Real Estate Market Report 2010
Baltic States Capitals
Tallinn, Riga, Vilnius
Ober-Haus is the largest real estate agency operating across the Baltic and Central European region including Poland, Estonia, Latvia and Lithuania. Since 1994 we provide to our clients the highest quality and the most complete property services including:

- Flats and houses for rent and sale
- Offices and retail spaces for rent and sale
- Property management services
- Investors advisory
- Property valuation

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

It’s so much easier with Ober-Haus!
Tallinn, Estonia

The Worst May Have Passed as the Cycle Now Turns (Slowly) Upward

Economy

GDP plummeted -14% in 2009, after dropping -3% in 2008, as a lending boom turned to bust after eight years (2000 - 2007) averaging 7% GDP growth per year.

The good news for 2010 is that the economy is now growing, with 2.6% GDP growth quarter-on-quarter in Q4 of 2009, and most analysts projecting 2% annual GDP growth in 2010.

Inflation, as measured by the Consumer Price Index, was flat for 2009, coming in at just -0.1%, easing fears of any serious price deflationary spiral. Projections for 2010 are also flat, at 0.5% inflation for the year.

Unemployment hit 13% by the end of 2009, up from just 4.5% at the start of that year. While GDP is now growing, analysts forecast unemployment will continue to climb as high as 15% before the recovery leads to more job creation later in 2010.

Estonia aims to be the third new EU member to adopt the euro - after Slovenia and Slovakia. The European Commission will decide in Spring 2010 if Estonia meets the criteria to adopt the single currency starting January 2011. Most analysis expect a positive decision, with the only criteria too close to call is whether Estonia will meet the Maastricht criteria of a government deficit less than 3% of GDP.

Office

Recession Means No New Project Starts

Supply

Only 30,000 sqm of new office space was brought to market in 2009, substantially less than the 100,000 sqm built in 2008. Still, supply outstripped demand, and most of the new space remains vacant.

No new office projects have been started in 2009.

Recent Developments

To lease space in these or other properties, call Ober-Haus on +372 665 9700.

Nordea House - a 14-storey modern office building with exterior glass surfaces and spherical floor plan located in the very centre of the town and offering a 360 degrees panoramic view. The 16,989 sqm building boasts Scandinavia’s largest bank Nordea as the main anchor tenant of the building. The Estonian construction company Nordecon (formerly Eesti Ehitus) developed the building for €19.2 mln.

Al Mare office building, one of the first new office buildings in Õismäe area, developed by Ühendatud Kapital.
**Al Mare office building** - located in the suburb, near the popular Rocca Al Mare shopping centre and the sea a 16-storey modern office building with gross floor area of 8,400 sqm. The ground floor is occupied by a restaurant and premises of public service, the remaining floors are made for offices and service spaces. Rents are from €8.00 to €11.00 per sqm.

**Metro Plaza** - an A class building, 10,510 sqm, in the heart of Tallinn, between the medieval Old Town and the rapidly developing modern city centre. The first stories of the Metro Plaza rest on the century-old walls of the Rotermann Department Store and major brand stores, and café. By the start of 2010 the building was 80% let. Rents are from €13.00 to €19.00 per sqm.

**Delta Plaza** - an A class 14-storey office building offering 11,500 sqm on the border of city centre at the crossing point of Pärnu and Tammsaare Roads. The building was built by developer ELL Kinnisvara (Merko Group) and opened in 2008 and is 80% occupied with rents from €8.00 to €10.00 per sqm.

**Tammsaare Business Centre** - an A class, 22,000 sqm office building near Delta Plaza and Tondi Selver. The building was opened in 2008 and was 80% occupied by the start of 2010, with rents from €9.00 to €10.00 per sqm.

**Lasnamäe Business House** - the first office building in a rapidly developing area of the Lasnamäe district will have 7,215 sqm and 163 parking places. The project offers different size of offices from €4.50 to €6.40 per sqm. The immediate area contains many new retail and industrial developments, such as Lasnamäe Centrum, Mustakivi Selver, Prisma, Mustakivi Centre, as well as the future entertainment and retail centre Tallink City planned on the neighbouring lot.

**Demand**

Vacancy rate of the several objects in the suburb, construction of which started at the time of the boom, exceeds 50%; the construction of some objects was postponed. Generally the vacancy rate of the suburban office buildings is 25%.

**Rents**

Rents for cheaper A class office space in Tallinn fell 35% to as low as €8.30 per sqm by the start of 2010, whereas at the start of 2009 the cheapest to be found was €12.70. Today A class space rents for €8.30 to €16.00 per sqm, with most leases in the €9.00 to €12.00 per sqm range.

Rents for B class office space dropped 40% to €4.00 to €6.00 by the start of 2010, down from €7.60 to €10.00 at the start of 2009.

Rents are typical charged one month in advance. Tenants generally pay their own utilities, invoiced by the owner after use. Rents are typically tied to the euro but indexed to local inflation. Triple net leases are becoming more common, but are still not always used. Payment of rent and costs is typically secured by rent deposit or bank guarantee.

Generally property owners will pay for all tenant fitout.
Investment

Only one smaller investment transaction was recorded in 2009, when the Lõkke Street 4 office building was purchased by EfT-EN Real Estate Foundation for €2.4 mln, at an estimated yield of 10%. The largest tenant is the government department Centre of Registers and Information Systems.

Throughout 2009 foreign buyers looked for yields over 10%, as they expected a premium for the risk they take investing in an illiquid, peripheral, non-euro-zone country. Owners, on the other hand, had no incentive to sell at these high yields because firstly the interest rate on the loans are very low, generally around 4 - 6%, so holding the properties generated cashflow. Secondly, in many cases the loan level exceeded the offered purchase price, therefore a sale meant the seller would have to give additional cash back to the bank.

The expected Spring 2010 announcement that Estonia will join the euro has attracted a lot of investor interest, and we expect transactions in the 8 - 9% yield range if the announcement is made.

Retail

Solaris the only Retail News in 2009

Supply

2009 saw two major additions to Tallinn retail. The new city centre Solaris Centrum includes 18,000 sqm of retail and food offerings, in a mixed-use retail/entertainment/office scheme.

Rocca al Mare centre, the largest in Estonia, got even larger as Finnish owner Citycon added 36,000 sqm of additional space.

2010 will see the entrance of a new bigbox tenant to the Baltic States, as German DIY giant Bauhaus opens its first store in the region by leasing 20,000 sqm built by veteran developer Paul Oberschneider.

2010 will not see any new shopping centres, but will see the extension of the existing Kristiine Centre by 21,000 sqm, included a larger Prisma hypermarket and a new multiplex cinema.

Tallinn retains the title of the most retailed capital in the Baltic. By the start of 2010, there were 580,000 sqm of shopping malls in Tallinn, which is 1.32 sqm per capita, the most shopping space per capita in the region.

Recent Developments

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Rocca Al Mare extension - Finnish stock exchange listed owner Citycon spent €64 million to add 36,000 sqm of additional space to what was already the largest shopping centre in Estonia. Total gross space is now 71,000 sqm. Citycon also owns the smaller Magistrali shopping centre in Tallinn.

Solaris Centrum - what should be the last new retail centre for quite some time, this new retail and entertainment centre in the very centre of Tallinn opened in Autumn 2009 with a total area of 43,000 sqm, comprising 18,000 sqm of retail and food, plus the first 3D cinema complex in Estonia with seven screens, Nokia Concert Hall (1,830 places), a TV Studio with 2 halls, and 250 parking places. The total investment was €77 million. The opening of Solaris makes the competition on the market of commercial spaces in the centre of the town more severe. The retail space was fully leased at rents of €10 to €30 per sqm.
New Projects
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Kristiine Centre extension - located near the city centre well-known shopping centre is widening. Almost 21,000 sqm of gross floor area will be added to 30,000 sqm of existing floor area, which will result in widening of the current tenant anchor Prisma supermarket. 400 additional parking places will also be added. The project will be finished by September 2010, the volume of investments equals to €15,9mln. Further extension is limited by the lack of the land. Current vacancy rate for the existing spaces is 0%.

Bauhaus - veteran Baltic developer Paul Oberschneider opens his latest retail development in Tallinn in 2010, the 20,000 sqm home to German DIY chain Bauhaus’s first offering in the Baltic States. Oberschneider has built eight retail properties in the region. Bauhaus is a German chain of DIY hypermarkets founded in 1960 comprising 200 shops in 14 European countries.

Tabasalu - Rimi supermarket anchored neighbourhood mall, with 2,200 sqm, to be opened in Spring 2010 in the Tabasalu suburb of Tallinn.

Demand
New take-up of space declined as retail sales plummeted over 30%, hitting tenants’ ability to pay rents or take new space.

Besides the economic slowdown the consumption was affected by the increase of VAT from 18% to 20%, and increased excise duty on alcohol and petrol.

Although the vacancy rate in major centres is virtually zero, the vacancy rate in smaller centres is up to 20%, and the vacancy rate in city centre high street locations is 5%.

Rents
At the beginning of 2010, typical shopping centres charged €15 - 19 per sqm per month for medium sized units (150 - 300 sqm), and up to €25 - €35 per sqm per month for 100 sqm units in prime locations. Food store anchor rents are €8 - €13 per sqm.

Turnover-based rent is not widely used. Rents are typically tied to the euro but indexed to local inflation. Lease agreements are often of low quality, so read carefully - sometimes distribution of maintenance and renovation obligations may not be clearly set out.

Investment
The situation in economy is unstable and investors are in waiting position, therefore no significant acquisition of big retail spaces took place.

Industrial

New Warehouse Schemes Frozen as Demand Slumped

Supply
In 2009 developers built 40,000 sqm of new warehouse space in the Tallinn area, bringing the total volume of modern warehouse space to 600,000 sqm. New developments strongly outpaced demand in 2009. Several large volume projects were suspended.

New Projects
For leasing opportunities in these or other properties, contact Ober-Haus on +372 66 59 700.

Jüri Technological Park - local developer AS Kodu Grupp plans to build up to 50,000 sqm of warehouse space on 50 hectares of land, with the first already opened in 2009. Tenants will include Kinema, Kaeser, Husqvarna, Pharmadule, and Buderus.

American Corner Business Park - 10 km from the edge of Tallinn near the Tartu Road, this new business park will be constructed on 85 hectares of land. Individual plots can be purchased in the park for €45 per sqm. Warehouse units will be rented for €5 per sqm. The plans are to build as much as 300,000 sqm in this mega project.

Demand
The areas in the greatest demand are the St.Petersburg road, Tartu road and the area next to Pärnu road coming out of Tallinn.

Rents
Modern warehouse rents fell 45% from the peak in 2007, to just €2.50 to €3.20 per sqm in Tallinn. Older premises can be rented for as little as €1.20 per sqm.

Industrial leases are quite simple. Rents are tied to the euro but indexed to local inflation. Nearly all properties are owner-occupied.
Residential

Prices Seem to Bottom Out, With Volumes Increasing in Q4

Prices

Prices in Tallinn hit their peak in April 2007 at €1,614 per sqm average, and have fallen 53% since to reach an average of €753 per sqm.

In 2009, the total number of transactions with apartments in Tallinn declined 28% and the sales volume declined 34%. This year’s fourth quarter price decrease stopped and number of transactions began to increase. There were also several block deals with lower price than average. Due to individuals and companies bankruptcies, more properties are thrown into the market, but also we can see some upward pressure related apartments in good locations and in good shape. During the next few months some financially strong developers will start with few new objects, because construction prices have fallen substantially and in some locations demand exceeds supply in certain price level. A considerable number of transactions are made without a bank loan.

In the city centre and Old Town in the Q4 of 2009 financial volume fell 14%, but number of transactions rose 10% in y-o-y comparison. Comparing with Q3 2009, number of transactions rose 25% and statistical price increase was 7%. Similarly to Q3, we can see growing number of foreigners purchasing real estate, but they only have interest to unique objects. The number of properties in the market and offer prices have stabilised. Today there are 50% of the total offers are with price over €1,600 per sqm, but only very few transactions are done over mentioned level. Most transactions are done in price range of €650 to €1,300 per sqm. Major renovations needed apartments price offers are starting from €500 per sqm, apartments in good shape from €830 per sqm. In newly constructed or renovated buildings real sales are done from €1,000 per sqm and from €1,500 per sqm for the renovated apartments.

In the suburbs most transactions are done with one or two-room cheaper and major and modernisation needed or with very good condition apartments. The decisive factor for customers is a technical condition of the building, housing union´s activity and the debt burden. In not so valued areas and major renovations needed price offers start from €320 - €450 per sqm. Most of the sales are done in price range €580 - €830 per sqm.

No big development projects were started in 2009, while many under construction were frozen.

Rents

Average residential rents fell 35% in 2009. Expensive apartments were affected the most. As the offer exceeds the demand, the market of rental apartments became more tenant-friendly and the owners are ready for price discounts as well as rebates towards the life of the lease. The unstable situation on the labour market makes long-term agreements less desirable than earlier. Potential tenants pay more attention to the heating costs. The most in-demand are fully furnished one or two-room apartments in the centre or near the centre of the town with the rent of €160 - €290 per month, ideally with a parking space.

Depending on the location and the condition, the rent of the fully furnished two-room apartment in the suburb is €130 - €190 per month. Usually utility payments are added.

Newly signed residential leases are not subject to rent control, so rent may be agreed freely.

Supply

In 2009 in Tallinn, 100 new apartments were completed by developers, which is substantially less than the 1,420 completed in 2008, and doesn’t even compare to the 3,480 flats delivered in 2007. Still, the total number of unsold new units in the market is 1,300.

As many projects were halted, Ober-Haus projects only 200 - 300 new flats will be delivered to the Tallinn market in 2010.

In conjunction with the rising number of bad loans, forced sales and developers’ bankruptcies there will be even more apartments for sale.

Recent Developments

To buy or rent these or other residential properties, call Ober-Haus on +372 66 59 700.

Pärnu Road 129C - new modern residential building with 60 apartments located near the city centre. The parking area is located on the basement floor and partly in the yard on the level of the ground floor. All of the apartments are fully fit-out and the parking place is already included in the price. Prices are €1,150 - €1,780 per sqm. The construction will be finished by summer 2010. The developer is well-known construction company Merko.

