest in apartments having three or four rooms and an area above 100 sqm in renovated buildings having gas heating and a price up to €150,000, the supply of such apartments is quite low. When choosing apartments, local residents pay particular attention to expenses associated with utilities and upkeep, the reputation of the management company, and the ownership of land with the apartment. Important factor include the existence of heat consumption
Clients in the market for residential houses are interested in houses in Riga Region with a price up to €150,000. There is a lot of interest in houses with a price from €40,000 to €60,000 in Ogre and Ikšķile and with a price up to €100,000 in Ķekava Municipality. Most often buyers are young families with small children living in rented apartments in Riga or Riga Region. There is increased interest in plots of land priced between €10,000 and €15,000 for residential housing construction. In Marupe Municipality, there is interest in land plots with a price between €40,000 and €55,000.

**THE MORTGAGE MARKET**

Loans are offered in euros and have maturities up to 30 years. The average interest rate at the start of 2016 was 0.06% (12-month Euribor) plus an average margin of 2.8–3.2% (depending on the customer’s financial standing), equaling a total of 2.86–3.26%. Clients can borrow up to 70% of a property’s value.

Outstanding mortgage loans in Latvia total 26% of annual GDP. The mortgage market slowed during the years of the crisis, but banks resumed active lending in the second half of 2010.

**RENT**

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

Rents for high-end exclusive apartments in the center of Riga did not change in 2015. High rents have remained in the quiet center, the Old Town, the central part of city center, and new projects. Although the public market offer seems quite high, but if a potential buyer needs to find a modern, good quality apartment corresponding to European standards, the supply is limited.

Open, bright and modern apartments with a modern interior and minimalistic, Scandinavian style are in demand. These have outperformed old-style heavy furnished apartments.

The highest rents for apartments are in the Old Town. Two-room apartments are available for €600–1000. When renting a three-room apartment, one has to pay €1,000–2,500 per month. Multi-level apartments are also in demand. When renting an apartment having three levels, one has to pay up to €3,000–4,000 per month. In 2015 there was a demand for 3–4 room apartments for rent from families from abroad. When owners see that a tenant is serious and wants to rent an apartment for a longer time period, they are willing to lower the price.

One-room apartments in the suburbs with rents from €250 to €300 and two-room apartments with rents between €300 and €600 per month are in demand all year long. Many times these apartments are in bad shape and owners are asking for increased rents, hoping for good profit. In reality such apartments are empty for long time periods and owners are pushed to lower prices.

When compared to the rent market at the end of 2014, rent has grown by 5% both for apartments in the suburbs with rent of up to 300 EUR and apartments in center with rent of up to 400 EUR.

It has been observed that rents increase (5–10%) from July to September when there is high demand from students.

Suburbs also offer exclusive apartments with higher rents (three-room apartment up to €1,500 per month). Such apartments are in demand in certain suburbs: Mežaparks, Teika, Ķīpsala and Āgenskalns.
“DESPITE A DECREASE IN PRICES IN THE NEW PROJECTS MARKET, OBER-HAUS EXPECTS MORE THAN 1,500 NEW APARTMENTS TO BE COMPLETED IN 2016.”
### RECENT DEVELOPMENTS

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>PRICE (per sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JAUNA TEIKA 2</strong> – Located at Ropazu Street 12 in Teika and being developed by HANNER. Two buildings for 330 families were finished at 2009, and the last building with 100 apartments was finished at the end of 2015. Apartments range from 35 to 115 sqm, and prices start at €1,400 per sqm for a fully finished apartment. About 80% of the apartments have been sold or reserved. In the next five years 500 more apartments will be constructed.</td>
<td>from €1,400</td>
<td>Q4 2015</td>
</tr>
<tr>
<td><strong>BIKERZIEDI</strong> – Located at Bikernieku Street in Teika and being developed by YIT Celtnieciba. This complex consists of six residential buildings. Five buildings have already been completed. At this time, apartments in the fifth building, which has 65 apartments and underground parking, are available. This building was finished in Q2 2015. Fully finished apartments range from 46 to 89 sqm, and prices range from €1,450 to €1,780 per sqm. YIT has pre-sold 60% of the apartments. Construction of the final building is scheduled to take place in H2 2016.</td>
<td>€1,450 - €1,780</td>
<td>Q2 2015</td>
</tr>
<tr>
<td><strong>CENTRUS</strong> – Located on Dzirnavu Street in the city center and developed by TA Sabiedrība. There are two 7-storey residential buildings with 84 apartments. The apartments range from 48 to 189 sqm. The CENTRUS site plan was declared the Best Site Plan for New Projects in the Baltic States at the Baltic Prix d'Excellence 2015. About 25% of the apartments have been sold or reserved.</td>
<td>from €3,300</td>
<td>Q4 2015</td>
</tr>
<tr>
<td><strong>SKANSTES MAJAS</strong> – Developed by Merks. Partially completed, this entire residential complex is one of the largest projects planned in Riga. The first stage of four 24-storey residential buildings is called Skanstes Virsotnes (completed in 2012, 560 apartments that have already been sold). The second phase, Skanstes Majas, has three 4-storey buildings with 271 apartments and was finished in 2015. The buildings are located on Grostonas Street in the city center, and prices start at €1,700 per sqm for a fully finished apartment. The third stage of the project will be called Skanstes Parks.</td>
<td>from €1,700 (II stage)</td>
<td>2015 (II stage)</td>
</tr>
<tr>
<td><strong>FELICITY APARTMENTS</strong> – Located at E.Birznieka-Upisa Street 13 in the city center and developed by DOMUSS. The 62 apartments (35 to 101 sqm) are being sold with high-quality full interior finishing. Felicity Apartments is the first residential building in the Baltics to have been awarded a BREEAM (British Research Establishment Environmental Assessment Method) prestigious international certificate for sustainable buildings. This is the world’s most commonly used method to evaluate and certify sustainably constructed buildings.</td>
<td>from €2,600</td>
<td>Q4 2015</td>
</tr>
<tr>
<td><strong>TAL RESIDENCE</strong> – In the most beautiful part of Riga (Quiet Centre) and surrounded by Jugendstil buildings included in the Culture Foundation of UNESCO, TAL RESIDENCE is a futuristic architectural monument of the 21 century. The exclusiveness of the location and architectural solutions, as well as an underground parking lot: these are the unique advantages of the project. The openness and transparency of the building’s modern architecture allows its residents to enjoy an amazing view of the historical buildings of the neighborhood through the panoramic windows and vast terraces. The apartments range from 127 to 164 sqm.</td>
<td>from €3,500</td>
<td>Q2 2015</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>PRICE (per sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAGDALENA KVARTALS</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>NCC MAJAS</td>
<td>from €1,200</td>
<td>Q4 2016</td>
</tr>
<tr>
<td>SKANSTES PARKS</td>
<td>from €2,200</td>
<td>Q1 2017</td>
</tr>
<tr>
<td>JAUNA TEIKA</td>
<td>N/A</td>
<td>2020</td>
</tr>
<tr>
<td>Z-TOWERS</td>
<td>N/A</td>
<td>2017</td>
</tr>
<tr>
<td>NEW MEZAPARKS</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>IMANTAS OZILI</td>
<td>from €1,250</td>
<td>2016</td>
</tr>
<tr>
<td>PRIEDES</td>
<td>€1,200 - €1,450</td>
<td>2017</td>
</tr>
</tbody>
</table>

**MAGDALENA KVARTALS** – The multifunctional complex, with the first stage located on Antonijas Street 17a in the center of Riga. The complex includes two residential buildings connected by a common first floor. There will be parking areas, auxiliary rooms, and commercial areas on the ground floor of the buildings. One hundred nineteen fully finished apartments will be located on the upper five floors. The total construction area is 17,400 sqm.

**NCC MAJAS** – Located on Lapsu Street in Darziems, between Lapsu and Stopinu Streets and being developed by NCC Housing. This project comprises of one 4-storey building with 46 energy-efficient apartments. Prices are from €1,200 per sqm for a fully finished apartments. Project will be finished in Q4 2016. Almost 80% of the apartments have been sold or reserved.

**SKANSTES PARKS** – The project located on Grostonas Street in the city center. There will be 136 apartments. There will be 52 apartments with 2-5 rooms apartments having an area of 50 to 140 sqm. According to information provided by the company, the price for apartments will begin at €2,200 per sqm. The company expects construction to last until the beginning of 2017. The total area of the first building is approximately 8,500 sqm.

**JAUNA TEIKA** – Project including offices, residences, and leisure areas located in Teika District and scheduled for completion by 2020. A total of 500 apartments (1-4 rooms) are to be built in a living space of 35,000 sqm. The apartments have been designed to be comfortable, light and quiet, are from 35 to 120 sqm in size, and include panoramic windows and a balcony.

**Z-TOWERS** – This multifunctional complex consists of two 30-storey round towers joined by a podium. The project is being developed by Baltic Real Estate Holding. Z-Towers Complex is situated on the left bank of the River Daugava (Pardaugava) by the Cable Bridge in Riga. There will be 336 apartments and approximately 700 underground parking lots in the northern tower. Apartment sizes will range from 35 to 623 sqm. The complex is going to accommodate an international school, a kindergarten, a playground, restaurants, a sports area, and a garden. It will be completed in 2017.

**NEW MEZAPARKS** – This project is located in Mežaparks, including villas, duplex, row houses and apartments in a 2-storey building with a spacious garden up to one hectare. Construction of roads, utilities networks, and an acoustic barrier along the street was finished at the end of 2015. Construction of the first villas will start in spring 2016.

**IMANTAS OZILI** – This project comprises eighteen 10-storey buildings, located at Jūrmalas Avenue 82 in Imanta and being developed by SIA HBO. One of them, with 108 apartments, will be finished in 2016. Apartments range from 30 to 71 sqm, and prices starting at €1,250 per sqm for a fully finished apartment.

**PRIEDES** – Located on Pupuku Street 9-11 in the Bisumuiza area and being developed by YIT Celtnieciba. In the first stage, two 5-storey buildings with 40 apartments each are being constructed. There are plans to build four 5-storey buildings. Prices are from €1,200 to €1,450 per sqm for a fully finished apartment. There will be 32 aboveground and 44 underground parking spaces.
There is a lack of good quality land plots at a reasonable price in the center of Riga and prestigious suburbs.

