Real Estate Market Report 2013

Baltic States Capitals

Vilnius, Riga, Tallinn

OBER HAUS

REAL ESTATE ADVISORS

REALIA
GROUP

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Ober-Haus Real Estate Advisors is the largest real estate agency operating across the Baltic region including Poland, Estonia, Latvia and Lithuania. Ober-Haus Real Estate Advisors is a highly experienced provider of the most complete property services including residential and commercial real estate services, property management and property valuation services and has, since 1994, grown to employ over 315 real estate professionals in 26 offices across the region.

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Lithuania

2013

Lithuania

Country overview

Real estate market report 2013

Geography & Social

Coordinates:	56 00 N, 24 00 E
Area:	65,200 km^2
Border countries:	Belarus, Latvia, Poland, Russia
Capital:	Vilnius
Ethnic groups:	Lithuanian 84%, Polish 6.1%, Russian 4.9%, Belarusian 1.1%, other 3.9%

Currency

Currency:	Lithuanian Litas (1 LTL)
Curr. rate:	1 € = 3.4528 LTL

2013 forecasts

GDP growth, %:	3.0
GDP per capita, €:	11,200
Private consumption growth, %:	2.5
Average annual inflation, %:	3.0
Unemployment rate, %:	11.5
Avg. monthly gross wage, €:	672
Avg. gross wage annual growth, %:	3.4

Population	2007	2008	2009	2010	2011	2012
Lithuania	3,239,600	3,202,600	3,176,300	3,137,000	3,052,600	3,007,700
Vilnius	554,400	555,700	558,200	560,200	536,100	534,100
Kaunas	358,100	355,600	352,300	348,600	317,300	311,100
Klaipeda	185,900	184,700	183,400	182,800	162,900	160,400
Siauliai	128,400	127,100	126,200	125,500	109,700	107,900
Panevezys	114,600	113,700	112,600	112,000	100,000	98,600

Macroeconomics	2007	2008	2009	2010	2011	2012
GDP growth, %	9.8	2.9	-14.7	1.3	5.9	3.6
GDP per capita, €	8,466	9,615	7,938	8,377	9,496	10,875
Private consumption growth, %	16.5	4.0	-17.5	-4.9	4.3	4.6
Average annual inflation, %	5.8	11.1	4.2	1.2	4.1	3.2
Unemployment rate, %	4.3	5.8	13.7	17.8	14.8	13.2
Average monthly gross wage, €	594	672	620	614	630	646
Average gross wage annual growth, %	18.5	13.0	8.7	0.2	2.5	2.6
Retail sales growth, %	12.2	4.7	-21.6	-7.1	8.8	4.5
FDI stock per capita, €	3,211	2,894	2.935	3,286	3,667	3,902

Source: Lithuanian Department of Statistics, Ministry of Finance of Lithuania

Steady economic growth encouraged residential developers

In 2012 Lithuanian GDP grew 3.6%, after growing 5.9% in 2011. Analysts forecast growth of 3.0% to 3.2% in 2013.

Annual inflation in 2012 was 3.2%. Forecasts are for CPI growth of 3.0% in 2013.

Lithuanians elected a new Parliament at the end of 2012. Three center-left parties — Labor Party, the Social Democrats and Order and Justice Party — have formed a new left-leaning coalition government, promising to end the current government's budget cuts to spur the economy and create jobs, increase social spending, review the taxation system and others.

Lithuania's new government increased the minimum wage by 17% from 1 January 2013, to €290 per month. Gross wages increased by 2.6% in Lithuania in 2012, to €630 per month before taxes. The average net monthly after tax wages in Q4 2012 was €501. An increase of 3-5% annual salaries is expected in 2013 and 2014.

Unemployment fell to 13.0% by the end of 2012, from as high as 18.3% in 2010. Analysts project 11.5% unemployment in 2013 and 10.0% in 2014.

Exports increased by another 14.5% in 2012. The export upswing in 2010-2012 was driven by improvements in competitiveness; increased external demand and growth into new markets.

In the end 2012 the annual change of construction costs was 4.1%. After the collapse of the construction boom in Lithuania, construction costs have dropped considerably, but from the mid-2010 construction prices have started to increase.

2012 saw retail turnover grow by a further 4.5% (after an increase of 8.8% in 2011). In 2012, the biggest increase in turnover was registered by companies selling food, alcohol, clothes, textile, audio and video equipment, recordings, hardware, paints and glass, and electrical household appliances, which increased by 10-16%. After significant increase in 2010-2011, retail turnover of motor vehicles, technical maintenance and repair works in 2012 increased by only 6.7%.

As of September 2012, direct foreign investment totalled €11.7 bln (9.3% increase compared with September 2011), which is €3,902 per capita.

The Lithuanian currency, the litas (LTL), remains pegged to the euro at a rate of 3.4528 litas to one euro. Lithuania aims to adopt the euro in 2015 and the newly installed government is committed to ensuring that Lithuania meets all the financial criteria necessary to join the currency zone, including those on inflation and budget deficit. In the meantime, the exchange rate remains fixed through a currency board system.

In order to ensure revenue for 2012 budget and maintain the budget deficit (below 3.0%), after fierce debates, Parliament and the Government at the end of 2011 approved a decision to tax real estate which exceeds 1 million litas (€290,000) in value with a 1% tax rate. The tax is calculated by putting together all the property owned by an immediate family. The Ministry of Finance estimated that the introduction of the luxury tax on homes will bring approximately 5 million euros of additional revenue to the state budget, but only roughly 1 million euros was collected in 2012.

Office take-up increased almost 21% in 2012

Supply

In 2012 the development of office buildings in Vilnius was the mainstay of the commercial sector with seven new buildings bringing 22,900 sqm to the market. In 2010, rapidly decreasing vacancies in office premises and the suspension of construction projects in the commercial sector determined the rather bold decision by developers to revive or resume the construction of new offices. For example in 2010-2011 period two office projects were completed in Vilnius. After completion of these seven projects, the total area of modern office premises (A and B class) grew to 467,000 sqm gross lettable area (GLA) at the end of 2012.

The distribution of modern offices by A and B classes from 2004 has practically remained the same. At the end of 2012, in total there were 85 major office buildings, of which as many as 64 were B class. By floor space, A class constitutes 39% of the total modern office premises in Vilnius, and B class 61%. Yet B class office buildings mostly consist of buildings with 2,000 - 6,000 sqm of useful office space (4,400 sqm on average), meanwhile the area of A class office centres most frequently range between 5,000 - 15,000 sqm (8,700 sqm on average).

In 2013 Ober-Haus expects the completion of a further two office projects, which will provide the market with an additional 17,200 sqm of new office space.

Developers announced at least four or five new office centres that may be completed by the end of 2014. Also, one major future project is the construction of a large business complex - Quadrum Business City. With a total area of over 70,000 sqm, the project plans to fill the shortage of A class office space in Vilnius by offering up to 40,000 sqm of top class space with BREEAM certification in the new Vilnius business district, on Konstitucijos

Q4 2012 (Vilnius)

Total office space:
467,000 sqm

Total office vacancy rate:
8.6%

Vacant office space:
40,200 sqm

A class office vacancy rate:
5.1%

B class office vacancy rate:
10.9%

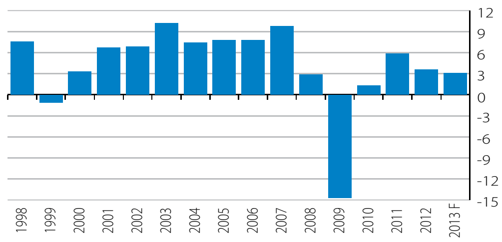
A class office rents (sqm/month):
€10.50 - €14.00

B class office rents (sqm/month):
€7.00 - €10.50

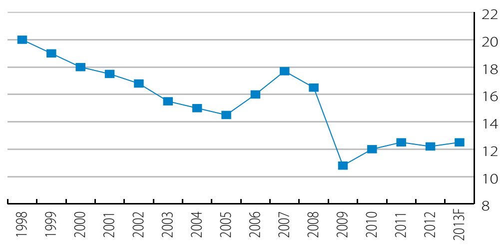
Top office rents (sqm/month):
€14.50

Additional office costs (sqm/month):
€2.90 - €5.80

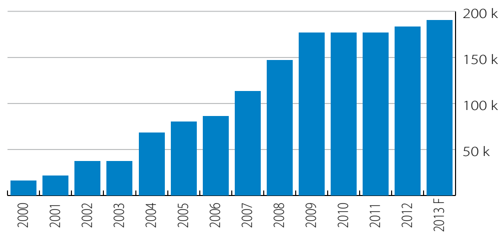
GDP growth, %



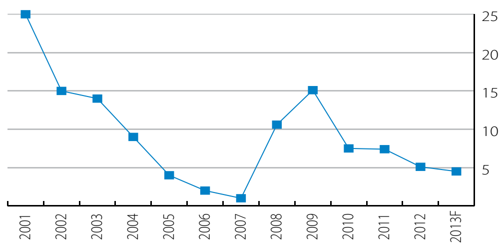
A class office rents, €/sqm



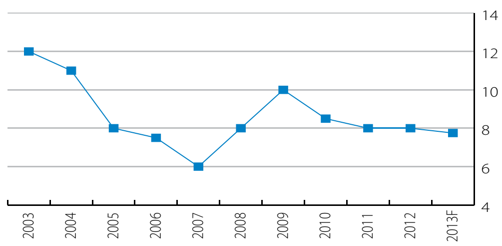
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yield, %



Avenue. In order to prove its serious intentions concerning the development of this project, the Norwegian developer, company Schage Real Estate, has already demolished the old building and begun construction. The first stage will be completed in Q3 2015 and will bring 16,000 sqm of office space to the market. It is planned that DNB Bank will set up it's headquarters in the first stage of the new business centre, taking 10,000 sqm of the tallest 17-storey building there.

Given the current uncertain economic and office market situation in the country, it is likely that some planned projects will be postponed. The current vacancy rate of 8.6% and the availability of completed and planned new projects should raise concerns among the owners of the aforementioned projects on whether the market will actually need so many office premises in the near future. Whether these projects will be started in the foreseeable future also depends to a great extent their ability to secure pre-leases, as banks will not finance new projects with firm tenancy contracts. At present, it is difficult to satisfy this condition, which is why new project starts may be limited.

Demand

The economic recovery in 2012 raised the take-up rate of office premises. In 2012, 38,400 sqm of office premises was leased in Vilnius business centres, which is 20.6% more compared to 2011. In Q2 2012 Lithuania Post leased 5,000 sqm office premises from MG Valda in Business Triangle, which was the biggest new lease in 2012.

The vacancy rate of modern offices in Vilnius fell from 8.8% to 8.6% in 2012, even while the total area of vacant premises increased from 39,400 sqm to 40,200 sqm, due to new supply. The highest vacancy rate remains for B class office buildings. At the start of 2013, the vacancy rate for class B buildings was 10.9% (totalling 30,900 sqm), while the vacancy for A class buildings was considerably lower at 5.1%, totalling 9,300 sqm of vacant A class space.

Most companies were interested in B class office premises, if we look at the leasing market by class for 2012, just like in the last few years. B class office premises accounted for 67% of all premises leased during 2012 in Vilnius, while A class was 33%. This shows that the majority of enterprises prefer modern functional office space at a lower rent rather than prestigious premises.

Although market activity has essentially remained at the same level for the last few years, the take up of office premises has been notably behind that of the 2010 period, when a sharp increase in new business start ups and record low rents encouraged further expansion and establishment of new enterprises in modern business centres. That year the entry of global business giants, Barclays and Western Union, notably increased office occupancy rates, and gave much hope to building owners and real estate developers. The area of office premises leased in Vilnius in 2012 or 2011 was almost two times less than at the same period in 2010.

The owners of B class business centres will face major challenges in 2013 since there is much B class space available to lease. Vacant space of B class premises is as much as three times higher than that of vacant A class premises. But Ober-Haus believes that overall office vacancy will be stable in 2013 and will not overstep the 8-9%.

Rents

Rents have remained largely unchanged since the beginning of 2012, except for a slight (€0.50 per sqm) drop in the rents of more expensive offices: in Vilnius, A class office rents now are €10.50–€14.00 per sqm and B class are €7.00–€10.50 per sqm.

Depending on the building, additional costs (single and double net) for tenants are from €2.90 to €5.80 per sqm.

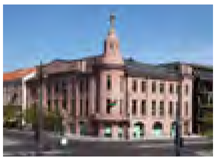
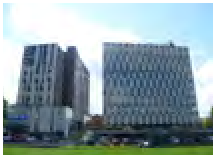
Ober-Haus believes that rents generally will remain unchanged in Vilnius for the rest of 2013, although forecasts promise moderate economic growth this year, while new imminent supply and the still slow development of local companies will increase competition among building owners, which may have a negative impact on rents of lower quality offices.

Investment

No major transactions of offices were registered in Vilnius and other major cities in 2012.

During 2010-2012 commercial property yields dropped by 250-300 basis points. At the moment foreign investors are still rather cautious about Lithuania because they do not see higher returns on investment here than the average for CEE region (8–9% on average), and they do not expect to earn more as a result of growing prices. Still, returns on commercial property have been rather stable and well balanced over the past several years. Current investment transactions yield 7.0% to 9.5% in Vilnius, Kaunas and Klaipeda region, with a slightly higher yield of 1.0%-1.5% in other major Lithuanian cities.

Recent developments

	Description	Size (GLA, sqm)	Completion
	**Vytenio 46** – Local company Realinija finished reconstruction of a building in the Naujamiestis district (central part of the city) on Vytenio Street at the start of 2012. The 3-storey building has 2,000 sqm of B class office space. The building is fully leased.	2,000	Q1 2012
	**Merchants' Club** – This A-class office building with 6,300 sqm of useable area (office, retail, conference halls) was opened in first half of 2012. Current tenants: BT Invest, Embassy of the Republic of Azerbaijan, Baltic Sotheby's International Realty and different retailers on the ground floor. This building has three-levels of underground parking with 74 places. Asking rents are till €14.50 per sqm.	3,500	Q2 2012
	**BC12** – In first half of 2012, local company Transmeda has finished the construction/reconstruction of a 2,700 sqm office building in the centre of Vilnius on Jasinskio Street. The building is fully leased.	N/A	Q2 2012
	**Jan** – The 10-storey B-class building with a 5,400 sqm of modern office and some retail space (ground floor) on Pilaites Avenue was finished in 2012. Asking rents are €9.30 per sqm.	5,400	Q2 2012
	**Trapecija** – DNB bank's subsidiary Intractus acquired an unfinished B class office building in Pilaites Avenue and finished it in Q3 2012. This project offers 2,400 sqm of office space. Asking rents are €8.70 per sqm.v	2,400	Q3 2012
	**Baltic Hearts (I stage)** – After a few years delay local developer ZVC has resumed construction of its A class office building on Ukmerges Street next to the new CDB. The total area of the building is 10,000 sqm and consists of three identical structures with 3,300 sqm each. First stage (3,300 sqm of office space) was finished and opened in the second half of 2012. Asking rents are €11.50 per sqm.	3,300	Q4 2012
	**Ulonu Business Centre** – Local developer PST Investicijos finished construction of a 7-storey B class office building in the Siaures Miestelis district in Q4 2012. The 5,000 sqm building offers 4,500 sqm of office space. At the end of 2012, 40% of the office space had been leased. Asking rents are €10.50-€11.00 per sqm.	4,500	Q4 2012

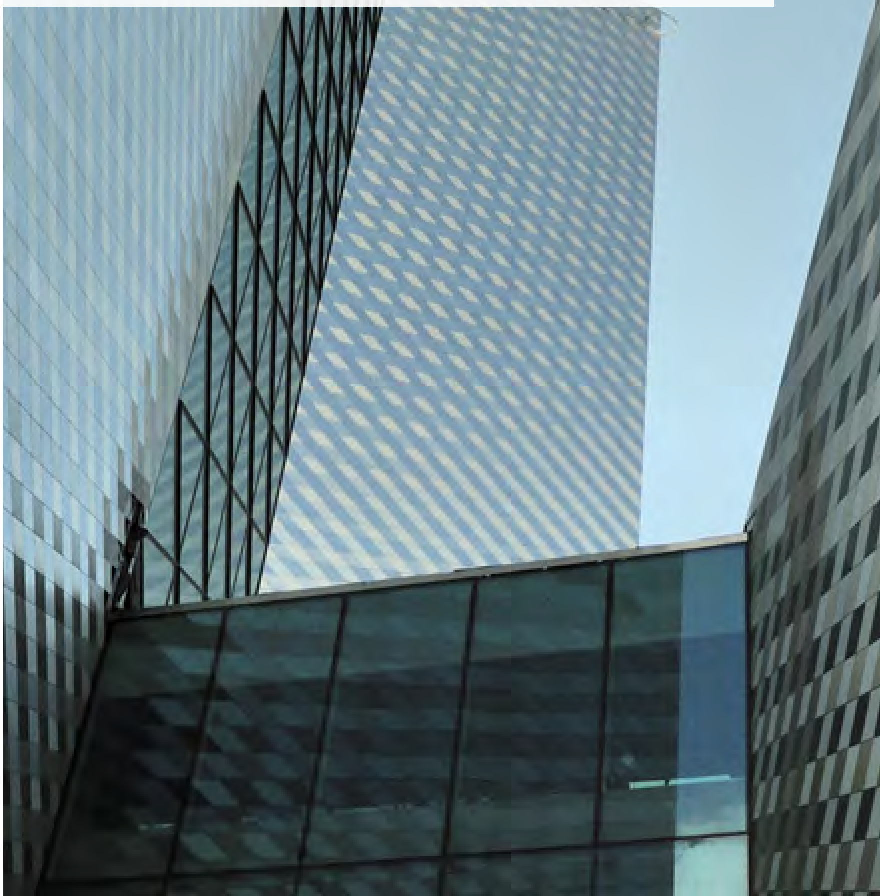
New projects

	Description	Size (GLA, sqm)	Completion
	**Gama** – After the successful completion and leasing of its Alfa and Beta office projects, local company Realco is finishing construction of a new office building in Ozo Park, near Siemens Arena and Vichy Aquapark. The 10-storey building will bring 10,600 sqm of lettable office area in first half of 2013.	10,600	2013
	**Baltic Hearts (II stage)** –After completion of first stage local developer ZVC continues construction of A class office building on Ukmerges Street. The total area of the building is 10,000 sqm and consists of three identical structures with 3,300 sqm each. Completion of the second stage (6,600 sqm of office space) is scheduled for the end of 2013 or start of 2014. Asking rents are €13.00 per sqm.	6,600	Q4 2013 - Q1 2014
	**Grand Office** – YIT has started construction of a 21-storey office building in the Virsuliskes district. The 81-metre tall building will offer almost 9,200 sqm of office space by the start of 2014. YIT local companies will rent some space in this building.	9,200	Q1 2014
	**Quadrum Business City** – With a total area of over 70,000 sqm; this project plans to fill the shortage of A class office space in Vilnius by offering up to 40,000 sqm of top class space with BREEAM certification in the new Vilnius business district, on Konstitucijos Avenue. The Norwegian developer, company Schage Real Estate, has already demolished the old building and begun construction. The first stage will be completed in Q3 2015 and will bring 16,000 sqm of office space to the market. It is planned that DNB Bank will set up it's headquarters in the first stage of the new business centre, taking 10,000 sqm of the tallest 17-storey building there.	16,000 (I stage)	Q3 2015 (I stage)

Legal notes by SORAINEN

Rent is usually paid in advance, generally monthly. Rent is typically tied to the euro and indexed-based on local or European Union inflation (CPI). In addition to rent, tenants usually pay for utility services and a service charge for property maintenance. Payment of a security deposit is usually agreed. Triple net leases are not universally used. Double net leases are more common. As a rule, the owner is responsible for finishing leased premises. Typically, standard lease agreements are used in larger properties.

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



Lithuania

Retail market

Real estate market report 2013

High streets, bursting with cafes, see higher rents

Supply

No new large projects were completed during 2012 in Vilnius and only the major food retail chains (Maxima, Iki, Norfa) developed several new targeted super-market centres (2,000 – 4,000 sqm). In this respect 2012 was similar to 2011.

The total supply of modern shopping centres actually decreased in 2012, as shopping centre Flagman on Gedimino Avenue was closed for reconstruction and much of its retail premises will be transformed into offices. At the end of 2012 there were the 22 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable area of 409,800 sqm. Currently Vilnius has 0.77 sqm of shopping area per capita.

IKEA will open its very first store in the Baltic States in Vilnius in 2013. This 26,000 sqm project, near the airport, is the only large development in Vilnius to be completed this year. After some legal issues construction of shopping centre Olinda in Pasilaiciai district will be started in 2013. The project was split into two stages, which means the first stage with 16,000 sqm of useful area scheduled to be finished in 2014.

Demand

The vacancy rate of shopping decreased from 3.7% to 3.2% in 2012, and 65% of shopping centres enjoy full occupancy In 2012, as in 2011, the biggest demand was observed for small or mid-sized retail premises in popular shopping centres or premises in high streets of the city.