Rotermanni Quarter - unique city quarter development. The project lies in the centre of the Tallinn and has a close proximity with the passenger port. The development has been awarded
for its blend of the old industrial and the new modern architecture. The total volume of the project is about 71,000 sqm which includes residential, commercial, office and leisure premises. In the first stage, 148 apartments, 9,000 sqm of office and 5,000 sqm of commercial space was completed. The development of the second part will be started in 2010.

Vuti Street - located in Kristiine district next to the city centre project that comprises two smaller residential buildings with 50 apartments. The construction is in progress, the developer is Merko, no prices have been announced, the construction is to be finished by fall 2010.

Rootsiküla - successful terrace houses development near Tallinn. First two phases with 70 units in total are sold. Third phase with 30 units planned to near future. Developed by Besqab and sold by Ober-Haus.

Private Houses

In 2009 the number of sales transactions with private houses in Harjumaa and Tallinn decreased 18%, and total value of all homes sold fell 40%. The prices on the market of new residential districts located away from the town took the biggest tumble. Nowadays the potential buyers are starting to realize the value of location.

By the start of 2010 there were over 1,800 private houses on sale, though only 70 transactions on average take place every month. Most of the transactions are made in Tallinn and in residential areas with good approach located next to town at the price level of €57,520 - €115,000. The prices for modern private houses in good condition are between €102,260 - €160,000, for those under construction or in need of repair work - €51,130 - €96,000.

Land

Prices Crash 80% as Development Demand Dries up

Similar to 2008, land prices in 2009 continued their strong decline. The demand is very low and transactions are rare, as the market is flooded with offers of new and under construction houses and banks do not finance new real estate developments during the downturn period in economy. Most of the transactions with commercial land were made at the price level of €100 - €300 per sqm.

Due to the decreased apartment prices purchasers are not ready to pay for land with planning suitable for developing more than €300 per sqm. Most of the transactions in Tallinn and its neighbourhood are made at a price level of €19 - €51 per sqm. Only singular transactions in valuable areas such as Nõmme, Pirita and Kakumäe take place at the price over €60 per sqm. Compared to peak prices in 2007 the slump in prices reached 80% and depending on the area the liquidity might be absent at all.
Residential Real Estate Law

Introduction
After years of rapid growth in the real estate investment market, Estonia is experiencing slower demand and activity, starting from the end of 2007. Transaction volumes and transaction values have decreased significantly compared to peak levels. With more sellers than buyers on the residential property market, this has shifted bargaining power to buyers. The same applies to the residential lease market, where tenants have the advantage over landlords.

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

The Land Book is a public register and everyone with a legitimate interest may access registered information. The register is maintained electronically.

Purchase of Property
Main issues
Residential real estate may be acquired as a) apartment ownership (exclusive title to an apartment combined with title to an ideal share of the apartment building common areas and structures); b) land with residential buildings, c) residential land with building rights, d) an ideal part of any of the above, or e) a share in a building cooperative (uncommon). Upon buying an ideal part, a notarised co-owners use agreement should be established prior to or at the time of purchase to avoid disputes between co-owners.

Generally, transfer of a building or land separately from each other is not possible, unless the land is encumbered with a building title registered in the Land Book, in which case the building is an essential part of that building title and not of the land.

Change of ownership
Title to real estate is considered transferred on registration of ownership in the Land Register, not on signing the agreement. Ownership is usually registered within two to three weeks as of filing an application with the Land Book along with the signed and notarised agreement.

Agreement Form
Transfer of title to real estate requires a notarised sale agreement (setting the terms and conditions of sale) and a notarised real right agreement (agreement to transfer title), which are usually contained in one document. Pre-agreements made without notarisation do not create a legally binding obligation to buy or sell.

Language of Agreement
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.

Pre-emption Rights
Pre-emption rights may be created by contract or law. For example, a co-owner of real estate enjoys a statutory pre-emption right upon sale of a legal share of the real estate to third persons. Further, the state or local government enjoys a statutory pre-emption right upon 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-emption rights may be exercised within two months after receiving notification of a sale agreement. If the statutory pre-emption right is not registered in the land register then the right-holder cannot, upon breach of his rights, claim ownership over the property but can file a damages claim against the seller. This does not apply to a co-owner’s pre-emption right, which can be enforced by claiming title regardless of whether the pre-emption right is registered in the Land Book or not.

Purchase Price Payment
Most commonly the purchase price (or buyer’s equity) is transferred to a notary’s escrow account before concluding the sale and purchase agreement. The notary releases the purchase price (or buyer’s equity) to the seller after the agreement is signed and filed with the Land Book and no other applications are filed in the Land Book that would hinder transfer of title. The buyer’s bank often wishes to pay the seller after the agreement is signed.
The seller may request the buyer to pay a deposit of the purchase price to a broker’s or the seller’s account before the real estate purchase agreement is signed. In the current market, dominated by buyers, this arrangement is not very common.

Other Related Costs

Costs typically incurred in a real estate transaction: brokerage fees, real estate valuation, bank fees, legal fees for legal due diligence and reviewing the sale and security agreements, notary fees, and state duty, all usually paid by the buyer.

The notary charges a fee for verifying the transaction. Fees are stipulated by law. In sale transactions the fee for notarising the purchase agreement depends on the value of the transaction. For instance, the notary fee on sale of real estate for EUR 319,000 (EEK 5,000,000) is roughly EUR 973 (EEK 15,220) plus VAT.

Registration of ownership and encumbrances in the Land Book attracts state duty. The amount depends on transaction value and is laid down by law. For instance, state duty for registering a new owner of real estate at a purchase price of EUR 319,000 (EEK 5,000,000) is approx EUR 372 (EEK 5,800).

Restrictions

Restrictions on acquisition

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. Even though Estonia is a member of the EU, some restrictions on EU citizens and companies will exist until 1 May 2011.

Acquiring land consisting of ten or more hectares of field or forest is unrestricted only for:
• Estonian citizens.
• Citizens of a state contracting party to the EEA Agreement who have lived in Estonia for the past three financial years and are registered in an Estonian register as sole proprietor in agricultural production (EU Treaty, appendix 1).
• Estonian legal persons registered in the Estonian Commercial Register or in the Register of Non-profit Associations and Foundations register and a branch of a legal person of a state contracting party to the EEA Agreement registered in the Estonian Commercial Register and operating in Estonia for at least the past three financial years in agricultural production (EU Treaty, appendix 1).

Other persons may purchase and own such land but on limited grounds and on approval of the county governor. Transfer of land on smaller islands and certain border areas is only allowed to non-citizens or legal persons of states not contracting parties to the EEA agreement on permission of the Estonian Government.

Public restrictions

Public restrictions may apply to use of real estate: in coastal areas, heritage protection zones, protected zones of power lines, railways, roads, and other utility networks. Restrictions may mean that part of real estate may not be used for building or the owner has to avoid activity in protected zones, or that building or other activities require consent of the utility networks operator or the governing body (such as heritage protection authorities, local government). This is mostly relevant when purchasing empty land with the intention to build new or expand existing buildings.

Encumbrances

The following rights, which are entered in the Land Book, may encumber real estate: usufruct, servitudes, building title, preemptive rights, and mortgages. In general, these rights may be used in real estate transactions and are entered in the Land Book under notarised agreements to secure the interest of the buyer or the seller, third persons, or neighbouring real estate.

The Land Book may register notation of a lease agreement, which ensures that upon transfer of the real estate the new owner may not terminate the lease agreement within three months of acquiring the premises citing urgent personal need to use the premises.

Local government may also establish compulsory possession for utility owners’ utility lines, but this is not apparent from the Land Book.

Mortgage

Real estate purchase is often financed by a loan. Usually, a mortgage is established on real estate by a notarised agreement as security in favour of the bank financing the purchase. The mortgage agreement is concluded at the same time and in the same document as the sale agreement.

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

Real estate may be managed by the owner(s) or by a professional management company that provides technical support, accounting, and other related services.

In apartment buildings the owners may establish an apartment owners’ association for common management of the property. This is the most usual way to arrange management of apartment buildings. The association elects a management body which is responsible for concluding contracts with providers of utility services (such as electricity, water, sewage, heating) and maintain the building (for example, technical support, elevator maintenance, exterior and interior cleaning). Professional property management companies supply services that handle day-to-day maintenance of the building. The role of management is then to oversee that the management company acts prudently, and occasionally to resolve matters that cannot be effectively resolved at management company level (such as disputes with apartment owners over payments) or renegotiate service agreements (upon expiry or otherwise).

Residential Lease Agreements

General
The law protects the rights of the tenant and provides comprehensive mandatory regulation. If a residential lease contract with a term exceeding one year is not entered into in writing, the contract is taken to have been entered into for an unspecified term.

On transfer of real estate, lease agreements survive change of ownership. However, an owner who needs the premises urgently for own use may terminate a lease agreement within three months of acquisition.

Duration and expiry of lease agreement
Lease agreements may be either for fixed or unspecified terms. If the parties have not agreed otherwise, either party to a lease agreement for an unspecified term may terminate a lease by giving at least three months’ notice.

A fixed term lease agreement expires at the end of the term. Extraordinary termination is allowed for material breach of the agreement, whether for a fixed or unspecified term.

If the tenant continues to use leased premises after expiry of a lease agreement, the lease is taken to have become a lease agreement entered into for an unspecified term unless the owner or tenant expresses some other intention to the other party within two weeks of expiry of the lease agreement (applies to the tenant) and as of when the owner learns that the tenant is continuing to use the leased premises (applies to the owner).

Lease payment and accessory expenses (utilities)
Rent is usually paid once a month to the bank account of the landlord, although a weekly payment obligation may give the landlord a better legal position. The landlord is entitled to request a security deposit in an amount equal to a maximum of three months’ rent. This deposit must be retained separately from the landlord’s other assets and must bear interest (at the median market rate) to the benefit of the tenant.

Accessory expenses (utilities) such as electricity and water are considered included in the rent if not otherwise agreed in the lease agreement. Prevailing market practice is that the tenant pays for utilities and other cost items in addition to the rent against invoices from the landlord or service provider.

Termination and eviction
Upon termination the tenant has to vacate the premises. Normal wear and tear is allowed but not standardised. If the tenant fails to vacate the premises then the landlord is not entitled to charge penalties. The landlord may claim damages, which may typically equal unpaid rent. Eviction is only allowed by court order. This makes eviction proceedings long and expensive, thus creating an incentive to seek an amicable out-of-court settlement with defaulting tenants.

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.

Planning Requirements, Construction and Renovation of Residential Buildings

Planning
Local authorities are empowered to approve detailed plans. Detailed plans are established for city areas and some rural local authority 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. After completing a detailed project plan, public hearings and discussion take place. The whole process of approving a detailed plan may take from some six months to several years depending on the area and on the complexity of the project.

Construction and renovation
Building, renovating, and demolishing buildings, as well as
their subsequent use, requires a building permit and permit for use issued by the local government construction supervisory authority.

Construction work must be carried out in line with building design documentation and building norms. The building design should be drafted by a professional architect or engineer, and needs approval by the local supervisory authority. Building design documentation must comply with the detailed plan, if established, and must meet official building norms. The intended purpose of the building cannot differ from the intended purpose of the land plot (for example, it is not possible to build residential buildings on commercial land). 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 authority.

The local authority issues building permits based on building design and application; these documents must comply with the detailed plan or design criteria. Construction without a valid building permit is illegal. A building permit becomes invalid if construction works do not begin within two years of issue.

After completion of construction works, the local authority 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. A manufacturer’s guarantee for equipment incorporated in construction works cannot be shorter than six months.
Commercial Real Estate Law

Purchase of Real Estate

Letters of Intent and Heads of Terms
Such instruments as Letters of Intent and Heads of Terms are not as common in Estonia as in other countries. Always remember that any obligation to buy or sell property which may be outlined in the Letter of Intent or Heads of Terms is not legally binding unless the document is notarised. Other points, however, such as exclusivity or penalties for the withdrawal from the transaction are legally binding even if not notarised.

Title Transfer
Because most commercial properties held for investment purposes are held in single asset special purpose companies, the most common form of investment property sale is a sale of 100% of the shares of the property holding company - a share transaction. Most commercial properties held by end users tend to be sold as property - an asset transaction. Ober-Haus is able to structure sale-purchase contracts that fit either form. There are important differences between share transactions and asset transactions, but in nearly all respects Estonian law does not differ from other countries. The most important facts to keep in mind are as follows:

Asset Transactions
- Asset transactions incur notary and state duties. However, as the percentage fee cost decreases with the size of the transaction, on large transactions (€500,000 or more) these fees add up to less than 0.5% of the total cost.
- Asset transactions must be notarised, and therefore are nearly always in Estonian language.
- Asset transactions require registration in the Land Registry, and therefore can take from one week up to 30 days to be registered.
- Previously signed Letters of Intent and Heads of Terms are not binding unless notarised.
- Due diligence is limited to just researching the property, as it does not require research into the legal or financial background of a company as a share transaction would.
- Existing lease contracts remain valid after the transaction.

Share Transactions
- 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.
- Previously signed Letters of Intent and Heads of Terms are generally binding.
- Due diligence is more extensive, as it is not limited to just researching the property, but also requires research into the legal and financial background of the property holding company.

Due Diligence
Regardless of the form of acquisition, all buyers are advised to carry out thorough due diligence on the property to be purchased. Ober-Haus is able to perform complete due diligence for buyers, including checking title, third party rights, encumbrances, permits, approvals, planning, zoning, and through our subcontractors we perform due diligence on building structure and environmental issues.

Lease Agreements
Estonian commercial law allows wide freedom to both owners and tenants to contract their lease agreements as desired.

Leases may be either for a specified period of time, or unspecified (open-ended). In the case of an unspecified period, the notice period for termination should be specified in the lease agreement.

Renewal options may be included in the lease, which give the tenant the first right to renew for a specified period at the end of the lease’s original term. Generally leases can only be renewed once.

Break options were common in older leases, giving the tenant the right to break lease with as short 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 the past two years, we have noticed that break options have once again become a point commonly insisted on by tenants.

Service charges generally cover all costs, meaning commercial leases today in Estonia are typically triple net leases, with all the owner’s cost passed through to the tenant. However, some double-net leases remain in use, with the landlord bearing the cost of land tax and insurance. Again, the more tenant friendly double-net lease is more common today as the market shifted to a tenant’s market.