For some developers this situation is not a problem, because they still own undeveloped land from the time of the real estate bubble. But some developers are directly limited by this problem. Areas of land that are on the open market most often have difficult access, are not in a favorable location, or have other disadvantages. But the situation is not completely hopeless, and good investment specialists can find suitable land; some plots have not been advertised on the open market, some are being kept in portfolios for better times, and sometimes prices can be reduced.

Most of the land plots are in good subdivisions but have disadvantageous micro placement, for example on the outskirts of the old historic center or between existing buildings.
Still there are problems selling large pieces of land, especially with mixed development zoning. For example Riga Municipality canceled an auction of land in Lucavsala with a total area of 103 ha and starting price of €26.5 million, because of lack of interest.

Potential buyers can also purchase land owned by banks or their subsidiaries, because banks are prepared to finance these properties.

**PRICES**

Commercial land with construction possibilities did not experience price changes in 2015. Prices for land in the city center range from €300 to €3,000 per sqm. In residential districts, prices are between €40 and €200 per sqm.

Residential land prices in Riga remain unchanged and are between €30 and €80 per sqm in the suburbs.

**DEMAND**

The number of deals in the commercial land sector in 2015 in Riga decreased 25%. As the market is restructuring, the amount of clients that are non-residents is decreasing in the apartment sector. These clients are being replaced by local clients who prefer the medium sector and cheaper prices.

This situation creates little comfort for landowners, since lower apartment prices do not allow developers to pay the asking price for land. It is expected that the market will be active in the near future, but with the trend being to lower the asking price.

There is still interest from supermarket operators to acquire land in Riga and suburbs of Riga close to main roads and in other cities in Latvia. The plots of land being searched for are between 2,000 sqm and 20,000 sqm. Other smaller and more specialized retailers are also interested in plots of land sized 1,000–4,000 sqm in the suburbs of Riga.

The market can expect greater interest from manufacturing clients looking for land plots of 1–2 ha located in the industrial areas and suburbs of Riga. Such plots of land are however not widely available, and the asking price is €20–30 per sqm, which is too high. Clients would be ready to pay €10–15 per sqm.

Ober-Haus expects pressure to commercial land in the suburbs of Riga and lowering of prices in this segment in 2016.

The lack of good quality completed residential houses will keep the land market in this sector active.

**INVESTMENT**

Leading investors keep investing. For example YIT Construction has been investing approximately €10 million each year in development, including investments in land, and the company is expected to continue investing in land €2.0–€3.0 million every year until 2018. It is expected that YIT will continue to develop a greenfield (land plot) located on Upeņu Street in Purvciems, which can be considered a good location and concept.

A subsidiary of DNB sold land with buildings with a total area of 7 ha next to Mūkusalas Street 45/47 for more than €5.0 million. The property was purchased by SIA Shaldom Zapad. In this case, the condition of the buildings is not the best, and this can therefore be considered an investment in the land. This deal does not follow any trends (such deals do not occur on a regular basis).

SIA Hansa Holiday purchased 1,626 sqm sized land plot at Brīvības Street 44 for €2.5 million.

Whiteform Contracts LTD purchased a 5,800 sqm plot of land on Hanzas Street 3b in the center of Riga for €3.0 million.
LATVIAN REAL ESTATE TAXES AND LEGAL NOTES
REAL ESTATE TAXES

ACQUISITION

• Upon acquisition of land or land and buildings, or a building property which includes residential building (including function-related buildings), a 2% stamp duty is levied on the property value.

• Upon acquisition of land or land and buildings, or a building property which includes only non-residential building or non-residential buildings and related engineering structures, a 2% stamp duty is charged on the real state value, capped at € 42,686.

• If legal title is transferred under a deed of gift, a 3% stamp duty is levied on the property value.

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

As of 2016 the reduced rate of 0.5% is applied to corroboration of the rights to the property with the land register for a RE which is obtained through statutory government assistance.

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

• The value stated for each property in acquisition agreement;

• The value of property with higher value in case of exchange agreement;

• The value of open-ended or eternal payment in case of sustenance agreement;

• The value of investment in case the estate is invested in share capital;

• The highest bid value of the property in case the auction has been carried, or, in case there was no auction – starting price;

• The cadastral value of each property and value of forested areas. The cadastral value of the property is valid for unlimited time, if it has not changed according to the written Notice or electronically available information from Land register.

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

• A company, if the legal title has been obtained as a result of reorganisation;

• Companies, providing services for needs of society, such as public transport companies, ports, companies providing water, gas, electricity to society, etc.

RENT

VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

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

PERSONAL INCOME TAX (PIT):

Rental profit is taxed at a rate of 23%. A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filed. In this case all expenses related to rental activities are deductible, and any loss can be offset over a period of three years.

A person that is not registered with the tax authorities for commercial purposes pays PIT at a reduced rate of 10% after filing the annual income tax return, if the lease agreement is presented to Latvian tax authorities with 5 business days after the signing it with the lessee. The taxable income may be reduced by paid real estate tax.

If person has not presented the lease agreement to Latvian tax authorities nor registered for commercial purposes with tax authorities, the income of lease will be subject of 23% PIT with no deduction for expenses associated with rental activities.
VALUE ADDED TAX (VAT):

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

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

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

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

The applicable rate of VAT is 21%.

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

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

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

CORPORATE INCOME TAX (CIT):

If a Latvian company sells real estate, any capital gain is taxed at a rate of 15%. Generally, the taxable gain is calculated as selling price less net book value and any balancing charge/allowance arising on the removal of the property from tax accounts.

WITHHOLDING TAX (WHT):

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

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

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

PERSONAL INCOME TAX (PIT):

If an individual sells real estate for non-commercial purposes, a 15% PIT is charged on the difference between acquisition cost and selling price.

If capital gains exceed EUR 711.44 a month, then a capital gains tax return must be filed and on a monthly basis by the 15th day of the following month. If monthly capital gains are from EUR 142.30 up to EUR 711.44, a capital gains tax return must be filed on a quarterly basis by the 15th day of the following month. If monthly capital gains are from EUR 142.29 or less, a capital gains tax return must be filed on annual basis by the 15th day of the following tax year. The capital gain tax should be paid within 15 days after the submission of capital gain’s tax return.

The exemptions:

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

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

A person selling real estate for commercial purposes must register with the tax authorities and is subject to a 23% PIT.

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**REAL ESTATE TAXES**

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

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

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

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

Relief is available to certain categories of taxpayers (such as families with three or more children under the age of 18). Certain municipalities can apply specific rules to enable taxpayer to reduced rate, obligation to have registered primary residence in particular RE.

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

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

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

Unused agricultural land is taxable:

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

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

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

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

Please note that above mentioned exemption is not applied if in case the property is leased to the person (legal entity or individual) who performs business activities.

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

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

**VAT:**

Construction services

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

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

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

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

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

During 2015, investments were mostly in non-residential properties, as due to amendments to the Immigration Law plus an unstable geopolitical situation investments in residential properties by foreigners from non-EU states have rapidly decreased. In addition, due to the amended regulation on acquisition of agricultural land, some struggles have arisen with investments in the agricultural (and consequently the forestry) sector.

LETTER OF INTENT AND HEADS OF TERMS

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

Usually, an LOI sets out the parties’ obligation not to negotiate with third parties (so-called exclusivity) and states other obligations of the parties to be followed during a certain period. Breach of the exclusivity obligation under LOI or preliminary agreements entitles the relevant party to claim compensation of damage, including specific contractual penalties.

CHANGE OF OWNERSHIP

Each transaction with real estate and registration of ownership rights with the Land Book involves a number of formalities, which have to be completed or resolved before title transfer. For instance, any real estate tax debt and tax for the entire year on a particular property has to be settled – if not, registration of ownership rights with the Land Book is not possible. The period for registration of title to real estate with the Land Book is ten days as of filing all necessary documentation with the Land Book, although in more complex cases it may be prolonged for up to 30 days.

LEGAL STRUCTURE OF REAL ESTATE TRANSACTIONS

ASSET TRANSFER VS SHARE TRANSFER

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

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

- notary fees and state duty arising from real estate sales are not applicable to the sale of shares in a company;
- ownership of shares is transferred as agreed in the sale agreement, at the time of signing the agreement, or on registration, which takes only a few days;
- on completion of transfer of shares, the buyer assumes responsibility for the whole company including any matters that occurred before change of ownership;
- due diligence investigations are more extensive as a share deal transfers the entire company (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;
- applicability of financial assistance rules;
- deferred tax issues.
Asset transfer involves the following benefits and drawbacks:

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

PORTFOLIO DEALS

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

DUE DILIGENCE

Before carrying out a real estate transaction, it is advisable to research the status of the real estate, e.g., encumbrances (as the Land Book may not contain the actual data), permitted use as set by the local authority, lease agreements affecting the real estate. The results of research may help set the final purchase price reflecting the value of the real estate.

RIGHTS OF FIRST REFUSAL

Local authorities have the right of first refusal in respect of acquisition of real estate (land and buildings) located in their territory. Only after the municipality has decided not to exercise its rights of first refusal may a purchase agreement be registered with the Land Book and ownership transferred to the buyer. In addition, a specific regulation covers execution of rights of first refusal to agricultural land, whereby for example the Latvian Land Fund and the lessee of the particular land plot have rights of first refusal.

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

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

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

A person with a right of first refusal, such as a co-owner of real estate, who is not offered the possibility to exercise their right, then acquires buy-out rights. Buy-out rights entitle a person denied the possibility to exercise the right of first refusal to acquire the property from the new owner on the same terms.

TYPICAL PURCHASE PRICE ARRANGEMENTS

Usually the parties agree to use an escrow account in a bank. During registration of the real estate title, neither the seller nor the buyer has access to the funds transferred to the escrow account. These funds are released only after registration of the buyer’s real estate title with the Land Book and fulfilment of other conditions agreed by the parties (if any). In smaller transactions, more often the parties agree to deposit the funds with a sworn notary. The funds are transferred to the seller’s bank account by the sworn notary after registration of the buyer’s real estate title with the Land Book.
Sharing of costs incurred during purchase is a matter for agreement between the parties. Usually, the buyer pays for state and stamp duties, whilst notary and escrow account fees are shared equally between the parties.

Generally, state duty amounts to 2% without a ceiling of either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. However, if an apartment (including non-residential premises in apartment buildings) property is purchased by a legal person, the amount of state duty is 6%. Nevertheless, state duty may not exceed EUR 42,686.15 when buying only commercial real estate.