In 2012, the Lithuanian market was once again able to attract both new and world famous retail brands. The most important news is that the Swedish multinational

Q4 2012 (Vilnius)

Total mall space:
621,100 sqm

Total mall space per capita:
1.16 sqm

Total shopping space:
409,800 sqm

Total shopping space per capita:
0.77 sqm

Shopping centre vacancy rate:
3.2%

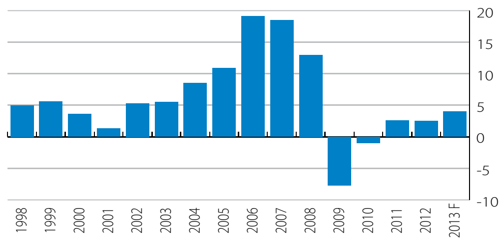
Retail rents for anchor tenants (sqm/month):
€7.00 - €12.00

Retail rents for medium sized units (sqm/month):
€10.00 - €35.00

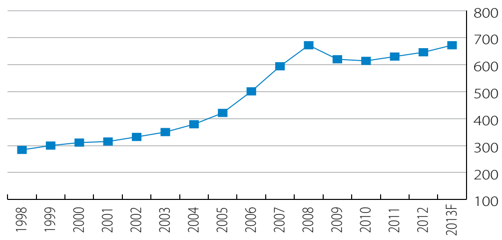
Retail rents for small sized units (sqm/month):
€30.00 - €60.00

High streets rents (sqm/month):
€13.00 - €38.00

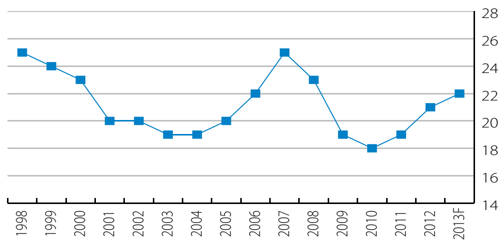
Average salary growth, %



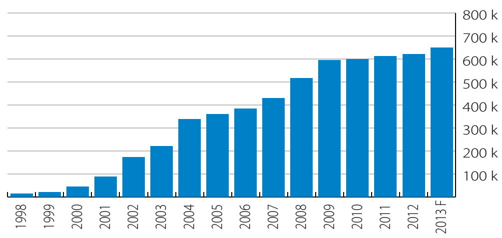
Average salaries (brutto), €



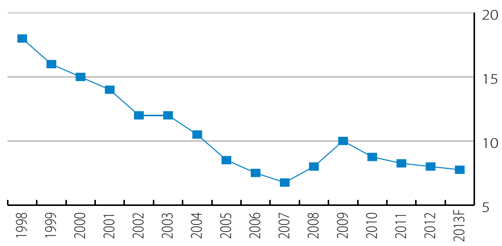
Average mall rents, €/sqm



Total mall space, sqm



Retail investment yields, %



retail-clothing company H&M is coming to Lithuania with the opening of shops in the Vilnius and Klaipėda Akropolis shopping centres in 2013, followed by another two shops in the Ozas and Panorama shopping centres, the second and third largest centres respectively, in Vilnius in 2014. Lithuania's largest clothing retailer, Apranga, has signed a franchise agreement with Burberry to open three stores in the Baltics. It is likely that the first Burberry store will be opened in one of the main shopping streets of Vilnius. The fast-food restaurant chain Subway has opened its first stores in Estonia and has not abandoned its development plans for Latvia and Lithuania. It is thought that about 20 fast-food restaurants could be opened in Lithuania operating on a franchise basis.

Also, the situation in the main retail streets is changing for the better. The recovery of such streets that started in 2011 continued in 2012. At the peak of the crisis (2009-2010) one in five retail premises on the streets were unoccupied (i.e. 20% vacancy), the number of vacant premises has now significantly decreased and further increase of rents has been recorded.

The fastest recovery is seen in the main retail streets of Vilnius (Gedimino Avenue, Pilies Street, Didzioji Street, Vokieciu Street), which continue to show improved occupancy rates. According to Ober-Haus, the total occupancy rate in these streets was 92.4%; this means that only one in thirteen premises (suitable for retail trade or various services) was not occupied. Gedimino Avenue continues have the lowest occupancy rate (90.7%), mainly because of the least visited stretch of the avenue from the intersection of Gedimino Avenue and V. Kudirkos Street to the Parliament Building. Vokieciu, Pilies and Didzioji streets can boast of the highest occupancy rates of 95.7%, 94.1% and 91.7% respectively. It has recently been observed that new brands or businesses have taken leases on previously vacant premises and new tenants are replacing older ones. Basically, these retail streets have already changed their face, which used to be associated with clothing, footwear and luxury goods. Today different products or services dominate in these streets. Nearly a third of the premises (28.9%) are occupied by cafes/bars, clubs, and fast food outlets, which attract new flows of people to these streets almost at any time of the day. This is particularly advantageous to enterprises engaged in other activities that require

New projects

	Description	Size (sqm)	Completion
	**IKEA** – The world's biggest home furnishings retailer IKEA will open its very first shop in the Baltic States in Vilnius. Vilnius will have a standard size store of 26,000 sqm near Vilnius international airport. Total investment in the furniture shopping centre is expected to be €30 million. There is further development potential on this site, so it is possible that in the future the IKEA store and neighbouring business park will cover a 16 hectare territory.	26,000	2013
	**Olinda** – Finnish real estate development and investment company Vicus Oy plans to construct a new shopping centre in the Pasilaiciai district. The first stage with 16,000 sqm of useful area will be finished in 2014. The anchor tenant will be a Prisma supermarket, which will occupy half of space. Total investment into the first stage is expected to be €12-€15 million.	16,000	2014
	**DomusPro Retail Park** – TK Development, the Danish property developer, plans to construct a retail park in Pasilaiciai district next to Ukmerges Street. According to the company, half of the 11,300 sqm space has been pre-leased and another 25% of the space will be leased before construction works begins. This retail park will house a foodstuffs retail outlet, as well as specialised furniture, interior finishing, leisure, and household goods shops, all of which will have separate entrances.	11,300	2014

LEGAL NOTES BY SORAINEN

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

Lease agreements may be invoked against third parties only if registered with the Real Estate Register. The tenant may terminate the lease agreement on change of ownership of the leased premises. In practice, this issue is attempted to be resolved by obtaining estoppels (upfront waivers of these rights) from tenants.

higher flow of people. Enterprises, which provide various services (offices, pharmacies, travel agencies, insurance companies, hairdressers, opticians and mobile communications outlets) occupy a significant proportion (26.9%) of the premises. Clothing and footwear shops are the third largest tenants and account for 20.1% of all premises. Jewellery, accessories and gift shops, which are an integral part of Pilies Street and account for more than one third of the premises of this street, occupy 12.5% of all premises. Branches of credit institutions (banks) account for 6.0% and shops offering food products and beverages – 5.6% of the premises.

Rents

In 2012, rents increased by 10% in Vilnius shopping centres, as rising sales volumes and improving occupancy rates increased the negotiating positions of owners.

Rents for a medium sized (150-300 sqm) unit in a major retail centre run from €10.00 to €35.00 per sqm and up to €50.00-€60.00 for small sized units. Rents for anchor tenants are €7.00 - €12.00 per sqm.

Rents for retail premises in the high Vilnius streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) went up by another 15% in 2012, after a 10% increase in rents in 2011. In the end of 2012, rents for medium sized retail premises (100–300 sqm) in such streets were €13.00 – €38.00 per sqm.

More substantial changes in rents or sales prices are not likely in 2013 and these should remain stable.

Investment

East Capital Baltic Property Fund II acquired the shopping centre Gedimino 9 on Gedimino Avenue. Earlier, Swedbank auctioned off the foreclosed 16,500 sqm high street shopping centre for EUR 23 million. The winning bid was submitted by Ektornet (a subsidiary of Swedbank). Details of East Capital's purchase are not disclosed, but it was be the biggest investment deal in Lithuania in 2012.

Lithuania

35% Jump in transport revenue boosts warehouse segment

Supply

Construction of three new warehouses were finished in 2012 and the total leasable area of modern warehousing premises in Vilnius and its surroundings increased by 4% to 427,500 sqm, due to the positive mood in the warehousing sector and improving results in the transportation and logistics sector in general. Also, slight increase in rents and drop of vacancies encourage developers to engage more actively by developing projects for the market or own needs.

Most (76%) of modern warehouses are located within the city limits. 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.

Large warehouses with an area exceeding 10,000 sqm currently make up 58% of the current supply. Warehouses with an area from 5,001 to 10,000 sqm make up 26% of the supply, and the remaining 16% are warehouses with less than 5,000 sqm.

Ober-Haus does not see any rapid increase of supply in the next few years. Yet while private investors hesitate to develop new projects, state-owned enterprises in con-junction with city governments continue the implementation of three major projects – Public Logistics Centres (PLC) – in Vilnius, Kaunas and Klaipeda. State-owned companies will prepare full infrastructure in these centres to attract private investors for warehouse development. It is expected that the actual construction work will start soon and the implementation of these projects will benefit the Lithuanian

Q4 2012 (Vilnius)

Total new warehouse space:
427,500 sqm

Warehouse vacancy rate:
3.0%

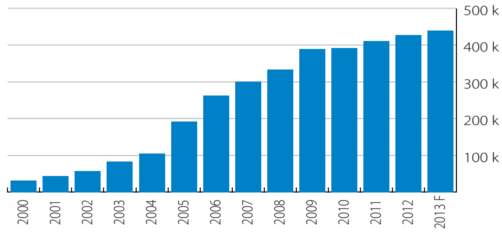
Annual warehouse rents change:
+8.0%

New warehouse rents (sqm/month):
€2.90 – €4.60

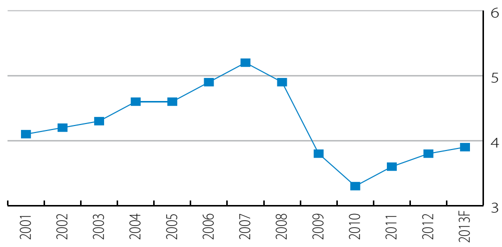
Old warehouse rents (sqm/month):
€1.20 – €2.90

Additional warehouse costs (sqm/month):
€0.90 – €1.20

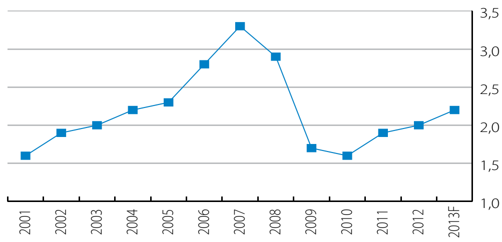
Total modern warehouse space, sqm



New warehouse rents, €/sqm



Old warehouse rents, €/sqm



transport system, transport and logistics companies, and city governments (by developing urban infrastructure, collecting additional taxes, etc.).

Demand

Revenues from warehousing and transport services increased by 35% in 2012. It is no surprise therefore that 2012 saw an increase in rents and occupancy rates for warehouses.

Vacancy dropped to 3.0% at the end of 2012 and the total vacant area available in Vilnius decreased to 13,000 sqm. The situation in the market is reflected by the completion of the third phase of the Airport Business Park project in the middle of 2012; these premises near Vilnius airport was almost fully leased on opening day (8,000 sqm warehousing premises with offices).

It is very difficult to find large vacant premises (4,000–5,000 sqm) in existing warehousing facilities, because currently the largest premises being offered are from 1,500 to 3,000 sqm. Total vacant space looks very small at the moment, but there are some companies which own big logistic centres and provide 3PL services and in some cases can offer additional space for the good tenants.

Rents

Rents for new warehouses increased by 8% in 2012, while old construction remained at the same level as year before. At the end of 2012, rents for new modern warehouses near the city centre were from €3.50 to €4.60 per sqm, depending on the size. Near or outside the city limits, rents range from €2.90 to €3.80 per sqm. Newly renovated premises are being offered at prices from €2.00 to €2.90 per sqm. Average and poor quality premises are from €1.20 to €2.00 per sqm. Additional costs for tenants are from €0.90 to €1.20 per sqm on average.

But current rent levels are still too low to encourage developers to resume construction of new projects, other than small or built-to-suit projects. As no new supply is coming to the market soon, Ober-Haus believes that low vacancy level will increase the rents in 2013.

Recent developments

	Description	Size (GLA, sqm)	Completion
	**Transekspedicija (Ukmerges highway)** – Local transporting-forwarding company Transekspedicija finished its 7,600 sqm logistic centre with office premises next to Ukmerges highway in early 2012. The major part of the property is for the company's own use for 3PL services.	7,600	Q1 2012
	**Airport Business Park (III stage)** – After successful completion of the first and second stages, Lithuanian developer Ogmios finished developing the third stage of its logistics park in Dariaus and Gireno Street, near the Vilnius Airport. The third stage has 6,200 sqm of warehouse premises and 4,100 sqm of office and retail premises. Warehouse premises are already fully leased (asking rents were €4.30 per sqm). The first and second stages, which were built in 2008-2009, are leased to DHL, Adictus, Avon Cosmetics and others.	6,200	Q2 2012

New projects

	Description	Size (GLA, sqm)	Completion
	**Trilogija** – Homburg Lentvaris, which is owned by Homburg Group, a foreign real estate development and investment company, plans to develop Trilogija, a warehousing, logistics and wholesale park on a 5 ha plot of land in a strategically attractive site in Vilnius (near the highway running between Vilnius and Klaipeda). The park will comprise three individual buildings with the total area of 20,000 sqm. The park is oriented to small and medium-sized wholesale companies who need a small warehouse, office and showroom in one place. During the first stage, it is planned to construct one building of 7,600 square metres. Asking rents for the small sized warehouses are from €4.60 to €5.20 per sqm, and office/retail space €6.30 - €7.20 per sqm.	7,600	N/A

Investment

In Q3 2012 Ektornet (the real estate subsidiary of Swedbank) sold its industrial complex of 8,700 sqm situated in the industrial area of Kaunas to Finland's metal production company Peikko Group. Peikko Lietuva has premises of 3,000 sqm in Kaunas and the new production premises will be double in size compared to the current and enable a significant growth in production. Transaction details have not been disclosed.

Legal notes by SORAINEN

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

House prices up 5%, while flats are flat on new supply

Prices

Flat prices in Vilnius dropped by 1.4% in 2012, after minor increase of 0.7% in 2011, according to the Ober-Haus Lithuanian apartment price index. This means that apartment prices have returned to the October-November 2010 level. Despite overall decrease of flat prices in the market, at least a 1-2% increase was recorded for old and new apartments in central part of Vilnius.

By the start of 2013 prices of newly built apartments in residential districts ranged from €850 to €1,550 per sqm without final fit-out.

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. Apart¬ments sold shell require average of €150 per sqm to fit-out with floors, painting, lights, bathrooms and kitchen to a bare economy standard.

By the start of 2013, a standard two-room apartment (45-50 sqm) in a Soviet-era concrete block building located in a residential district cost from €36,000 to €48,000. Prices of apartments which are in old brick buildings are 10-15% higher. The lowest price for old construction unrenovated apartments in Vilnius residential districts is €600 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €950 to €1,800 per sqm for unrenovated and from €1,400 to €3,200 per sqm for renovated apartments. Prices of new construction apartments are now offered for €1,400 to €2,900 per sqm without final fit-out.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas, Valakampiai), old apartment prices range from €750 to €2,100 per sqm. Prices of newly built apartments range from

Q4 2012 (Vilnius)

Annual appartment price change:
-1.4%

New apartments built:
2,003

Average new apartment area:
57.0 sqm

Economy class new apartment prices (sqm):
€850 – €1,300

Medium class new apartment prices (sqm):
€1,300 – €1,700

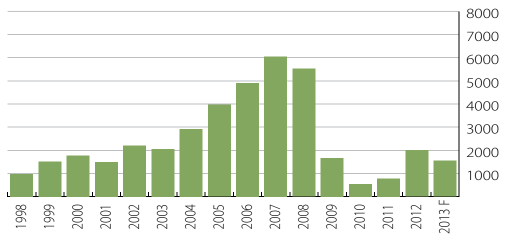
Prestigious class new apartment prices (sqm):
€1,800 – €2,900

Final apartment fit-out:
€125 – €200

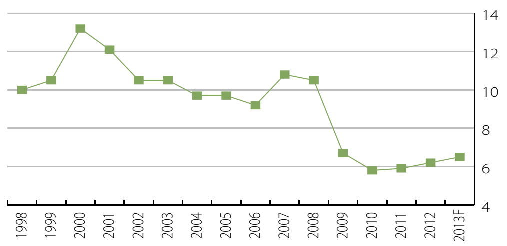
Residential investment yield:
3.9%

Residential prices in city centre, €/sqm

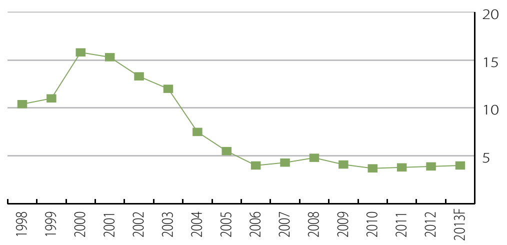
Completed units



Residential rents in city centre, €/sqm



City centre residential investment yield, %



Residential market

€1,200 to €2,000 per sqm without final fit-out.

In 2012, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate Vilnius surroundings have increased by 5%.

Buyers still are mostly interested in new construction houses in the outskirts of the city. Such houses are usually attractive due to their lower price and fairly short distance to the city centre. Detached houses (150-200 sqm with land plots of 600–1,000 sqm) located in a new housing area with full infrastructure in Vilnius district or near city limits (typically 10–20 km from the city centre) are sold as shell at prices ranging from €100,000 to €150,000. Prices for semi-detached houses (100-125 sqm with land plots of 300–400 sqm) range from €87,000 to €120,000. Full final fit out generally costs €125-€150 per sqm or more.

The price for fully finished detached house within the city limits (city residential districts) averages between €145,000 and €290,000, and from €240,000 to €550,000 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.

If the number of potential buyers remains stable or grows insignificantly, it is very likely that by the mid of 2013 the number of unsold apartments in the capital city may increase once again. In a situation like this, developers and their financers are likely to postpone the start of new projects and the recent miniboom of new construction in Vilnius is likely to slow down next year. Furthermore, with competition among project developers, it is also very likely that the buyers will benefit from attractive housing purchase conditions, as some developers can offer additional discounts in the start or mid of 2013. Also, there are no signs of bigger new apartments supply in 2014, so in light of current situation in the market and forecasted indicators of economic development, Ober-Haus believes that in 2013-2014 housing prices (old and new construction) will show increase up to 3-5%.

Supply

The number of newly built flats jumped 2.5 times in Vilnius in 2012. According to Ober-Haus data, 2,003 apartments (in 29 different apartment building projects) were constructed in the capital in 2012, which is a substantially more than the number of apartments constructed in 2011. There was no noticeable increase in other cities.

In recent years, developers built flats with smaller floor areas, and therefore smaller total prices. As can be seen, from 2003 to 2010, the average floor area of newly constructed apartments was reduced by 4.9 sqm, i.e. by nearly 8%. The average floor area of apartments built in 2011 and 2012 was only 55.0 and 57.0 sqm, i.e. 10.8 and 8.8 sqm less than those built in 2003.

Plans are that further 1,500 - 1,600 new apartments will be completed in Vilnius by the end of 2013. Also, the so-called loft projects are also expanding their market share fairly rapidly of late and attract buyers with their non-standard spaces and lower prices. In 2012–2013 the market will be supplemented with a total of approximately various-purpose 400 premises in projects of this type. Although lofts normally do not have the status of residential premises and do not always meet technical and legal requirements set for apartments constructed in apartment buildings, they are becoming a fairly attractive alternative (normally for younger buyers) to standard homes and in a certain way will compete with the standard homes segment. Several of the loft projects that have been completed recently and properly launched have found potential buyers and have a chance of being sold successfully.

Analysis of the supply of new apartments in Vilnius allows to conclude that developers are focusing on cheaper, economy and medium class residential property constructed in residential districts of the city or near the central part of the city, which is currently attracting the greatest interest from buyers. In many cases, a lower selling price was and has remained a key indicator in choosing homes. Looking at the apartment projects being currently constructed in Vilnius, the major portion of the coming supply of apartments will be economy class (the cheapest) apartments that partially finished sell at 850 to 1,300 EUR/sqm and account for up to 50% of the total supply of apartments. The aggregate supply of medium class apartments — the selling price of which (partially finished) is between €1,300 and €1,750 per sqm — is just lower compared to economy class and accounts for 42% of the total supply. The more expensive apartments in the central part of the city or the other prestigious districts account for the remaining 8% of supply. Current supply of such apartments is relative low, but the demand is also limited, which is not surprising because their price is in excess of €1,750 per sqm and can reach €2,900-€3,000 per sqm.

In 2012, 126 detached and semi-detached houses were built by developers in and around Vilnius, which is a 48% increase compared to 2011, but 3-4 times less than were built in 2007-2008.

Demand

Despite various price changes (positive and negative), the number of residential property transactions in all the main cities of Lithuania experienced a rise since 2010.

Significant growth in the number of apartment transactions that was recorded in the previous years seems to have run out of steam, but still showing some stable growth. In whole 2012 the number of deals of apartments in Vilnius was 7% and number of deals of houses was 4% higher than a year ago. In 2012, an average of 560 deals for apartments and 33 deals for houses per month were finalised in Vilnius. Compared to 2010 or 2011, the pace of growth in the number of transactions in statistical terms is decreasing, but we should not forget that this is determined by the comparative base that is increasing on a yearly basis.

The number of unsold new apartments over the past few years depended not only on overall market activity, but also on the volumes of construction. According to Ober-Haus data, since Q3 2011 an increase in the number of unsold apartments on the Vilnius primary market is recorded for the fifth consecutive quarter. This increase results from the increasing number of constructions of new apartment buildings in the capital. From Q3 2011, the number of unsold new apartments in completed apartment buildings in Vilnius increased by 46%—from 1,058 to 1,546 apartments in the end of 2012.

The largest portion of unsold apartments is in residential areas of Vilnius. These account for as many as 72% of the total supply of unsold apartments. The portion of the unsold new residential property in the central part of the city and the Old Town (the administrative areas of Naujamiestis and the Old Town) is considerably smaller and accounts for 23%, whereas the remaining 5% of unsold properties are offered in the prestigious areas of Vilnius (Antakalnis, Zverynas and Valakampiai). A clear leader in the number of unsold apartments is the residential area of Pasilaiciai. Over 20% of apartments remain unsold in this district i.e. a fifth part of all unsold apartments in Vilnius. However, this should come as no surprise, because over the past 5 years, the largest volume of apartment construction was carried out in this area.