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

Rents are generally denominated in Estonian kroons (EEK) but with a clause adjusting the rent in case of any change in the EEK/EUR exchange rate, which effectively means rents are denominated in euros.

Rent increases are generally each year, and are generally set at Estonian CPI, or a fixed rate (such as 3% per year). Tenant incentives are generally given by the owner. In today’s tenant market, owners generally pay (or give a rent credit) for tenant fit out, as well as offer rent free periods for up to 5% of the lease value.

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

Purchase

VAT - The sale of any new building or apartment, a significantly renovated building, or a plot of land without a building is subject to 20% VAT. Supply of new buildings, the construction of which began before 1 May 2004, plots of land purchased before 1 May 2004, and used buildings are VAT exempt. A person may opt for adding VAT to the latter supply, unless it is a dwelling. In case of VAT exempt supply of immovable, the adjustment period for input VAT is ten calendar years.

Fees - There is no real estate transfer tax in Estonia. Real estate transfer brings along an obligation to pay a state duty, which depends on the value of the transaction (ca 0.2% - 0.4% of the transaction value). Notary fees are also due.

Rents

VAT - Although the rent of real estate is considered a VAT exempt supply, owners of commercial property have the option to charge VAT upon rent (the correspondent acknowledgement to the Tax and Customs Board is required). Nearly all owners choose to charge VAT on commercial rents, as owners want to recoup the VAT paid for development of the property. All residential property is rented without VAT – the option to tax may not be applied.

Income tax - The personal and corporate income tax rate is 21%. The specifics of the Estonian income tax system is in the fact that corporate profit is not taxed at the moment it is earned, but at the moment it is distributed in the form of a dividend, presents, donations and other non-business related payments. The tax rate is 21/79 on net distribution which equals to 21% of gross distributed profit. Non-resident companies which do not have a permanent establishment in Estonia are subject to 21% income tax received from the lease of immovable property located in Estonia. Permanent establishments of non-residents are taxed similarly to Estonian resident companies (only profit distributions are taxed).

Natural persons and sole proprietors pay income tax on rental income. Natural persons not registered as sole proprietors may not deduct any expenses from rental income for tax purposes - the total rental income is taxed at the flat rate of personal income tax (21%).

Registered sole proprietors may deduct documented business related costs, such as loan interest, repairs, commissions, etc, from their taxable income, and the net income is then taxed. However, sole proprietors must pay both social tax and income tax on their net rental income, as if it were salary.

An investor should calculate to see which system works best for him. For all practical purposes, investing through a resident company (which allows both the deduction of expenses and the indefinite deferral of tax) is usually the most tax efficient method.

Sale

Capital gains derived by resident companies on the sale of the real estate property are not taxable until distributed in the form of a dividend. Profit of resident companies is subject to tax when distributed (the tax rate is 21/79 on net distribution which equals to 21% of gross distributed profit). In case of non-resident companies or private persons, income tax is levied on the difference between the sales price and the acquisition cost. The acquisition cost includes all documented expenses a person makes in order to buy, improve or supplement property, including any commissions and fees. If property was acquired by way of finance lease, interest is excluded from the acquisition cost. Transfer costs are also deductible.

Real Estate Tax

There is no real estate tax in Estonia. However, there is a land tax for real estate located in Estonia. The tax rate varies between 0.1% and 2.5% of the taxable value of the real estate, which depends on its location and is determined by the local municipality (not to be confused with market value).
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 100 lawyers advising international and local organisations on all business law issues involving the Baltics and Belarus. SORAINEN is the first law firm in the Baltic States and Belarus where a quality management system has been implemented under ISO 9001 standards (certified by Lloyd’s Register Quality Assurance).

### NOTEWORTHY REAL ESTATE TRANSACTIONS

**www.sorainen.com**

SORAINEN is the Baltic Law Firm of the Year Awarded by:
- Financial Times & Mergermarket (2008)
- PLC Which lawyer? (2009)

<table>
<thead>
<tr>
<th><strong>Akropolis Group</strong></th>
<th>Advising on sale of Akropolis Kaunas shopping centre, the largest real estate transaction in the Baltics to date</th>
<th>Buyer’s Legal Adviser</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Baltic Property Trust Asset Management</strong></td>
<td>Regularly advising leading international real estate asset manager in all three Baltic States</td>
<td>Legal Adviser</td>
</tr>
<tr>
<td><strong>Catella Real Estate AG</strong></td>
<td>Advising on sale-leaseback of property of Magnum Logistics with an area of 11,750 m²</td>
<td>Buyer’s Legal Adviser</td>
</tr>
<tr>
<td><strong>Euro Estates</strong></td>
<td>Advising on acquisition of office building in centre of Minsk for reconstruction as modern office centre of some 16,500 m²</td>
<td>Legal Adviser</td>
</tr>
<tr>
<td><strong>Heitman</strong></td>
<td>Advising on acquisition of Dobrovoles Logisitics Terminal</td>
<td>Buyer’s Legal Adviser</td>
</tr>
<tr>
<td><strong>Helios</strong></td>
<td>Advising on setting up joint venture for real estate development project</td>
<td>EUR 250 million Legal Adviser</td>
</tr>
<tr>
<td><strong>Hesburger</strong></td>
<td>Expanding fast food restaurant business in the Baltics</td>
<td>Buyer’s and Lessee’s Legal Adviser</td>
</tr>
<tr>
<td><strong>IBERDROLA Engineering and Construction</strong></td>
<td>Advising on engineering procurement construction contract with Lietuvos Elektrinė for construction of combined cycle gas turbine power plant</td>
<td>EUR 300 million Legal Adviser</td>
</tr>
<tr>
<td><strong>Irish Forestry Fund</strong></td>
<td>Acquisition advice and full-scope legal due diligence on approx 200 forest and agricultural land plots in Estonia</td>
<td>Buyer’s Legal Adviser</td>
</tr>
<tr>
<td><strong>Raiffeisen Zentralbank Österreich</strong></td>
<td>Acquisition of real estate development project in central Riga with an area of some 13,500 m²</td>
<td>Legal Adviser</td>
</tr>
<tr>
<td><strong>Riga City Council</strong></td>
<td>PPP Northern Crossing project</td>
<td>(in cooperation with Lovells)</td>
</tr>
<tr>
<td><strong>SEB Group</strong></td>
<td>Advising on sale-leaseback of SEB Group real estate portfolio in the Baltics, the largest portfolio real estate transaction in the Baltics to date</td>
<td>EUR 200 million Legal Adviser</td>
</tr>
<tr>
<td><strong>Sodra Latvia</strong></td>
<td>Acquisition of more than one hundred forest land plots in Latvia</td>
<td>Buyer’s Legal Adviser</td>
</tr>
<tr>
<td><strong>Star PM</strong></td>
<td>Advising on acquisition of shopping centre in Bobruisk and commercial properties in Brest for development of trade and entertainment centres</td>
<td>Legal Adviser</td>
</tr>
<tr>
<td><strong>TK Development</strong></td>
<td>Sale of “Galerija Azur” one of Riga’s main shopping centres</td>
<td>Seller’s Legal Adviser</td>
</tr>
<tr>
<td><strong>Vicus</strong></td>
<td>Advising on purchase and development of site for hypermarket in Narva, Estonia</td>
<td>Buyer’s Legal Adviser</td>
</tr>
</tbody>
</table>

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Economy

GDP plummeted an astounding -18% in 2009, as the property boom of 2006-2007 turned to bust in 2008-2009. GDP will continue to fall -4% in 2010 before ticking up 2% in 2011, according to consensus estimates.

The terms of Latvia’s 7.5 billion euro bailout led by the International Monetary Fund (IMF) meant drastic cuts in government spending and higher taxes, further decreasing demand.

The economic crisis and austerity package slowed inflation from double digits down to 3.5% by the end of 2009, and most foresee price disinflation of -4% in 2010 and -3% in 2011.

Retail turnover dropped 26% in 2009, average gross salaries decreased 8% and unemployment jumped to 15% by year end.

Despite the economic crisis the Latvian lats (LVL) remains pegged to the euro at the rate of 0.7028 Latvian lats (LVL) to one euro (1 LVL = 1.4299 EUR).

Office

Planned Supply Suspended Until Better Times

Supply

Developers completed 62,000 sqm modern A and B class offices in 2009. That represents a 10% increase and total office stock reached 652,000 sqm by the end of 2009. Due to decreasing demand take up slowed compared to previous years. However the higher competitive advantage can be achieved only with better location or lower rent comparing with others. Therefore the most successful office buildings were able almost to fill their premises, for example the vacancy in Riga Industrial Park is only 10%.

Major developments last year included Europa Business Centre (15,400 sqm), Mukusala Business Centre (12,820 sqm), Riga Industrial Park (8,600 sqm) and Oiclass Offices Centre (8,220 sqm). Despite the large number of suspended projects, supply still far outpaced demand, driving the vacancy rate to 30%.

Banks stopped financing all speculative developments (unlike in the previous boom years). Today banks require pre-lets. This means that fully one-third of all projects in 2009 were halted, and that all suspended projects are likely to stay dormant throughout 2010.

Recent developments

For leasing opportunities in these or other properties, contact Ober-Haus on +371 6728 4544.

Europa Business Centre - a modern A class office building, developed by leading Lithuanian developer Hanner.
25% leased at the start of 2010.

**Ol class** * Offices Centre - a modern office building, developed by LIG Ltd, located on Duntes Street. The 8,220 sqm space was delivered at the start of 2009 for lease €9.00 per sqm. There are 140 parking spaces on the property. The building was 80% leased at the start of 2010.

![Ostas Skati, a modern A class office building, developed by Ostas Skati Ltd.](image)

**Ostas Skati** - 3rd stage with 1827 m² of a modern A class office building complex with total of 10,484 m², developed by Ostas Skati Ltd, located on Matrozu Street. The 3rd stage was delivered in the summer of 2009 for lease €8.00 per sqm. There are 140 parking spaces on the property. The office complex was 80% leased at the start of 2010.

**Riga Industrial Park** - a modern B class three storied office building with storage premises, developed by Riga Industrial park, located in Dzelzavas Street. The 8,600 sqm space was delivered at the start of 2009 for lease €8.00 per sqm. There are 250 parking spaces on the property. The building was 90% leased at the start of 2010.

**Demand**

Take up was 25,000 sqm in 2009, far less than new supply. Take up was good for modern offices in CBD areas with attractive rent, but poor for new offices located in unfavourable places.

The most active category of potentially new tenants includes companies which are looking for new premises as a reason to reduce costs and survive the crisis. Due to low rents in the office segment several successful companies change their offices to better locations and manage to get long term agreements.

Several companies are looking for opportunity to buy office buildings for their own purposes according to advantageous prices.

Large foreign companies are interested to choose Riga as a base for their shared service centres, because they can find here a cheaper labour force and also rents in Riga are more attractive.

**Rents**

Rents for A class offices plummeted 45% in 2009, to just €7.00 to €12.00 per sqm by year end. We expect that rents have reached the bottom. Typical service charges in A class buildings are €1.50 - 2.00 per sqm per month.

Rents for B class offices in Riga range from €5.00 to €8.00 per sqm, after dropping 40% in 2009. We expect that rents in the B class segment are also near to minimum, but may fall a further 15% as tenants take advantage of cheap A class space.

Rents are typical charged one month in advance. Tenants generally pay their own utilities, invoiced by the owner after use. Rents are typically tied to the euro but indexed to local inflation. Triple net leases are becoming more common, but are still not always used. Payment of rent and costs is typically secured by rent deposit or bank guarantee.

Generally property owners will pay for all tenant fitout.

**Retail**

**Despite Decreasing Rents Vacancies are Growing**

**Supply**

The only project brought to market was Riga Plaza that added 50,000 sqm to existing 769,000 sqm retail stock in 2009. We expect to see Galleria Patollo with 50,000 sqm total area and 36,000 sqm shopping area in first quarter of 2010. The decrease of total retail turnover forced to close a lot of small retail units in city centre and even affected some greater retail corporations mostly in other Latvian cities, for example Estonian supermarket chain Selver quit the Latvian market.

**Recent Developments**

For leasing opportunities in these or other properties, contact Ober-Haus on +371 6728 4544.

**Panorama Plaza** - a new multifunctional complex on Lielirbes Street was opened in summer 2008. Total rentable retail area of 2,500 sqm offers 28 trade outlets, including BoConcept, the first franchise salon of Danish-made design furniture and accessories in the Baltics; Montparnasse Paris, dress shop from Renato
Nucci; Prestige, dress shop from Karl Lagerfeld, as well as TreasureS, jewellery, bijouterie shop and other shops.

**Riga Plaza** - new Shopping and Entertainment Centre on Mukusalas Street developed by Latvian developer Diksna opened in Spring 2009. Total area of shopping centre is 67,000 sqm, rentable area is 50,000 sqm.

The facility contains over 140 stores, a supermarket, cinema complex, bowling, restaurants, cafes and a family entertainment site. The centre is located next to the busy Salu Bridge on the south bank of the River Daugava, three km from the city centre.

**New Projects**

For leasing opportunities in these or other properties, contact Ober-Haus on +371 6728 4544.

**Akropole** - Lithuanian developer Vilnaius Prekybas Group is to build one of the largest retail and entertainment centres in the Baltic States. Akropole will house the biggest variety of shops in the region and most entertainment in one place. The site, located two km northeast of the centre of Riga will account for more than 150,000 sqm of retail space after completing the first phase, including a Hyper-Maxima hypermarket. Total investment will reach 250 million EUR. The centre was planned to be finished in 2010, but now the project is suspended.

**Galleria Patollo** - Norwegian developer Balder Invest will build a 7-floor shopping centre Galeria with total area of 50,000 sqm, consisting of 220 stores. Galeria Patollo will be the biggest city centre retail complex in Riga, located in the prime shopping area of Riga on Dzirnavu Street, between Terbatas and Brivibas Streets. Galeria will create opportunities for shopping, recreation and entertainment activities. The centre is planned to be finished in 2010, although the launch of the project has been delayed many times. Total investment of the project will be 50 million EUR.

**Demand**

The most successful shopping centres are almost full. There is virtually no vacancy in centres such as Domina, Alfa, Spice and Galeria Centrs. In such prime shopping centres any problem tenant is replaced quickly. Medium size shopping centres, like Origo, Dole, Sky&More, Olympia have vacancy up to 20%. Also the newly opened Riga Plaza, less well established, has higher vacancy than established centres.