In addition, an index of 1.5 is applied when calculating state duty if registration of title has been delayed by more than 6 months. Stamp duty for registration and issue of a Land Book certificate is approx EUR 22.

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

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

Certain limitations apply to acquisition of agricultural land in Latvia. An EU citizen (including a Latvian citizen), or a citizen of the EEA and Switzerland can acquire not more than 10 ha of agricultural land without limitations. A natural person who wishes to acquire more must satisfy the following:

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

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

- it has no tax debts in Latvia or its country of domicile;
- all shareholders must be EU, EEA or Swiss citizens or citizens of other countries that have concluded agreements on protection of investments with Latvia;
- the entity must identify all its beneficiaries and all of them must be EU, EEA or Swiss citizens;
- confirm that the entity has received single area payments during the last 3 years, or receives direct payments or the entity’s income from agricultural activities during the last three years has formed at least one third of all its income;

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

In transactions involving assets, note that several mergers among the same parties within a period of two years and as the result of which one party obtains assets (a portion of or all the assets) of two or more other undertakings or the right to use these assets, are deemed a single merger occurring on the day when the last merger takes place.
• confirm in writing that after purchase of the land the entity will start agricultural activities with the particular land within 1 or 3 years from the purchase depending on whether the particular land in the previous or current year has been the subject of single area payments or direct payments under EU Regulations;

• at least one employee or shareholder has received an agricultural education or the entity should have at least one shareholder whose income from agricultural activities during last three years has formed at least one third of that person’s total income.

The maximum area of agricultural land that can be owned by one person is 2,000 ha.

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

NON-EU CITIZENS AND LEGAL ENTITIES

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

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

ENCUMBRANCES

Real estate may be encumbered with servitudes, rights of first refusal, lease rights registered with the Land Book, mortgages, protection zones, and other encumbrances that should be considered prior to acquisition of real estate and planning of construction. Therefore, prior to buying a land plot for construction purposes, it is advisable to perform legal, technical and environmental due diligence.

MORTGAGE

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

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

PROPERTY MANAGEMENT

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

MANAGEMENT OF RESIDENTIAL BUILDINGS

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

Management structure of residential buildings depends on the ownership structure.

LEASE AGREEMENTS

GENERAL

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

At the same time, the Law on Apartment Leases protects the rights of tenants. Residential tenancy agreements are binding on new apartment owners under the Law on Apartment Leases without registration with the Land Book. However, only permanent residents of Latvia and persons who reside in Latvia based on a temporary residence permit may claim protection under this rule.
LEGAL NOTES

DURATION AND EXPIRY OF LEASE AGREEMENT

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

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES)

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

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

INVESTMENT FUNDS AND REAL ESTATE

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

Real estate acquired by an investment fund must be registered under the name of the investment management company managing the fund, and it can be sold or encumbered only with permission of the custodian bank. Assets of a fund may be invested in real estate located in Latvia, the EU, EEA or OECD member countries, or other countries specified in the prospectus once the real estate has been valued and the valuation is approved by an independent expert panel appointed by the management company. Real estate owned by the investment fund may not be managed by the investment management company itself and therefore will most likely be managed by a professional real estate management company.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

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

CONSTRUCTION

The Construction Law states that a construction permit is received in the initial stage but does not allow immediate start of construction. To obtain a construction permit, the applicant must develop a building design in the minimum composition and file it with the local construction board. If construction issues requirements and conditions to ensure design works. Construction itself can start only when all the requirements and conditions included in the construction permit are fulfilled and accepted by the Construction Board.

ACQUISITION OF DISTRESSED ASSETS

Distressed real estate can be acquired on the basis of a voluntary agreement between the parties, in a procedure of compulsory enforcement or during insolvency proceedings of the owner of the real estate. In any case, acquisition of distressed real estate is more complex; therefore thorough due diligence should be performed as the possibility of problems is much higher. For example, during financial difficulties of the owner, real estate

PPP & INFRASTRUCTURE

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

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

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

**OBTAINING A TEMPORARY RESIDENCE PERMIT**

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

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

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

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

2016 FORECASTS

GDP annual growth, % 2.6
GDP per capita, € 15,800
Private consumption annual growth, % 3.2
Average annual inflation, % 1.6
Unemployment rate, % 6.9
Average monthly gross wage, € 1,097
Average monthly gross wage annual growth, % 5.0
Retail sales growth, % 5.0
Exports annual growth, % 1.9
Imports annual growth, % 3
FDI stock per capita, € 12,775

GEOGRAPHY & SOCIAL

Coordinates: 59 00 N, 26 00 E
Area: 45,200 km²
Border countries: Latvia, Russia
Capital: Tallinn
Ethnic groups: Estonians 69.0%, Russians 25.5%, Ukrainians 2.0%, Belarusians 1.1%, Finns 0.8%

SOURCE: ESTONIAN DEPARTMENT OF STATISTICS, MINISTRY OF FINANCE OF ESTONIA
In 2015, the Estonian economy grew by 1.3%, primarily due to increased domestic consumption. The economic growth of 2016 should exceed 2.5%.

Exports, the growth of which began to slow at the start of 2015, decreased even further in the third quarter. Even though the Estonian economy has developed well, most exports are nevertheless rather low value added final products manufactured for someone else. The biggest challenge of Estonian companies is product development, which requires ongoing work in all sectors. Compared to the country’s trade partners, Estonia has made too modest investments in machinery and equipment. The continued gap between wages and productivity has an impact on profitability and may start to impair the capacity of investing.

While exports to Russia dropped the most the first half of the year, the biggest recent decrease has been to Latvia and the United States. At the same time, the growth of exports to various European countries — especially Norway, Denmark, Germany and the United Kingdom — has accelerated or retained the current moderate speed of growth. Despite the alleviation of the Russian economic crisis next year, the rouble can be expected to drop and it is anticipated that sanctions will continue to be enforced. This keeps the import demand of Estonia’s Eastern neighbor low. Even though the economic situation of Estonia’s primary export partners will improve in 2016, which in turn should increase foreign demand, the improvement in Estonian exports will remain rather modest.

Over the past five years, the growth of wages has been significant, on average 6% per year. At the end of 2015, the average gross salary in Estonia was €1,045. The cause of growing wages was the labor shortage in many sectors and the decrease in the working-age population. Since productivity is not growing as rapidly, company profits are dropping and investment capacity is decreasing. What is however positive is that the proportion of investments in machinery and equipment and research and development has increased. Unfortunately, this has not yet contributed to growth in productivity.

Unemployment fell to 6.6% in 2015. Analysts project average unemployment of 6.9% in 2016.

In 2015, negative average annual inflation recorded in Estonia was at 0.5%. Forecasts are for CPI growth of 1.6–1.9% in 2016.

The construction cost index increased 0.6% y-o-y in Q3 2015. While construction machinery and materials are somewhat cheaper, labor costs increased 3.4%.
Very active development of office buildings has begun because demand exceeds supply. Seven new projects were completed in 2015, bringing 45,600 sqm of leasable office space to the market. Today, there are 830,000 sqm of modern office space in Tallinn.

In 2016, nine new office projects will be completed in Tallinn. After the completion of these projects, 61,000 sqm of new leasable office space will appear in the market. If all of these projects are in fact completed, it will be largest annual growth in supply over the past eight years.

The reason for demand is the expansion of companies and creation of new ones, especially in the IT sector. Most potential interest in A and B class office space is related to agencies and support units of foreign companies. The vacancy of A class office space is near zero and 5% for B class offices. The vacancy of office space with poorer quality and location is increasing, and owners are looking to upgrade their properties or sell them.
must make investments or change the functions of buildings in order to keep clients. As a result of active development, we are predicting a decrease in demand and pressure on prices.

The market for the purchase and sale of office space still has very low liquidity. Single transactions have taken place from €900–€2,200 per sqm depending on the location. In two development projects in the city center, asking prices are €2,100–€3,000 per sqm.

RENTS

In 2015, rents for A class offices increased by 4% in the Tallinn market due to increasing demand and decreasing vacancies. There was no change in rents for B class offices. Rents amount to €12.00–16.00 per sqm for A class offices and €7.50–10.50 per sqm for B class offices. The rents of single smaller exclusive A class offices are up to €17.00–€18.00 per sqm. In the suburbs, rents for offices in less valued locations and buildings are €3.00–€7.00 per sqm per month.

INVESTMENTS

In Estonia, investments in office buildings are about five times less than they are in Scandinavia based on the number of people, and two times less based on GDP.

In 2015, the interest of investors in objects in a valued location, with a secure structure of tenants and a constant cash flow, continued. In the current market situation, investors are expecting yields of no less than 7.0%. Over the past year, the increase in the interest of Russian investors is noticeable.

Silverene Property OÜ, part of the Colonna real estate group, bought a 14-storey office building at Lelle Street 22 in Tallinn. The building was completed in 2015 and sold by Järvevana Kvartal OÜ. The net area of the building is 12,500 sqm (leased area 9,000 sqm). The anchor tenant, Eesti Energia AS, has signed a lease contract for 10 years. The purchase price and yield of the transaction have not been disclosed.

In summer 2015, Eesti Telekom sold its office buildings on Endla and Valge streets, a total of 12,000 sqm, in order to save expenses. The office building on Endla Street 16 was purchased by Limalin Kinnisvara OU (Kaamos Grupp), and Valge Street 16 was purchased by OU Valge 16. Eesti Telekom remains the sole tenant of both buildings until April 2017, when its new office building on Mustamäe Road 3 is completed. The price and yield of the transactions have not been disclosed.

On Värvi Street 5 in the Tallinn suburbs, an office building was sold at auction. The leased area is 19,100 sqm, and the size of the plot of land is 31,600 sqm. A renovation project has been prepared for the building. At the time of the sale, the occupancy rate of the building was 57%, and the anchor tenants were Tellimiskeskus OÜ, Swedbank AS, Rademar OU and Print24 OÜ. The building was sold by BP TO Peterburi OÜ and purchased by Prategli Invest OÜ. The cost of the transaction was €3.18 million including VAT. The starting price of the auction was €2.64 million including VAT.

The French Olympia Group, owned by the English investment bank Richmond Park Partners, purchased the Police Building at Pärnu Avenue 139 in September 2015. The seller was OU Pärnu Maantee 139, which represents local investors. The French investing fund was counseled by Colonna Kinnisvara for the transaction. The transaction cost €33 million; the yield has not been disclosed.