As living space per person in Lithuania (26.5 sqm) and Vilnius (25.4 sqm) is 35-40% lower than in Western European countries, there is still great pent-up demand for new residential space, especially in the most active Vilnius market.

The Mortgage Market

The total value of outstanding residential mortgages dropped by 1.1% to €5.75 bln in Q3 2012. Currently in Lithuania, the value of household loans equals about 25% of GDP. This rate is one of the lowest compared to other EU countries (except Romania and Slovakia). Also Lithuanians are much less leveraged than their Baltic neighbours, in Latvia and Estonia.

Interest rates for acquiring homes showed a significant drop in 2012. In the end 2012 interest rates in the local currency, the litas, on average was 2.6%. The majority of loans are still taken in euros, and the average interest rate on new mortgage loans was 2.4%. Current interest rates in Lithuania are at the lowest level ever recorded.

But the rate of borrowing for housing that has begun to rise again and has shown considerable growth recently is now steadier. According to the data of the Association of Lithuanian Banks, in 2012, the key credit institutions of the country provided home loans worth around EUR 378 million, which is 12.5% less than in the same period of last year. This decrease has most likely resulted by approved Regulations for Responsible Lending by the Bank of Lithuania at the end of 2011. The guidelines for lending obligate credit institutions to evaluate borrowers in a much more stringent manner and to raise the requirement for the size of own capital available (no more than 85% of the value of property being pledged) when taking out home loans.

Rents

Traditionally, in the late summer and early autumn period, activities in the apartment rental market significantly increase in Vilnius and other major Lithuanian cities. The number of apartment and house rental transactions finalised by Ober-Haus during Q3 was up 70% compared to Q2 of 2011.

Taking advantage of the increased seasonal demand, owners of the properties that were most in demand raised rents by 10-15% (€30 - €45 per month) depending on the property and location. The cheapest one-two room apartments in Vilnius accounted for the largest portion of the rental market. However, the demand for property rentals in late September and early October began to decline because the majority of tenants had already found homes to rent and heating season made owners review rental prices. At the end of the year the reverse trend is generally observed: a rise in supply and fall in rental prices.

Ober-Haus expects residential rents will keep the same tendencies as their prices in 2012, i.e. will remain stable.

Typical two-room old construction apartment in Vilnius residential districts rents for €130 to €200 per month. The same size new construction apartment rent starts from €230 per month. Maintenance costs are additional.

Rents for fully equipped two-room apartments in the central part of Vilnius range from €170 to €400 per month, and for three-room apartments from €220 to €700 per month. Rents for bigger and good equipped apartments in the Old Town can be from €800 to €1,000 per month.

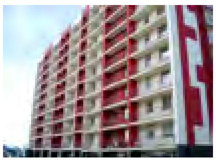
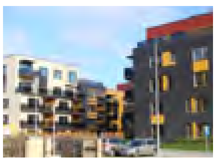
Houses of 100–200 sqm in the outskirts and living suburbs of Vilnius are usually offered for rent at €400 to €800 per month. Prices in prestigious districts and city centre or Old Town are higher and vary from €650 to €1,700 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and city centre or Old Town are higher and vary from €750 to €1,700 per month. Maintenance costs are additional.

Ober-Haus expects residential rents will keep the same tendencies as their prices in 2013, i.e. will remain stable.

Legal notes by SORAINEN

Residential leases are regulated by Lithuanian law more strictly than commercial leases. Lithuanian legislation establishes specific rules related to the condition of leased residential premises, the right of family members to reside with the tenant, termination of the lease agreement, and eviction of the tenant. However, rent fees may be agreed freely. Institutional investors, who offer residential property on lease, are almost not available at all.

Recent developments

	Description	Price (sqm)	Completion
	**Konarskio Apartments** – Local developer Vilbra has finished a 9-storey apartment building in the Naujamiestis district on S. Konarskio Street. One to four room apartments range from 36 to 110 sqm. Construction of 90 apartments and commercial premises was completed in Q2 2012. Sales prices of the available apartments without fit-out are from €1,500 to €1,900 per sqm. Over 90% of the apartments have been sold or reserved.	€1,500 - €1,900	Q2 2012
	**Ozo Park (3B block)** – In the territory of Ozo Park, near Siemens Arena and Vichy Aquapark, Realco finished another one residential building with 117 apartments in the end of 2012. Almost 40% of the apartments are sold by the start of 2013. Sales price of the available apartments without fit-out are from €1,200 to €1,450 per sqm. Price for one parking space – €5,800.	€1,200 - €1,450	Q4 2012
	**Veikme Apartments** – In the Q2 2012 local company Veikme has completed construction of 89 prestigious apartments on M. K. Ciurlionio Street, near the city centre and Vingis park. The use of energy-efficient building technologies and an experience of construction of passive houses are applied to this project. Apartments from 38 to 102 sqm with some commercial premises are offered in this 4-9 storey building. The total area of the project - 14,200 sqm. Sales prices of the available apartments without fit-out are from €2,100 to €2,850 per sqm. Almost 90% of the apartments have been sold or reserved in the start of 2013.	€2,100 - €2,850	Q2 2012
	**Pavasaris** – After successful completion of six 6-9 storey residential blocks in Jonazoliu Street, next to the Lazdynai hospital during 2007-2010, the new residential block (K8) was finished in the end of 2012 with 150 new apartments. Sales prices of the available apartments in last built block (K-6) without fit-out are from €1,100 to €1,250 per sqm..	€1,100 - €1,250	Q4 2012
	**Valakampiu Vingis** – In the end of 2012 local developer has finished a 6-storey building in the Antakalnio district (Valakampiai), O. Milasiaus Street. The building comprises 60 apartments with sizes from 31 to 127 sqm. The apartments are sized from 39 to 70 sqm. Over 50% of the apartments have been sold or reserved. The sales price of the available apartments without fit-out are from €1,350 to €1,650 per sqm.	€1,350 - €1,650	Q4 2012
	**Eitminu Street** – In the end of 2012 local company Anreka has finished another residential building with 108 apartments on Eitminu Street, in the Pasilaiciai district. 1-3 rooms apartments range from 30 to 75 sqm. Sales price of the available apartments without fit-out are from €925 to €1,200 per sqm. Over 95% of the apartments have been sold.	€925 - €1,200	Q4 2012
	**Lvovo Street** – In the mid-2012 construction and development company Statybu Gausa has finished its residential project in the new city center on Lvovo Street. The 7-storey residential building comprises 41 apart¬ments with sizes from 44 to 83 sqm. Selling prices without fit-out range from €1,500 to €1,550 per sqm. 60% of the apartments have been sold.	€1,500 - €1,550	Q2 2011
	**Antakalnis' Terraces** – Local developer MG Valda is converting the 5 ha Lithuanian Film Studios territory in Antakalnis district into modern residential quarter. The first stage of eight residential blocks with 189 apartments was completed in Q3 2012. One to five room apartments range from 40 to 130 sqm, which will have balconies or individual terraces. In the start of 2013 95% of the apartments were sold. Sales prices of the available apartments without fit-out are from €1,300 to €1,700 per sqm.	€1,300 - €1,700	Q3 2012

New projects

	Description	Price (sqm)	Completion
	**Santariskiu Namai** – One of the biggest local developers Eika, continues to develop area next to Verkiai region park, in Santariskiu district. After completion of first stage with 7 residential blocks (168 apartments), currently this company is finishing the second stage. Second stage offers wide range of 30–100 sqm sized apartments and semi-detached houses in low rise buildings. Sales prices of the available apartments without fit-out are from €1,450 to €1,600 per sqm.	€1,450 - €1,600	2013
	**Helios Pilaite** – Local developer Via Sportas (Helios group) has resumed construction of 9-storey residential building in Pilaites district. The building comprises 112 apartments with commercial premises on the ground and second floor. 1-3 rooms apartments range from 39 to 66 sqm. Construction will be completed by mid-2013. Sales prices of the available apartments without fit-out are from €1,100 to €1,400 per sqm.	€1,100 - €1,400	2013
	**Lighthouse** – Local developer MG Valda has started the construction of a new residential project in Fabijoniskes district. The company will offer 156 apartments in three blocks, which will be completed by the end of 2013 – start of 2014. The 7 and 9-storey residential buildings comprise apartments ranging in size from 38 to 90 sqm. A closed yard, and 2 floors of underground parking will connect the blocks. Apartments will be sold with final fit-out in the Scandinavian style. The project will be based not only on Scandinavian-type architectural solutions, but also will have a smart house system, which will allow residents to reduce their costs efficiently.	N/A	Q4 2013
	**Loft Town** - One of the biggest lofts projects in Lithuania. The buildings next to the Kalvariju and Kareiviu streets crossroad in Vilnius will shortly remind a city in the city: there will be equipped apartments, studios, lofts and working rooms of different sizes. Some luxurious flats will be equipped with direct entrances from the garages located under them. First stage will be completed in Q2 2013. Asking prices for apartments, studios and lofts without fit-out are from €900 to €1,400 per sqm.	€900 - €1,400	2013
	**Grigiskes (Kunigiskiu Street)** - In the end of 2012 construction of first 4-storey residential building in Grigiskes city, which belongs to Vilnius city, was finished. The first building delivered 20 apartments, sized from 37 to 77 sqm. Sales prices of the available apartments without fit-out are from €900 to €1,000 per sqm. 60% of the apartments have been sold. The second and the same size building will completed in the first half of 2013.	€900 - €1,000	2013
	**Bendoreliai** – Local developer Markeris has finished construction of 36 row houses in Bendoreliai District (12 km from Vilnius City centre), next to the Old Ukmerges Road. Partially furnished 109 sqm row houses with land plots of 200-300 sqm were successfully sold for €87,000-€92,000. Another 12-18 row houses will be built in 2013 with selling prices of €92,000 - €97,000.	€845 - €890	2013

Land market activity has increased by 18% in 2012

Prices

There were no positive changes in the prices of residential and commercial land in 2012. Basically, prices for land parcels for bigger developments remained stable, because the supply and demand balance remained the same – there is not sufficient interest in larger parcels; by contrast there is higher demand for smaller parcels for the development of individual projects.

Only increased activity and another 5-10% increase in prices were recorded in the agricultural land market in 2012. Interest in agricultural land, which started to grow in 2011, continued through 2012. Both direct users of the land (farmers), and speculators, who hope to profit from reselling the land, were interested in agricultural land. The main reason for this interest is that these parcels of land are relatively inexpensive and, depending on location, range from €1,100 to €2,900 per hectare.

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

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

Prices for plots for private homes with partial or full infrastructure didn't change in 2012, and are €19 - €35 per sqm in the cheaper suburbs, to as high as €45 - €85 per sqm in Riese, Bajorai, Kalnenai, Gulbinai.

Q4 2012 (Vilnius)

Annual land price change (agricultural): +7.5%

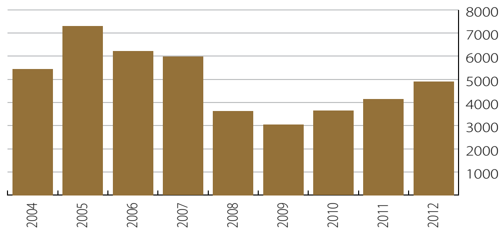
Total land transactions change (Vilnius city & district): +18%

Land prices in city centre for residential development (sqm): €300 – €1,500

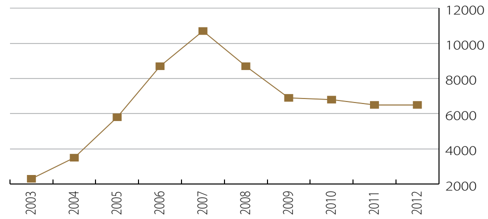
Land prices in residential districts for residential development (sqm): €60 – €200

Land prices in city suburbs for private homes (sqm): €19 – €85

Land transactions in Vilnius city & district



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



Demand

Total land transactions increased 18% in 2012, to 410 transactions per month in Vilnius City and in Vilnius District, after growing 14% in 2011, according to the data of the Central Registry.

New amendments to land tax law, which have come into force this year, whereby the tax will be calculated on the basis of the average market price of the parcel of land, are likely to lead to an increase in tax payments for land owners. This is particularly relevant for those individuals who have land in urban areas, since the change in methodology for calculating the value of the land may significantly increase its price and at the same time the tax burden will increase. It is likely that this may affect future land prices.

News

From the beginning of 2013, the new land tax will be calculated on the basis of the market value of the land at a rate of 0.01%-4%. Tax rates will be set by municipalities. Last year, when the law was adopted in Parliament, it was argued that the new tax would help in the fight with the owners of neglected plots of land. Municipalities set an average 2% tax rate for such land. The land valuation methodology also changes and the average value of the parcel of land will be calculated according to land value maps. Valuing the land according to the new average market value means that the value of a particular plot can increase significantly. As a result, the land tax on parcels of land in central and other prestigious areas of the cities may rise considerably. That is why there will be a transitional period of 5 years for this tax, which means that tax increase will be reduced by 80% in 2013, 60% in 2014, 40% in 2015 and 20% in 2016.

In April of 2011, the European Commission allowed the Lithuanian Government to extend its prohibition on the sale of agriculture land in Lithuania to foreigners until 2014. This restriction is not applicable to foreigners who are permanent residents in Lithuania and have been engaged in agricultural activity for at least three years.

Legal notes by SORAINEN

Private land is usually leased for agriculture. Lease of state-owned land under privately held buildings is very common.

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

Investments in land by non-Lithuanian citizens are not restricted except for direct acquisition of agricultural and forestry land. The European Commission has approved an extension of this restriction, which will cease on 30 April 2014.

In addition to the existing Kaunas and Klaipeda Free Economic Zones, five new free economic zones were established in 2012 in Panevėžys, Šiauliai, Marijampolė, Kėdainiai and Akmenė. All of these are planned to be managed by private management companies.

Lithuania

Real Estate taxes & legal notes

2013

ACQUISITION

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

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

• Notary fees vary from 0.2% to 0.6% on the value of real estate; however, the fees shall not exceed LTL 20,000 (approx. EUR 5,800) for one transaction;

• State duties imposed upon the registration of a transfer of real estate are typically not material and vary depending on the real estate value (up to LTL 5,000 (EUR 1,450)).

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

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

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

RENT

VAT

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

Whereas rent is VAT-exempt according to the general rule, a VAT payer is entitled to opt for taxation, i.e. VAT can be charged on rent of the property if the customer is registered for VAT purposes and performs economic activities. From 2012, VAT may be charged on rent of real estate to legal persons established under diplomatic and consular arrangement or to institutions of the European Union, the EIB and the EIC, even if these legal persons are neither VAT-registered nor do they perform economic activities. If a company exercises this right in respect of one rent transaction, the same VAT treatment will automatically apply to all analogous transactions for the following 24 months.

Corporate Income Tax (CIT)

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

Withholding Tax (WHT)

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

Personal Income Tax (PIT)

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

SALE

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

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

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

VAT

According to the general rule, sale of new buildings (in use for less than 24 months after their completion), unfinished buildings, building land or land with new buildings is subject to VAT at the standard rate of 21%. Sale of buildings completed or re-constructed earlier than 24 months ago is VAT-exempt, with an option to apply VAT if the purchaser is engaged in economic activities and registered for VAT purposes. From 2012, the option also applies if the purchaser is a legal person established under diplomatic and consular arrangements or an institution of the European Union, the EIB and the EIC. The right of option is implemented in the same way as explained in section "RENT".

Corporate Income Tax (CIT)

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

Withholding Tax (WHT)

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

Personal Income Tax (PIT)

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

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. As of 1 January 2013, the tax rate may vary from 0.3% to 3%depending on municipalities. Residential and other personal premises of individuals is exempt from tax where the total family-wise-ownership value of LTL 1 million (EUR 290,000) is not exceeded, whereas the excess value is subject to 1% RET.

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

LAND TAX

Land Tax applies on land owned by companies and individuals, except for the forest land. For the periods until 1 January 2013 the tax rate was 1.5% and it was applied on the land value determined by the State Enterprise Centre of Registers (i.e. typically, the value is much lower than the actual market price of land).

As of 1 January 2013, land tax rates range from 0.01% to 4% depending on local municipalities. The tax base is the average market value determined according to the mass valuation performed not rarer than every 5 years. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

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

LAND LEASE TAX

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

pwc

Introduction

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

Title to Real Estate, Real Estate Register

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

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

Acquisition of Real Estate

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

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

Letter of Intent and Heads of Terms: Ordinarily, a letter of intent (LOI), heads of terms (HOT), or preliminary agreement details what the parties have to do before entering into the main agreement for acquisition of real estate, the main terms and conditions of the contemplated transaction, and liability for not entering into the main agreement.

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

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

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

Principal legal structures

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

Share deal

Acquisition of a target holding real estate may be performed either via an SPV incorporated in Lithuania or elsewhere.
The share sale-purchase agreement need not be notarised or publicly registered, unlike an agreement on sale-purchase of real property.
Issues usually to be tackled while structuring the REI transaction as a share deal include, eg: target company history, employees, unnecessary assets, subsidiary operations, transferability of loan facilities, deferred taxes and financial assistance.

Asset deal

Asset deals usually require a narrower scope of due diligence review than share deals, and are more tax-transparent.
An agreement on sale-purchase of real estate must be certified by a notary public. Failure to notarise an asset transfer agreement makes it ineffective. Notarisation and registration of transfer with the Real Estate Register increase the transaction costs.
For transfer of certain real estate the parties may be required to meet particular procedures, eg for sale of buildings situated on land owned by a third party, a permit from the land owner must be obtained; prior to sale of real estate – objects of cultural heritage as well as real estate under construction – the respective authorities must be notified and specific documents must be obtained.
Another bottleneck of an asset deal over commercial property is the statutory right of a tenant to terminate the tenancy agreement on change of ownership of the leased property. In practice this issue is tackled by collecting estoppels from tenants.
Asset deals may involve recharacterisation risk, ie a REI transaction structured as an asset deal may be recharacterised as sale of a business. As a result, investors may be exposed to additional risks related to transaction validity and liability to creditors and employees of the former owner of the target.

Sale-leaseback

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

Forward purchase

Projects under development have more often been structured as forward purchase transactions. In these cases the investor undertakes a forward commitment to purchase the property. The developer usually acts as a developer until completion of the project or may act as project developer under a development contract while title to the target property on construction goes directly to the investor.
These REI investment structures are rather complex, may involve particular elements of share and asset deals, and usually involve other arrangements related to project development (eg development agreements, escrow arrangements).

Joint venture

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

Public-private-partnership projects (PPP)

PPP projects in Lithuania may take the form of a concession, Private Finance Initiative (PFI) or mixed capital venture.
The first pilot PFI project (development of a public secondary school) has successfully passed the construction stage; however other pilot PFI projects are still in the tender negotiation stage or even at the stage of tender announcement. A number of new PFI projects are at feasibility study stage only.
Therefore, despite the optimism of investors at the beginning of the year, development of PPP projects has not progressed as fast as expected.

Form of Agreements

Share transfer transactions must be in written 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 Requirements

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

Due Diligence

Legal due diligence of target real estate is strongly advisable before investment or disinvestment. From the perspective of both seller and buyer, due diligence forms a basis for contract negotiations, risk distribution, and verification of purchase price. Due diligence checks on eg ownership title, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for supply of utility services.

Pre-emption Rights

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

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

Typical Purchase Price Arrangements

Purchase price payment arrangements may differ depending on agreement between the contracting parties. If no credit or third party financing is involved, the purchase price 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.

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 LTL 20,000 (approx EUR 5,792) for transactions that involve one real estate object and at LTL 50,000 (approx EUR 14,481) for transactions involving two or more real estate objects. State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired and depends on the average market value of the real estate. State duty varies from LTL 10 (approx EUR 3) to LTL 5,000 (approx EUR 1,448) per object.

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

Concentration Control

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

An anticipated concentration must be notified to the Lithuanian Competition Council, whose consent to a concentration is required where the combined total income of the undertakings concerned (received from the Lithuanian market) is over LTL 50 million (approx EUR 14.5 million) for the financial year preceding the concentration and the aggregate income of each of at least two undertakings concerned (received from the Lithuanian market) is over LTL 5 million (approx EUR 1.4 million) for the financial year preceding concentration.

Restrictions

Restrictions on Acquiring Real Estate

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

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land and forest unrestrictedly except for acquisition of agricultural land in which case the total area of agricultural land possessed by either a natural or a legal person is limited to 500 ha.

Foreign legal and natural persons may acquire title to land if they comply with European and Transatlantic criteria. Foreign legal entities are assumed to comply with these criteria, if they are established in:

• Member States of the European Union or states parties to the European Treaty with the European Communities and their Member States; or

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

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

• citizens or permanent residents of any of the states specified above; and/or

• permanent residents of Lithuania but not holding Lithuanian citizenship.

However, even foreign natural and legal persons complying with European and Transatlantic criteria may not acquire agricultural and forestry land for a transitional period, except:

• foreign natural persons who permanently reside and are engaged in agricultural business in Lithuania for at least three years; and

• foreign legal persons and other foreign organisations with established representative or branch offices in Lithuania.

As the European Commission has approved the extension of the restriction, this transitional period will cease on 30 April 2014.

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

Public Restrictions on Use of Real Estate

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

Property Management

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

Lease Agreements

General

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

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

Duration and Expiry of Lease Agreement

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

Generally, either party may terminate a lease of an indefinite term by giving three months prior notice, unless the parties agree on another notification period. A residential lease of indefinite term can be terminated by the landlord 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.

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

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

Lease Payment and Accessory Expenses (Utilities and Service Charge)

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

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

Real Estate Funds

From March 2008, it became possible to establish real estate collective investment undertakings (both closed-end and open-end) in Lithuania. However, investment possibilities through real estate collective investment undertakings are still under-exploited in Lithuania.

Mortgage

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

Foreclosure of mortgage is no longer carried out through the courts but instead by applying to a notary for an enforcement record. A possibility to foreclose on a mortgage by transferring the title to the mortgaged immovable property to the creditor is foreseen by the amendments to the Civil Code.