Vacancy rate is growing due to decreasing retail turnover. Companies are forced to evaluate their options and look for cheaper retail places or leave the market. New companies are coming in the market very slowly.

Historically demanded trade streets in Old Town and city centre have lost their attractiveness. Only strong brands can keep the retail spaces here. On the high streets of Riga city centre the vacancy rate started the year 2010 at 25%.

**Rents**

Rents decreased 50% in 2009 due to slowing retail business. In the city centre rents are €8 - €25 per sqm. In the prestigious Old Town retail space rents are €10 - €35 per sqm. In shopping centres rents start from €5 per sqm for large units (1000 sqm), €7 - €20 per sqm for medium units (150 - 300 sqm), €25 - €40 per sqm for small units (under 100 sqm). Anchor tenants, such as supermarkets, typically pay €5 to €6 EUR per sqm. Service charges for prime located, 100 sqm unit in major malls vary from €5 to €7 per sqm in end of 2009.

Rents are typically tied to the euro but indexed to local inflation. Generally owners still pay real estate taxes themselves, they are not charged on to tenants. Turnover leases are more common in Latvia than in the other Baltic States.

**Industrial**

**Half of New Space Vacant Due to Economic Weakness**

**Supply**

In 2009 developers brought only 4,000 sqm of new warehouse space to market. Several planned projects were suspended, including NCC’s large Kekava Logistics Park. The total modern space available in Riga and the immediate surroundings is now 478,000 sqm. Most is outside of the city on the main highways. Ober-Haus projects supply to grow only 11,000 sqm in 2010.

**Recent Developments**

For leasing opportunities in these or other properties, contact Ober-Haus on +371 6728 4544.

**DLW** - a new warehouse and office complex built in spring 2009 by developer DLW, located in Krustakalni, Kekava. The complex comprises of 4,000 sqm warehouse spaces and about 600 sqm offices. Rents are €4.00 per sqm for warehouses, and €7.50 per sqm for office premises.
New projects
For leasing opportunities in these or other properties, contact Ober-Haus on +371 6728 4544.

Wellman - Estonian developers announced they will add a second phase of 11,200 sqm in 2010 to their existing 12,193 sqm. Lease terms start from 5 years. The warehouse complex is located in Salaspils. Effective height of the building under the frames 9.5 m. Gas heating devices or water-air heaters heat the warehouse. Rents are €3.85 per sqm, and for office premises €7.50 per sqm.

Demand
Due to decline of retail turnover demand in the industrial segment experienced sharp decrease. Vacancy rates in modern industrial complexes averaged 55% at the start of 2010, a figure we expect to stay the same through the year.

Several companies are looking for opportunity to buy warehouses for their own purposes, mainly with total area 500 - 800 sqm.

Rents
Rents fell in 2009 due to decreasing demand. Warehouse rents inside the city limits vary from €2.50 - €4.00 per sqm, while in surrounding areas near the ring road modern warehouses rent for €2.00 to €3.50 per sqm.

Rents are tied to the euro but indexed to local inflation. Usually, the parties conclude triple net lease agreements where the tenant pays all maintenance costs.

Residential

Growing Transaction Volumes May Signal Bottom of the Market

Prices
Prices of newly developed apartments fell 35% in 2009 in the city centre and 45% in the suburbs. New apartments in the city centre and Old Town area sell for €1,300 to €3,500 per sqm. New apartments outside the city centre sell for €800 to €1,100. Generally new apartments in suburban areas are sold fit-out (with everything except kitchen).

Secondary market prices fell 48% in Soviet-era buildings, to €494 per sqm on average by the start of 2010, which was still a recover after touching lows of just €459 per sqm in Q3 of 2009. Volumes are growing, and it appears that the lowest prices were passed already in 2009.

Rents
Rents fell 40% due to the large number of units put out for rent - either newly build units or renovated older units. Most speculators who bought apartments to sell found they had to put them out for rent to make their monthly bank payments, increasing rental supply.

Typical monthly rent for a newly built, furnished, 70 sqm, 3-room flat in the city centre ranges from €400 to €480 per month.

The highest demand is for furnished two room apartments in good locations renting for up to €350 per month. The supply of such apartments dwindled by the start of 2010, leading to a firming of rents.

Residential leases are regulated by Latvian law more strictly than commercial leases. However, rents may be agreed upon freely.

Some developers offer flats for rent with the right to buy after 2 - 5 years.

Supply
In 2009 less than 1,800 apartments were completed in Riga, a significant drop from the 6,780 delivered two years earlier in 2007. Thousands of planned units were halted through lack of finance. In 2010, Ober-Haus projects that just 400 new apartments will be completed and delivered to market. Still, there remained an overhang in the market of over 2,000 unsold units at the start of 2010.

By the beginning of 2010, banks in Latvia already had over 5,000 mortgage loans that were behind on payments. Even if foreclosure actions start against all debtors, it is unlikely that this will significantly increase the supply of flats on the secondary market as all major banks have announced the creation of special companies that will warehouse foreclosed properties to sell when the market recovers, instead of increasing supply today and further dampening prices.

Recent Developments
To buy or rent these or other properties, contact Ober-Haus on +371 6728 4544.
**Purvciema Project** - located in the Purvciems, on Puces Street 41/45, developed by Hanner and Puces Birzs. This Project comprises of 4 multi-storey buildings, each of nine floors with totally 336 apartments, 236 underground parking spaces (€10,000 each) and 118 surface parking spaces (€4,000 each). Apartments range from 51-152 sqm, prices starting at €850 per sqm without fit-out. Project was finished in 2008. At the start of 2010 70% of apartments were sold. Number of sold apartments decreased comparing with previous year, because part of reservations were cancelled when buyers could not get a mortgage loan.

**Olive** - located in the city centre, on Jana Asara Street 9, developed by Olive. This project comprises of one seven floors building, with totally 48 apartments, 26 underground parking spaces (€15,000 each) and 6 surface parking spaces (€7,000 each). Apartments range from 40 to 140 sqm, prices starting at €1,300 per sqm for fully finished apartment. Project was finished in 2008, but only 21% of apartments were sold by the start of 2010.

**Ziedondarza Majas** - located in the city centre, on Caka Street 92/96, developed by Lithuanian developer Ammo. This project comprises of two buildings, each of 6 floors, totalling 105 apartments, 138 underground parking spaces (€10,000 each). Apartments range from 44 to 142 sqm, prices starting at €1,150 per sqm for a fully finished apartment. Project was finished in 2008. At start of 2010 85% of the apartments were sold.

**New Projects**

To buy or rent these or other properties, contact Ober-Haus on +371 6728 4544.

**NCC Houses** - located in the Mezciems on Bikernieku Street 160, developed by Scandinavian NCC Konstrukcija and NCC Housing. This project will comprise of 8 five-storey and 10 four-storey buildings with 322 apartments in an area of 3.5 hectares. Four buildings with 76 apartments were completed in 2009, and another three buildings, with 48 apartments, are now being completed. There are 239 underground parking spaces (€4,000 to €6,000 each) and 8 surface parking spaces (€3,000 each). Apartments range from 47 to 80 sqm, prices starting at €896 per sqm for a fully finished apartment. Four buildings were finished in 2009, in which 54% of the apartments were sold by the start of 2010.
Jauna Teika - located in the Teika on Ropažu Street 12, developed by Lithuanian developer Hanner. This project comprises of two multi-storey buildings, each of 10 floors totalling 123 apartments, 105 underground parking spaces (£10,000 each) and 18 surface parking spaces. Apartments range from 46 to 123 sqm, prices starting at €950 per sqm without final fit-out. The project was finished in 2009. By the start of 2010, 15% of the units were sold.

Demand
According to the land registry, only 318 new flats were officially purchased in 2009, although many were contracted for. Ober-Haus estimates that at least 600 to 800 new units will be sold in 2010, a greater number than the new supply put on the market. As usual the key factors to successful projects are good location, high quality standards and finishing, and a good amount of pre-sales (at least 30%) so there are plenty of already inhabited apartments.

The highest demand is for two and three room newly built apartments (45 to 75 sqm) in suburban areas with full finishing and a price not higher than €70,000.

The Mortgage Market
Average mortgage rates at the end of 2009 were 5.5% for loans in euros, making an average margin of 4.5% over euribor. The maximum loan term is 40 years. Clients can borrow up to 80% of a property’s value for new projects, or up to 75% of value for Soviet-era apartments.

Outstanding mortgage loans in Latvia total 60% of annual GDP. The mortgage market slowed down by the economic recession, decreasing real estate's prices and credit politics of banks.

Land
Halt in Developments Sharply Reduces Land Prices
Supply
Owners without bank debt prefer not to sell, hoping prices will recover. Speculators with monthly interest to pay off and no cashflow are finding themselves forced to sell in a poor market. Usually the offered land plots are with projects and often with existing buildings, buildings are in bad shape and planned to take down by the project. Usually these projects were based on economic and real estate market conditions before crisis, and have no viability today.

Prices
Prices of land fell 30% on average in Riga in 2009, after falling 60% in 2008. Still land prices in the city centre range from €400 to €1,500 per sqm of land plot, or roughly €200 to €400 per buildable sqm of final building space.

In suburban areas the price of land is roughly €50 to €100 per buildable sqm of final building space.

Demand
Developers today are not buying any land plots for new projects, but largely work on their existing land banks - if they work at all. An enormous amount of uncompleted projects suspended by developers can be seen around Riga.

There is good demand from private buyers for single home plots up to 30,000 EUR per plot or exclusive land plots located near waters like river Daugava or Lake Baltezers with total area up to 5,000 sqm. The most important factors are good accessibility, good location and communications.

News
There were not relevant changes in master plan of Riga.

It is possible to change the allowed use for land plot in several cases, but the procedure is time consuming and complex.

Building owners can use their pre-emption rights of land below that belongs to state or municipality. But often the privatization value exceeds the market value and the best way is to take the land on lease.
Residential Real Estate Law

Introduction

After years of rapid growth in the real estate market, Latvia has been experiencing a significant slowdown, starting from the end of 2007. Little buying or development activity was observed in 2009 or is predicted in 2010. Problems are being experienced in all sectors of the real estate market including residential property.

Title to an Apartment, Land Book

Title to real estate is transferable subject to registration with the Land Book.

Two main types of apartment ownership are commonly in use in Latvia.

Firstly, residential buildings may be co-owned by several co-owners, who from the legal point of view are also co-owners of all the apartments (that is, they own notional parts of each apartment) (“joint ownership”).

Co-owners, in order to divide apartment buildings among themselves in practice, conclude an agreement on use of the residential building. This specifies the apartment(s) to be used by each particular co-owner and shared use of common areas. The agreement on use of the building should be registered with the Land Book to ensure that in case of change of one apartment owner the agreed use of the building will remain in force.

Because in joint ownership each change or construction relating to each apartment must be coordinated with all other co-owners, this type of ownership (notional parts) is more suitable for properties with a small number of co-owners.

The second type of apartment ownership is known as “apartment properties” when a residential building is divided into separate apartments, where each owner of a separate apartment co-owns respective notional parts of the residential building in common use (for example, roof, staircase, external walls, communications, lifts, land) and usually including land beneath the building.

Irrespective of the type of ownership (joint ownership or apartment properties), residential buildings are also registered with the Land Book. Apartment properties are registered with the Land Book separately in addition to the residential building itself.

In general, buildings are considered to form part of the land beneath them. However, as a result of land reform and in lease relations, a land plot and the building situated on it may belong to different owners and form separate properties.

Some apartments are not registered with the Land Book. For example, privatised apartments and land plots restored to their previous owners might be registered only with the Cadastral Register. Privatisation of an apartment is completed after it is registered with the Land Book.

The Land Book stores information regarding the legal status of an apartment and residential building depending on the structure of ownership, including encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations.

The Land Book is a public register; the information it contains is publicly available and binding on third persons. The Land Book database is also available electronically for a fee.

Purchase of an Apartment

Change of Ownership

Each transaction with real estate and registration of ownership rights with the Land Book involves a number of formalities. These have to be completed or resolved before title transfer. For instance, any real estate tax debt on a particular property, including a residential building, 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.

Agreement Form

An agreement on transfer of title of residential property requires written form, as well as registration with the Land Book. The purchase agreement need not be notarised.

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

In addition to the purchase agreement and registration application, other documents have to be prepared and filed with the Land Book (for example, inventory file of the apartment if not already filed with the Land Book).

Language of Agreement

Latvian law does not specifically require use of only the official state language (Latvian) in agreements on acquisition of
residential property. Parties may choose the language of the agreement themselves. However, the Land Book must have at least a translation of the purchase agreement in the Latvian language and one copy of the original agreement.

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

**Rights of First Refusal**
Generally local authorities enjoy rights of first refusal in respect of acquisition of real estate (land and buildings) located within their territory. However, with respect to acquisition of apartment properties and properties with other co-owners, local authorities do not enjoy rights of first refusal.

Additionally, co-owners of a residential building enjoy rights of first refusal with respect to the notional part (legal share) of the property being sold.

Rights of first refusal are exercised within two months after the purchase agreement is delivered to the persons entitled to such rights.

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

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

**Purchase Price Payment**
Normally, the parties agree to use an escrow account with a bank. During registration of title, neither the seller nor the purchaser has access to the funds deposited in the escrow account. Generally, the parties agree on release of these funds only after registration of the purchaser’s title with the Land Book.

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

State duty amounts to 2% of either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. Nevertheless, state duty may not exceed approx EUR 44,843 (LVL 30,000). Stamp duty for registration and issue of a Land Book certificate is currently approx EUR 15 (LVL 9).

Preparing and attesting signatures for the Land Book application costs approx EUR 92 (LVL 65).

**Restrictions**

**Restrictions on acquisition of residential property**
Generally no restrictions are imposed on foreigners for acquisition of residential property.

Acquisition of land (forming part of residential property) in cities without restrictions is possible for individuals from Latvia and EU countries as well as for companies if more than half of the company share capital is owned by Latvian citizens or citizens of other EU countries or if more than 50% of the company share capital is owned by foreign natural persons or undertakings and Latvia and the relevant foreign country have concluded agreements on mutual promotion and protection of investments (Latvia has signed such agreements with most European countries, Canada, and the USA).