EFTEEN Kinnisvaraфонд II, which began operating in January 2015, purchased the holding of Astlanda Hotelli AS, the parent company of the Radisson Blu Sky, as well as the 3,000 sqm office complex that is part of the hotel. The transaction cost €46 million. The acquisition of the building was financed by SEB Pank, and the buyer was counseled by PwC Legal. The main investor in the real estate fund is Swedbank Baltic Pension Funds.

In winter 2015, the Swiss-based Partners Group and its operating partner Northern Horizon Capital bought the Hobujaama 4 and Valge Maja (Tartu Road 63) office buildings. The seller was BPT Optima. The price of Valge Maja, which has a leasable space of 14,800 sqm, was €16.8 million. Hobujaama 4 has 7,000 sqm of leasable space.

LEGAL NOTES BY SORAINE

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

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>SIZE (GLA, sqm)</th>
<th>COMPLETION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kadriorg Business Center – modern business development consisting of four office buildings and an underground parking lot built at Narva Avenue 63 in Kadriorg in the center of Tallinn near the sea and next to the residential area of Liivaoja. In addition to offices, the business center will also include a restaurant, sports club, and car wash. The total enclosed net space of the buildings is 11,330 sqm, and the office area is 6,200 sqm. Advertised prices for offices amount to €13.00–€15.00 per sqm and €20.00 per sqm on the commercial and service spaces on the ground floor. Developed by Pirita Tee Development OÜ, the buildings were completed in Q1 2015.</td>
<td>11,330</td>
<td>Q1 2015</td>
</tr>
<tr>
<td>Pärnu Avenue 102B – energy-efficient 4-storey office building having an underground parking lot and located by one of the main thoroughfares of the center of the city of Tallinn. The total building area is 2,550 sqm and leased area is 1,950 sqm. The majority of premises have been let, and rents are €12.00 per sqm, VAT and auxiliary expenses not included. The building was completed in summer 2015. It was developed and built by YIT Ehitus.</td>
<td>1,950</td>
<td>Q3 2015</td>
</tr>
<tr>
<td>Lõõtsa tn 5 – environmentally friendly 13-storey office building named after Bernhard Schmidt. It is located in fast-developing, high-tech Ülemiste City in the vicinity of the center of Tallinn and the airport. The building has a size of 11,000 sqm, of which 9,250 sqm are leased. The façade of the building features solar panels and a digital pattern, and a LEED gold certificate will be added. The building was completed in Q4 2015. The anchor tenant is Playtech, which has 3,000 sqm. Rental prices for offices are €13.00–€15.00 per sqm. The cost of construction was €8.7 million, and the building was developed by Mainor Ülemiste.</td>
<td>9,250</td>
<td>Q4 2015</td>
</tr>
<tr>
<td>Eesti Loto Maja – energy efficient 9-storey A class office building with an underground parking lot. It was built in a logistically advantageous location in the center of Tallinn, with Pärnu Avenue (Via Baltica) as one of the main thoroughfares. The office area is 5,000 sqm. A bicycle parking lot and charging station for electric cars is planned next to the building. The building was completed in September 2015 and most offices have been let. Rents are €12.50–€13.00 per sqm. It was developed by the local real estate developer Age Vara, together with EKE Invest. Construction, which cost €6.0 million, was done by Nordecon.</td>
<td>5,000</td>
<td>Q3 2015</td>
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### NEW PROJECTS

<table>
<thead>
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<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>Maakri Street 19/21 – complex of A class office buildings in the Maakri Quarter, a highly valued area in the center of Tallinn CBD. The total area will amount to 36,000 sqm, of which the rented office area will be 21,500 sqm. The complex will consist of a 30-storey, 4-storey and 10-storey building. Four historical buildings in the surrounding area will also be renovated. Three thousand sqm of commercial and food service premises, as well as 167 parking spaces, are planned. The anchor tenants of the complex are Pohjola Pank, Seesam Insurance AS, and Eften Capital AS. The cost of construction is €30 million. The project is being developed by OÜ Taali Grupp and built by Merko. The scheduled completion time is spring 2018.</td>
<td>21,500</td>
<td>Q2 2018</td>
</tr>
</tbody>
</table>
Endla Street 15 – energy efficient 7-storey building of the highest quality, located in the center of Tallinn and having a leased area of 6,900 sqm. The developer is prepared to complete the office with the personal desires and needs of the tenant in mind. Rents begin at €13.00 per sqm. Numeral has received a prestigious real estate award in the category of sustainable building, the Baltic Prix d’Excellence 2015, from the international real estate federation FIABCI. Currently undergoing renovation, the building will be completed in Q2 2016, and the developer is Numeral Endla.

Kai tn 1 – Explorer, a 6-storey office building with an underground parking lot. It is being built in the center of Tallinn in the immediate vicinity of the port and the Old Town. The leasable area amounts to 5,000 sqm. Commercial or food service premises are planned for the ground floor. The rents of retail premises on the ground floor are €25.00 per sqm. If an entire floor is rented, office space costs €14.40–€16.50 per sqm. The developer is Capital Mill, and the building will be completed in Q1 2016.

Novira Plaza – modern 15-storey building with an underground parking lot. It is located in a prestigious business area in the center of Tallinn. Thirteen apartments and exclusive A class offices featuring good views and totaling 4,000 sqm are planned. All offices and apartments are being developed for sale. Sales prices are €2,400–€3,000 per sqm for office space, €4,000–€5,000 per sqm for apartments, €3,500 per sqm for commercial premises on the ground floor, and €20,000 for underground parking spaces. The developer is Novira Capital, and the building will be completed in summer 2016.

Valukoja Street 8 (Öpik Building) – consisting of two parts and located in Ülemiste City, this 13-storey office building is Estonia’s largest. The total area of the building is 44,000 sqm, of which each part is 22,000 sqm, and the total leasable area is 14,750 sqm. In addition, modern apartments are planned in the building. There is growing demand for such apartments in the area due to an increasing number of foreign specialists. The ground floor will have a café and the underground level will have a bicycle parking space. The new office building will be named the Öpik Building after the internationally acclaimed academic, Ernst Julius Öpik, one of the founders of the Estonian school of astronomy. Agabus Arhitektid and Architect 11 cooperated to design the building so that it would conform to the requirements of B energy class and LEED Gold Certificate. The first stage is scheduled to be completed in Q3 2016, and then construction of the second stage will start. The amount of investment in the first phase is €19.5 million, and the developer is Mainor Ülemiste.

Tartu Avenue 83 – an 8-storey multifunctional office building with a 2-storey underground parking lot. This building is located nearby a logistically important road connecting Tallinn Airport and the city center. The size of the building is 7,900 sqm, of which 4,300 sqm are intended to be sold. The prices of commercial premises on the ground floor are €2,400–€2,600 per sqm, and office premises are priced at €2,100–€3,000 per sqm. Being developed by Novira Capital, the building is scheduled to be completed in Q3 2016, and €14.0 million is being invested in it.

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### Superministry
- **Description:** According to a public procurement by Riigi Kinnisvara, a modern and energy-efficient joint building will be built on Suur-Ameerika Street in the center of Tallinn. It will be leased for 20 years to the Ministry of Finance, the Ministry of Economic Affairs and Communications, the Ministry of Social Affairs, and the Ministry of Justice. The expected rents are €14.00 per sqm, and the building is supposed to have 16,000 sqm of office space. The procurement was awarded to Fund Ehitus, which is also the builder. Construction started in Q4 2015.
- **Size (GLA, sqm):** 16,000
- **Completion:** Q3 2017

### Norra maja (Norwegian House)
- **Description:** An energy efficient 7-storey A class office building with special solutions. It is located in the Baltika Quarter near the center of Tallinn, and it is being built with the experience of Norwegian partners. The total area of the building and the underground parking lot is 13,300 sqm, and office area amounts to 7,600 sqm. All offices have been let for the price range of €11.00–€14.00 per sqm. The building will be completed in early 2016. The developer is Kawe, and the cost of construction is €11 million.
- **Size (GLA, sqm):** 7,600
- **Completion:** Q1 2016

### Pärnu Avenue 18
- **Description:** A 6-storey A class office building with presentable architecture being constructed near the central square of Tallinn and the Old Town in a highly valued location. The total size amounts to 2,260 sqm, of which 1,800 sqm are offices. Rents for the commercial areas on the ground floor are €27.00 per sqm, and office space on the higher floors costs €15.00–€16.00 per sqm. The building will be completed in September 2016, and the developer is TTP.
- **Size (GLA, sqm):** 1,800
- **Completion:** Q3 2016

### Eesti Telekom
- **Description:** An 14-storey office building will be built on Mustamäe Road 3/3A near the center of Tallinn and one of the most important thoroughfares. The leased area will amount to 9,000 sqm and the anchor tenant will be Eesti Telekom, which will occupy an area of 7,300 sqm. In addition, a parking garage will be built. The project is being developed by EKE Invest, Polaria Kinnisvara, and Reterra Estate, and the building will be completed at the end of 2016. The total volume of the investment is €10.6 million, and the builder is Merko.
- **Size (GLA, sqm):** 9,000
- **Completion:** Q4 2016

### Porto Franco
- **Description:** With a seaside promenade and a unique glass roof and indoor street, Porto Franco is a commercial and office complex being built alongside Admiralty Basin in the immediate vicinity of the passenger harbor in the center of Tallinn and the Old Town. There will be about 30,000 sqm of office space. In addition, various commercial areas, cafes and restaurants are planned for the complex. There will also be an underground parking lot for 1,250 cars. The entire project will cost €160 million, and according to current information the office complex will be completed in January 2018. The project is being developed by Porto Franco. A building contract has been concluded, and building will be done by Astlanda.
- **Size (GLA, sqm):** 30,000
- **Completion:** Q1 2018

### Tehnopol2KV
- **Description:** An 8-storey office building consisting of two parts and having an underground parking lot. It is located in Science Park Tehnopol, a fast-developing research and business park in the suburbs of Tallinn. The design and construction standards of the building also enable research and development centers to be built in the building. It is nearby the Tallinn University of Technology, Tehnopol Startup Incubator, and IT College. The total area of the building is 11,560 sqm, and the leased area is 7,340 sqm. The building will be completed in summer 2017. It is being developed by Astlanda.
- **Size (GLA, sqm):** 7,340
- **Completion:** Q3 2017

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At the end of 2015, there were 39 shopping centers (counting those having over 5,000 sqm of GLA and over 10 tenants) with a total leasable area of 597,400 sqm. Tallinn currently has 1.35 sqm of shopping center per capita, which is one of the highest figures in Europe. In 2015, 20,500 sqm of retail space and two centers were added.