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

Planning Requirements and Construction

Planning

The main requirements for development of a land plot and activities permitted thereon are established by a special territorial planning document – a detailed plan. Approval of detailed plans lies within the competence of local authorities. As a rule, detailed plans are established for city areas and rural municipality areas where construction is intended. A new detailed plan must be approved in case of change of purpose of the land and the main land use solutions, such as height, development density and intensity. Establishing detailed plans involves evaluating the results of detailed planning, as well as public hearings and discussions. The process of approving detailed plans is still lengthy and may take approx from six months to over one year.

Construction

According to existing regulation, erection, modification and demolition of buildings and other structures (depending on the complexity of intended works) require either documents authorising construction activities or design approval (if obligatory).

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

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

A certificate of energy efficiency of a building should be received before issuance of the certificate on completion of construction or confirmation of compliance. Moreover, as of 9 January 2013, the certificate of energy efficiency of the building should be received before sale or lease of the property. The certificate should be placed in a visible location in hotel, administrative, commercial, services, catering, transport, cultural, educational, sports, medical treatment and recreational buildings (when the area used is more than 500 sqm).

The contractor, the architect and the technical supervisor of the construction are liable for collapse of the object or defects, if the object collapses, or if defects are discovered within five years, or ten years in case of defects in hidden structural elements (eg internal structure, engineering infrastructure) and 20 years in case of intentionally concealed defects. These time limits begin on the day of issuance of the certificate on completion of construction.

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

Insolvency

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

Restructuring

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

Bankruptcy

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

Distressed Assets

Due to economic decline during 2008-2010, the market has experienced growth of property of special status – distressed assets. Any transaction involving such property requires special knowledge and tools. The legal environment has proved able to meet these special needs by providing flexible solutions for due diligence, takeover (by enforcement, including special mortgage rules, during bankruptcy procedures, transfer under mutual agreement), management (tailored leases) and following transfers.

Latvia

2013

Latvia

Country overview

Real estate market report 2013

Geography

Coordinates:	57 00 N, 25 00 E
Area:	64,600 km^2
Border countries:	Belarus, Estonia, Lithuania, Russia
Capital:	Riga

Currency

Currency:	Latvian Lats (1 LVL)
Curr. rate:	1 € = 0.7028 LVL

Social indexes

HDI:	0.80
Gini (2003):	37.7
Ethnic groups:	62.1% Latvians, 26.9% Russians, 3.3% Belarusians, 2.2% Ukrainians, 2.2% Poles

2013 forecasts

GDP growth, %:	3.8
GDP per capita, €	11,100
Average annual inflation, %:	2.1
Unemployment rate, %:	12.2
Average montly gross wage, €	717
Average montly gross wage annual growth, %	4.5
Retail sales growth, %	6.6

Population	2007	2008	2009	2010	2011	2012
Latvia	2,208,800	2,191,800	2,162,800	2,120,500	2,074,600	2,041,800
Riga	702,600	697,300	687,400	673,400	659,400	650,500
Daugavpils	103,300	101,700	98,700	96,000	93,600	91,500
Liepaja	82,400	81,700	80,700	78,900	76,900	75,400

Economics	2007	2008	2009	2010	2011	2012
GDP growth, %	9.6	-3.3	-17.7	-0.9	5.5	5.6
GDP per capita, €	9,516	10,509	8,682	8,674	9,873	10,314
Private consumption growth, %	29	16	-16	-8.8	5.3	-
Average annual inflation, %	10.1	15.4	3.5	-1.1	4.4	2.3
Unemployment rate, %	6.0	7.5	16.9	18.7	15.4	13.4
Average monthly gross wage, €	566	682	656	633	660	686
Average gross wage annual growth, %	32.0	22.5	-2.3	-7.5	4.5	3.9
Retail sales growth, %	22.6	3.6	-27.3	-2	4.6	9.5
FDI stock per capita, €	3,225	3,553	3,628	3,701	4,223	-

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

Economy bounces back. Latvia hopes to join eurozone in 2014.

Economy

After GDP decrease of 0.9% in 2010 when Latvia started to come out of economic crisis, Latvia had significant economic growth of 5.5% in 2011, 5.6% in 2012, and forecasts are for continuing growth of 3.8% in 2013.

Inflation, which prior to the crisis hit a high of 15.4%, ran at 4.4% in 2011, 2.3% in 2012 and is expected to be just 2.1% in 2012 and 2013.

Due to support for households VAT was decreased from 22% to 21% on July 1, 2012.

Latvia's banking sector has become more stable and transparent after the largest bank Parex was nationalized during the crisis, and the bankruptcy of the mid-sized Latvian bank Krajbanka at the end of 2011.

Latvia's national currency the lat remains peg to the euro at the rate of 0.7028 Latvian lats (LVL) to one euro (1 LVL = 1.4299 EUR).Latvia will join the eurozone and use the euro as its national currency on January 1, 2014, if the Maastricht criteria will be met.

Latvia

Vacancy drops on lack of new supply

Supply

Just two new office buildings were delivered in 2012 with gross leasable area of 7,448 sqm. Jupiter centre located at Skanstes Street, the new CBD of Riga, with GLA 6,360 sqm. The second is a pilot project of a passive office building in the Riga Industrial Park with GLA 1,088 sqm. It is one of the first public buildings in Latvia where the applied materials, technologies and technical solutions shall provide low energy consumption during the exploitation period. Total modern office stock now stands at 679,000 sqm.

New developments are entering the market slowly. Developers are trying to find the best ratio between construction costs, efficiency and quality. For example one of last year's projected office building Z Towers are looking for the best use for their extensive project, last intention is to develop mixed - residential and hotel project.

Other completely new projects will start, including the 43,000 sqm SRS building to be completed by 2014, see below.

Demand

Total net take-up was almost 35,000 sqm in 2012. Given the total stock of 679,000 sqm and two new buildings in 2012, that rate of leasing was enough to push the vacancy rate down from 20% at the start of 2012 to 14% by the end of the year.

Take-up was strong for modern offices in the CBD, but poor for offices located in

Q4 2012 (Riga)

Total office space:
679,000 sqm

Total office vacancy rate:
14.0%

A class office vacancy rate:
3.0%

B class office vacancy rate:
19.0%

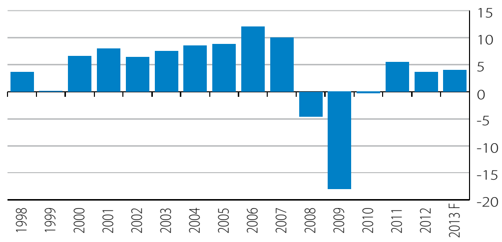
A class office rents (sqm/month):
€8.00 - €12.00

B class office rents (sqm/month):
€6.00 - €8.00

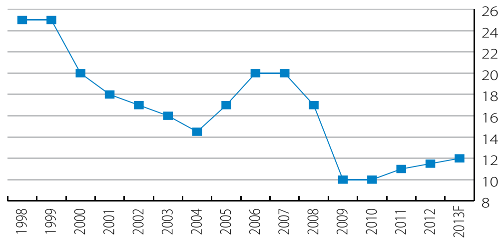
Top office rents (sqm/month):
€16.00

Additional office costs (sqm/month):
€2.35 - €5.00

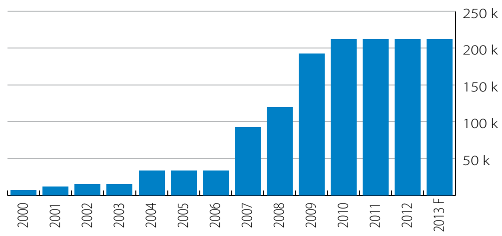
GDP growth, %



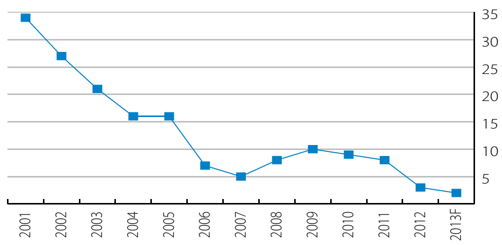
A class office rents, €/sqm



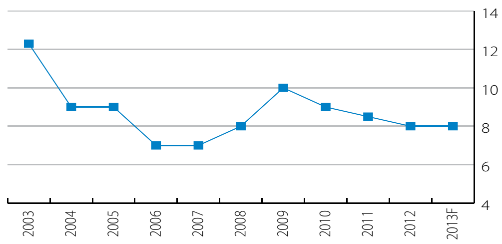
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yield, %



unfavorable places. The recently developed Europa Business Centre, for example, is now 97% leased after launching at the depths of the crisis in June 2009, good results showed Citadele Bank building, despite the high lease they managed to find such a tenant like If P&C Insurance.

The strongest demand is for 50 to 200 sqm offices with parking. Strong tenants are still able to demand that office building owners do tenant improvements at the owners expense.

International companies that are expanding their business in Latvia are looking for offices in the range of 1,200 to 3,000 sqm. Several international companies used Ober-Haus in 2012 to find new office premises, including adidas Baltics SIA – expanding their business in the Baltic countries, they selected premises of total area of 1,382 sqm in an office building at 4 Toma Street for their head office and exhibition hall.

Usually international companies enter into lease agreements for five to seven years, triple or double net lease.

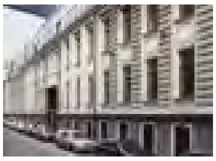
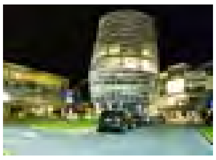
Ober-Haus had several requests from international companies, including IGT-Latvia, adidas Baltics, Nokia Siemens Networks, Hewlett-Packard for service known as tenant representation. That means assistance to find office to customers' needs, market research, represents the company in negotiations with owner and helps with agreement details and etc. Companies use this service both to expanding their operations or optimizing it.

There are companies who are interested in buying office buildings with area from 400 to 3,000 sqm. These companies are looking for buildings for their own use. The same segment is attractive for investors that are looking for good investment opportunities.

Rents

Rents for A class offices in Riga are mostly in the €8.00 to €12.00 range, although some such as Citadele Bank Headquarters and Rietumu Capital Centre reach as high as €15.50 -€16.00 per sqm. Rents for B class offices

Recent developments

	Description	Size (sqm)	Completion
	**DNB banka** – a modern A class business centre with a total area of 15,000 sqm, developed by Skanstes 12 Ltd. The building is let by DNB banka and its subsidiaries. The property is located on Skanstes Street district, which is fast becoming the financial centre of Riga with the head offices of major banks and financial companies. The project was delivered in the summer of 2010, and is 100% leased.	15,000	Q3 2010
	**Z1 Selected Offices** – a modern 4,500 sqm city centre office building located in the Quiet Centre district on Dzirnavu Street next to the Albert Hotel. Developer Larix Property (part of the Inter IKEA Group) delivered the building in January 2010 for rents of €12.00 per sqm. The building shares 170 underground parking spaces with the hotel. Currently there are - 400 sqm available for lease.	4,500	Q1 2010
	**Europa Business Centre** – a modern A class office building, developed by leading Lithuanian developer Hanner, located at the intersection of Brivibas street and Gustava Zemgala avenue. The 15,400 sqm space was delivered on June of 2009 for rents of €11.00 per sqm. There are 500 parking spaces on the property. The building was 97% leased at the start of 2013.	15,400	Q2 2009
	**Ostasskati** – in 2009 developer Ostasskati delivered an additional 1,827 sqm in the third stage of this office building. Rents start at €9.50. The complex is 89% leased as of the start of 2013.	1,827	2009
	**Jupiter Centre** – a new 6,360 sqm office development on Skanstes Street by local firm Development projects. B+ class office delivered in September 2012 for rents of €15.00 per sqm. The 14 storey building have 170 parking spaces, distinguished architecture and high class, sophisticated technological solutions aimed at creating a comfortable business environment for their customers and partners. Jupiter Centre was created with the principles of environmentally friendly and innovative solutions for saving energy. There are available 700 sqm for lease at the start of 2013.	6,360	Q3 2012

New projects

	Description	Size (sqm)	Completion
	**SRS Office Complex** – a B+ class project will be located on the territory of the multifunctional development complex Ezerparks with 43,000 net leasable sqm, of which 40,000 sqm is built to suit for the State Revenue Service of Latvia (SRS) and 3,000 sqm offered to the market. The building will be opened in December 2013.	43,000	Q4 2013

in Riga range from €6.00 to €8.00 per sqm, unchanged from the previous year.

Rents grew 10% in the most successful projects and in the projects in CBD.

Typical utilities and service charges in A class buildings range from €2.35 to €5.00 per sqm per month.

Ober-Haus believes that rents will rise in 2013 as take-up continues, no new developments are in the near-term pipeline, and vacancy drops further putting upward pressure on rents.

Investment

BPT Secura A/S sold the office building on Kalku Street 15 to SIA "Key 15", a subsidiary of Baltic RE Group in December, 2012. Total area of building is 5,114 sqm, the transaction price was €8.85 million according to Latvian land book.

Legal notes by SORAINEN

Rents

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

Investments

Lease agreements of business centres are of rather good quality, though other lease agreements for office space might be of low quality. Typically, the owner prepares standard lease agreements, which are mostly one-sided and in favour of the owner. Lease agreements are binding on the new owner of real estate on transfer of title only if registered with the Land Book.

Grocery chains expanding due to growing retail trade turnover

Supply

Grocery chains highlighted the new supply. RIMI opened a new 4,000 sqm hypermarket on Bikernieku Street 160 with 15 in line shops in summer 2012. Maxima opened a new grocery store on Ulbrokas Street 4 with 822 sqm GLA, also Maxima's new store on the corner of Bikernieku and Evalda Valtera Streets is under construction with a total area of 7,500 sqm, opening is planned in March of 2013. Maxima is planning to open a new store on Dzelzavas Street 6a and two stores in Liepaja in 2013. Now there are 139 Maxima stores in Latvia. And The Finnish Prisma grocery chain, which operates only in Riga, opened two new stores, one on Grostonas Street 1 and the second on A. Saharova Street 30 with total 13,300 sqm GLA. There are now together five Prisma hypermarkets in Riga.

Lithuania's Akropolis Group (part of the Maxima Group) will start construction works of a multifunctional retail, office and entertainment centre "Zunda" in 2013. This project will bring another 92,000 sqm of retail and 91,000 sqm offices to the market in 2015.

Today, the total modern shopping centre space in Riga is 887,000 sqm.

Due to growing rents, less recognizable brands are being squeezed out of the high streets, to make way for stronger tenants.

Ober-Haus expects to see an expansion of existing shopping centres such as Origo and Alfa in the next few years, if the demand for retail premises will continue to be strong.

Q4 2012 (Riga)

Total mall space:
887,000 sqm

Total mall space per capita:
1.36 sqm

Total shopping space:
668,000 sqm

Total shopping space per capita:
1.03 sqm

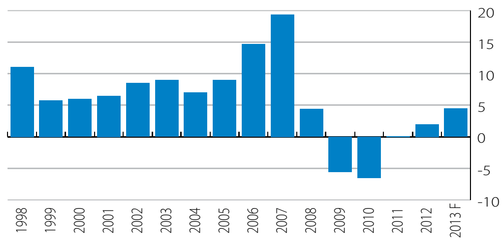
Retail rents for anchor tenants (sqm/month):
€5.00 - €9.00

Retail rents for medium sized units (sqm/month):
€9.00 - €25.00

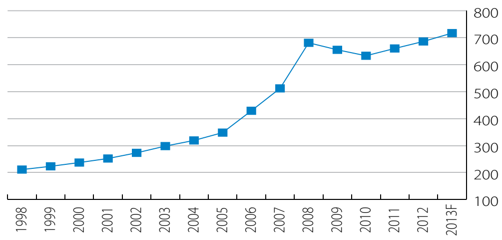
Retail rents for small sized units (sqm/month):
€25.00 - €50.00

High streets rents (sqm/month):
€10.00 - €45.00

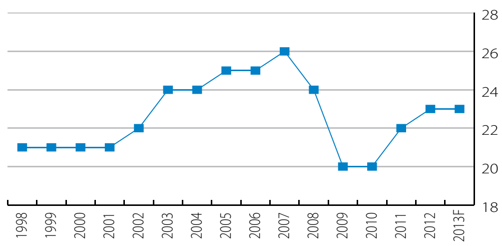
Average salary growth, %



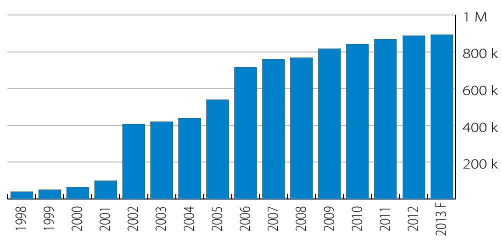
Average salaries (brutto), €



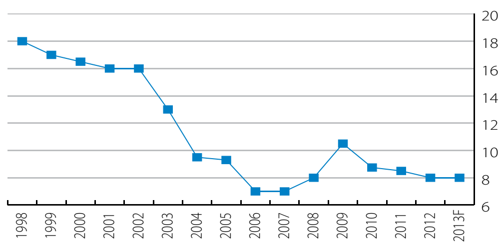
Average mall rents, €/sqm



Total mall space, sqm



Retail investment yields, %



Retail market

2013 Real estate market report

Demand

New brands continued to enter Latvia in 2012, including H&M, Massimo Dutti, Tommy Hilfiger, MAX&Co, iBlues, Clarks, Next, Guess By Marciano, List, CCC, Centro, Inglot, Ristorante Italiano, Springfield, Cortefiel and Burberry.

Due to growing demand most shopping centres are nearly fully leased, with minimal vacancy rates. The vacancy at the largest shopping centres at the beginning of 2013 was 0% at Spice and Spice Home, 0% at Alfa, 0.6% at Origo, 2.1% at Galerija Centrs, 3.5% at Mols, 7% at Riga Plaza, 9% at Olimpia, and 12.8% at Dole.

The city centre high street continued to recover in 2012, with vacancy reduced to just 3% after reaching nearly 20% in the depths of 2009. The greatest demand and the highest rent are for retail space from 50 to 150 sqm.

Rents

Due to strong demand rents grew 10% on the high streets and 10% in most successful shopping centres. High street rents now range from €10 to €25 per sqm. In the prestigious Old Town retail space rents are now €15 to €45 per sqm.

The rent differential continues to grow in the city centre between "long" streets and "side" streets. An example here is Kr. Barona Street, where the asking rent range is from €22 to €25 per square metre, while on the nearby cross street, R. Blaumana Street, spaces rents for half of that. This tendency also was observed when previous lease agreements were renewed. Potential shop tenants avoid leasing basement facilities and ancillary premises that often are offered as complement to street-level retail premises.

In shopping centres rents start from €5 per sqm for large size units (1,000 sqm or more), to €9 to €25 per sqm for medium units (150 -300 sqm), and €25 - €50 per sqm for small units (under 100 sqm). Anchor tenants, such as supermarkets, typically pay €5 to €9 EUR per sqm.

Legal notes by SORAINEN

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

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

Latvia

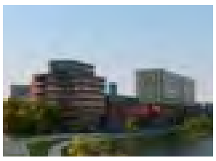
Retail market

Real estate market report 2013

Recent developments

	Description	Size (sqm)	Completion
	**Galleria Riga** – This eight-storey shopping centre on Dzirnavu Street opened in October 2010 with 24,000 sqm of retail space, with the top floor featuring an open terrace with restaurants, bars, and a panoramic view of the city.	24,000	Q4 2010
	**Riga Plaza** – built by Plaza Centers NV and New Century Holding opened in March 2009, this shopping and entertainment centre has 49,000 sqm of leasable retail space, including 150 stores, a Prisma hypermarket, an eight screen 3D cinema complex, bowling, restaurants, cafes and a family entertainment site. The centre is located next to the busy Salu Bridge on the west bank of the River Daugava, three km from the city centre.	49,000	Q2 2009

New projects

	Description	Size (sqm)	Completion
	**Imanta Retail Park** – a new 8,000 sqm hypermarket of the Finnish Prisma foodstore chain, opened in September 2011 on the territory of the former Radiotehnika factory. Its second phase in June 2013 will add 10,000 sqm of specialized food market area and other shops and bring the total GLA to 18,000 sqm on the ground floor. The next development will include fashion retail area, entertainment floor with cinema, fitness and office space on the upper floors and multilevel parking.	+10,000	Q3 2013
	**ZUNDA** – Lithuanian developer Akropolis Group plans one of the largest retail and entertainment centres in the Baltics to be delivered in 2015. Zunda will house the largest variety of shops in the region and most entertainment in one place. The project, located on Daugavgrivas 31, will have more than 92,000 sqm of retail space and 91,000 sqm office space.	92,000	2015

Interested?

For leasing opportunities in these or other properties, contact Ober-Haus on:

+371 6728 4544

Retail market

2013 Real estate market report

Latvia

Low rents slow the development of new warehouses

Supply

The total modern space available in Riga and the immediate surroundings is 492,000 sqm in start of 2013. Most are outside of the city located on main highways. There were no new warehouse developments in 2012.

Ober-Haus expect to see 20,000 sqm of new industrial premises in 2013. Companies that are planning to develop industrial spaces for their own use do not reveal their plans, volumes and specifications.

Low rents do not satisfy potential developers, they are not ready to start new projects yet, although the supply for modern warehouse spaces is poor.

Old Soviet industrial object owners are ready to renovate their premises, if potential tenants would be interested to close the long term lease agreements.

Like last year, both Dominante Park and Granita Industrial Park are ready to develop another 40,000 sqm each, but neither now has the required pre-leases.

Demand

Due to new leases and the lack of new supply, the vacancy rate for industrial space fell to 10% at the start of 2013, from 55% three years ago at the start of 2010.

The greatest demand is for warehouses and manufacturing facilities with 500 to 1,500 sqm.