A potential foreign purchaser that fails to fulfil the criteria listed above must apply for permission from the local authority, which enjoys discretion to accept or reject the application. Although these restrictions are generally applied to acquisition of land, in practice permission from the local authority is sometimes required in cases of apartment acquisition.

**Mortgage**
Purchase of an apartment may be financed by bank loans. Banks usually require security in the form of a mortgage.

In order to register a mortgage on a property, a mortgage agreement should first be concluded. An application to register the mortgage with the Land Book must be signed in the presence of a notary public. The Land Book registers the mortgage within 10 days of filing the necessary documentation. Typically, a prohibition note is registered in the Land Book together with the mortgage. While the prohibition note is registered in the Land Book, transactions with the apartment require consent of the bank.

**Property Management**
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 Manage-
ment 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.

In residential buildings consisting of apartment properties, decisions on managing the common parts (shared areas) of a residential building are adopted by general meeting of the apartment owners. The decision of the general meeting is binding on all apartment owners, if more than half of the owners have voted for the decision. Apartment owners may establish an apartment owners’ association.

If a residential building is in joint ownership, consent of all co-owners is required for all activity involving the property, either as a whole or in part. Therefore, in joint ownership buildings all decisions with respect to management and maintenance of the building as well as planned construction in separate apartments must be coordinated with all co-owners.

Tenancy Agreements

Main issues
General terms for lease and tenancy agreements are laid down in the Law on Apartment Leases and the Civil Law. The content of a tenancy agreement is subject to agreement between the parties. Furthermore, the Law on Apartment Leases protects the rights of tenants more strictly.

Tenancy agreements of apartments are binding on new apartment owners, even if not registered with the Land Book.

Agreement form
Tenancy agreements should be in written form. However, if informal (unwritten, factual) tenancy relations exist between the parties, for example where tenants use apartments and in return pay the owner a certain rental payment, then lack of a written form tenancy agreement is not a sufficient reason to terminate the tenancy relationship.

In that case both parties are entitled to require the other party to express the tenancy relationship in written form, that is, to sign a written tenancy agreement.

Term 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 definite or indefinite term.

As for termination, the tenant may, if not agreed otherwise, terminate the agreement by notifying the owner in writing one month in advance. However, unilateral termination by the owner of a residential tenancy agreement is more limited. Termination is permitted only in cases explicitly stated in the 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 is necessary. However, in that case the owner must provide the tenant(s) with equivalent residential premises.

Lease payment and accessory expenses (utilities)
Latvian law defines no specific procedure regarding payment of deposits, or a procedure for paying rent.

Accessory expenses are payments for maintenance and utilities, such as water, gas, electricity, heating. The tenant usually pays these in addition to rent.

In practice, a security deposit in the amount of one to two months rent is often required by the owner. The owner uses the security deposit if the tenant is in breach of the agreement, for example, fails to pay the rent. If the security deposit is not used due to breach of agreement, it is applied to the rental payment for the last months of the tenancy term or returned to the tenant after expiry of the tenancy agreement.
Commercial Real Estate Law

Purchase of Real Estate

Letters of Intent and Heads of Terms
Such instruments as Letters of Intent and Heads of Terms are not as common in Latvia as in other countries. Always remember that any obligation to buy or sell property which may be outlined in the Letter of Intent or Heads of Terms is not legally binding unless the document is notarised. Other points, however, such as exclusivity or penalties for the withdrawal from the transaction are legally binding even if not notarised.

Title Transfer
Because most commercial properties held for investment purposes are held in single asset special purpose companies, the most common form of investment property sale is a sale of 100% of the shares of the property holding company - a share transaction. Most commercial properties held by end users tend to be sold as property - an asset transaction. Ober-Haus is able to structure sale-purchase contracts that fit either form. There are important differences between share transactions and asset transactions, but in nearly all respects Latvian law does not differ from other countries. The most important facts to keep in mind are as follows:

Asset Transactions
- Asset transactions incur notary and state duties. However, as state duties are capped at LVL 30,000 (€42,686) on large transactions these fees are not a large share of total costs.
- Asset transactions must be notarised, which means they must be in Latvian language.
- Asset transactions require registration in the Land Registry, and therefore can take from one week up to 30 days to be registered.
- Previously signed Letters of Intent and Heads of Terms are not binding unless notarised.
- Due diligence is limited to just researching the property, as it does not require research into the legal or financial background of a company as a share transaction would.
- Existing lease contracts remain valid after the transaction.

Share Transactions
- A share transaction can be made instantaneously, and does not require the same lengthy process of title that an asset sale requires.
- No state duties apply, and no notary fees apply.
- Previously signed Letters of Intent and Heads of Terms are generally binding.
- Due diligence is more extensive, as it is not limited to just researching the property, but also requires research into the legal and financial background of the property holding company.
- In nearly all cases property holding companies will have no employees. If a company has employees, then due diligence must cover employment issues as well.
- Generally buyers require sellers to represent and warrant that the claims made about the property holding company at the time of the share transaction were all accurate. Penalties for making false representations should be large enough to cover any damages which may be borne by the buyer due to false representations about the company being sold.
- Buyers should be aware of deferred tax issues, and should make sure that all previous tax debts of the property holding company have been paid.

Due Diligence
Regardless of the form of acquisition, all buyers are advised to carry out thorough due diligence on the property to be purchased. Ober-Haus is able to perform complete due diligence for buyers, including checking title, third party rights, encumbrances, permits, approvals, planning, zoning, and through our subcontractors we perform due diligence on building structure and environmental issues.

Lease Agreements
Latvian commercial law allows wide freedom to both owners and tenants to contract their lease agreements as desired.

Leases may be either for a specified period of time, or unspecified (open-ended). In the case of an unspecified period, the notice period for termination should be specified in the lease agreement.

Renewal options may be included in the lease, which give the tenant the first right to renew for a specified period at the end of the lease’s original term.

Break options were common in older leases, giving the tenant the right to break lease with as short 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 the past two years, we have noticed that break options have once again become a point commonly insisted on by tenants.

Service charges generally cover all costs, meaning commercial leases today in Latvia are typically triple net leases, with all the
owner’s cost passed through to the tenant. However, some double-net leases remain in use, with the landlord bearing the cost of land tax and insurance. Again, the more tenant friendly double-net lease is more common today as the market shifted to a tenant’s market.

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

Rents in investment grade properties are generally denominated in euros (EUR).

Rent increases are generally each year, and are generally set at Latvian CPI, or a fixed rate (such as 3% per year). As Latvian CPI varies wildly, we recommend that tenants negotiate a cap.

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

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

Purchase

VAT - The purchase of any new building or apartment is subject to 21% VAT. The purchase of used real estate is not subject to VAT. The purchase of a renovated building, within one year after renovation, is subject to 21% VAT on the difference between the purchase price of the building and the value of the building before renovation.

The sale of building land is subject to standard 21% VAT. With the building land should be understood the land on which can be carried out construction work and if construction permission for respective construction work has been received after December 31, 2009.

In order for a corporate buyer to deduct the VAT on the purchase, construction or renovation of a building, the buyer must prove that the building will be used for VAT taxable transactions during the following 10 years.

Stamp duty - When purchasing property, the buyer pays a stamp duty of 2% of the transaction value. The maximum stamp duty is €43,000 (30,000 LVL). Stamp duty also applies to real estate contributed as an investment.

Broker fees - The broker’s fee is typically 3% of transaction value.

Rents

VAT - Property leased to a private person is exempt from VAT. Otherwise all property rentals are subject to 21% VAT.

Corporate Income Tax - Rents collected by companies is subject to the standard 15% corporate income tax rate. The taxable income of a company may be reduced by the real estate tax paid, as well as by depreciation and all other expenses directly related to the generation of taxable income. Regarding deductibility of interest the special thin capitalization regulations apply. Buildings, constructions and long-term plantations used for business purposes can be depreciated at 10% annual rate. Land is not subject to depreciation.

Personal Income Tax - Rents collected by individuals will be taxed at the personal income tax rate of 26%. To apply cost deduction and calculate 26% tax rate on the profit the individual has to register their business activity with the local Tax Authority.

Sale

Corporate Income Tax - Companies pay standard corporate income tax at the current rate of 15% on capital gain from sale of real estate. The capital gain is calculated as the difference between the acquisition value or the value at the moment of development of the real estate, and the sales value.

Residents must withhold tax at 2% from the payments to non-residents for sale of real estate. After amendments to the Corporate Income Tax Act, which are applicable since 12 June 2007, residents must also withhold tax at 2% from the payments to non-residents for sales price of the shares of a real estate company.

The term “real estate company” refers to any entity whose assets consist for at least 50% either directly or indirectly (e.g. through one or several Latvian or foreign entities) of real estate situated in Latvia. The 50% is based on the book value of the assets at the beginning of the year. When the real estate was sold during the preceding tax year and the result on the sale was booked, the reference is the asset value at the date when the real estate was sold.

Personal Income Tax - Private persons pay the 26% personal income tax rate on capital gains from the sale of real estate. Capital gains are tax-free only if the real estate belonged to the seller for a period more than 60 months and was registered address of the person for 12 months.

Real Estate Tax

Owners of land, buildings and constructions are subject to real estate tax. Starting from January 1, 2010 the general real estate tax rate is 1.5% of the cadastral value and 3% of the cadastral value for uncultivated agricultural land. Cadastral value is set by the State Land Department and is adjusted annually.

Starting from January 1, 2010 real estate tax applies also to residential buildings:
- with the cadastral value up to 40,000 LVL at 0.1% tax rate,
- with the cadastral value 40,000 - 75,000 LVL at 0.2% tax rate,
- with the cadastral value over 75,000 LVL at 0.3% tax rate.
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Continued Weakness in 2010

Economy

GDP plummeted -15% in 2009, as all three Baltic States faced their most severe recession in twenty years. The consensus forecast is for 1% GDP growth in 2010.

Consumer price inflation fell to just 1% year-on-year for all of 2009, after peaking at 8% the previous year. Forecasts are for CPI growth of 1% in 2010.

Meanwhile, wages slumped 7%, to average 620 EUR per month, as both the public and private sectors cut costs. Salaries are expected to soften another 5% in 2010, and pick up in 2011.

Unemployment jumped to 14% at the end of 2009, from 8% at the end of 2008. Analysts project unemployment to hit 16% in 2010, before seeing any improvement.

Total retail turnover fell 28% in 2009, while the sale of motor vehicles plunged 46%. As usual, the least affected were sales of food, alcohol, clothes, textile, medicine, cosmetics products, which dropped only 18% in 2009.

With the collapse of the building boom in Lithuania, construction costs have dropped considerably (salaries, materials, and products). As of December 2009, construction costs decreased 12.6% compared to the previous year.

By the end of 2009, direct foreign investment totalled €9.9 bln (0.7% higher than a year ago), which is €2,971 per capita.

The Lithuanian currency, the litas (LTL), remains pegged to the euro at a rate of 3.4528 litas to one euro. The adoption of the euro is a key economic goal for Lithuania, but it is unlikely to be achieved before 2013, at the earliest. In the meantime, the exchange rate remains fixed through a currency board system.

Office

Office Rents are at the Bottom

Supply

Developers completed 64,500 sqm of new office space in 2009, as many projects started in earlier years reach completion. At the end of 2009 the total area of modern office premises (A and B class) stood at 426,700 sqm gross lettable area (GLA). A class office space constitutes 42% of the total modern office premises in Vilnius.

The end of 2009 saw delivery of two new A class office buildings in Vilnius, the Green Hall Business Centre, and Swedbank’s new Lithuanian headquarters, totalling 30,000 sqm. The remaining new constructions were B class projects.

A considerable portion of the projects that were planned and in progress have been suspended and it is likely that they will not resume in the near future. The supply of modern office premises has more than doubled over the past three years, whereas demand has declined. As a result, it is likely that only a few projects will be completed in 2010 with a total lettable area of no more than 25,000 sqm.

The days of speculative office development has ended in Lithuania. New office buildings in the future will be built only after significant pre-leases, making sure that a large part of the building, if not all of it, is leased in advance.

Recent Developments

To lease space in these or other properties, call Ober-Haus on +370 5210 9700.

Roziu Avenue - in 2007 local company Veikme has completed a small A class project in city centre on Roziu Aveniu and Kalin-ausko Street crossroad. After renovation this project has about 1,600 sqm of office space with inner yard in very calm and respectable place. All project is leased for €11.30 per sqm.
Vilnius Business Harbour - in 2008 local company Nekilno-jamojo Turto Gama completed construction of a class business centre in Livo Street in the new centre of Vilnius. The project is the largest office complex in Lithuania with an area of 62,000 sqm, of which over 30,000 sqm constitutes lettable area. The 24-storey and 17-storey towers and the 6-storey additional building already host well-known local and international companies such as Aviva, Nokia, Puma, LG, Verdispar, PST, City Service, Lindorff, DnB Nord, Euroapotheca, Vetruna, Raidla Lejins & Norcous, the Vilnius branch of the State Enterprise Centre of Registers and others. At the start of 2010, 80% of the premises had been leased. Office space asking rents are up to €13.00 per sqm.

Sunrise Valley - was formally incorporated as a public company. In 2008 first building of Science and Technology Park was opened for hi-tech companies including incubator for spin-offs. This 9-storey building with total area of 6,300 sqm offers office space for €6.00 - €7.80 per sqm.

Evolution - completed a B class business centre in Ukmerges Street in the Seskine district. The project is a 10-storey office building with a total area of over 6,000 sqm and underground and outdoor parking lots. Office premises are offered for rent at €7.50 to €8.50 per sqm.

Trio Business Centre - at the end of 2008, Ranga IV completed construction of a three-building office premises complex in the Pasilialiciai district, near Ukmerges Street. The 9-storey building with a total area of over 12,000 sqm already houses local and foreign capital companies such as Swedbank, Ranga Group, General Financing, Pieno Zvaigzdes, and Vilniaus Duona (Vaasan & Vaasan Group). Remaining premises are offered for rent starting from €7.20 per sqm.

North Star - in Q2 of 2009 Lithuanian developer MG Valda completed the construction of an office building in Ulonu Street just north of the CBD. The building consists of two blocks (5 storey and 7 storey) totalling 10,000 sqm, with 370 parking places. Despite a complicated situation in the office market, this building is fully leased by tenants such as the Vilnius Branch of the State Tax Inspectorate, Avon Cosmetics, Seesam, Exigen Services, and Alma Littera.