Retail trade is starting to consolidate in locations that have already been developed for consumers and developing entirely new locations is risky, but in 2015 the building of the T1 shopping centers began and the Mustamäe Centre was completed. Construction work on Tallink City, an entertainment and shopping center, and Tallinn Gate, the largest retail center in the Baltic States, has not yet begun. Several large shopping centers currently operating are also planning expansions.

In the case of particularly optimistic development, 100,000–150,000 sqm of new retail area, meaning 3–4 new shopping centers, may be added to Tallinn in 3 years, but this maximum volume is unlikely.
Maxima, Selver and Rimi are actively building and renovating stores close to residential areas, and 11 supermarkets are now being developed in Tallinn. Maxima is planning to become the market leader in Estonia.

Estonia’s oldest retailer and the market leader by turnover, ETK Grupp, changed its name to Coop. This was because of the opportunity to do direct procurements and provide a better selection and lower prices to clients.

Private consumption is continually increasing (2015 growth was 5.2%) and its impact on economic growth is great.

**DEMAND**

In 2015, there was essentially no supply of vacant premises in the biggest shopping centers in Tallinn; the vacancy rate was 0% and the demand for vacant premises exceeded the supply. The reason was trading consolidating in bigger centers, and strong retail growth throughout the year, caused by an increase in income.

Rapidly adding to retail space and developing entirely new centers involves risks, and developers are increasingly attempting to stand out with the use of concepts (first and foremost entertainment). The risks are primarily the overly fast growth of retail space, i.e. retail area per consumer is growing faster than income and purchasing power, meaning that sales per unit of area will decrease. In addition, the increase in online shopping is influencing consumption, and shopping centers are predominantly influenced by the trend of purchasing items from a store near one’s residence.

**RENTS**

In most centers, rents were stable because most lease contracts are linked to the consumer price index, which is currently close to zero. Rental spaces of average size (150–300 sqm) in retail centers are leased within the price range of €13.00 to €20.00, smaller spaces go for €35.00 to €70.00, and spaces for anchor tenants run €8.50 to €13.00 per sqm. High street rents are €20.00 to €40.00 per sqm.

**INVESTMENTS**

Purchase prices for commercial real estate in the Baltic States are some of the lowest in the European Union and provide the highest yields. Interest in investing in commercial premises in Tallinn increased in 2015, caused by increasing retail sales and low interest rates, but the lack of suitable objects limits investing. Investors are increasingly interested in larger and medium-sized retail premises in valued locations with a stable cash flow, and they expect a 7.0% yield. Since there are few objects with a completed cash flow, investors have also started to take interest in incomplete development projects.

In Q1 2015, the real estate fund East Capital Baltic Property Fund, operated by East Capital, made an agreement to buy Mustamäe Centre when construction work is finished and the center is open. The purchaser, i.e. East Capital, was counseled in the transaction by the law firm Sorainen, and the seller was counseled by the investment banking company Redgate Capital, which is involved in financial counseling and investment management, and the law firm Borenius. The sellers of Mustamae Centre are companies founded with Estonian capital: ISA Investeeringud, Torres Holding and Tallinna Tehnopark. The price of the transaction has not been disclosed. The opening is scheduled for early 2016, and the total area of the building will be 21,000 sqm.

Investors connected to the investment company Colonna Capital purchased 18 properties all over Estonia, five of which are said to be located in Tallinn. The parcels contain Rimi and Säästumarket stores, the leased area of which is 16,818 sqm. The transaction was counseled and negotiations were led by Catella Corporate Finance. Rimi was provided legal advice by the law firm Sorainen. The price and yield of the transaction have not been disclosed.

In Q2 2015, a shopping center of local importance, completed in 1996 and located on Mustamäe Road near the center of Tallinn, was sold. Its size is 1,990 sqm, and the anchor tenant was the grocery store Comarket. The seller was the owner of Comarket, ABC Supermarkets AS. The price of the transaction was €2.34 million, and yield stood at 8.0%.

Partners Group, an investment company from Switzerland, bought a total of 23,500 sqm of retail space (Vesse Retail Park) in Lasnamäe from Baltic Property Trust and then resold it at the end of 2015 to East Capital. The anchor tenants are Bauhof (one of the largest local retail DIY chains), Coop-Maksimarket, and Masku (a furniture store).
RECENT DEVELOPMENTS

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<tr>
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<tbody>
<tr>
<td>Mustamäe Centre</td>
<td>13,500</td>
<td>Q4 2015</td>
</tr>
<tr>
<td>– the most modern leisure and shopping center in the Baltic States. It includes a multiplex cinema. The center is located nearby Tammsaare Road in the Tallinn suburbs and has a total area of 21,000 sqm, of which 13,500 sqm is leased area. The most important tenants of Mustamäe Centre are Rimi, Apollo (a multiplex cinema), and MyFitness (a sports and fitness center). The cost of construction was €32 million. The vast majority of the center is leased. The center was completed in December 2015.</td>
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</table>

| Maxima XXX             | 7,000           | Q4 2015    |
| – the first in Tallinn, an XXX-format hypermarket with a total leasable retail area of 7,000 sqm was built to take the place of the former Priisle market and Maxima X in Lasnamäe, the biggest district in the suburbs. The amount of money invested amounted to €16 million, and the hypermarket was opened in December 2015. The developer was Maxima itself. |

NEW PROJECTS

<table>
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<tr>
<td>T1</td>
<td>55,000</td>
<td>Q4 2017</td>
</tr>
<tr>
<td>– (formerly known as Moekombinaat and Europa) a shopping and entertainment center being built on the edge of the Tallinn city center next to the Sikupilli and Ülemiste shopping centers and in the vicinity of an important and modern intersection that will be part of the future public transport center of Tallinn and will have a tram connection with the airport, harbor, and the international Rail Baltica railway station. T1, located at Peterburi Road 2, is the newest and biggest regional shopping center project in Tallinn. The general area of the center will be 130,400 sqm, and the leased area will equal 55,000 sqm. It will contain over 200 stores. The anchor tenant will be the hypermarket Selver, with about 6,000 sqm of floor space. The investment amounts to about €70 million. The center will be completed at the end of 2017 and is being developed by Pro Kapital.</td>
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| Norde Centrum          | 23,000          | Q2 2017    |
| – this shopping center, located between the planned Porto Franco business center, the harbor (which attracts tourists), and the city center, is scheduled to be expanded. The expansion plan focuses on the extremely dense movement of people coming from the harbor and increasing visibility from the city center. In recent years, the occupancy rate of the center has been 100%. The center, which currently has 12,000 sqm of leased area, will be expanded to 23,000 sqm, and 50 stores will be there. The anchor tenant will still be Rimi in hypermarket format, the fashion stores and the Sportsdirect.com store will be expanded, and new food places and a Baltika store will be added. The expansion of Norde Centrum will take place in a single stage that will begin in the first half of 2016, and the expansion will be opened in spring 2017. The amount to be invested equals about €10 million. The project is being financed by Nordea Pank and developed by Capfield, which owns several shopping centers. |

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**NEW PROJECTS**

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<tbody>
<tr>
<td><strong>Porto Franco</strong></td>
<td>40,000</td>
<td>Q1 2018</td>
</tr>
<tr>
<td>– a commercial and office complex with a seaside promenade, unique glass roof, and indoor street is scheduled to be built alongside Admiralty Basin in the immediate vicinity of the passenger harbor in the center of Tallinn and the Old Town. There will be about 40,000 sqm of retail space. The biggest hypermarket (with a size of 6,600 sqm) in the city center will be located in this complex. Major commercial areas include gourmet food (1,000 sqm), fashion products (28,000 sqm), and cafes and restaurants (4,350 sqm). There will be underground parking spaces for a total of 1,250 cars. The cost of the entire project is €160 million, and according to initial information, the deadline for completing the shopping center is start of 2018. The developer is Porto Franco. A building contract has been concluded, and the complex will be built by Astlanda.</td>
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<tr>
<td><strong>Maxima XXX</strong></td>
<td>7,000</td>
<td>Q4 2016</td>
</tr>
<tr>
<td>– one of the largest retail stores, Maxima, will build an XXX format hypermarket in the immediate vicinity of one of the biggest intersections by the logistically important Ehitajate Road, which connects the districts of Haabersti and Mustamäe. The total area will amount to 7,000 sqm, of which 5,000 sqm will be the Maxima store. Construction will be completed at the end of 2016.</td>
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<tr>
<td><strong>Tallinn Gate</strong></td>
<td>24,000 (I stage)</td>
<td>N/A</td>
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<tr>
<td>– located next to the Via Baltica and the planned traffic circle in the immediate vicinity of Tallinn, this will be biggest retail center in the Baltic States. One drawing point of this center, which will feature 100,000 sqm of commercial floor space, is that it will be the first outlet mall in the Baltic States and Finland. It will also offer 140,000 sqm of storage and office space. Development will take place in several stages, and construction will start in 2016. The first stage will cover 24,000 sqm, and the developer is Trigon Capital.</td>
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There are essentially no modern storage or production facilities in a good location for sale, because in the current economic situation they are generally built for own use as necessary.

**DEMAND**

In 2015, the interest of clients primarily increased in object in advantageous locations nearby Tartu Road in Rae Parish, which is in the immediate vicinity of Tallinn. New stock-office–type premises built for trade but providing various opportunities were also popular.

Since the development of storage and production facilities is primarily related to foreign demand, economic growth relies directly on exports, but economic growth slowed in 2015, and vacancies of modern warehouses increased to 5% by the end of 2015.

Finding tenants for B class warehousing facilities in secondary locations is still problematic despite the good prices offered. Owners of older storage and production facilities must find the means to renovate in the near future to keep their clients. Based on the current rent level, it is economically unviable to start building new storage and production premises for rent without having a specific client, because clients have highly varying demands for facilities.

**SUPPLY**

The development of storage and production facilities has been relatively balanced over the past few years compared to retail or office premises. There is a total of 1,050,000 sqm of modern facilities in Tallinn and Harju County, of which about 100,000 sqm were completed in 2015. For the most part, the premises in 2015 were built for own use.