Demand is increasing from Russian companies who want to have a foothold in the European Union markets, and find Latvia an ideal location due to proximity and its Russian speaking workforce.

Q4 2012 (Riga)

Total new warehouse space:
492,00 sqm

Warehouse vacancy:
10.0%

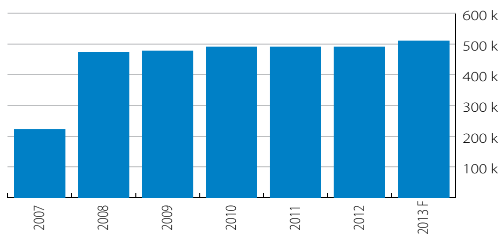
Annual warehouse rents change:
+5.0%

New warehouse rents (sqm/month):
€3.50 – €4.20

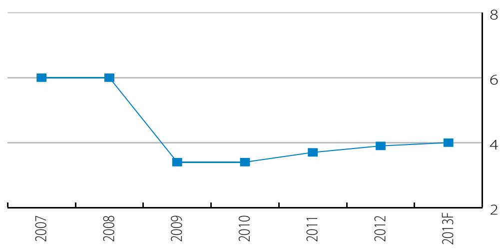
Old warehouse rents (sqm/month):
€1.50 – €3.00

Additional warehouse costs (sqm/month):
€0.40 – €0.80

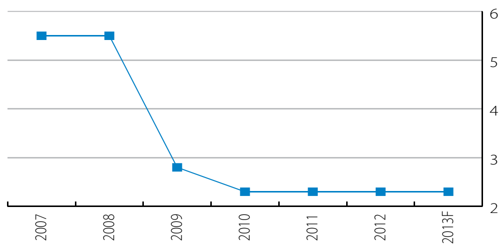
Total modern warehouse space, sqm



New warehouse rents, €/sqm



Warehouse rents on surrounding roads, €/sqm



Industrial market

2013 Real estate market report

Small manufacturing companies have bought industrial land plots with area from 5,000 to 10,000 sqm for their own business in 2012. Ober–Haus sold three in this category of commercial land plots in 2012. Usually the seller is a subsidiary company of a bank. Private owners are offering their land plots for price over average market level.

Rents

After falling 40% during the crisis years, warehouse rents rebounded 10% in 2011 and 5% in 2012 on greater demand. New warehouse rents in Riga now range from €3.50 to €4.20 per sqm, and rents for old or renovated warehouses on the surrounding ring road range from €1.50 to €3.00 per sqm.

Legal notes by SORAINEN

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

Recent developments

	Description	Size (sqm)	Completion
	**DLW** – warehouse and office complex built in spring 2009 by developer DLW, located in Krustakalni, Kekava. The complex comprises 13,500 sqm of warehouse space and 1,900 sqm offices. Rents are €4.20 per sqm for warehouses, and €6.00 per sqm for office premises. The property was 90% leased at the start of 2013.	13,500	Q2 2009
	**NordicTechnologyPark** – one of the most successful industrial parks in Riga, located in Jurkalnes Street, Riga, comprising 36,800 sqm of industrial and warehouse space and 8,400 sqm of offices. Developed by NP properties, and delivered in 2007 on the site of a former electronics factory it is now a modern industrial park with fully reconstructed buildings that meet modern commercial and warehousing needs. Around fifty domestic and international companies employing more than 800 people have chosen this park as their location. Tenants include companies in the wood processing, publishing, clothing and other industries. Rents are €3.00-3.50 per sqm for warehouses, and €7.00-€8.00 per sqm for office premises. The complex was 100% leased at the start of 2013.	36,800	2007
	**Carn Holdings** – a new warehouse complex built in 2010 by Carn Holdings, located in Rudeni 2, Sauriesi, Salaspils. The complex comprises 14,000 sqm of warehouse space, built for Kuehne+Nagel Latvia.	14,000	2010
	**Eirkel Business Park (Jelgava)** – warehouse complex, consists of 32,000 sqm premises renovated in 2006 and 10,000 sqm premises built in 2009. The total area of the industrial complex was planned to be 150,000 sqm on 49 hectares. The development of the project depends on demand. There was 10% vacancy at the start of 2013. The average rent is €3 per sqm.	+10,000	2009

New projects

	Description	Size (sqm)	Completion
	**VGP Park Kekava** – VGP plans to develop the first phase with 20,000 sqm in the spring of 2013. The whole project will consist of 40,000 sqm warehouse space on a land plot of 83,000 sqm. The project will be on the crossroads of the important highway A7, also known as Via Baltica, only 18 km from Riga. The project will be developed by VGP, providing turnkey solutions from the concept to the handover of the final building approval and future expansion.	20,000	Q2 2013

Industrial market

2013 · Real estate market report

Latvia

Residential market

Real estate market report 2013

Total transactions rose 22.5%

Prices

Apartment prices in Riga rose by 2%. Prices of newly developed apartments rose 8% in the city centre and 13% in the suburbs in 2012, building on growth of 6% in the centre and 15% in the suburbs in 2011. Still, that growth comes after a collapse in 2009 of 35% in the centre and 45% in the suburbs, so prices are still well below the pre-crisis peak.

Prices of new apartments in the city centre and old town range from €1,500 to €3,800 per sqm at the start of 2013, and prices for very exclusive projects can even reach €4,800 per sqm.

New apartments outside the city centre sell for €1,000 to €1,700 per sqm at the start of 2013. New apartments in these suburban areas usually are sold fit-out with everything except kitchen.

On the secondary market prices remained stable in Soviet–era buildings, and is €579 per sqm on average at the start of 2013.

Supply

More than 800 new units were delivered in Riga in 2012, significantly more than the 500 units delivered in 2011 and 580 units delivered in 2010.

Due to stable demand, Ober-Haus expects at least 1,030 new apartments will be completed in 2013.

At the start of 2013, there were over 1,600 unsold newly developed apartments available on the primary market, this is 200 unsold apartments less than last year. Almost 500 unsold units are offered by banks, so the banks or their subsidiary companies offer more than 30% of all market available new apartments. Ober-Haus expects that another 200 apartments in new projects will appear in market in 2013 offered by banks.

Usually banks are selling their apartments for average market price, although banks offer

Q4 2012 (Riga)

Annual apartment price change:
+2.0%

New apartments built:
800

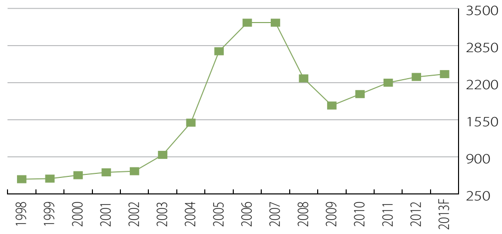
Economy class new apartment prices (sqm):
€980 – €1,200

Medium class new apartment prices (sqm):
€1,200 – €1,700

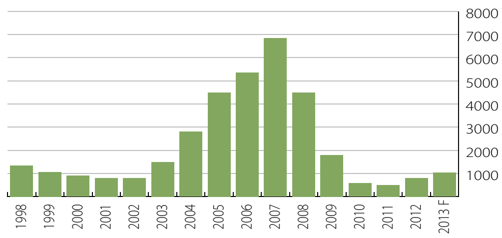
Prestigious class new apartment prices (sqm):
€1,700 – €4,000

Residential investment yield:
4.2%

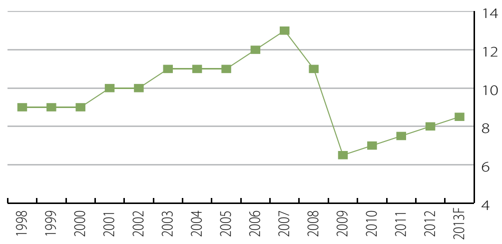
Residential prices in city centre, €/sqm



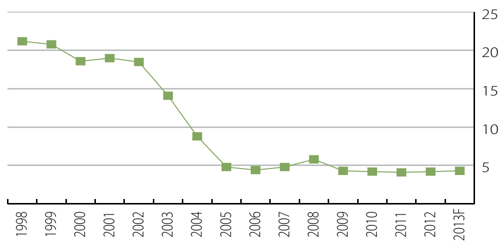
Completed units



Residential rents in city centre, €/sqm



City centre residential investment yield, %



more favourable credit terms to buyers.

The supply of apartments in renovated houses with an area from 70 to 150 sqm in the price range from €150,000 to €300,000 in the quiet centre and old town still does not satisfy demand.

Demand

There were almost 1,100 apartments sold in new projects in 2012, of which over 450 new apartments were sold by developers, and other were either secondary (used) apartments or apartments bought from bank subsidiary companies.

Demand for, and sales of, apartments in new projects has grown compared to the previous two years. The amount of apartment transactions rose by 22.5% in Riga in 2012 compared to the previous year.

Demand in the suburbs is generally by local buyers, while city centre flats are bought by both local buyers and foreigners.

Local buyers are looking for two and three room apartments which cost less than € 100,000. Most buyers are more careful then a few years ago, when choosing an apartment they analyze the general condition of building, when the communications changed, the condition of roof, the amount of utility and maintenance payments. In the city centre, an important distinction is parking availability.

Due to good economic tendencies local buyers become more active in market. Some local inhabitants of Riga are changing their apartments, moving to better or larger, usually from Soviet houses to new projects. One of the driver factors of moving to new project is heating expenses, which are almost twice as much in Soviet and unrenovated pre-war buildings.

As usual the key factors to successful projects are a good location, high quality construction and fit out, and that the majority of units are actually sold or inhabited.

The highest demand is for three to four room apartments (90 to 140 sqm) in the city centre with full finishing, up to €250,000 and for two and three room newly built apartments (60 to 80 sqm) in the suburbs also with full finishing costing up to €100,000.

The price segment over €145,000 remains active for foreign buyers, who can obtain a five year residence permit when purchasing property in Latvia.

The Mortgage Market

Loans are offered in euros, for up to 35 years in length. The average interest rate at the start of 2012 was 6-month euribor (0.34%) plus an average margin of 3.0% (depending on the customer's financial standing), to total 3.2%. Clients can borrow up to 85% of a property's value, or up to 75% for Soviet-era apartments.

Outstanding mortgage loans in Latvia total less than 40% of annual GDP. The mortgage market slowed down during the crisis years, but banks started actively lending again in the second half of 2010.

Rents

Due to growing demand, average rents increased 10% to 15% in 2012. The typical monthly rent for afurnished, renovated three-room (70 sqm) apartment in a pre-war building in the city centre ranges from €700 to €800 per month and in newly built houses from €750 to € 900 per month.

Local customers usually are looking for one or two room apartments in city centre in the rent range of € 300 to €400 per month plus utilities and households management costs. Meanwhile the foreign customers usually are looking for furnished two or three room apartments with a total area of 50 to 100 sqm in the quiet or active centre in the rent range of €500 to €1,500 per month plus utilities and house management costs. The main requirements of foreign tenants are a new or renovated building with security, elevator and convenient parking.

Demand for private house renting has grown in 2012. The most requested are hauses in Marupe, Kipsala, Bierini and Mezaparks. Average rent is € 1,000 to €1,500 per month.

Legal notes by SORAINEN

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

Recent developments

	Description	Price (sqm)	Completion
	**Alauksta 9** – located in the city centre, on Alauksta Street 9, developed by Dekarta Property. This project comprises one seven storey building, with 55 apartments, plus underground parking lots. Apartments range from 40 to 153 sqm, prices starting at €1,550 per sqm for a fully finished apartment. The project was finished in 2012, with only 1% apartments sold so far.	from €1,550	2012
	**Rīdzenes Rezidence** – located in the city centre, on Marstala Street 17 and Kungu Street 25, developed by Namu Buvagentura. This project comprises of two seven storey buildings, with 68 apartments, plus underground parking lots. Apartments range from 74 to 330 sqm, prices starting at €2,400 per sqm without finishing. The project was finished in 2007, and has sold 21% apartments.	from €2,400	2007
	**Marasdarzi**– located in the Pardaugava, on Liepajas Street 2, owned by subsidiary companies of Swedbank and Nordea. This project comprises of two six storey buildings, with 154 apartments. Apartments range from 60 to 234 sqm, prices starting at €1,100 per sqm without finishing. The project was finished in 2007, but was taken over by financing banks and relaunched in 2012. So far only 2% of apartments are sold.	from €1,100	2007
	**NCC Majas** – located in the Mezciems, on Bikernieku Street 160, developed by NCC Majas. This project comprises of nineteen five storey buildings, ten of them are already finished, with 336 apartments and with parking. Apartments range from 47,1 to 80,5 sqm, prices starting at €1,100 per sqm for a fully finished apartment. The project will be finished in 2014. There are reserved about 80% apartments from completed ten buildings.	from €1,100	2014
	**JaunaTeika** – located in the Teika on Ropažu Street 12, developed by Hanner. This project consists of two multi- storey buildings, each of 10 floors. The first building has 123 apartments, and the second has 211. The apartments are sized from 46 to 123 sqm, with prices starting at €1,000 per sqm without final fit-out (meaning buyers will spend €150-€200 per sqm to complete). This project was finished in 2010, and 73% of the apartments were sold by the start of 2013. Hanner are planning to develop at least two more residential buildings in future.	from €1,000	2010
	**Bikerziedi** – located in the Teika, on Talivalza Street 19 and Bajara Street 16, developed by YIT Celtniecіba. This project comprises of two four storey buildings, with 74 apartments and with underground parking lots. Apartments range from 29 to 71 sqm, prices range from € 1,200 to€ 1,625 per sqm for a fully finished apartment. The project was finished in 2012. Yit has pre-sold 60% of the apartments. YIT has already started the second phase of the project with the same volumes, Ober-Haus expects it will be finished by 2014.	from €1,200	2012

Interested?

For leasing opportunities in these or other properties, contact Ober-Haus on:

+371 6728 4544

New projects

	Description	Price (sqm)	Completion
	**Hospitalu 39** – located in the city centre on Hospitalu Street 39, developed by YIT. The project will consist of one seven-storey building with 67 apartments and 24 underground parking lots and nine over ground parking lots. Apartment sizes will range from 35 to 103 sqm, prices is not determined yet. The project will be completed in Q3 2013.	N/A	Q3 2013
	**Skanstes majas** – located in the city centre on Grostonas Street 17, developed by Merks. This will be the first house of a projected three five to ten storey building complex. There are planed 64 apartments in the first phase. Apartment sizes will average 90 sqm and prices are not determined yet. The project will be completed in Q3 2013.	N/A	Q3 2013
	**Ezerparks** – located in one of most attractive residential districts, Mezaparks on Ezermalas Street, developed by New Europa Real Esatate. Multifunctional district Ezerparks, designed by SWECO, is one of the largest mixed-use developments in the Baltics with excellent potential to become a new hub of commercial activity in Riga. Project Ezerparks will truly be a city in the city - a multifunctional complex with an excellent infrastructure featuring: well-designed traffic system- optimized for convenient accessibility, friendly living environment, with schools and kindergartens, service and trade facilities, largest park created in Riga in over 40 years. In the multifunctional project is planed 140 apartments, apartments size will be average 75 sqm. The construction will start in Q4 2013 and will end in Q3 2015.	N/A	Q3 2015

Demand for city centre land rises with apartment prices

Prices

After falling 72% on average in 2009-2010, prices remained largely unchanged in 2011 and 2012 as well. 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.

Supply

Construction volumes in the third quarter of 2012 increased 8.3% compared to the same period in 2011. The greatest rise was 10% for infrastructure, followed by 7.7% for commercial projects. Due to positive tendencies land owners are more interested to offer their properties. Still the supply in city centre and in advantageous locations in suburbs is limited. As last year many offered plots have issues restricting their use although it is not surprising because the city centre is densely built up and the exclusive location often comes with obligations to respect the historical heritage.

Demand

Now that prices are stable, and demand for residential premises are rising, developers are showing interest in buying new land.

Companies are also interested to purchase commercial land plots to build their own warehouses and production facilities in 2012.

Interest by private people to buy land plots for building their own home has

Q4 2012 (Riga)

Annual land price change (Riga city & district):

+12.0%

Total land transactions change (Riga city & district):

+3.0%

Land prices in city centre for residential development (sqm):

€400 – €1,500

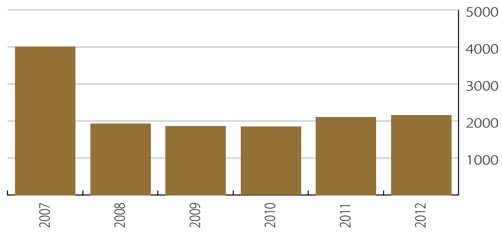
Land prices in residential districts for residential development (sqm):

€50 – €100

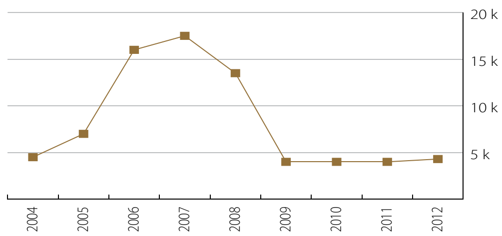
Land prices in city suburbs for private homes (sqm):

€30 – €40

Land transactions in Riga city & district



Land prices in Riga city, €/100 sqm



Land prices in Riga district, €/100 sqm

restored in 2012 in residential districts close to Riga and the prices in some districts for example Marupe and Babite even raised approximately by 12% The greatest demand is for plots of 1,000 to 1,500 sqm which cost from €15 to €20 per sqm close to Riga or €30 to €40 per sqm in Riga.

Investments

Larix Property Ltd bought 2.5 hectares land in Riga quite centre in December 2012 between Antonijas, Melngaila and Strelnieku streets. Under management of Larix Property, in the quiet centre of Riga were created Albert Hotel, A class office building Zaļā1 and modern residential building FUTURIS. To date, Larix Property has invested more than €42 million in projects in Latvia.

Legal notes by SORAINEN

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

Latvia

Real Estate taxes & legal notes

2013

ACQUISITION

• Upon acquisition, a 2% stamp duty is levied on the property value, capped at LVL 30,000 (€42,686).

• If legal title is transferred under a deed of gift, a 3% stamp duty is charged on the property value, capped at LVL 50,000 (€71,144).

• If real estate is invested in the share capital of a company, a 1% stamp duty is payable on the investment value, capped at LVL 1,000 (€1,423).

LEASE

Value Added Tax (VAT)

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

Corporate Income Tax (CIT)

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

Personal Income Tax (PIT)

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

A person that is not registered with the tax authorities for commercial purposes pays PIT at a reduced rate of 10% after filing the annual income tax return, with no deduction for expenses associated with rental activities.

SALE

Value Added Tax (VAT)

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

• New unused buildings,

• A new building that has been used and is sold for the first time in the first year of maintenance,

• Real estate after or during reconstruction, and

• Real estate under construction.

Development land is defined as a piece of land that has a construction permit issued for building work or for the construction of engineering communications or roads. However, the parcel qualifies as development land only if the construction permit has been issued after 2009.

The applicable rate of VAT is 21%. In the case of reconstruction, VAT is levied on the difference between the selling price and the value before reconstruction.

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

Under amendments effective from 1 January 2013, VAT registered traders may opt to charge VAT on supplies of used real estate.

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

- they are supplied in Latvia,

-the supplier and customer are both registered for VAT, and

-non-cash payment is made.

Corporate Income Tax (CIT)

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

Withholding Tax (WHT)

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

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

Personal Income Tax (PIT)

If an individual sells real estate for non commercial purposes[1], a 15% PIT is charged on the difference between acquisition cost and selling price. In this case the amount of PIT due must be declared and paid on or before the 15th day of the following month if the capital gain exceeds LVL 500 (€711).

Real estate held for at least 60 months and registered as the seller's primary residence for at least 12 months before the sale is exempt.

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

REAL ESTATE TAX (RET)

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

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

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

• 0.2% of cadastral value below LVL 40,000 (€56,915)

• 0.4% of cadastral value below LVL 75,000 (€106,715)

• 0.6% of cadastral value above LVL 75,000 (€106,715)

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

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

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

Unused agricultural land is taxable

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

• A surcharge of 1.5%.

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

[1] - A person is considered to be performing activities for commercial purposes if:
- there are three or more similar transactions a year or five similar transactions over three years, or
- income arising on one or more transactions exceeds LVL 10,000 (€14,229).

Introduction

Recent trends in the real estate market indicate that the number of deals and their value has started growing, while transactions with distressed assets are no longer the main focus of investors.

Foreigners from non-EU states continue to acquire real estate in order to obtain long term residence permits in Latvia. This has substantially increased activity in the upscale residential real estate market.

Title to Real Estate, Land Book

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

The Land Book stores information regarding the legal status of real estate, including all encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations. The Land Book is a public register; the information it contains is publicly available and is binding on third persons. It is also available in a database version in Latvian via internet in return for a fee.

Acquisition of Real Estate

General

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

Letter of Intent and Heads of Terms

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

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

Letter of Intent and Heads of Terms

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

Legal structures of real estate transactions

Asset Transfer vs Share Transfer

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

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

• notary fees and state duty arising from real estate sales are excluded from transaction costs on the sale of shares of a company;

• ownership of shares is transferred as agreed in the sale agreement, at the time of signing the agreement, or on registration, which takes only a few days;

• the buyer, on completion of the transfer of shares, assumes responsibility for the whole company including any matters that occurred before change of ownership;

• due diligence investigations are more extensive as a share deal transfers the entire company (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;

• applicability of financial assistance rules;

• deferred tax issues.

Asset transfer involves the following benefits and drawbacks:

• asset transfer is subject to notary fees and state duty and in this respect is more expensive than a share transfer;

• limited scope of due diligence investigation since the review concerns only the target asset;

• only lease contracts registered with the Land Book still bind the new owner after purchase of the target asset;

• agreements on supply of utilities and other services must be assigned to the buyer or new agreements signed with service providers;

• an asset transaction may in some cases be treated as sale of an enterprise, in which case all obligations associated with the enterprise may be transferred from seller to buyer.