Green Hall - the SBA Concern completed a “green” A class office project on the right bank of the Neris River in Upes Street. The project comprises a 12-storey business centre with 10,000 sqm of lettable area, which was designed by the Danish architectural company PLH Arkitekter and which stands out by its environmentally-friendly solutions such as a double-glass façade to reduce heating and air-conditioning costs, and the use of solar energy. At the moment this building hosts only one company - VRP | Hill & Knowlton, but major space is being fitted for British bank Barclays IT service centre. Space is offered from €11.50 per sqm.

Swedbank HQ - Swedbank’s Lithuanian headquarters building was opened in the end of 2009 on the right bank of the Neris River, on Konstitucijos Avenue. The project comprises 14-storey and 16-storey interconnected buildings with an underground parking lot. The total area of the buildings is approximately 24,000 sqm, and over 19,000 sqm are for a 600-place parking lot. The building is used entirely by Swedbank.

New Projects
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Beta - local company Realco, is finishing construction of 21,600 sqm of new office buildings in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark. The 10-storey “Beta” building will bring another 20,000 sqm of lettable area in second half of 2010. Rents start at €8.70 per sqm.

Evita - MEI Baltija is finishing 10 and 11 storey mixed use (resi-
Dental and commercial towers in the city centre on Savanoriu Avenue. The complex will include over 2,500 sqm of modern office space, which is offered for sale or rent. The project will be delivered in Q2 of 2010.

Demand

The demand for office premises declined further in 2009. Vacancy rate of modern office space (A and B class) jumped in 2009 to 18% from 10% previously, and the total area of office space available for rent increased to 75,500 sqm. The vacancy rate for A class office space is 15%, while for B class it hit 19%.

While the vacancy rate grew quickly in 2009, it changed little in the 4Q of 2009, and Ober-Haus projects that the stabilising economy in 2010, and lack of new supply, will lead to improved office occupation rates.

Rents

A class office rents dove 38% in 2009, to €9.30 to €12.20 per sqm, a range significantly less than the 2007 high of €20.00 per sqm.

B class rent fell further, slumping 42% to just €5.80 to €8.10 per sqm.

Rents for modern office premises are now the lowest in Lithuanian history, that is since modern offices started being developed in 1998.

Maintenance and public utilities cost tenants an additional €1.50 to €3.00 per sqm, on average.

It is very likely that rents may rise slightly in 2010, as more space is taken up. Consequently now is a good time for companies to lease office premises to lock in record low rents.

Tenants generally pay their own utilities, invoiced by the owner after use. Rents are typically tied to the euro but indexed to local inflation. Triple net leases are becoming more common, but are still not always used. Payment of rent and costs is typically secured by rent deposit or bank guarantee.

Generally property owners will pay for all tenant fitout.

Investment

No major transactions were registered in Vilnius and other major cities in 2009. The gap between what buyers expect and what sellers will accept is still too large.

Buyers, especially foreigners, expect yields over 10%, as they want a 100 to 200 basis points premium for the risk they take investing in an illiquid, peripheral, non-euro-zone country. Owners, on the other hand, have no incentive to sell at these high yields (ie low prices) because firstly the interest rate on the loans are very low, generally around 4 - 6%, so holding the properties generates cashflow. Secondly, in many cases the loan level exceeds the offered purchase price, therefore a sale would only cost the seller negative cashflow.

By the start of 2010, foreign investors were already recognising the fact that commercial rents are very low, meaning many properties are under rented, that the economy is starting to recover, and that the risk of devaluation has passed.

It is expected that in 2010 there will be such transactions and also that the investment yields will be no higher than 10% because the majority of market indicators have already reached the bottom and financing conditions for transactions should become more favourable.

Compared to the peak time (mid 2008), sales prices for office premises also dropped 40 - 60%, but even the much lower sales prices of today are of interest only to financially strong buyers independent of bank financing.

Retail

High Streets Losing in Competition with Shopping Centres

Supply

Despite the economic crisis, two large shopping centres opened in Vilnius in 2009. The Ozas shopping and entertainment centre, which is the second largest in Vilnius with a shop-
ping area of 62,000 sqm and the shopping centre of the Norfa retail chain - N Baze with a total area of 18,000 sqm.

At the end of 2009, there were 22 shopping centres in Vilnius (counting those over 5,000 sqm GLA and with over 10 tenants) with a total leasable area of 410,000 sqm. Currently Vilnius has 0.73 sqm of shopping area per capita. Retail space is lower in other cities of Lithuania, although Siauliai, with its lower population, has 0.96 sqm per capita.

Retail area in shopping centres in Vilnius has tripled over the past six years. That development run is now at an end, however, and there are no new projects opening in 2010, and only a few smaller projects planned for the year ahead.

Recent Developments

To lease space in these or other properties, call Ober-Haus on +370 5210 9700.

Ozas - the second largest shopping and entertainment centre in Vilnius, located next to Siemens Arena and Vichy Aqua Park, was opened in August of 2009. This 3-storey building with a leasable area of 62,000 sqm has 180 tenants and 2,500 parking places near and inside the building. The German company ECE Projektmanagement invested €170 million building the centre. Even though only 60-70% of the shops were in operation on the opening day of the centre, at the end of the year 90% of the space was let and operating. Ozas was the first Lithuanian location for the Finnish hypermarket chain Prisma, which opened with 10,000 sqm of retail space. Currently, Ozas offers new brands previously unavailable in other Vilnius shopping centres; these include such well known brands as Peek&Cloppenburg, Timberland, Deichmann, Pizza Hut, KFC and others. In the first half of 2010, the company Multikino, manager of a cinema chain in Poland, is planning to open a 7-screen multiplex in the shopping centre.

N Baze - in 2009 retail chain Norfa has opened new shopping centre in Savanoriu Avenue. This shopping centre has 18,000 sqm of total area with a Norfa supermarket as the anchor (9,000 sqm).

New Projects

To lease space in these or other properties, call Ober-Haus on +370 5210 9700.

Parkas - further development of the outlet shopping centre located in Ogmios retail park in Siaures Miestelis area (Zirmunai district). At the beginning of 2010, an additional 5,300 sqm of shopping area will be completed. After reconstruction, this will be the largest outlet shopping centre in Vilnius with a total area of around 16,500 sqm. At the moment, the centre sells products of a variety of brands, some of them well known (Adidas, Puma, and Reebok). It is planned that after reconstruction, it will also include such brands as Nike, Triumph, and others. Main retailer is Norfa.

Olinda - finnish real estate development and investment company Vicus plans to construct this shopping centre with a leasable area of 22,000 sqm in the Pasilaiciai district. This two-storey shopping centre will offer 70 shops and catering places ranging from daily goods to international well-known fashion brands. Main retailer will be the Finnish hypermarket retailer Prisma, which will occupy 10,000 sqm. Completion of construction works is planned no earlier than 2011.

Demand

Due to rapidly falling retail turnover and further increase of new supply in 2009, vacancy rate of shopping centres rose from 2.5% in the end of 2008 to 5.7% in the end of 2009.

The relatively low vacancy rate of shopping centres as compared to offices can be explained by the fact that the managers of shopping centres cannot afford to have a large amount of free premises because the more unoccupied premises in a shopping centre, the less attractive it is; the flow of shoppers drops, and that has a negative impact on the lessees remaining in the shopping centre. Many shopping centres therefore opt for impressive discount schemes (or even a rent-free period) for some of the tenants in order to retain as many premises in operation as possible.

The main high streets of Vilnius are losing out to competition from shopping centres. The number of vacant premises on high streets (Pilies Street, Didzioji Street, and Gedimino Avenue) that were fully let a few years ago is increasing. For instance, the section of Gedimino Avenue between Lukiskiu Square and the Par-

*Ozas is the second largest shopping and entertainment centre in Vilnius, opened in August of 2009.*
The parliament building is not attracting shoppers and currently there are a lot of vacant premises.

The decline in shoppers is not only confined to single shops, but also to shopping centres located in upmarket locations, such as the intersection of Gedimino Avenue and Vilniaus Street. Here high street shopping centres such as Flagman, City, and Gedimino 9 averaged more than 20% vacancy at the start of 2010.

**Rents**

2009 saw very active negotiations between the owners of retail premises and their tenants regarding a reduction in rents or even termination of agreements. Even previously reduced rents have not saved a majority of the tenants of retail premises since the indicators of their activities have got worse and worse. Owners of individual retail premises and shopping centres are in a complicated situation since significantly decreasing rents markedly change cash flows planned in advance.

While rents in the best shopping centres saw 10 - 20% decrease in 2009, the rents in second tier retail centres or main retail streets were down 40-60% in 2009.

Rents for a medium sized (150 - 300 sqm) unit in a major retail centre running from €10.00 to €24.00 per sqm. Rents for anchor tenants at €6.00 - €12.00 per sqm.

Rents on the high street (such as Gedimino Avenue or old town streets) now are from €12 to €30 per sqm.

Leases are generally for three to five years. Triple net leases are not universally used, with double net leases are more common, where the owner pays real estate taxes.

Generally the tenant is responsible for finishing the premises.

**Investment**

No major transactions were registered in Vilnius and other major cities in 2009. The gap between what buyers expect and what sellers will accept is still too large.

It is expected that in 2010 there will be such transactions and also that the investment yields will be no higher than 10% because the majority of market indicators have already reached the bottom and financing conditions for transactions should become more favourable.

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**Industrial**

**Rents Slump on Reduced Demand, Higher Supply**

**Supply**

In 2009, 53,600 sqm of new warehousing premises were built in Vilnius city and its surroundings, which means that the total supply increased to 334,400 sqm of leasable area.

Most (72%) of the modern warehouses are located within the city limits; the rest are in Vilnius district. The bulk of warehouses are developed in the southwestern industrial zones of Vilnius (Kirtimai, Vilkpede, Austieji Paneriai and Zemieji Paneriai), as well as near the strategic highways: Vilnius - Kaunas and Vilnius - Minsk. It is also noteworthy that logistic centres are being developed in Vievis which is strategically located between Vilnius and Kaunas.

The increase in supply in 2010 - 2011 may depend on the actual demand. In view of present attitudes however, it is unlikely that any major projects will be undertaken in the near future and that developers will risk starting project development with no advance rent or sale agreements.

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**Recent Developments**

To lease space in these or other properties, call Ober-Haus on +370 5210 9700.

**Business Park Vilija** - In second half of 2009 local developer Ogmios has finished logistic centre with the total area of 21,000 sqm in Aukstieji Paneriai district. All space was leased for one tenant - Eugesta, which is one of the biggest companies in the Baltic States engaged in the supply of wholesale, distribution and logistics services. Transaction details have not been disclosed. Also, there is possibility to build additional 15,000 sqm
of warehouse and office space near by.

**Airport Business Park** - in second half of 2009 Lithuanian developer Ogmios finished the second stage of logistics park in Dariaus and Gireno Streets, near Vilnius Airport. The second stage brought 5,100 sqm of warehouse and office space, and was built in accordance of Avon Cosmetics specific requirements based on the built-to-suit principle. First stage, which was built in 2008, is leased for DHL, Adictus and other.

**GLC Logistics Centre** - this logistics centre with total area of 21,000 sqm located near the Minsk highway, in Kuprijoniskes just outside Vilnius. In Q2 of 2009 two buildings were built. One of the buildings has been leased to the Lithuanian subsidiary of the Finnish company Elektroskandia Oy. The building was designed in accordance with the company’s specific requirements based on the built-to-suit principle. Another warehouse building with an area of 16,500 sqm with office premises is 50% occupied, with rents €3.50 per sqm.

**Demand**

The economic slump led to decreased consumption of production and services. This is especially relevant for enterprises which trade in construction material, household appliances and furniture. A complicated situation also exists for enterprises providing transport-logistics services, which were the first to face global and regional economic problems and are one of the largest users of warehouses in the market.

Previously optimistic enterprises were forced to downsize to smaller or cheaper space, thus increasing the vacancy rate in modern warehouses.

By the start of 2010, the vacancy rate in modern warehouses hit 10%, up from 6% a year earlier. Given the prognosis for continuing sluggish demand, we see vacancy rates hitting 12% - 13% before improving.

**Rents**

Rents for new warehouse space dropped 30% in 2009, while rents in old premises plunged more than 40%.

For new modern warehouses near the city centre, rents range from €3.50 to €4.60 per sqm, depending on the size. Near or outside the city limits, rents are €2.60 to €3.80 per sqm. Renovated older premises are being offered at rents from €1.80 to €3.00 per sqm. Average and poor quality premises range from €1.20 to €2.00 per sqm.

Owing to no new supply this year and economic perspectives in Lithuania, we expect lease rates for modern warehouses to keep steady in 2010.

Industrial leases are quite simple. Rents are tied to the euro but indexed to local inflation. Nearly all properties are owner-occupied.

**Investment**

No major transactions were registered in Vilnius and other major cities in 2009. The gap between what buyers expect and what sellers will accept is still too large.

It is expected that in 2010 there will be such transactions and also that the investment yields will be no higher than 10% because the majority of market indicators have already reached the bottom and financing conditions for transactions should become more favourable.

**Residential**

**Residential Prices Drop Two Years in a Row**

**Prices**

Residential prices sank 31% in 2009, and are now down 39% from their December 2007 peak.

The trend looked to be reversing by the end of 2009, when the price drop in Vilnius in Q4 was lower than other quarters and amounted to 3.9% (after falling 13.2% in Q1, 10.5% in Q2, and 6.6% in Q3).

To sum up the results of 2008 and 2009, prices for newly built apartments in the central part of Vilnius and old apartments in residential areas saw the biggest drop, i.e. in the segment of the highest price level (Centre, Old Town) and the segment of the highest supply (residential areas).

In 2009 in the city centre and Old Town, secondary market apartment prices fell 23% to €1,000 - €1,900 per sqm for unrenovated and to €1,450 - €3,400 per sqm for renovated apartments. Prices of new construction apartments dove 29% and are now offered for €1,450 - €2,900 per sqm without final fit-out. Final fit-out costs generally average €150 per sqm, up to €250 per sqm for higher quality.