One of Estonia’s biggest industrial projects, the Maxima Logistics Centre, was completed, and the construction of the ETK Logistics Centre began, this company having the biggest share of the retail market.

So-called stock office–type premises sized 300–700 sqm in logistically valuable locations in the suburbs have turned out to be popular, because they allow businesses to merge their warehouse, office and store. Renovation of facilities that are outdated but in a good location has also begun.
RENTS

Rents for new warehouses were stable in 2015. At the end of 2015, rents for new modern warehouses near the city center were from €4.50 to €5.00 per sqm, depending on the size. Near or outside the city limits, rents range from €3.50 to €4.50 per sqm. Renovated premises are being offered at prices from €2.50 to €3.00 per sqm. Average and poor quality premises are from €1.50 to €2.00 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

Foreign clients with special interests are prepared to pay a higher price than the market average, but their expectations concerning the location and quality of the facilities are also significantly higher.

The rents of smaller A class stock-office facilities up to 500 sqm are €5.00–7.00 per sqm plus VAT and auxiliary expenses, and lease contracts are generally concluded for 3–5 years.

INVESTMENTS

Over the past few years, local investors have been active (Eften, Capital Mill) in the warehousing sector. The interest of Russian investors has continued, due to the loss of capital from Russia. In the current market situation, investors are expecting at least 8.0% yield from storage and production facilities in and near Tallinn.

In March 2015, a storage and production facility completed in 2011 and located on Tänassilma Road in the village of Tänassilma near Tallinn was sold for €1.98 million (including VAT). The size of the building is 2,900 sqm, and the plot of land it sits on is 6,700 sqm. The facility was purchased by Capital Mill. Yield has not been disclosed.

In the village of Lehmja near Tallinn, a warehouse sized 5,900 sqm and completed in 2008 was sold for €3.2 million. The seller was AS Elmaksi Hulgikaubandus and the purchaser was Gaasi 5 OÜ (Capital Mill). The object was purchased as an investment. The yield has not been disclosed.

Norwegian investor Selvaag sold two warehouse properties in Tallinn’s Lasnamäe district at the addresses Peterburi Road 47 and 49. The selling prices were accordingly €1.35 and €4.2 million, the first one was bought by Capital Mill and the second by private investors from Russia.

LEGAL NOTES BY SORAINE

Industrial leases are quite simple. Rents are indexed to local inflation. Nearly all properties are owner-occupied. Good-quality tenants are in short supply, as are sufficiently universal properties to create an investment market.
VGP Park – the Czech developer VGP Group built a logistics and industrial park consisting of three A class buildings with a total area of 49,000 sqm near the Tallinn roundabout and the intersection of Peterburi Road, not far from Muuga Port. The last building, sized 6,000 sqm, was completed in Q4 2015. Facilities of various size are available, and rents are €4.00–4.50 per sqm, to which VAT and auxiliary expenses of €0.45 per sqm are added.

Maxima Logistics Centre – ordered by the retail chain Maxima, which is known throughout the Baltic States, this logistics center sized 45,000 sqm and having 130 loading bays was completed by the Tallinn roundabout in Q4 2015. The center employs 350 people and the amount invested was €30 million.

Smarten Logistics – the well-known logistics company will build a logistics center in Rukki Technology Park in the rural area of Rae nearby the road running between Tallinn and Tartu and the Tallinn roundabout. The total area of the center is about 45,000 sqm, and the first stage covers about 17,000 sqm. The first stage cost €6.4 million and was completed in Q1 2015. Construction of the second stage has not yet been confirmed.

Eccua – a multifunctional production and storage facility with an office and utility block for Eccua, which is involved in water equipment. The facility was built in Allika, an industrial park near Tallinn, and was constructed by the well-known company Merko. Size of the facilities is 3,600 sqm. The building was completed in 2015.

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

**Description**

**Baltic Logistic Solutions** – BLS, a subsidiary of Sanitex, the leading wholesaler of food and manufactured goods in the Baltic States, is building its first A class logistics center in a logistically advantageous location by Tartu Road near Tallinn in a quickly developing area to better service its clients. With a total size of 21,300 sqm, the complex is to include 15,000 sqm of warehouse sections with various temperatures. Additional services will also be provided according to the clients’ needs, such as printing labels, marking products, grouping goods, repackaging, advertising on vans, etc. The building will be completed in Q2 2016.

- **Size**: 21,300 sqm
- **Completion**: Q2 2016

**ETK Logistics Centre** – Estonia’s biggest retail company ETK Grupp, which owns the retail chains Maksimarket, A ja O, Konsum, E - Ehituskeskus, Tööriistamarket, is building a new modern, one of the biggest logistics centres in Estonia near Tallinn, Rae rural municipality, Soodevahe village, sized 45,000 sqm. The object will be completed in Q3 2016. The investment is €24 million.

- **Size**: 45,000 sqm
- **Completion**: Q3 2016

**Priisle** – a logistics and industrial park to be built at Priisle Road 10 in the suburbs of Tallinn, Lasnamäe district, near Muuga port and Peterburi road. 22,000 sqm of multifunctional so-called stock-office type, energy-efficient and economical premises with flexible room solutions are being developed. The area of the park is 3.1 hectares and it will be completed in four stages. The first building, sized 3,900 sqm, will be completed in April 2016. Rents of warehouse premises are €5.00 per sqm, office premises €7.00 per sqm. Over 50% of premises have been booked or let. The investment of the first stage is up to €2.7 million. Developer is Hammerhead.

- **Size**: 3,900 sqm (I stage)
- **Completion**: Q2 2016 (I stage)

**Järveotsa 50** – multifunctional, stock-office–type facility with flexible room solutions is being developed in a well-established business area in an advantageous location near the border of the districts of Haabersti and Mustamäe in the suburbs of Tallinn. Once completed, the size of the facility will be 4,000 sqm. First stage, which is 2,000 sqm, is already covered with lease contracts, and the next stage development has begun. Rents are €6.50 per sqm, plus auxiliary expenses €1.00–€1.20 per sqm. The second stage will be completed in Q4 2016. Favorte is the developer.

- **Size**: 4,000 sqm
- **Completion**: Q4 2016

**Maardu Logistics Centre** – a logistics center sized 15,000 sqm in a developing area of storage and production facilities in the vicinity of Muuga Port near Tallinn. The amount being invested is €6.0 million. The developer is Infor Invest, and the project is scheduled to be completed in Q1 2016.

- **Size**: 15,000 sqm
- **Completion**: Q1 2016

**Pärnu Road 556B** – Europe’s biggest manufacturer of high-tech surgical instruments, Karl Storz Endoskopy, is building a modern office and production facility in the town of Laagri near Tallinn. With a total size of 8,800 sqm and 5,000 sqm of production space, the building will be completed in Q2 2016.

- **Size**: 8,800 sqm
- **Completion**: Q2 2016

**Peetri Business Park** – a business park sized 60,000 sqm, to be built in the immediate vicinity of the city of Tallinn in the quickly growing town of Peetri by Tartu Road in Rae Parish. This will be the closest business park to the city center and the airport. The entire area is divided into 12 plots equipped with all utility networks and sized 3,000–7,500 sqm. The plots can be merged. The prices of plots start from €60 per sqm, most plots have been sold, developer is MT Varahaldus.

- **Size**: 60,000 sqm
- **Completion**: Q4 2016
The average price for apartments in Tallinn grew 3.8% in 2015 and was €1,556 per sqm in December 2015.

The number of transactions in 2015 increased 16%, and the financial volume advanced 26%.

Prices for older standard apartments in the suburbs stabilized in 2015, but the prices of new apartments increased 10–15%.

The reasons for higher apartment prices are the low interest rates for residential loans, increase in incomes, and purchase of apartments for investment. A reason for buying a new apartment is also energy efficiency (lower heating costs). In 2015 around 40% of transactions took place without a bank loan.

New apartments cost €2,200–€5,000 per sqm in the city center and €1,500–€2,200 per sqm in the suburbs. All new apartments in Tallinn are sold with finish work completed.
Prices for apartments vary mainly due to the location. Most transactions were in the city center and involved apartments in good condition in modern or fully renovated buildings, with prices from €1,900 to €2,400 per sqm.

In buildings with the best views or special architectural features, prices sometimes exceed €3,000 per sqm. Sales for large, well-renovated flats in the Old Town are growing, and prices have reached €2,700 to €4,500 per sqm.

In the suburbs, most sales were for cheaper one- or two-room Soviet-era apartments in need of renovation. These apartments cost from €1,000 to €1,200 per sqm. Suburban apartments in excellent condition and located in popular locations cost €1,300 to €1,500 per sqm. Apartments in less-sought-after locations are much less marketable, even if they are in good condition.

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

The gross rental yield of apartments in Tallinn in 2015 was from 5.0% to 6.0% depending on the location. Owners generally conclude short-term rental agreements and very carefully check the tenant’s background.

Clients primarily value smaller development projects located in or near the city center.

The development of apartments is in the hands of larger developers (Merko, Endover, Metro Capital, TTP, Astlanda, Novira, Colonna, YIT).

PRIVATE RESIDENCES

In 2015, prices for private residences in Tallinn and Harju County increased an average of 2.3%, the number of transactions decreased 1.7%, and the financial volume advanced 0.6%.

Currently preferred type of house in the current market situation is sized 130–180 sqm, is new or up to 5 years old, has modern technical amenities and an economical heating system, and is in the price range of €150,000–€250,000.

Most transactions take place in Tallinn and up to 25 km from Tallinn in areas with developed infrastructure. An increase of prices is noticeable in valued and well-developed residential areas in Tallinn (Nõmme, Kakumäe and Pirita) and in parishes surrounding the city.