Portfolio Deals

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

Form of Agreements

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

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 (eg waiver of rights of first refusal by the local municipality).

Language Requirements

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

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

Due Diligence

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

Rights of First Refusal

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

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

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

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

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

Typical Purchase Price Arrangements

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

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 LVL 30,000 (EUR 44,843). Stamp duty for registration and issue of a Land Book certificate is currently LVL 20 (EUR 28).

Preparing and attesting signatures for the application to the Land Book costs approx LVL 70 (EUR 100).

Merger Control

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

• the aggregate turnover of the undertakings involved in the transaction exceeds LVL 25 million (approx EUR 35.6 million) for the financial year preceding the concentration; or

• the joint market share of the undertakings exceeds 40% in the relevant market.

However, notification of merger to the Competition Council is not needed in transactions where only two parties are involved (buyer and seller) and if the turnover of one party does not exceed LVL 1.5 million (approx EUR 2.14 million).

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

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

Restrictions

Restrictions on Acquiring Real Estate

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

EU Citizens and Legal Entities

Until 1 May 2014, EU citizens and legal entities domiciled in other EU Member States are restricted in acquiring agricultural and forestry land in Latvia. Before 1 May 2014 EU citizens may only acquire agricultural or forestry land if they reside and have been engaged in agriculture in Latvia for at least three consecutive years.

Already now there are no restrictions for EU citizens and legal entities to acquire land plots in cities in Latvia.

Non-EU Citizens and Legal Entities

No restrictions are imposed on acquisition of land plots by companies registered in the Latvian Register of Enterprises in the following cases:

• if more than 50% of the company's share capital is owned by Latvian citizens, the state or a municipality; or

• if more than 50% of the 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); or

• if the company is a public limited liability company with publicly listed shares (NASDAQ OMX Riga).

If, after land acquisition, the shareholder structure of an undertaking is changed so that it no longer corresponds to legal requirements, permission from the municipality must be obtained to retain ownership of the land. If the local municipality does not issue permission, the land must be transferred to another person within two years.

Should potential foreign purchasers fail to fulfil the criteria listed above, they must apply for permission from the local municipality, which has the discretion to accept or reject the application. Permission is necessary, regardless of the size and other particulars of the land plot to be purchased.

However, permission is required only for acquisition of land. Therefore, apartments or buildings may be acquired without further restrictions and limitations, unless the land beneath such apartments or buildings is included in the deal. In most cases, apartment ownership also comprises a certain ideal part of the land plot, the land plot being in the co-ownership of all apartment owners in the house.

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

Encumbrances

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

Mortgage

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

In order to register a mortgage on real estate, a mortgage agreement should be concluded. An application to register the mortgage with the Land Book must be signed in the presence of a notary public and state duty of 0.1% of the loan value but not more than LVL 1,000 (approx EUR 1,423), must be paid. The Land Book registers the mortgage within ten days of filing the necessary documentation.

Property Management

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

Management of residential buildings

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

Management structure of residential buildings depends on the ownership structure.

Lease Agreements

General

General terms for lease and tenancy agreements are laid down in Latvian Civil Law and the Law on Apartment Leases. The contents of lease and tenancy agreements are subject to agreement between the parties. However, the Law on Apartment Leases protects the rights of tenants.

Lease agreements on real estate remain valid if registered with the Land Book. Otherwise, a purchaser of real estate may terminate an unregistered agreement. However, the tenant is entitled to compensation from the owner for termination of a lease agreement before expiry.

Residential tenancy agreements are binding on new apartment owners under the Law on Apartment Leases without registration with the Land Book.

Duration and Expiry of Lease Agreement

The duration and expiry of lease or tenancy agreements are usually set in the agreement. Latvian law lays down some general rules and these agreements may be for a specified or unspecified term. As for termination, the law lays down only general rules. More specific provisions on termination are regulated by the Law on Apartment Leases, adopted in order to protect the interests of tenants. Unilateral termination by the owner of a residential tenancy agreement is more limited. Termination is permitted only in cases explicitly stated 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.

EU Citizens and Legal Entities

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.

PPP & Infrastructure

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

Investment Funds and Real Estate

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

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

Planning Requirements and Construction

Planning

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

Construction

A construction design must be approved by the local Construction Board. Permission is issued if the project complies with the territorial plan or the detailed plan of the particular territory. The Construction Board sets the technical requirements for the particular construction project.

Changes to the technical design require additional approval from the Construction Board. The approved design is valid for two years. Construction works require a permit from the Construction Board. Newly erected buildings have to be put into operation by a special commission formed by the municipality.

Acquisition of Distressed Assets

Acquisition of distressed real estate can be performed on the basis of a voluntary agreement between the parties, in a procedure of compulsory enforcement or during insolvency proceedings of the owner of the real estate. In any case acquisition of distressed real estate is more complex so that thorough due diligence should be performed as the possibility of problems is much higher. For example, during financial difficulties of the owner, real estate may be managed and maintained poorly.

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

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

Insolvency Law and the Civil Procedure Law.

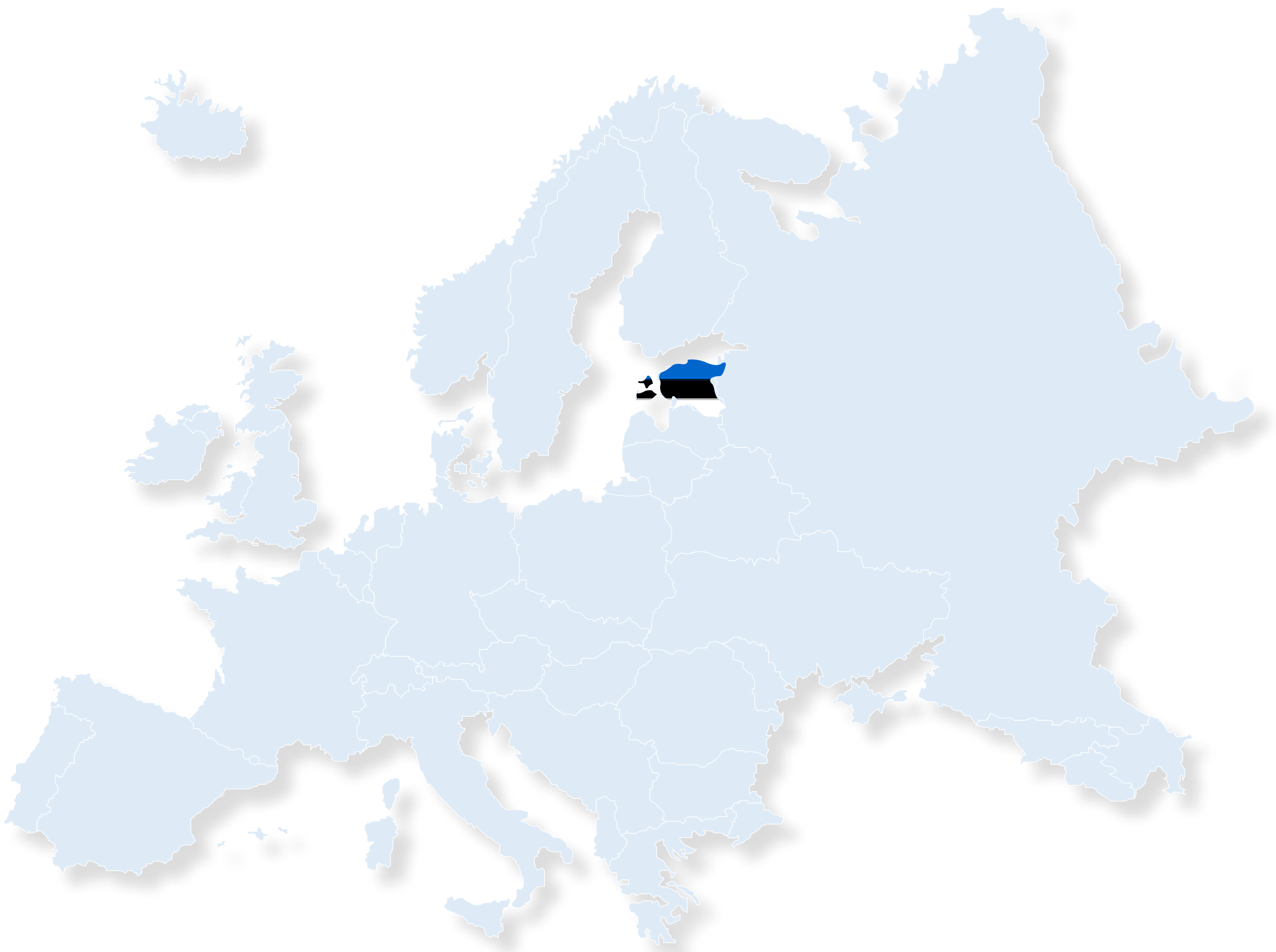
OBTAINING TEMPORARY RESIDENCE PERMIT

A temporary residence permit can be obtained, for a period not exceeding 5 years if a foreigner acquires real estate in Latvia with total purchase price of not less than:

• LVL 100,000 (approx EUR 142,287), if the real estate is purchased in the Riga region or in Latvian cities; or

• LVL 50,000 (approx EUR 71,144) if the real estate is purchased outside the Riga region or in rural areas of Latvia.

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



Estonia

2013

Estonia

Country overview

Real estate market report 2013

Geography

Coordinates:	59 00 N, 26 00 E
Area:	45,200 km^2
Border countries:	Latvia, Russia
Capital:	Tallinn

Currency

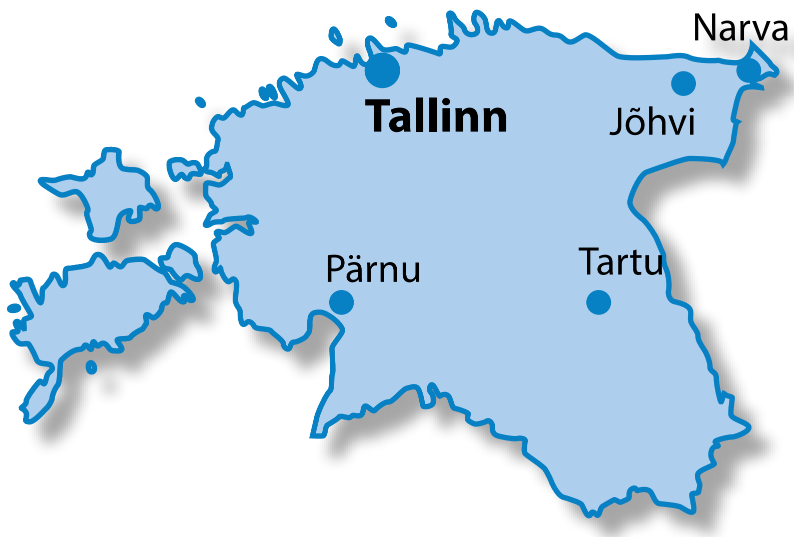
Currency:	Euro (1 EUR)

Social indexes

HDI:	0.83
Gini (2009):	31.4
Ethnic groups:	69.0% Estonians, 25.5% Russians, 2.0% Ukrainians, 1.1% Belarusians, 0.8% Finns

2013 forecasts

GDP growth, %:	3.0
GDP per capita, €	12,656
Private consumption growth, %:	3
Average annual inflation, %:	3.6
Unemployment rate, %:	9.0
Avg. monthly gross wage, €	930
Avg. gross wage annual growth, %	5.7
Retail sales growth, %	5.0
Exports annual growth, %	4.0
Imports annual growth, %	5.0



Population	2007	2008	2009	2010	2011	2012
Estonia	1,342,400	1,340,900	1,340,400	1,340,100	1,340,200	1,339,700
Tallinn	396,900	397,600	398,600	399,300	400,300	401,100
Tartu	102,000	102,400	102,800	103,300	103,700	104,100
Narva	66,700	66,400	66,200	65,900	65,500	65,300

Economics	2007	2008	2009	2010	2011	2012
GDP annual growth, %	7.5	-3.7	-14.3	2.3	7.5	3.2
GDP per capita	11,797	12,161	10,326	10,674	11,918	12,276
Private consumption annual growth	7.5	-3.7	-14.3	2.3	7.5	7.0
Average annual inflation, %	6.6	10.4	-0.1	3.0	5.0	4.2
Unemployment rate, %	4.7	5.5	13.8	16.9	10.9	10.0
Average montly gross wage, €	724	825	784	792	819	880
Average gross wage annual growth, %	20%	14%	-5%	1%	3%	7%
Retail sales growth, %	20.0	6.0	-17.0	0.0	11.0	5.0
Exports annual growth, %	4.0	5.0	-23.0	35.0	38.0	4.0
Imports annual growth, %	7.0	-5.0	-33.0	27.0	37.0	9.0
FDI stock per capita, €	8.484	8.787	8.709	9.325	9.647	10.656

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

Strong growth as recovery continues

Estonian GDP grew 3.2% in 2012 and projected to grow 3.0%. Favourable borrowing conditions, a better outlook for growth than in other euro area countries, and sound economic policy together create a favourable environment for businesses to make investments and expand production capacity. However, demand for loans is likely to remain modest, as businesses faced with uncertain conditions look for ways to finance investment from their own resources. Households will also generally remain cautious about taking loans due to the uncertainty.

Unemployment fell to 10% at the start of 2013 from 12.5% in 2012. The financial circumstances of households will improve, average wages are expected to grow 5.5% in 2013.

Inflation ran 4.3% in 2012, one of the highest rates in the European Union. Inflation is projected to fall in the next two years, to 3.6% in 2013 and 2.4% in 2014.

Estonia

A class vacancy falls, state leased play significant role

Supply

After several years with no new office developments, over 20,000 sqm of office spaces was brought to the market in 2012. Also several new development projects were launched. The significant part of them was ordered by the State Real Estate (Riigi Kinnisvara AS), as Statistical Office of Estonia and Estonian Tax and Customs Board need approximately 15,000 sqm of modern A-class space.

2012 has shown evidence of increasing demand for A class office spaces and the decrease of the vacancy rate at the cost of B-class spaces, as clients prefer modern quality office space.

Demand

Today´s vacancy rate for A class spaces is 4%. Vacancy of B class premises is considerably higher reaching in some buildings 20-25%, which brings city average to 9%. The supply of B class space still exceeds demand and owners are forced to make major investments in order to keep tenants.

Ober-Haus predicts 5% increase in rents for A class office space in 2013 and this should be a good sign for developers which start constructing new office buildings. Nevertheless the main problem for developers is the in rapid growth of construction prices.

Most demand for the potential tenants interested in A class space comes from the representative offices of foreign companies. Recently the uncertainty in the Euro zone has delayed the rental decisions of potential tenants. The most wanted spaces for rent are of 150 to 300 sqm. The supply of the space exceeding 1,000 sqm is limited. The market to purchase office space is still very illiquid. Some purchases took place in the price range of €600 to €1,300 per sqm.

Q4 2012 (Tallinn)

Total office space:
570,000 sqm

Total office vacancy rate:
9.0%

A class office vacancy rate:
4.0%

B class office vacancy rate:
15.0%

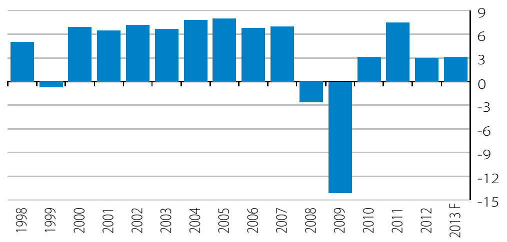
A class office rents (sqm/month):
€9.50 - €13.00

B class office rents (sqm/month):
€5.00 - €8.00

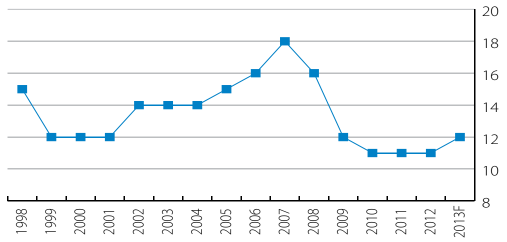
Top office rents (sqm/month):
€15.00

Additional office costs (sqm/month):
€2.00 - €4.50

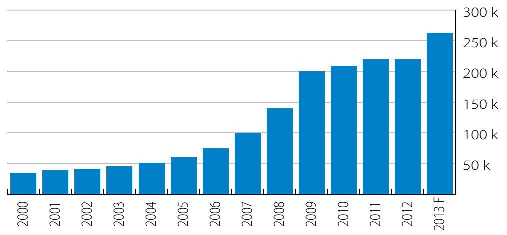
GDP growth, %



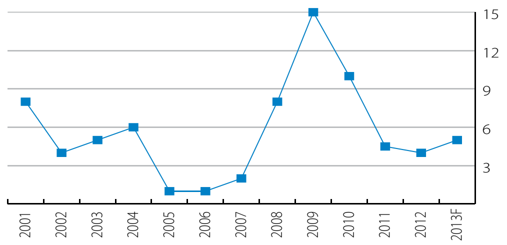
A class office rents, €/sqm



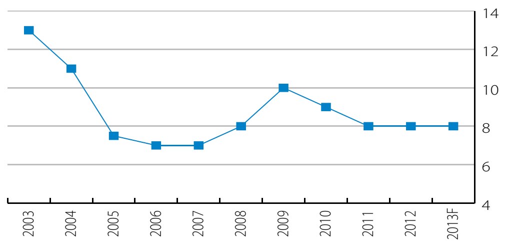
Total A class office space, sqm



A class office vacancy rate, %



A class office investment yield, %



Office market

2013 Real estate market report

Rents

Office rents remained unchanged in 2012. The average range for A class space was €9.50 to €13.0 per sqm, few top rents for smaller space reach up to €15 per sqm. Average rent for B class space was €5.00 to €8.00 per sqm. Additional charges range from €2.0 to €4.5 per sqm.

Investments

The investment market is active due to the recovery of the economy, growth potential in rents and historically low interest rates. Investors are interested in valued objects in good locations providing stable cash-flow.

Norwegian capital based Kawe Group's subsidiary OÜ Kawe Invest acquired an office building of 13,131 sqm in the centre of Tallinn at Baltic Business Quarter. The building can be enlarged in the future. Seller was stock listed Baltika, biggest tenants are advertising agencies Division, Tank and CWT/ Kaleva Travel. The transaction amounted to €13.6 million.

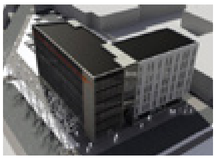
Colonna Capital belonging to investors from Estonia and Italy acquired from BPT and local investors a 2-storey commercial building with a total area of 2,150 sqm that also has an underground parking. The City of Tallinn's Municipal Police Department (MUPO) is the anchor tenant of the building. Price was €2.2 million and yield 8%.

YIT Ehitus AS, the Estonian subsidiary of Finland´s YIT Construction, sold to Capital Mill its 90% of the Office building Mehhatroonikum located in the Tallinn Science Park Tehnopol. Leasable area of Mehhatroonikum is 8,300 sqm. Biggest tenants are Metrosert, Mechatronics Innovation Centre, Estonian Intellectual Property and Technology Transfer Centre. Transaction price was €9 million and yield 8%.

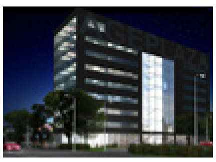
In summer 2012 a commercial building on Jõe 2b was sold at a price of €1,225 million euros. Seller was ECE Capital and buyer OÜ Heyborn representing Russian capital. Main tenant is property developer and real estate company ARCO.

State owned Estonian Energy (EESTI ENERGIA) sold his 12,300 sqm head office complex to biggest local real estate fund Eften for €8.8 million. Eesti Energia will stay in as main tenant.

Recent developments

	Description	Size (sqm)	Completion
	**Lõõtsa 8 Triple Tower** – in close proximity to the centre of Tallinn and Tallinn Airport Technopolis Ülemiste AS is constructing three new 10-storey office buildings with office space of 24,000 sqm. The first building will be ready by February 1, 2013. Within five years it is planned to invest €100 million. The Estonian Tax and Customs Board will be the main tenant and will have 11,650 sqm of space. Rent conditions have not been made public.	24,000	2013
	**Navigator Office Building, Laeva 2** – a new A class commercial building under construction located in the area between Tallinn City Centre and the Tallinn Ferry Port has an underground parking garage and enclosed net area of 10,000 sqm. The date of completion is scheduled for the end of 2013. The developer is Capital Mill OÜ.	10,000	Q4 2013
	**G4S Office Building, Paldiski Road 80** – the Estonian subsidiary of the biggest security services provider in the world G4S will move to a new 8-storey, 9,000 sqm modern building with increased security. Completion date will be summer 2013, the amount of the investment in this project has not been made public.	9,000	Q3 2013
	**Tatari 51** –This new 4,800 sqm built-to-suit office building is built by Kaamos Real Estate and leased by the Statistical Office of Estonia. Located in the city centre, the building will be completed in Autumn 2013.	4,800	Q4 2013
	**Sakala 10/Kentmanni 4** – Selvaag Sakala OÜ, a subsidiary of the Norwegian company Selvaag Group is building a modern 6-storey A class office building in Tallinn City Centre. The building will have an underground parking garage and leasable area of 3,045 sqm. Rents are from €13 – €16 per sqm plus management and utilities. At the start of 2013 40% of the premises were leased. The date of completion is scheduled for August 2013.	3,045	Q3 2013

New projects

	Description	Size (sqm)	Completion
	**Ageplaza** – a modern 9-storey A class office building located on Pärnu Road, one of the busiest main roads in Tallinn in the middle of unique transport node. The building will have leasable area of 4,820 sqm and an underground parking area. The date of completion is scheduled for Summer 2014. Rents and the total investment for this project have not been made public. The developer is the local real estate company Age Vara.	4,820	Q3 2014
	**Sõpruse 157** – a new 4-storey office building with total leasable area of 2,400 sqm, under construction on one of the main roads of Tallinn, Sõpruse Road. The building will meet the standards of the Green building certificate. Under the requirements for certification, the building uses at least 25% less energy than a typical office building of a similar standard designed and built in accordance with the requirements of Estonian law. The construction permit has already been issued and the building should be ready by 2013/2014. The rents begin from €11 per sqm plus projected additional costs equaling to €2.1 per sqm.	2,400	2014

LEGAL NOTES BY SORAINEN

Rents are usually payable monthly in advance, in some cases up to the 15th day of the current month. Payment of rent in advance for more than one month is not customary. Tenants generally pay for their own utilities, invoiced by the owner after use. Rents are typically indexed to local inflation. Triple net leases are common for commercial properties but not universally used. The concept of sinking fund is not very common, although use of the concept of normal wear and tear is widely accepted. Quite commonly, payment of rent and costs is secured, eg by rent deposit, bank or mother company guarantee. Leases survive transfer of property title. However, absent agreement to the contrary between the parties to the lease, the new lessor obtains the right to terminate the agreement upon becoming the owner if he/she needs the premises for personal use. This requires three months advance notice.