In prestigious districts (Antakalnis, Zverynas, Valakampiai), old apartment prices range from €900 to €2,200 per sqm. Prices of newly built apartments range from €1,300 to 2,000 per sqm.
In 2009 prices of secondary market apartments in residential districts dropped 37%, and from the peak prices such apartments lost almost half of their value. At the beginning of 2010 the price of a standard two-room apartment (45 - 50 sqm) in a Soviet-era concrete block building located in a residential district was from €36,000 to €52,000. Prices of apartments which are in old brick buildings are 10 - 15% higher. The lowest price for old construction apartments in Vilnius residential districts is €580 per sqm.

As would also be expected, the price of larger flats have dropped the most, as local mortgage financing has become more difficult to obtain and with home maintenance costs like heating increasing, people were looking for cheaper homes.

Prices of newly built apartments in the residential districts range from €750 to €1,500 per sqm without fit out and it’s on average 28% lower than year ago.

Note that while new apartments in Estonia and Latvia are generally sold fully fit-out, in Lithuania new developments are generally sold shell, which is without any fit-out at all. Apartments sold shell require average of €150 per sqm to fit-out with floors, painting, lights, bathrooms and kitchen to a bare economy standard. However, in order to offer a more attractive solution, developers sells and fully completed apartments, where the buyer only has to provide furniture.

In 2009, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate Vilnius surroundings dropped 30%.

Detached houses (average 150 sqm with land plots of 500 - 1,000 sqm) located in a new housing area with full infrastructure in Vilnius district (typically 14 - 20 km from the city centre) are sold as shell (that is, without interior fit-out) at prices ranging from €85,000 to €170,000. Full final fit out generally costs €150 per sqm more.

The average price for the same type of fully finished house within the city limits (suburbs or city residential districts) averages between €150,000 and €260,000, and from €290,000 to €665,000 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 pessimistic trends in the residential property market are likely to persist during the first half of 2010. However, the considerable reduction in property prices (very attractive to the buyers who have their own private funds), the decreasing supply of new properties, and the almost complete lack of construction are likely to increase activity in this sector and major negative changes in the residential property market will be avoided. Considering the current forecast for the development of the country’s economy and the indicators of the residential property market, we forecast that in second half of 2010 we will see stability or small rise in residential prices.

Supply
According to Ober-Haus data, 5,615 apartments were built in Vilnius in 2008 and only 1,550 were constructed in 2009, i.e. the drop in new supply was 3.5 times.

According to Ober-Haus data, by the start of 2010 there were nearly 2,200 unsold apartments in apartment buildings constructed in 2007 - 2009.

Considering the number of construction projects currently in progress in Vilnius, it is likely that only 200 - 300 new apartments will be built in 2010 unless some suspended construction projects are resumed.

In 2009, almost 28% of apartments were built in the central part of the city, in the Old Town, and Uzupis. This number increased due to a few large projects that have been finally completed in Old Town.

61% of apartments were built in the residential districts of Vilnius (Zirmunai, Pasilaičiai, Baltupiai, Pilaite and Verkiai).

The average size of apartments constructed in 2009 is 60.9 sqm. A figure that has decreased over the past seven years (in 2003 this figure was 65.8 sqm) owing to the market demand for smaller-sized and average-sized apartments.

Only 150 detached and semi-detached houses in various quarters were built and offered in Vilnius and in the vicinity of Vilnius in 2009, which is a 50% decrease compared to 2008. The new supply of this type of property will continue to drop in 2010.

Recent Developments
To buy or rent in these or other residential properties, call Ober-Haus on +370 5210 9700.

Kamane - in the end of 2008 local developer Kaminta has finished an 11 storey residential building in Ukmarges Street, next to shopping centre BIG. Residential building has 85 apartments. Sales price of the available apartments with fit-out are €1,000 per sqm. At the start of 2010 over 90% of the apartments were sold.
**Perkunkiemis** - local company Ranga IV has finished active development of largest residential quarter in Pasilaičiai, next to Ukmerges Street. Almost 1,900 apartments have been built in the end of 2009. Sales price of the available apartments without fit-out are from €850 per sqm. At the start of 2010, 87% of the apartments were sold.

**Seliu 10** - in 2008 finished three storey residential building in prestigious district - Zverynas (Seliu Street). This residential building has only 30 apartments. The apartments vary from 33 to 74 sqm, and sell without fit-out for €1,450 to €1,550 per sqm. At the start of 2010 over 75% of the apartments were sold.

**Pavasaris** - during 2007-2009 period local developer has finished five 6-9 storey residential blocks in Siltnamiu Street, next to Lazdynai hospital. Sales price of the available apartments in last built blocks (K-4 and K-5) without fit-out are from €1,000 per sqm. At the start of 2010 over 75% of the apartments were sold.

**Traku 13** - small project in Old Town, in Traku Streets inner yard. There are only 6 apartments, sized from 73 to 114 sqm. Sales price of apartments without fit-out are €2,150 per sqm.

**Ozo Park** - in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark, Realco in 2009 has finished one more residential building with 159 apartments. Sales price of the available apartments without fit-out are from €1,150 to €1,600 per sqm, and with fit-out are €1,700 per sqm. At the start of 2010 over 90% of the apartments were sold.

**North Star** - residential building developed by MG Valda in the Siaures Miestelis area (Zirmunai district) was completed in 2009. The 7-storey residential building has 124 apartments, sized from 36 to 92 sqm. Sales price of the available apartments without fit-out is from €1,150 to €1,600 per sqm. At the start of 2010 over 70% of the apartments were sold.

**Avizieniai, Liepu Street** - near the city limits of Vilnius, in Avizieniai, finished detached houses for sale. This new settlement is 12 km from the centre of Vilnius. The settlement consists of six individual houses. Partially furnished 170 sqm houses (with 35 sqm garages) with land plots of 700 - 800 sqm are being sold at the price of 145,000 EUR.

### New Projects

**Evita** - developer MEI Baltija is finishing a 10 and 11 storey commercial and residential towers in Naujamiestis district on Savanoriu Avenue. 11-storey residential buildings will offer 59 apartments for sale. Sales price of the available apartments without fit-out is from €1,750 per sqm. Construction will be completed in Q2 of 2010.

**Trakų 13** - small project in Old Town, in Traku Streets inner yard. There are only 6 apartments, sized from 73 to 114 sqm. Sales price of apartments without fit-out are €2,150 per sqm.

**Mindaugo 23** - local developer Sklypas built an apartment building in Naujamiestis district on Mindaugo Street. Project is near city centre and Old Town. 7-storey residential building comprises 115 apartments with sizes from 44 to 136 sqm. Sales price of the available apartments without fit-out is from €1,300 to €1,600 per sqm, and with fit-out are €1,700 per sqm. At the start of 2010 over 90% of the apartments were sold.

### Demand

Take up was much smaller than new supply, with just over 1,000 new flats sold in 2009. At the end of 2009, 94% of the apartments built in 2007 were sold, 78% of the flats built in 2008, and 63% of the flats built in 2009 had been sold.

Ober-Haus projects that another 1,000 - 1,200 new flats will be sold in 2010, which is greater than the projected new supply on the market. The total stock of unsold new units should therefore decline, for the first time since 2007.

According to the data of the Central Registry, the total number of residential transactions (houses and apartments) in Lithuania in 2009 decreased by 42% and in Vilnius by 44% compared to 2008. Current market activity remains small, but it is at least 20 - 25% higher than it was at the beginning of 2009.

As living space per person in Vilnius is only 25.2 sqm, or 40%...
less than in the Western EU-15 countries, we believe there is still
great pent-up demand for new residential space in Vilnius.

The Mortgage Market

Total volume of outstanding housing loans decreased by 2% in
2009, as banks lent less money than they received back. Ana-
lysts predict stable or small growth of the loan portfolio in 2010.
Currently in Lithuania, the value of housing loans equals 22% of
GDP, and this rate increased only due to significant drop of
GDP. This rate is much lower than the rate of mortgage loans
to GDP in neighbouring Latvia and Estonia. Overall Lithuanians
are much less leveraged than their Baltic neighbours.

In 2009 interest rates show significant drop and now looks
much more attractive than year ago. The majority of loans are
taken in euros, and the average interest rate on new mortgage
loans at the beginning of 2010 was from 3.5%. Interest rates in
the local currency, the litas, start at 6.5%.

In some cases banks can lend up to 100% of the property value,
especially if the loan is made on a new property where the bank
is already the lender to the developer. In other cases you can
expect 70-90% of the property value. But in general, there are
some positive signs of better borrowing conditions in residenc-
tial market.

Rents

The decreasing income of the population and growing sup-
ply continued to negatively affect residential rents. Apartment
rents dropped 30% in 2009, and have fallen 40% since the sum-
ner of 2008. Winter is the most difficult time for landlords; the
heating season and high supply of rental property provide ad-
vantages to the lessees in negotiating the price.

Officially the cost of heating has dropped 16% in 2009/2010 in
Vilnius compared to previous heating season. But from start of
2010 the price for electricity has increased over 20%.

Ober-Haus expects residential rents to now remain flat in 2010.

The most popular units to rent are still the cheapest one
and two rooms apartments. Typical 2-room old construction
apartment in Vilnius residential districts offered for €150 to €200
per month. The same size new construction apartments rent prices
starts from €230 per month. Maintenance costs are charged ex-
tra.

Rents for fully equipped 2-rooms apartments in central part of
Vilnius range from €200 to €400 per month, and for 3-rooms
apartments range from €300 to €600 per month. Rents for big
ger and good equipped apartments in Old Town can be till
€1,000 per month.

100 to 200 sqm individual homes in outskirts and living sub-
urbs of Vilnius are usually offered for rent at €500 to €1,000
per month. Prices in prestigious districts (Valakampiai, Antakalnis,
Zverynas) and city centre or Old Town is higher at €1,000 to
€2,000 per month.

Residential leases are regulated by Lithuanian law more strictly
than commercial leases. Lithuanian legislation establishes spe-
cific rules related to the condition of leased residential prem-
ises, the right of family members to reside with the lessee, ter-
mination of the lease agreement, and eviction of the lessee.
However, rents may be agreed freely.

Land

Prices Plummeted Last Year as Banks,
Developers Withdrew

Prices

After a huge drop in land prices in 2008 (30 - 70% depending on
location and land segments or purpose), land saw another 30% drop in 2009. Banks continue to view land as the type of real
estate associated with the most risks and for that reason rarely
- if ever - provide financing for the purchase of land plots. It is
therefore not surprising that the liquidity of plots of land is very
low and that prices for land continue to go down.

Plots in the city centre suitable for residential development
(with detail plan or construction permit) fell 38% in 2009, to
€300 - 1,500 per sqm of land, or roughly €250 - 750 per gross
buildable square metre of residential space.

Plots in the living suburbs for residential apartment develop-
ments (with detail plan or construction permit) nose-dived 42%
in 2008 and range from €60 - 150 per sqm, which works out to
roughly €60 - 170 per gross buildable square metre of residenti-
space.

Plots for private homes with partial or full infrastructure were off
20% in 2009, to a range of €19 - 35 per sqm in the cheaper sub-
urbs, to as high as €58 - 80 per sqm in Riešė, Bajorai, Kalnėnai,
Gulbinai.
Supply

Today, the choice of land plots is really vast. There is a particularly wide selection of plots which have development potential or are already prepared for development (with site plans completed or even construction permits issued). The number of this type of transaction is very low, however, since owners usually do not want to sell their property for the low prices offered by buyers.

Since there are no major signs of revival in the real estate market on the whole and the number of unsold properties on the market is high, any positive change in the market for land plots seems unlikely. It can therefore be forecast that the choice of land plots next year will be vast as well.

Demand

According to the data of the Central Registry, the total number of land transactions in Vilnius City and Vilnius District in 2009 decreased the same - 22%. On average there were 100 transactions per month in Vilnius and 140 transactions per month in Vilnius District.

The market for plots of land is kept alive thanks to those buyers who are looking for empty plots for the construction of detached single-family houses or villas in picturesque areas next to water bodies, etc. Low construction prices and considerably reduced prices for land plots attract those buyers who have an opportunity to borrow money or have ready cash. Therefore, the demand for small (600 - 1,200 sq. m) land plots remains fairly high, and their prices over the past few years have gone down less than, for instance, prices for land suitable for the development of agricultural or large-scale projects.

Investment

No major land parcels-related transactions were registered in Vilnius in 2009.

News

In September of 2009, the general plan of the Vilnius District Municipality finally has been approved. Vilnius District Municipality occupies land of 212,915 hectares with population of almost 100,000. It is estimated that this territorial planning document will ensure the consistent development of the territory of the district and will help implement a policy of sustainable development and promote social well-being. Also, we can expect further increase of supply of land plots in this territory.
Residential Real Estate Law

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

Title to Real Estate, Real Estate Register
Under the Lithuanian Civil Code, title to real estate may be acquired in several ways, such as by inheritance, creating a new object, appropriating an ownerless object, or acquisitive prescription. However, the ownership right to real estate is usually acquired by transferring title to real estate on the basis of different types of transaction, such as sale-purchase, grant, or exchange (swap).

Real estate and related rights are registered with the Real Estate Register. Title to real estate passes as of the moment the real estate is transferred to a buyer. Although an agreement on acquisition of real estate is valid and binding on the parties irrespective of its registration with the Real Estate Register, it may only be invoked against a third party after registration with the Real Estate Register.

Purchase of Property
Main issues
In real estate transactions, relevant information must appear correctly in the title transfer document, that is, the unique number of the real estate, its area, purpose of use, address, description of the land plot where the real estate is located, the location of the real estate on the land plot. Those details in the transaction documents are always required by the notary who certifies the transaction.

Change of Ownership
Title to real estate passes as of the moment of transfer 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.

Agreement Form
Real estate sale-purchase agreements (asset transfer transactions) must be in written form and certified by a notary. Failure to notarise an asset transfer agreement makes it ineffective.

Language of Agreement
Transactions by Lithuanian legal and natural persons must be in the Lithuanian language. However, failure to do so does not make such transactions invalid. Translations into one or more languages may be attached to the transaction documents. Transactions with foreign natural and legal persons may be in a language acceptable to both contracting parties. However, all documents to be confirmed by a notary or filed with the public register must be in Lithuanian.