LEGAL NOTES BY SORAINEN

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Price (per sqm)</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Uuslinna tn 9</strong> – a four-building development project near the city center and popular Kadriorg Park. There are a total of 60 apartments, and parking spaces are located in the basement of the building. The cost is from €1,580 to €2,000 per sqm for the apartments, €6,000 per sqm for the parking spaces, and €2,000 for the storage spaces. Completed in Q2 2015, most apartments have been sold. The developer was Näituste Kinnisvara OÜ, and the apartments are being sold by Ober-Haus.</td>
<td>€1,580 - €2,000</td>
<td>Q2 2015</td>
</tr>
<tr>
<td><strong>Meerhof, Pirita Road 26</strong> – exclusive development project in the immediate vicinity of the city center and the sea. All apartments are bigger than average and luxurious, with a view of the sea, spacious balconies and terraces, and parking spaces in the basement garage. Apartments include so-called smart home solutions. Prices range from €2,200 to €5,500 per sqm. Two most expensive apartments in this building were sold for nearly €1.0 million. The building was completed at the start of 2015, 80% of apartments had already been sold by the date of completion, and all apartments were sold by October. The developer was Metro Capital. Metro has another similar project with 150 apartments currently being planned in the same area.</td>
<td>€2,200 - €5,500</td>
<td>Q1 2015</td>
</tr>
<tr>
<td><strong>Hoburaua House (Vibu Street 3/5)</strong> – a development project consisting of two buildings that are shaped like a horseshoe and contain 109 apartments. The complex is located in the highly popular region of Kalamaja, which is near the sea. A spacious courtyard with a playground, benches and landscaped areas sits between the buildings, and parking is in the basement. Modern technical solutions were used, and there is an autonomous gas boiler house. The first building was completed in 2014, and the second was finished in Q3 2015. Prices for apartments are €1,900–€3,100 per sqm, which includes parking and storage spaces. Most apartments have already been sold. The project was developed and built by YIT.</td>
<td>€1,900 - €3,100</td>
<td>Q3 2015</td>
</tr>
<tr>
<td><strong>Staadioni Street 4</strong> – project located in the developing region of Juhkentali in the city center. Business space is located on the ground floor. There are 81 apartments ranging in price from €2,100 to €3,170 per sqm, parking and storage spaces included. Most apartments have been sold. Developed and constructed by YIT, the building was finished in August 2015.</td>
<td>€2,100 - €3,170</td>
<td>Q3 2015</td>
</tr>
<tr>
<td><strong>Kalaranna</strong> – a development project consisting of 4 buildings with 95 apartments located in the region of Kalamaja near the city center and the sea. This region has been very popular in recent years since it provides a complete living environment in a closed area with a children’s playground. Prices for apartments are €2,000–€2,600 per sqm. Parking spaces in the underground garage cost €7,000, and storage spaces cost €2,000. Developed by Daymar OÜ, the project was completed in autumn 2015. Most apartments have been sold.</td>
<td>€2,000 - €2,600</td>
<td>Q4 2015</td>
</tr>
<tr>
<td><strong>Hõbemetsa</strong> – modern residential area with 500 apartments being developed in a region close to a natural area near the border of Nõmme and Haabersti districts in the suburbs of Tallinn. The first 4-storey building with 29 apartments was completed in summer 2015, and the apartments have been sold. The construction of the next buildings has begun. Prices range from €1,750 to €2,000 per sqm, and parking and storage spaces are included. The developer and builder is Kaamos Kinnisvara.</td>
<td>€1,750 - €2,000</td>
<td>Q3 2015</td>
</tr>
</tbody>
</table>
**Estonia / Residential Market**

### Recent Developments

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<td>Pöörise – a modern residential area consisting of three 12-storey and seven 14-storey buildings to be built in stages on the border of Mustamäe and Öismäe in the suburbs of Tallinn. In addition, a separate kindergarten and parking garage will be built. The first two buildings were completed in 2015. Prices are €1,500–€1,800 per sqm for most apartments, €3,000 for parking spaces, and €2,000 for storage spaces. The developer and builder is TTP.</td>
<td>€1,500 - 1,800</td>
<td>2015</td>
</tr>
<tr>
<td>Järvemetsa – a residential area surrounded by trees and consisting of 13 houses being constructed in the quickly developing and popular town of Peetri near Tallinn city center and the city’s border. The sizes of houses, which include land heating and finishing that is more expensive than average, vary from 171 to 194 sqm, and prices range from €325,000 to €375,000. Four houses have already been sold. The buildings were completed at the end of 2015. The developer is BlueSky Project.</td>
<td>€325,000 - €375,000 (per unit)</td>
<td>Q4 2015</td>
</tr>
</tbody>
</table>

### New Projects

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<tr>
<td>Poordi Street 3/5 – an exclusive development project in Admiralty Quarter in the city center between the port and the Old Town. There are a total of 120 apartments. Prices range from €2,800 to €4,700 per sqm for apartments, from €3,000 to €7,700 for storage spaces, and from €16,000 to €25,000 parking spaces. Construction has begun and the scheduled time of completion is Q4 2016. The project is being developed by Capital Mill and built by YIT Ehitus.</td>
<td>€2,800 - €4,700</td>
<td>Q4 2016</td>
</tr>
<tr>
<td>Tartu Road 56 – City Residence is a modern development project with terraces and winter gardens on the roof and two underground parking floors. The development is located on one of the main streets in the center of Tallinn. The building uses smart home technology and exclusive Platinum Collection apartments with special amenities are planned on 8 stories. Business space is located on the ground floor. There are 85 apartments ranging in price from €1,780 to €4,170 per sqm. Parking spaces in the underground parking lot cost €15,000. The building will be completed at the end of 2016. The project is being developed by Endover and built by Bauschmidt.</td>
<td>€1,780 - €4,170</td>
<td>Q4 2016</td>
</tr>
<tr>
<td>Tartu Road 52 – a modern high-quality residential quarter consisting of 166 apartments on Tartu Road in the city center. Development is taking place in several stages. The majority of the first stage apartments, which will be completed in autumn 2016, have already been sold. Prices are €2,200–€3,250 per sqm for apartments, €5,000–€8,000 for storage spaces, and €16,000 for parking spaces in the garage. Preliminary sale of apartments of stage 2 nearby Laste kodu Street has begun. Merko Ehitus is the builder and developer.</td>
<td>€2,200 - €3,250 (I stage)</td>
<td>Q3 2016 (I stage)</td>
</tr>
</tbody>
</table>

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

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<tr>
<td><strong>Saani Street 2</strong> – a project being built near the Old Town and consisting of three 5–6-storey buildings with an underground parking lot, rest area and children’s playground. A total of 62 apartments that are sized 30–122 sqm and have a price range of €2,160–€2,700, as well as five offices and three business spaces with display windows, are available. Storage spaces are included in the price. Parking spaces cost €12,000 in the garage and €10,000 in the courtyard. The development will be completed in Q4 2016. The developer and builder is YIT.</td>
<td>€2,160 - €2,700</td>
<td>Q4 2016</td>
</tr>
<tr>
<td><strong>Tivoli</strong> – a development project consisting of 5 buildings and 122 apartments built in the city center by the sea and near popular Kadriorg Park. There is no traffic between the buildings, only a green area and playgrounds. The first stage is currently being built, 2 buildings with 39 apartments, which will be completed in Q3 2016. Preparations have also begun for the next stage, a building of 55 apartments. The price range of the apartments is €2,400–€3,170 per sqm, the price for storage spaces is €1,145 per sqm, and parking spaces in the garage cost €17,000. The developer is Metro Capital and the builder is Nordecon AS.</td>
<td>€2,400 - €3,170</td>
<td>Q3 2016</td>
</tr>
<tr>
<td><strong>Poordi Street 1</strong> – an attractive 6-storey apartment building with commercial area built in Admiralty Quarter near Rotermann Quarter in the city center between the port and the Old Town. The building contains 29 apartments with spacious views; most of those have 2 or 3 rooms, and the price range is €2,900–€4,000. A parking space in the underground garage costs €20,000. The building will be completed at the end of 2016. The developer is Trigon Capital and the builder is Merko Ehitus.</td>
<td>€2,900 - €4,000</td>
<td>Q4 2016</td>
</tr>
<tr>
<td><strong>Vibu Street 6</strong> – a development project consisting of five 4-storey buildings with an underground parking lot, the Scandinavian-styled “Merevärava kodud” will be built in the residential area of Kalamaja, which is located near the city center and the sea and has a beautiful historical atmosphere. Rest areas, a children’s playground, and private courtyards will be located between the buildings. The buildings feature an apartment-based ventilation system with heat return, storage spaces, and elevators. The first building will be completed Q4 2016 and will have 32 apartments of 41–83 sqm in the price range of €1,830–€2,860 sqm. The project is being developed and built by YIT.</td>
<td>€1,830 - €2,860 (l building)</td>
<td>Q4 2016 (l building)</td>
</tr>
<tr>
<td><strong>Jakobsoni Street 7</strong> – a development project in the Modern Style of the 1930s. Built on the quiet side alleys of the heart of Tallinn, the project will consist of three buildings with an underground parking lot. Most apartments will have a spacious balcony or terrace. A rest area and children's playground will be built in the closed courtyard. The project contains 75 apartments with 1 to 4 rooms, and prices range from €1,800 to €3,800 per sqm. Four business premises with display windows will be available on the ground floor. The buildings will be completed in Q2 2017. The project is being developed and built by YIT.</td>
<td>€1,800 - €3,800</td>
<td>Q2 2017</td>
</tr>
</tbody>
</table>

**INTERESTED?** For more information on these or other properties, contact Ober-Haus on: +372 665 9700
THE AVERAGE PRICE FOR APARTMENTS IN TALLINN GREW 3.8% IN 2015 AND WAS €1,556 PER SQM IN DECEMBER 2015
In 2015, the number of transactions involving residential land in Tallinn and Harju County increased 28% and the financial volume increased 32% due to transactions with plots that cost more than average and are in valued locations. The average sqm price decreased 6.2%. The increase in prices was biggest in Rae Parish, which is located in the immediate vicinity of the city of Tallinn and is increasingly popular.

The prices of plots sized 1,000–1,500 sqm are €75,000–€130,000 in popular locations in Tallinn (Pirita, Kakumäe and Nõmme), €40,000–€90,000 near the city, and €20,000–€40,000 in other locations.

The large number of plots for sale is often in developments in poorer, secondary locations. There is practically no interest in residential lots without utility networks or with insufficient infrastructure, even if cheap.