The quality of lease agreements still varies considerably. Typically, no standard agreement is used. It is not unusual for buildings to suffer from technical defects with eg air-conditioning, humidity system or ventilation. Often, foreign investors and local sellers have a different understanding of what is considered an A-class or a B-class building. Asset deals and share deals are equally common.

INTERESTED?

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Consumer spending recovers, fuelling expansion

Supply

During 2012 retail sales grew 7% and in 2011 4%. This forced developers to start planning several new shopping centres situated in logistically favourable locations near the city centre.

An increasing amount of retail space offerings is expected within the next several years, as some shopping centres and retail chains are planning their extension. 140,000 sqm is expected to be added to the market within the next three years i.e. two new big retail centres. At the moment there is 1.65 sqm of the retail space per each inhabitant in Tallinn. This number will increase to 2.00 sqm by 2015.

The biggest shopping centres - Rocca-al-Mare and Kristiine are all planning to expand their leasable space, Rocca-al-Mare 4,000 sqm and Kristiine 2,500 sqm.

Demand

During 2012 there was almost no vacant space in the biggest shopping centres in Tallinn. The vacancy rate was 0%, as retail trading tended to concentrate in six biggest shopping centres. Local supermarket chains such as Selver, ETK, Scandinavian Rimi, Lithuanian Maxima, Finnish Prisma are expanding throughout Estonia. The world-known clothing chains H&M and Debenhams, as well as one of the world's largest fast food restaurant chains, Subway, are entering the Estonia.

Provided that several big projects will be completed, rents of retail premises situated in less favourable locations might fall under serious pressure over the next two years.

Q4 2012 (Tallinn)

Total mall space:
665,000 sqm

Total mall space per capita:
1.65 sqm

Shopping centre vacancy rate (biggest SC):
0%

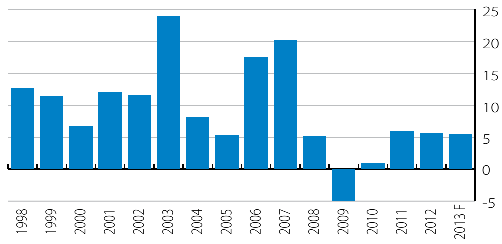
Retail rents for anchor tenants (sqm/month):
€8.00 - €12.10

Retail rents for medium sized units (sqm/month):
€12.80 - €19.20

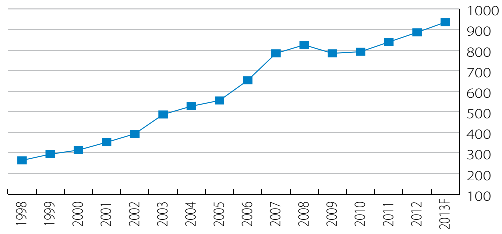
Retail rents for small sized units (sqm/month):
€22.40 - €32.00

High streets rents (sqm/month):
€15.00 - €40.00

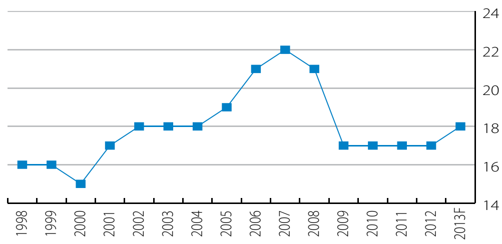
Average salary growth, %



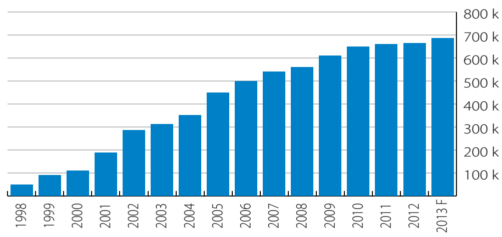
Average salaries (brutto), €



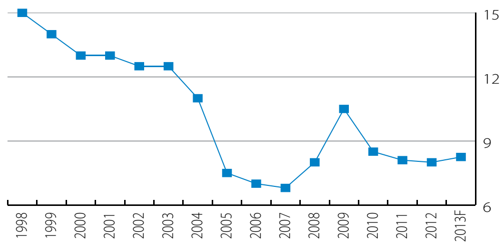
Average mall rents, €/sqm



Total mall space, sqm



Retail investment yield, %



Retail market

Rents

Rents for average size (150 - 300 sqm) units in retail centres are €12.80 to €19.20, smaller spaces rent for €22.40 to €32.00 and spaces for anchor tenants for €8.00 to €12.10 per sqm.

Investments

Estonia has the most active retail investment market in the Baltic States. In 2012 there were five large volume transactions. Investors show rising interest in retail objects of average or above average size situated in popular locations of Tallinn, providing stable cash-flow and a yield of at least 8%.

Mustika retail centre – EfTEN Real Estate Fund purchased the Prisma Hypermarket anchored Mustika retail centre in Tallinn. It is the fund's biggest investment so far, all together 21,500 sqm of GLA, out of which 7% is vacant and 10,000 sqm of underground parking. Purchase price was €21.5 million, yield was 8.5%.

Merekeskus and Lootsi 8 – the German closed investment fund's Estonian subsidiary Estnische HafenCity acquired two shopping centres with the total area of 12,200 sqm in Tallinn's port area during the restructuring of debts of the former developer and owner. The total transaction volume was €11 million.

Merimetsa Selver – Tallinna Kaubamaja, owner of the Selver supermarket chain, acquired this 5,145 sqm building from BPT Secura real estate investment fund. The purchase price was €6.9 million, yield 8%. Selver itself is the largest tenant in the building.

New projects

	Description	Size (sqm)	Completion
	**Panorama City** – this new retail centre will be the largest shopping and entertainment centre in Tallinn with the total area of 90,000 sqm (57,000 sqm of leasable area and 200 shops). It is currently under construction at the border of Tallinn city centre and Lasnamäe, at the crossing of Narva Road and J. Smuuli Street. Rimi hypermarket and clothing chain Apranga Group (Armani, Zegna, Zara, Mango, Bershka, Stradivarius, Promod etc. representative in the Baltics), will be two main anchor tenants. The date of completion is scheduled for Autumn 2014. Total development cost will €100 million. The developer is Merko´s subsidiary E.L.L. Kinnisvara AS, one of the leading business real estate development companies in the Baltic countries.	57,000	Q4 2014
	**Kristiine Shopping Centre** –one of the most popular centres in Tallinn will be extended by 2,500 sqm.	+2,500	Q3 2013
	**Rocca-al-Mare** – is going to be extended by 4,000 sqm. World-known H&M and Debenhams retail chains will become a main tenant in both.	+4,000	Q3 2013
	**Post House** – first built in 1980 the Main Post Office for the Estonian Postal Service located in the city centre next to Forum centre is going to be rebuilt as a modern shopping centre by CA Fastigheter AB originating from Sweden. The total leasable retail area will be 7,000 sqm. H&M and Rimi will become the main tenants. The property will go through full refurbishment before opening in Autumn 2013.	7,000	Q3 2013
	**Tallinn Gate** - the biggest retail park development project will be located in Tallinn on the highway leading from Tallinn to Pärnu and Riga. The project will include mainly big format retail units and offices but also logistics and warehousing units. Total building volume planned on the plot is 115,000 sqm (excluding the logistics center). The date of completion is currently unknown.	115,000	N/A
	**Pro Kapital Fashion Centre** - a planned new five storey shopping centre with gross area of 131,000 sqm located at Peterburi Road 2, on the largest traffic junction in Tallinn, just a few minutes by car from the city centre and at the starting point of motorways to Tartu, Narva and Pärnu. The building will accommodate more than 200 shops in 55,000 sqm of leasable area. Selver hypermarket will be an anchor tenant with ca 6,000 sqm at its disposal. The expected developments cost will be €88.9 million. The project has not yet started but completion is scheduled for 2015.	55,000	2015

Recent developments

	Description	Size (sqm)	Completion
	**Maxima, Smuuli Road** – at 5,000 sqm it is the biggest Maxima XX supermarket in the largest district of Tallinn next to the future Panorama City centre.	5,000	Q4 2012

Legal notes by SORAINEN

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

Interested?

For leasing opportunities in these or other properties, contact Ober-Haus on:

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Lack of modern industrial and warehouse buildings

Industrial objects are mostly constructed by end-users themselves. The amount of modern premises offered for rent is small.

Supply

During 2012 only 25,000 sqm modern warehouse and production space was brought to the market, but during 2013 additional 100,000 sqm will be added, which will bring total modern warehouse stock to 850,000 sqm.

Industrial objects are mostly constructed by end-users themselves. The amount of modern premises offered for rent is small. Current supply of the modern premises does not exceed 20,000 sqm, demand still exceeds supply, because current stock does not match with clients needs.

Rents

Rents for modern warehouses increased 10% while old construction remained at the same level as year before.

Current rents for new modern warehouses in Tallinn and in logistically favourable locations near city were re from €3.50 to €5.0 per sqm, depending on the size and speciality. Outside the city limits or in secondary locations, rents range from €3.00 to €3.50 per sqm. Newly renovated premises are being offered at prices from €2.00 to €3.20 per sqm. Average and poor quality premises are from €1.00 to €2.00 per sqm. Additional costs for tenants are from €0.90 to €1.20 per sqm on average.

Demand

Interest of the tenants towards modern premises in favourable locations is still high, though many potential tenants are waiting with the leasing decision due to uncertainty in the economy.

Modern warehouse vacancy rate has signifi-

Q4 2012 (Tallinn)

Total new warehouse space:
750,000 sqm

Warehouse vacancy:
3.0%

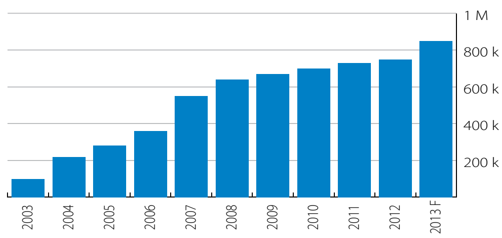
Annual new warehouse rents change:
+10.0%

New warehouse rents (sqm/month):
€3.00 – €5.00

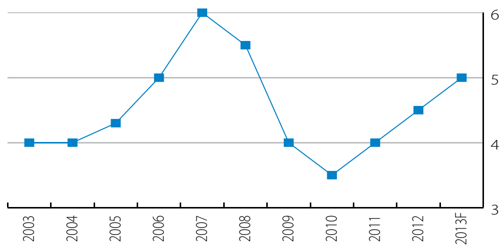
Old warehouse rents (sqm/month):
€2.00 – €3.20

Additional warehouse costs (sqm/month):
€0.90 – €1.20

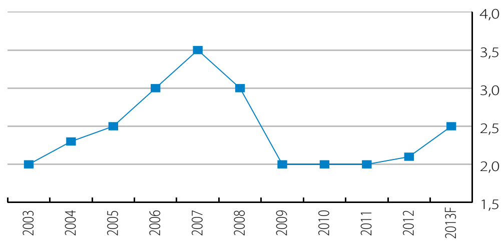
Total modern warehouse space, sqm



New warehouse rents, €/sqm



Old warehouse rents, €/sqm



cantly decreased to 3% in early 2013 from 10% in 2011. Older spaces in secondary locations have problems finding tenants despite favorable rents. Owners have to renovate in order to keep tenants from leaving to better new space.

In 2012 modern premises in favourable locations showed slight rent increase to €4.5 per sqm. At the same time, proceeding from the current rent rate it is economically not justified to start building new warehouse and production premises for renting purposes. In current economic situation the premises are built mostly for own use. In addition construction costs increased significantly.

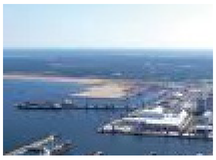
Foreign clients are ready to pay a price above market average, but their location and quality expectations are significantly higher. The development of warehouse and production spaces in Estonia is related to the growing foreign demand, export-based economic growth and Scandinavian investors.

In total industrial production was in the same level in 2012, but export grew 3%.

Legal notes by SORAINEN

Industrial leases are quite simple. Rents are indexed to local inflation. Nearly all properties are owner-occupied or if not, very often in distress. Good-quality tenants are in short supply, as are sufficiently universal properties to create an investment market. The number of sale-leaseback transactions is low.

Recent developments

	Description	Size (sqm)	Completion
	**Lookivi Logistic Park** – a development project with modern communications in the logistically valuable location 10 km from Tallinn, near the Tallinn Ring Road and Tartu Road intersection. Total size is 62 ha, the first phase is three plots with 83,000 sqm in total. The Developer is NCC.	83,000	N/A
HYDROSCAND	**Hydroscand Group Warehouse** - Hydroscand Group, well known in more than 15 European countries, acquired from NCC a plot with the total area of 22,000 sqm and is planning to build its regional warehouse and shopping centre with the total area of 5,000 sqm. Total volume of the project is 8,200 sqm.	5,000	Q2 2014
	**Tallinn Airport** – Air Maintenance Estonia (AME) originating from Scandinavia opened a new three-bay aircraft maintenance hangar with the total area of 5,000 sqm at Tallinn Airport. The cost of the new facility was €10.5 million. The owner of the hangar is Tallinn Airport who signed a 30-year lease with AME.	5,000	Q3 2012
	**Port of Muuga** –one of the world's leading logistics companies Katoen Natie began the construction of the biggest, 65,000 sqm covered logistics centre in Estonia in the Port of Muuga with a total investment of €30 million. The logistics centre will be constructed in three phases – the first phase is scheduled to be finished by the beginning of 2013.	65,000	Q1 2013
	**Kawe Warehouse** –a new modern logistics centre with gross area of 9,318 sqm was completed on the Metsakivi property located 10 km from Tallinn in Rae rural municipality in the autumn of 2012. AS Dunkri Kaubandus AS is the anchor tenant, developed by Kawe Group. 3,700 sqm of the warehouse space at the rent of €4.60 per sqm and 950 sqm of the office space at the price of €7.00 per sqm is still available.	9,318	Q4 2012
	**ABB production building** – a global leader in power and automation technologies ABB AS laid a cornerstone to a new production and office building in Jüri near Tallinn with the total investment €13-14 million. The new building will have 14,000 sqm of space and should be completed by spring 2013. Developer is Finland´s – YIT. Together with the new building, ABB occupies 45,000 sqm of premises in Jüri.	14,000	Q2 2013

New projects

	Description	Size (sqm)	Completion
	**Betooni** –a development project of the industrial park with the total area of 9,23 ha. This park is situated in logistically favourable location - the most populous administrative district of Tallinn (Lasnamäe). The project allows 14 buildings to be constructed. Detailed plan has been approved, utility networks constructed.	N/A	N/A
	**Saue, Vaasan Baltic AS** – finish bread manufacture VAASAN Group decided to close the Bake-Off production sites in Sweden and build a new modern Bake-Off production plant with the gross area of 7,000 sqm in Estonia, Saue. The site will bring new jobs to 100 people. The plant is to be ready by the beginning of 2013. The total investment volume amounts to €10 million.	7,000	Q1 2013
	**Nehatu Logistics Park** – the logistics park with the total area of 40 ha is logistically located in an exceptionally favourable place, close to Tallinn and port of Muuga. The detailed plan has been approved. The construction of infrastructure has commenced. The plot is divided into business and production plots. Price - €45 + VAT per sqm.	N/A	N/A

Industrial market

2013 Real estate market report

Estonia

Demand recovered

Prices

The average price per sqm for apartments in Tallinn increased in 2012 by 6.5% to €1,132 per sqm. The number of apartment transactions in Tallinn increased 23% and the total values increased 26% compared to 2011.

Prices grew most for new apartments in valued locations and smaller 1-2 room apartments in good condition. According to Ober-Haus, the reason that the smaller apartment prices have risen is due to high utility costs, which force people to search for more economic living space. In addition smaller apartments are more liquid in the current market. The price surge and the increasing number of transactions were also induced by the low interest rate environment. 43% of the transactions were conducted without the use of the mortgage.

Ober-Haus sees slight price growth in 2013, if the overall economic situation continues to improve and unemployment continues to decline. Any negative development in Europe could have negative effect on confidence.

New apartments cost €1,800 - €3,000 per sqm in the city centre and €1,200 – €1,800 per sqm in the suburbs.

Prices differ mainly by location. Most transactions were in the city centre involving well-conditioned apartments in modern or fully renovated buildings with prices from €1,200 to €1,700 per sqm.

In buildings with the best views or special architectural features, the price sometimes exceeds €2,600 per sqm. Sales grow for large, well-renovated flats in the Old Town and prices reached €2,000 to €3,000 per sqm.

In the suburbs, most sales were for cheaper one or two room Soviet era apartments in need of renovation. These flats cost from €700 to €850 per sqm. Suburban apartments

Q4 2012 (Tallinn)

Annual appartment price change:
+6.5%

New apartments built:
400

Average new apartment area:
64.2 sqm

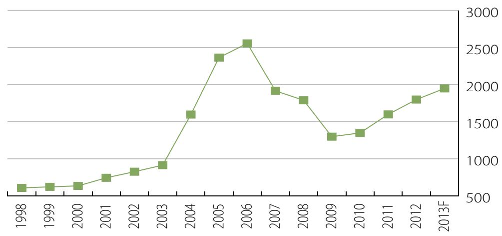
Economy class new apartment prices (sqm):
€1,200 – €1,700

Medium class new apartment prices (sqm):
€1,800 – €2,200

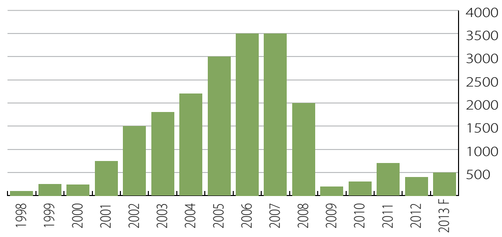
Prestigious class new apartment prices (sqm):
€2,000 – €3,000

Residential investment yield:
5.0%

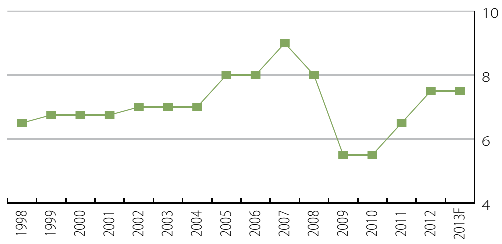
Residential prices in city centre, €/sqm



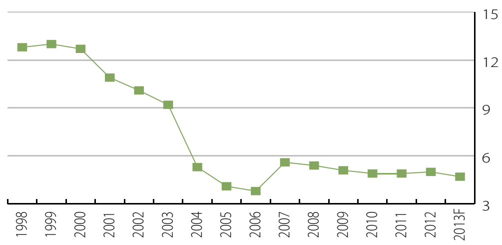
Completed units



Residential rents in city centre, €/sqm



City centre residential investment yield, %



in excellent condition situated in popular locations costs €900 to €1,200 per sqm. Apartments in less sought after locations are much less marketable, even if they are in good condition. In popular suburb locations like Pirita, Nõmme and Kakumäe, prices for modern apartments range from €1,400 to €1,800 per sqm.

Supply

In 2012 developers completed 400 new apartments and started building another 500 new apartments. Totally there are 900 new apartments for sale.

The construction prices of apartments in new development projects grew 20%, while apartment sale prices grew only 10 – 15%. During the last year, in an average 50 new apartments were sold each month.

Several development projects were stopped as in the current economic situation it is not possible to make a profit due to the increasing construction costs. Clients value mostly smaller unique development projects located in the city centre.

In broad terms, the market of the apartments is affected by the uncertainty of the Euro zone and high inflation expectations, which spurs people to invest free funds into new apartments.

Rents

In 2012 the offer was stable and the price increased 7%. while in 2011 rents grew 20% and the offer decreased sharply. Rents rose the most for smaller apartments situated in a popular locations with lower utility costs. Demand for luxurious and expensive apartments in the rent range of €1,000 to €1,600 per month is recovering.

In the city centre demand is highest for one or two room furnished apartments which rent for €300 to €450 per month, preferably with parking. Tenants pay their own utilities on top of the rent.

The gross rental yield of apartments in Tallinn in 2012 was 5% to 6% depending on the location. This number does not satisfy investors. Owners generally conclude short-term rental agreements and most carefully check the tenant’s profile.

Private residences

2012 saw an 8% increase in private house transactions in Tallinn, but an average price decline of 7%. Compared to 2011, the number of transactions with residences over €400,000 declined.

In current market situation clients prefer new or up to five year old residences with modern technical compliances, economic heating system and total area of 130 to 180 sqm. There are 1,800 to 2,000 private houses on sale in Tallinn and surroundings, with an average of 100 transactions per month. Most of the transactions were performed in areas with well-developed infrastructure in the price range €110,000 to €160,000.

Houses too far away rarely sell as buyers want to stay close to the city. The number of sales of semi-detached houses decreased as clients prefer private residences, regardless of the price. In the valuable districts of Nõmme, Kakumäe and Pirita the number of offers decreased and prices are rising.