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 persons, save for cases when the sale is by public auction. In addition, if real estate and its land plot have different owners, the owner of the real estate situated on a land plot enjoys a pre-emption right to acquire the land plot upon its sale, and vice versa.

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 request from the court an order transferring the rights and obligations of the buyer.

Purchase Price Payment
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 made on the day of signing a preliminary agreement or signing and confirming the real estate transaction by the notary, whilst the remainder of the purchase price is paid after certain conditions precedent are met, such as signing the transfer-acceptance deed. Title to real estate may be transferred irrespective of complete settlement between the seller and the buyer. In order to secure the interests of seller or buyer, title to real estate may be transferred before or after payment of the entire purchase price.

Other Related Costs
Certification of real estate sale – purchase agreements by a notary and registration of title with the Real Estate Register – involves a notary fee and state duty respectively. The notary fee amounts to 0.45% of the real estate transaction value, capped at EUR 5,792 (LTL 20,000). 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 6 (LTL 20) to EUR 1,448 (LTL 5,000).

In course of 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.

**Restrictions**

**Restrictions on Acquisition of Residential Property**

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

**Encumbrances**

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. A family home owned by one or both spouses constitutes a family asset regardless of the date when the home was acquired: before or during the marriage. In order to enter into an agreement on sale, mortgage, or other type of encumbrance of a family asset, a spouse who owns the asset must receive consent from the other spouse. Where spouses have minor children, transactions in relation to a family asset require judicial authorisation.

**Mortgage**

A mortgage is a form of security to assure performance of present or future obligations. A mortgage is created by executing a mortgage bond signed by the debtor, creditor, and owner of mortgaged real estate, and certified by a notary. A mortgage comes into effect when registered with the Mortgage Register. A creditor whose claim is secured by a mortgage enjoys priority in respect of third parties to redeem the debt using the mortgaged property.

Jointly-owned real estate may only be mortgaged with the consent of all co-owners. When part of commonly-owned real estate is mortgaged, the consent of other co-owners is not necessary, provided the part of the commonly-owned real estate under the mortgage is accurately defined in the contract on joint use of the real estate concluded among co-owners and certified by a notary.

**Property Management**

Maintenance of real estate is usually carried out by the owner or by a property management company. Owners of apartments located in multi-apartment buildings may choose one of three ways to administer commonly owned property: (1) the owners can conclude a contract on joint activities, (2) establish an association of owners or, if neither of the above is done, (3) the mayor (or other competent body) of the local authority appoints an administrator. The administrator acts in accordance with regulations endorsed by the local authority. The status, rights, and obligations of associations of owners are regulated by the Law on Association of Multi-Apartment Building Owners.

**Lease Agreements**

**Main issues**

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

Lease agreements between natural persons can be made verbally. If a party to a residential lease agreement is the State, a municipality, or a legal person, or if the lease agreement is for a fixed term, the agreement must be in writing. Residential lease agreements may be invoked against third parties only if they are registered with the Real Estate Register.

**Duration and Expiry of Lease Agreement**

Lease agreements may be concluded for a fixed or indefinite term.

A residential lease agreement is terminated upon expiry of the lease term or upon prior notice of termination served by any of the parties. The landlord can terminate an indefinite term residential lease by serving on the tenant six months advance written notice, whereas the tenant may terminate any residential lease by serving advance written notice of one month. Residential lease agreements may also be terminated by mutual agreement between the parties or by a court order on grounds established by law or the lease agreement.

Tenants who have duly discharged their obligations under residential lease agreements enjoy priority against third parties to renew the lease agreement after expiry of the lease term. No later than three months prior to expiry of the lease, a landlord must invite the tenant in writing to conclude a new lease agree-
ment on the same or different terms and conditions, unless the landlord does not intend to lease the residential property for at least one year. If the landlord does not fulfil this obligation and the tenant does not refuse to renew the agreement, the residential lease agreement is taken to be renewed for the same period and on the same terms and conditions.

**Lease Payment and Accessory Expenses (Utilities)**

Although payment of rent depends on agreement between the parties, the law explicitly states that the owner may not demand advance payment of rent for a residential lease, with the exception of the rental for the first month. The rent must be paid monthly for the current month not later than by the 20th calendar day of the next month. The parties may agree that the rent can be recalculated, but only once every calendar year.

Utility services, such as electricity, heating, and water, are usually charged on top of the rent according to the respective meters. However, private persons who are parties to a residential lease agreement may agree on a different procedure for payment.

**Planning Requirements, Construction, and Renovation of Residential Buildings**

**Planning**

Approval of detailed plans lies within the competence of local authorities. As a rule, detailed plans are prepared for city areas and rural local authority areas where construction is intended. A new detailed plan must be approved in case of a change of designation of land. Preparation of detailed plans involves evaluating the results of detailed planning, as well as public hearings and discussions. The process of approving detailed plans may take approximately from six months to more than one year.

**Construction and Renovation**

Erection, modification, and demolition of buildings and other structures, as well as their subsequent use, require a permit issued by the construction supervisory authority.

Construction must comply with technical building regulations set by legal acts. Construction works must be in line with the design documentation of the building as well as with the use designation of the land. The contractor, the designer, and the technical supervisor of the construction are liable for collapse of the object or defects therein if the object collapses or if defects are discovered within five years, or ten years in case of hidden structural elements (such as internal structure, pipes) and 20 years in case of intentionally concealed defects. These guarantee periods start on the day of acceptance of the building as fit for use.

Construction may be carried out only based on a building design prepared by a professional architect or engineer and approved by the local supervisory authority. Building design documentation must comply with the relevant detailed plan of the land plot and mandatory technical building regulations.

In order to begin construction, a construction permit must be issued by the respective municipality or county governor’s office. The validity period is stated in the permit but in any case may not exceed ten years.

After completion of construction, state authorities inspect the building as to conformity with design documentation and other mandatory requirements and regulations. If the building complies with these documents, then after engineering and utility networks and traffic routes are tested, and geodetic pictures taken, the state authorities issue an occupancy permit recognising the building as fit for use. A building may not be used without this permit.

Renovation (or modernisation) of multi-apartment buildings means construction works aimed at one or more of the following: restoring or improving physical and energy features of the building or its engineering systems or ensuring use of energy generated from renewable energy sources.

One of the aims of Lithuanian housing strategy as approved by the Lithuanian Government in 2004 is to ensure effective use, maintenance, renewal, and modernisation of existing housing. The State supports renovation of multi-apartment buildings by providing preferential loans; compensating 50% of the costs of preparation of a renovation project and technical supervision of construction; covering the costs of preparation of a renovation project and loan insurance fee, as well as compensating preferential loans and interest thereon for needy families. Provision of state support to Lithuanian residents for renovation of multi-apartment buildings is regulated by the Law on State Support for Acquisition or Lease of Dwellings and Renovation of Multi-Apartment Houses.
Commercial Real Estate Law

Purchase of Real Estate

Letters of Intent and Heads of Terms
Such instruments as Letters of Intent and Heads of Terms are not as common in Lithuania as in other countries. Always remember that any obligation to buy or sell property which may be outlined in the Letter of Intent or Heads of Terms is not legally binding unless the document is notarised. Other points, however, such as exclusivity or penalties for the withdrawal from the transaction are legally binding even if not notarised.

Title Transfer
Because most commercial properties held for investment purposes are held in single asset special purpose companies, the most common form of investment property sale is a sale of 100% of the shares of the property holding company - a share transaction. Most commercial properties held by end users tend to be sold as property - an asset transaction. Ober-Haus is able to structure sale-purchase contracts that fit either form. There are important differences between share transactions and asset transactions, but in nearly all respects Lithuanian law does not differ from other countries. The most important facts to keep in mind are as follows:

Asset Transactions
• Asset transactions incur notary and state duties.
• Asset transactions must be notarised, and must be made in Lithuanian language.
• Asset transactions require registration in the Land Registry, and therefore can take from one week up to 30 days to be registered.
• Previously signed Letters of Intent and Heads of Terms are not binding unless notarised.
• Due diligence is limited to just researching the property, as it does not require research into the legal or financial background of a company as a share transaction would.
• Existing tenants have the right to terminate their lease agreements when the property is sold, according to Lithuanian law.
• The common solution to this issue is to sign agreements in advance with every tenant to continue their lease agreements after the asset transaction. The other solution is to structure the sale as a share transaction.

Share Transactions
• A share transaction can be made instantaneously, and does not require the same lengthy process of title that an asset sale requires.

• No state duties apply, and no notary fees apply.
• Previously signed Letters of Intent and Heads of Terms are generally binding.
• Existing leases remain valid after a share transaction, unlike after an asset transaction, which removes the risk associated with renewing existing tenant leases.
• Due diligence is more extensive, as it is not limited to just researching the property, but also requires research into the legal and financial background of the property holding company. In nearly all cases property holding companies will have no employees. If a company has employees, then due diligence must cover employment issues as well.
• Generally buyers require sellers to represent and warrant that the claims made about the property holding company at the time of the share transaction were all accurate. Penalties for making false representations should be large enough to cover any damages which may be borne by the buyer due to false representations about the company being sold.
• Buyers should be aware of deferred tax issues, and should make sure that all previous tax debts of the property holding company have been paid.

Due Diligence
Regardless of the form of acquisition, all buyers are advised to carry out thorough due diligence on the property to be purchased. Ober-Haus is able to perform complete due diligence for buyers, including checking title, third party rights, encumbrances, permits, approvals, planning, zoning, and through our subcontractors we perform due diligence on building structure and environmental issues.

Lease Agreements
Lithuanian commercial law allows wide freedom to both owners and tenants to contract their lease agreements as desired. Leases may be either for a specified period of time, or unspecified (open-ended). In the case of an unspecified period, the notice period for termination should be specified in the lease agreement. In the case of a specified period, the period can be no longer than 100 years.

Renewal options may be included in the lease, which give the tenant the first right to renew for a specified period at the end of the lease's original term.

Note that if the tenant remains in the property for more than 10 days after the specified lease period has ended, and the tenant does not object, then the lease agreement legally becomes an agreement for an unspecified term.
Break options were common in older leases, giving the tenant the right to break lease with as short 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 the past two years, we have noticed that break options have once again become a point commonly insisted on by tenants.

Service charges generally cover all costs, meaning commercial leases today in Lithuania are typically triple net leases, with all the owner’s cost passed through to the tenant. However, some double-net leases remain in use, with the landlord bearing the cost of land tax and insurance. Again, the more tenant friendly double-net lease is more common today as the market shifted to a tenant’s market.

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

Rents are generally denominated in Lithuanian litas (LTL) but with a clause adjusting the rent in case of any change in the LTL/EUR exchange rate, which effectively means rents are denominated in euros.

Rents may not be charged in advance, but are due in the following month. Owners generally make this up by charging larger deposits (one to three months rent).

Rent increases are generally each year, and are generally set at Lithuanian CPI, or a fixed rate (such as 3% per year). As Lithuanian CPI varies wildly, we recommend that tenants negotiate a cap.

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

The right to re-assign or sublet the lease is not often given.
**Taxes**

**Purchase**

**VAT** - The purchase of any new building or apartment is subject to 21% VAT. The building is considered as new for a period of 24 months from the date it was put into use or materially improved. Old buildings are exempt from VAT with an option for taxation in case the customer is a VAT registered taxable person. In case the option to tax is used, it must be maintained for at least 24 months.

The purchase of plots of land generally is VAT exempt except if land is with new buildings or for construction purposes. Taxpayers have an option to sell land with VAT under the same conditions as mentioned above (customer is a VAT registered taxable person).

**Fees** - Notary fees depend on the value of the transaction, and are calculated as 0.45% of the real estate value, but not less than approx. € 29 (100 litas) and not more than approx. € 5,800 (20,000 litas). If a few transactions are confirmed by one notary action, the total notary fee may not exceed €14,500 (50,000 litas).

**Broker fees** - The broker’s fee is typically 3% of transaction value.

**Rents**

**VAT** - Although the rent of real estate is considered to be a VAT exempt supply, owners of commercial property have the option to charge VAT on rent, for example, if they wish to recoup any VAT paid for development of the property, provided the customer is a VAT registered taxable person. Once the owner chooses to charge VAT on rent, such option must be maintained for at least 24 months for all analogous transactions.

**Corporate Income Tax** - Final profit after all costs is subject to standard 15% corporate income tax. Buildings and improvements are subject to tax depreciation.

**Withholding Tax** - Income from the lease of property immovable is subject to withholding tax at the rate of 15%, if this income is paid to non-residents.

**Personal Income Tax** - Rents collected by individuals are subject to personal income tax at the rate of 15%.

Alternatively, rents to individuals may be subject to a one-off yearly tax under a special permit system.

**Sale**

**Corporate Income Tax** - Companies which sell real estate book the capital gains as profit and pay standard corporate income tax at the current rate which is 15%. The capital gain is calculated as the margin between the acquisition value or the value at the moment of development of the real estate, and the sales value.

**Withholding Tax** - Income from the sale or other transfer into ownership of property immovable is subject to withholding tax at the rate of 15%, if this income is paid to non-residents. However, a foreign company or an individual who received income from the sale or other transfer into ownership of property immovable by nature located in Lithuania may recalculate the withholding tax paid for the above income so that only the difference between the sales price and the acquisition price would be subject to income tax.

**Personal Income Tax** - Capital gains earned by private persons on the sale of property (except for residential premises) are not taxable if that real estate was owned for at least 3 years. In case of transfer of residential premises, the income is not taxable provided that the domicile has been declared in those residential premises for at least 2 years or when less than 2 years - when the income from the sale is used (within one year) to obtain other residential premises where the domicile will be declared. Otherwise, the capital gains earned by private persons on the sale of property are subject to personal income tax at the rate of 15%.

**Real Estate Tax**

Individuals and companies are subject to Real Estate Tax and Land Tax.

Buildings are subject to Real Estate Tax at a rate of 0.3-1 %, depending on the decision of the municipality where the building is located. Exemptions apply to individuals for residential premises and certain other personal property. Depending on the type and purpose of buildings, the tax base is assessed either based on fair market value or the recoverable value (costs) method. If the taxpayer disagrees with the assessment, he may get a valuation done and challenge the assessment.

Land is subject to 1.5 % Land Tax. The tax base (typically, the average market value determined by the State Enterprise Centre of Registers) and tax payable is calculated and reported to the taxpayer by the tax authorities.