**LEGAL NOTES BY SORAINEN**

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

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

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

**END-2015 SNAPSHOT / TALLINN**

**ANNUAL LAND PRICE CHANGE**

-6.2 %

**TOTAL LAND TRANSACTIONS CHANGE**

+28 %

**LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (SQM)**

€75 - €1,300

**LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)**

€40 - €90

**LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)**

€20 - €40

**DEMAND FOR LAND IS INCREASING**

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The large number of plots for sale is often in developments in poorer, secondary locations. There is practically no interest in residential lots without utility networks or with insufficient infrastructure, even if cheap.
IN 2015, THE NUMBER OF TRANSACTIONS INVOLVING RESIDENTIAL LAND IN TALLINN AND HARJU COUNTY INCREASED 28%
ESTONIAN REAL ESTATE TAXES AND LEGAL NOTES
Estonian real estate can be acquired directly (asset deal) or indirectly by way of acquiring shares in a company holding real estate (share deal). Transfer of shares in a property holding company may be subject to state and notary fees (in case of private limited company OÜ) or proceeding and entry fees (which in case of a public limited company AS are to be paid to the Estonian Central Securities Depository).

The transfer of shares in a property holding company is not subject to VAT.

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

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

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

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

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

As a general rule, rent of real estate is VAT exempt. Parties may opt to add VAT on rent, provided that the Estonian Tax Authorities are respectively notified in advance and in such case the notification is valid for 24 months. In practice the option is widely used by owners of commercial property since this grants the right to deduct input VAT incurred upon development of property. All residential property is rented without VAT since the option to tax is not available.

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

As a general rule, non-residents without a permanent establishment in Estonia are subject to 20% income tax on the gross rental income by way of withholding. Starting from 2016, however, 20% of deemed expenses on a dwelling can be deducted when submitting a tax return to reclaim part of the tax withheld.

Estonian resident individuals pay 20% income tax on gross rental income. As of 2016, the taxpayer is allowed to deduct 20% of rental income received from a dwelling for covering the expenses related to the property. These expenses do not have to be documented. The deduction can first be utilized in the income tax return covering the year 2016.

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

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

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Rental agreements are not subject to any state or notary fees.
input VAT is 10 years. There is also a domestic VAT reverse charge mechanism implemented on certain property sales. Transfer of shares in a real estate company is also exempt from VAT.

**CORPORATE INCOME TAX (CIT):**

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

**SPECIAL RULES FOR DOMESTIC INVESTMENT FUNDS**

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

**PERSONAL INCOME TAX (PIT):**

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

**REAL ESTATE TAX (BUILDINGS/PREMISES)**

There is no real estate tax in Estonia.

**LAND TAX**

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

The tax rate varies between 0.1% and 2.5% of the taxable value of land annually, which depends on the location of land and is determined by the local municipality. The taxable value should not be confused with the market value. In Tallinn, the highest rate is imposed and thus levied at 2.5% annually.
Experienced market participants plan transactions cautiously and transactions take longer to close than during times when transaction volumes were higher.

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

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

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

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

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

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

It is also relevant to take into account an option agreement concerning an immovable where the intention is to buy an immovable. Here, the courts have found that the parties need not follow the strict format set by law for a transaction. But if the contract is concluded with a view to acquisition, then the format must be followed. An option agreement is usually binding.

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

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

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

Existing lease contracts remain valid after the transaction.

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

A share transaction can be made instantaneously, through electronic sale of shares in the Estonian Central Register of Securities, accessed via the buyer’s and seller’s internet bank accounts. No state duties apply, and no notary fees apply if the transaction is done electronically.
Generally, buyers require sellers to represent and warrant that seller’s claims about the property holding company at the time of the share transaction were all accurate. Penalties for false representations about the company being sold should be large enough to cover any damage the buyer may incur under this head.

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

PORTFOLIO DEALS

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

Considering a portfolio deal requires bearing in mind the following:

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

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

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

SALE-LEASEBACK

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

This arrangement requires the following checks:

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

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

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

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

FORM OF AGREEMENTS

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

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

LANGUAGE REQUIREMENTS

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

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

DUE DILIGENCE

Regardless of the form of acquisition, all buyers are advised to carry out thorough due diligence on the property or holding company to be purchased. Due diligence involves checking eg title, encumbrances, planning issues, third party rights, public restrictions, permits, environmental permits and impact assessments, disputes and many other issues. This gives more security or bargaining power to the purchaser.
Pre-emption rights may be entered in the Land Register on the basis of a transaction, or may be created by law. For example, a co-owner of real estate has a pre-emptive right on sale to third persons of a legal share in real estate. Further, the state or local government has a pre-emption right on transfer of real estate located within the boundaries of a shore or shore bank building exclusion zone or if real estate is located in certain nature protection zones, or if a heritage protection object is located on real estate.

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

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

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

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

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

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

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

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

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

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

Other persons may own such land but on limited grounds and on approval of the county governor.

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

It is important to be aware of restrictions on certain types of real estate use. For example, use may be restricted in sea coastal areas, heritage protection zones, protected zones of power and other utility lines, roads and railways. Restrictions may mean that part of real estate may not be used for buildings or the owner has to avoid activity in protected zones.
According to the recent Building Act and regulations established thereunder by a minister responsible for a respective area, owner supervision over real estate is the obligation to control the compatibility of construction with the regulations set by law and contract. Those responsible for owner supervision are under quite a wide notice obligation.

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

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

In addition, a lessor’s right of security can encumber real estate. The lessor of an immovable has the right of security over movables located on a leased immovable and, upon the lease of a room, over movables which form part of the furnishings or that are used together with the room in order to secure claims arising from a lease contract even if the movables are not in the possession of the lessor. Claims for rent for the current year and the previous year and claims for compensation must be secured by pledge.

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

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

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

Estonian commercial law allows wide freedom to both owners and tenants to contract their lease agreements as desired. Residential leases are subject to heavy mandatory regulation. Leases may be either for a specified or unspecified (open-ended) period. In the case of an unspecified period, the statutory notice period for termination is three months. For business leases, the parties can specify a different notice period in the lease agreement.

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

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

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

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

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

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

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

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

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

CONCESSIONS

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

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

SALE-LEASEBACKS

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

REGULATED REAL ESTATE FUNDS

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

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

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

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

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

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

CONSTRUCTION

As a new Building Act is in force, the legal definition of ‘construction’ is broadened. ‘Construction’ now means the erection, construction, installation and demolition of a construction and any other operations in relation to construction that lead to the creation of that construction or to a change in the physical properties of the construction. Building work also means shifting soil or paving layers to a degree that has a significant and permanent impact on the surrounding environment and is functionally related to construction work.

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

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

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

Construction subject to a compulsory building permit requirement is a new term in the Estonian Building Act. This means that if a construction is subject to a compulsory building permit requirement, then only a person registered with the register of economic activities can prepare building design documentation, exercise owner supervision and build.
After completion of construction works, the municipality issues a permit for use of the building, if it has been constructed under a valid building permit and in accordance with design documentation. Use of a building is generally not allowed without a permit for use.

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

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

As of 01 April 2016, a new register entitled the Building Register will begin operation. The purpose of the Building Register is to store, provide and disseminate information regarding planned construction, buildings under construction, existing construction works, and related proceedings.

The information stored in the Building Register has informational and statistical significance. Applications, design specifications, notices, building permits, use and occupancy permits and enforcement orders have legal significance.

**DISTRESSED ASSETS**

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

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

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

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

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

A common problem for a purchaser of distressed assets is that the distressed seller has signed lease contract(s) on unfavourable terms to the asset owner. Such agreements transfer to the purchaser, even if the bailiff and the purchaser were unaware of the lease agreement. The purchaser must thereafter seek to terminate the lease and evict the tenant. Depending on the circumstances, this process may be complicated, time-consuming and costly.
SORAINEN is a leading regional business law firm with fully integrated offices in Estonia, Latvia, Lithuania and Belarus. Established in 1995, today SORAINEN numbers more than 170 lawyers and tax consultants advising international and local clients on all business law issues involving the Baltics and Belarus.

### Partnerr Group
- **Acquisition of real estate in all three Baltics States and Poland from the ‘BPT Optima’ real estate fund**
  - Total lease area 112,000 m²
  - EUR 163 million
  - 2015
  - Buyer’s Legal Adviser

### MG Valda
- **Sale of North Star business centre in Vilnius, Lithuania**
  - Total area approx 10,500 m²
  - EUR 18.5 million
  - 2015
  - Legal Adviser

### Linstow group
- **Extension of Alfa and ORIGO shopping centres in Latvia**
  - Total project value exceeds EUR 30 million
  - 2015/2016
  - Legal Adviser

### Technological Solutions
- **Construction of cogeneration plant and pellet plant in Brocēni, Latvia**
  - Total project value approx EUR 30 million
  - 2015
  - Legal Adviser

### AJ Produkts
- **Extension of office and warehouse in Latvia**
  - Total project value approx EUR 1.2 million
  - 2016
  - Legal Adviser

### Baltic Opportunity Fund
- **Purchase of Europa shopping mall in Vilnius, Lithuania**
  - Total area 22,600 m²
  - 2015
  - Buyer’s Legal Adviser

### East Capital Baltic Property Fund II
- **Acquisition of Mustamäe Keskus shopping centre in Tallinn, Estonia**
  - Total area 21,000 m²
  - 2015
  - Buyer’s Legal Adviser

### Rimi Eesti Food
- **Sale and lease-back of 18 retail properties in Estonia, housing Rimi and Säästumarket shops**
  - Total lease area 16,818 m²
  - 2015
  - Seller’s Legal Adviser

### Inreal group
- **Acquisition of a nine-storey business centre located in convenient and rapidly developing part of Vilnius, Lithuania**
  - Gross area 14,850 m²
  - 2016
  - Buyer’s Legal Adviser

### Latectus
- **Reconstruction of multi-storey office building in the historic centre of Riga, Latvia**
  - Total area approx 10,000 m²
  - 2015
  - Legal Adviser

### Olympic Entertainment Group (OEG)
- **Entering the Maltese market and opening OEG’s largest casino**
  - Total area 2,700 m²
  - 2015
  - Legal Adviser

### Linstow group
- **Extension of Alfa and ORIGO shopping centres in Latvia**
  - Total project value exceeds EUR 30 million
  - 2015/2016
  - Legal Adviser

### Rimi Eesti Food
- **Sale and lease-back of 18 retail properties in Estonia, housing Rimi and Säästumarket shops**
  - Total lease area 16,818 m²
  - 2015
  - Seller’s Legal Adviser

### Inreal Valdymas
- **Sale of Vėrstingis business centre in Lithuania**
  - Total lease area 6,000 m²
  - 2015
  - Seller’s Legal Adviser

### Naesborg
- **Spin-off and sale of real estate to investor in Lithuania**
  - Total lease area 6,000 m²
  - 2015
  - Seller’s Legal Adviser

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

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