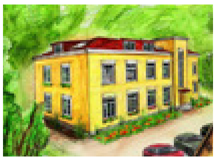
The Mortgage Market

According to the Bank of Estonia, the average home interest rate by the end of 2011 was 3.41%. In November 2012 it reached an all time low – 2.51%. The home interest rate comprises Euribor plus margin of 1.5 – 2.0%. The maximum amount of the monthly credit repayment usually cannot be more than 30% of the person’s sustainable income, and the maximum credit term cannot exceed 40 years.

Legal notes by SORAINEN

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

Recent developments

	Description	Price (sqm)	Completion
	**Kärneri 5** – the development project in the suburb of Tallinn (Rocca-al-Mare) consisting of 24 apartments located by the sea. Prices include the parking place and the storage room. Price range €1,500 – €1,900 per sqm. The project is being sold by Ober-Haus.	€1,500 - €1,900	Q3 2013
	**Pagari 1** –an exclusive, luxury renovated 19th century apartment building in the heart of the Old Town, these flats are sure to be the most sought after apartments in town. Prices range from €2,900 to €4,000 per sqm, and with this sort of luxury and location, they are very much worth it. Construction will complete by Spring 2013. The project is sold by Ober-Haus.	€2,900 - €4,000	Q2 2013
	**Must Luik (Black Swan)** – an exclusive development in Tallinn city centre between Kadriorg Park and the sea with 32 apartments and six commercial spaces. Prices range from €2,550 to €2,970 per sqm. The project is sold by Ober-Haus.	€2,550 - €2,970	Q4 2011
	**Aedvilja 4** – stylish renovated apartment building from the 1930s with 32 apartments and 3 commercial spaces. Prices range from €1,390 to €1,780 per sqm. The project is sold by Ober-Haus.	€1,390 - €1,780	2013
	**Saue Street**– a residential development on a historic city centre street filled with pre-war Estonian republic buildings. Prices range from €1,700 to €2,000 per sqm. The development has 15 apartments and finished in. The project is sold by Ober-Haus.	€1,700 - €2,000	2012

New projects

	Description	Price (sqm)	Completion
	**Suve 2**– new apartment building with commercial spaces close to the Old Town, comprises of 70 apartments and four commercial premises. Prices are from €1,800 to €2,400 per sqm. The date of completion is scheduled to 2013/2014, developed by Astlanda.	€1,800 - €4,000	Q2 2013
	**Tedre 55** – development project in the Mustamäe district of Tallinn comprising 47 apartments, commercial spaces and the underground parking area. The price includes all of the interior finishes, prices range from €1,700 to €2,000 per sqm. Apartments will be ready by the end of 2012. The developer is Merko.	€2,550 - €2,970	Q1 2014
	**Mardi 4/6** – development project in Tallinn City Centre comprising of three residential buildings with 130 apartments. The price range is €2,000 to €3,000 per sqm. The date of completion is scheduled to 2013/2014. The developer is Arro Consulting.	€2,000 - €3,000	2014
	**Astangu 19**–development project in the Haabersti district, comprises of 241 apartments, which will be built in two stages. The price range is from €1,130 – €1,450 per sqm. Construction will start in Spring 2013. The Developer is Skanska.	€1,130 - €1,450	2014

Residential market

2013 Real estate market report

Interest only on lots with utility networks

The number of transactions of residential land in Tallinn and Harjumaa decreased by 5% compared to 2011, though the average price increased.

In 2012 prices rose 5% and demand grew in most valued districts like Pirita, Kakumäe and Nõmme. The price for a 1,000 to 1,500 sqm residential plot in valuable location is between €70,000 up to €120,000. In other locations a 1,000 – 1,500 sqm plot costs between €20,000 and €40,000. The large number of sales offers is often in developments in poorer, secondary locations. There is practically no interest in residential lots without utility networks and with insufficient infrastructure, even if cheap.

The number of transactions with the industrial land as well as the prices remained the same in 2012. The market is still nonliquid and the most transactions are conducted at the price of €30 – €50 per sqm.

Q4 2012 (Tallinn)

Annual land price change:
+5.0%

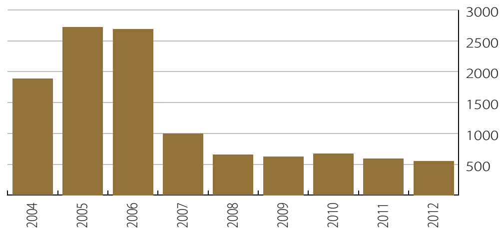
Total land transactions change (Tallinn & Harjumaa):
-5.0%

Land prices in city centre for residential development (sqm):
€200 – €350

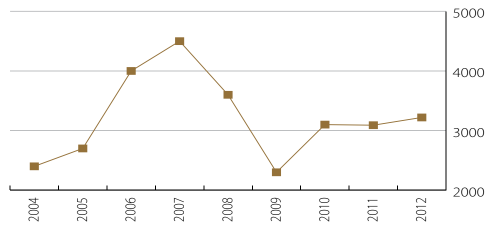
Land prices in residential districts for residential development (sqm):
€100 – €200

Land prices in city suburbs for private homes (sqm):
€50 – €80

Land transactions in Tallinn city & district



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



Legal notes by SORAINEN

No restrictions exist on foreign natural or legal persons purchasing land, except for agricultural and forestry land over 10 ha. Existing detailed plans may be non-practical and entail investment obligations in local infrastructure.

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

Land market

2013 Real estate market report

Estonia

Real Estate taxes & legal notes

2013

ACQUISITION

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

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

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

• the notary fee is calculated based on the transaction value but several other factors also influence the fee (e.g. whether the property is mortgaged, number of participants in the transaction etc.);

• the state fee is also calculated as a percentage of the transaction value (ca 0.2%-0,4%). It is up to the seller and buyer to agree upon which party pays the applicable fees.

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

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

LEASE

Value Added Tax (VAT)

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

Corporate Income Tax (CIT)

Due to the specifics of the Estonian corporate tax system, rental income received by Estonian companies only becomes subject to 21% corporate tax upon distribution of profits. Permanent establishments of non-residents are taxed similarly to Estonian companies, i.e. only upon making formal or deemed profit distributions.

Withholding tax (WHT)

As a general rule, non-residents without a permanent establishment in Estonia are subject to 21% income tax on the gross rental income by way of withholding.

Personal Income Tax (PIT)

Estonian resident individuals pay 21% income tax on gross rental income, i.e. without the right to make any deductions on the expenses incurred in relation to the property.

Resident individuals registered as sole proprietors are allowed to deduct expenses directly related to the rental income and thus pay 21% income tax on the net income. Such expenses must be properly documented and most often relate to loan interests, costs of repair works and commission fees. However, sole proprietors must also pay social tax in addition to the income tax on the net rental income.

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

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

SALE

Value Added Tax (VAT)

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

Corporate Income Tax (CIT)

Capital gains received by resident companies upon sale of real estate remain untaxed until distributed as profits. Non-resident companies pay 21% income tax on the capital gain by way of self-assessment. The capital gain is calculated as the difference between the sales price and acquisition cost. All documented expenses made in order to buy, improve or supplement the property, including all expenses directly related to the sales transaction may be deducted.

Personal Income Tax (PIT)

As a general rule, private individuals are liable to pay 21% income tax on the capital gain upon sale of real estate.

REAL ESTATE TAX (BUILDINGS PREMISES)

There is no real estate tax in Estonia.

LAND TAX

As a general rule, land tax is applicable on real estate located in Estonia.

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

From 1 January 2013, the law for abolishing land tax on homeowners all over Estonia entered into force. The Law provides that in cities and towns land plots with the size of up to 1500 m2 and in other areas land plots with the size of up to 2 ha per person will be exempted from land tax provided that person's home is registered to that address in the Population Register.

Introduction

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

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

Title to Real Estate, Land Register

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

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

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

Acquisition of Real Estate

General

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

Real estate may consist of land, apartment ownership, or building title. In general, transfer of a building separately from the underlying land is not permissible, except if building title is established and so transferred. In that case, the building forms an essential part of the building title, not of land.

Letter of Intent and Heads of Terms

In practice, letters of intent (LOIs) and heads of terms (HOTs) are used to bind negotiating parties to a contemplated real estate transaction. However, in Estonia all transactions related to the obligation to buy or sell real estate (including preliminary agreements, LOIs and HOTs) require notarisation in order to be legally binding. Without notarisation, a buyer cannot require the seller to conclude the sales contract and transfer ownership, or to pay contractual penalties.

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

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

Asset Transfer

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

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

Due diligence is limited to just researching the property, as asset transfer 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.

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

Share Transfer

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

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

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

Portfolio deals

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

Considering a portfolio deal requires bearing in mind the following:

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

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

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

Sale-leaseback

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

This arrangement requires the following checks:

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

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

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

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

Form of Agreements

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

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

Language Requirements

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

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

Due Diligence

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

Pre-emption Rights

Pre-emption rights may be entered in the Land Register on the basis of a transaction, or may be created by law. For example, a co-owner of real estate has a pre-emptive right on sale of a legal share in real estate to third persons.

Further, the state or local government has a pre-emption right on transfer of real estate located within the boundaries of a shore or shore bank building exclusion zone or if real estate is located in certain nature protection zones, or if a heritage protection object is located on real estate.

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

Typical Purchase Price Arrangements

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

Related Costs

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

Concentration Control

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

• turnover in Estonia of participants to the concentration (target undertaking and buyer) exceeds EUR 6,391,200; and

• turnover in Estonia of at least two participants to the concentration exceeds EUR 1,917,350 each.

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

Restrictions

Restrictions on Acquisition of Real Estate

In general, no restrictions are imposed on foreigners acquiring real estate in Estonia. Exceptions include forestry and agricultural land, plus some island and sea coast and state border areas. The Estonian Parliament is processing amendments to the law abolishing the restriction for individuals but not for legal persons.

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

• Citizens of Estonia or another country which is a contracting party to the EEA Agreement or a member state of the Organisation for Economic Cooperation and Development (OECD Contracting State).

• A legal person from a OECD Contracting State if having been engaged for three years immediately preceding the year of acquiring the immovable in producing agricultural products or in forest management.

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

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

Public Restrictions on Use of Real Estate

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

Encumbrances

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

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

Mortgage

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

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

Property Management

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

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

Lease Agreements

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

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

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

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

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

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

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

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

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

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

PPP & Infrastructure

General

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

Concessions

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

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

Sale-Leasebacks

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

These properties may be of investment quality, depending on the quality of the agreements. In practice, lease agreements (ie PPP agreements) are far from being as comprehensive and detailed as their counterparts in Western Europe and Scandinavia.

Regulated Real Estate Funds

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

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

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

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

Planning Requirements and Construction

Planning

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

Construction

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

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

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

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

Once construction works are finished, the construction company must give a minimum two-year guarantee for construction faults. A manufacturer's guarantee for equipment incorporated in construction works cannot be shorter than six months.

Planning Requirements and Construction

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

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

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

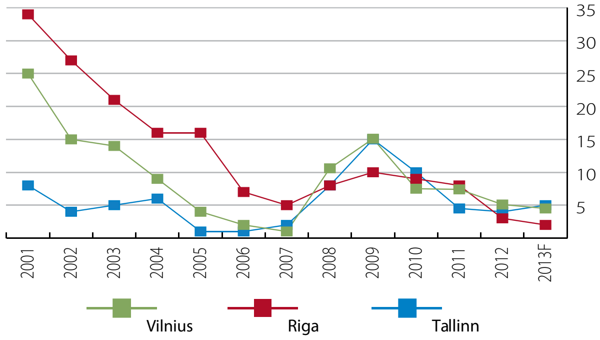
If the asset is sold in enforcement proceedings then all rights ranking below the right of the creditor who has initiated the proceedings will be deleted from the Land Register. Exceptions to this rule are servitudes which serve public interests (such as public utility lines and rights of way).

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

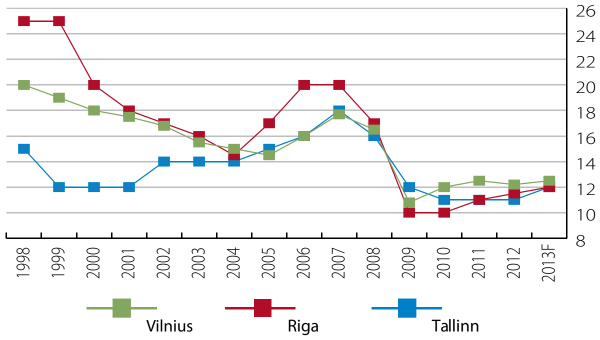
A common problem for a purchaser of distressed assets is that the distressed seller has signed lease contract(s) on unfavourable terms to the asset owner. Such agreements transfer to the purchaser, even if the bailiff and the purchaser were unaware of the lease agreement. The purchaser must thereafter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

Office

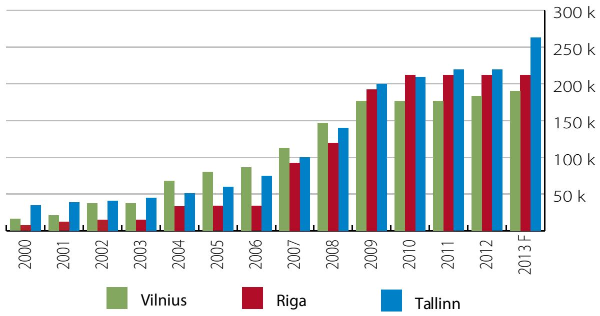
A class office vacancy rate, %



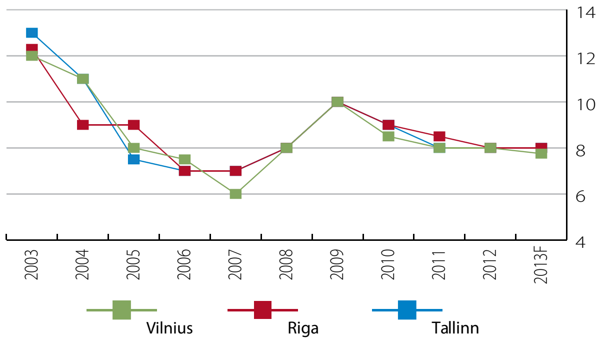
A class office rents, €/sqm



Total A class office space, sqm

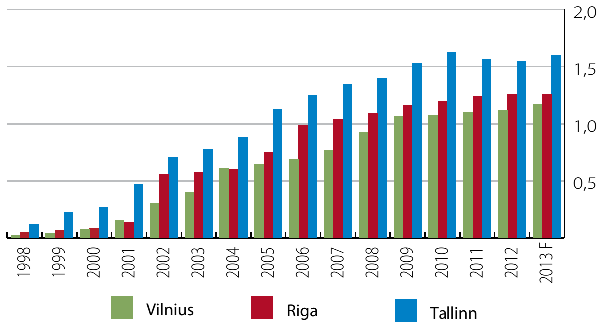


A class office investment yields, %

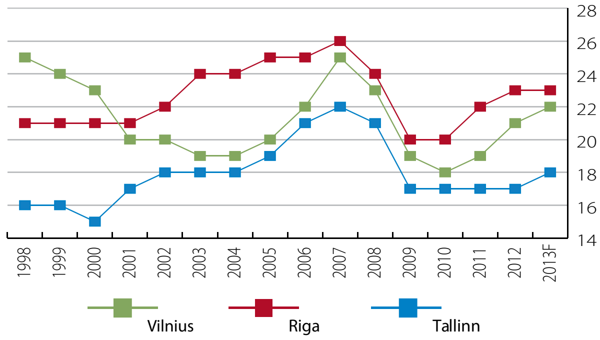


Retail

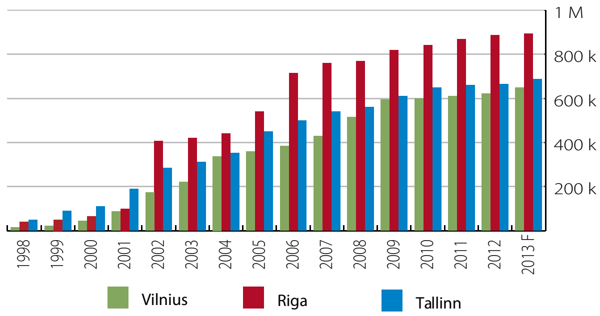
Total mall space per capita, sqm



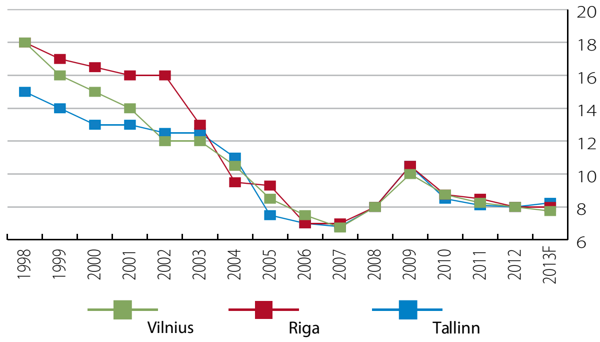
Average mall rents, €/sqm



Total mall space, sqm

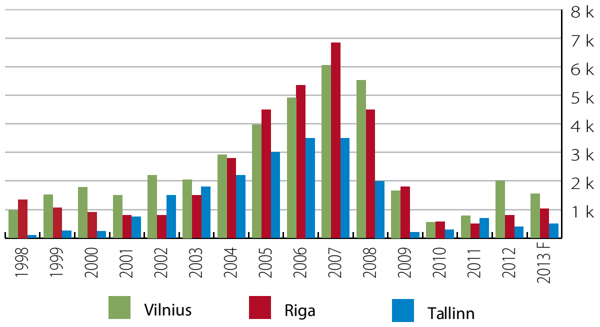


Retail investment yields, %

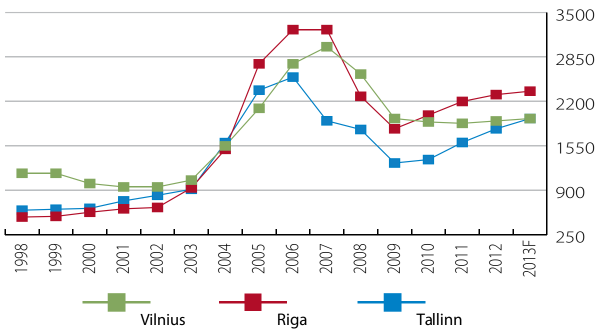


Residential

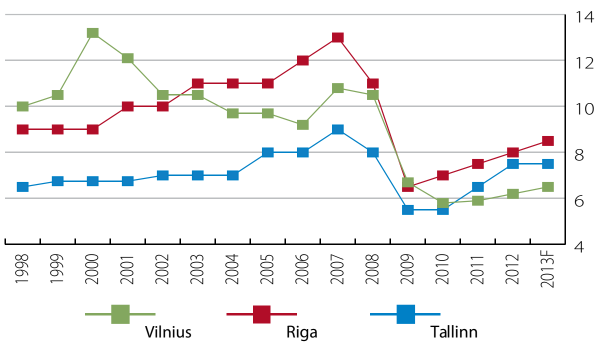
Completed units



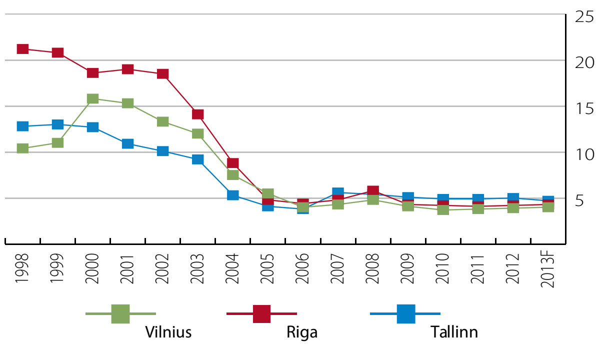
Residential prices in city centre, €/sqm



Residential rents in city centre, €/sqm

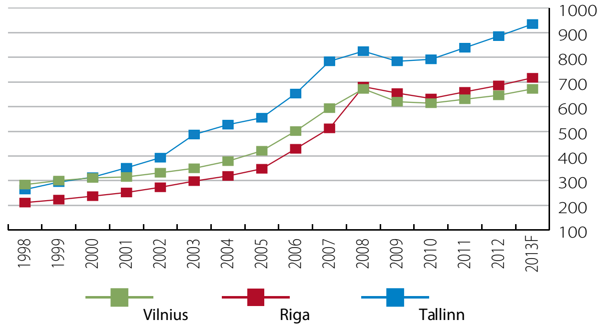


City centre residential investment yields, %

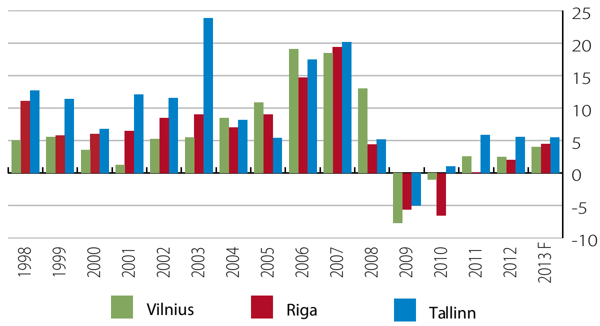


Economics

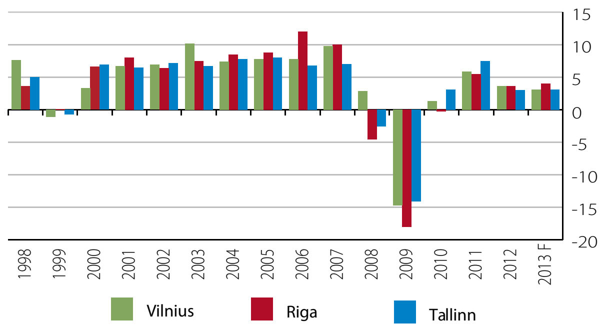
Average salaries (brutto), €



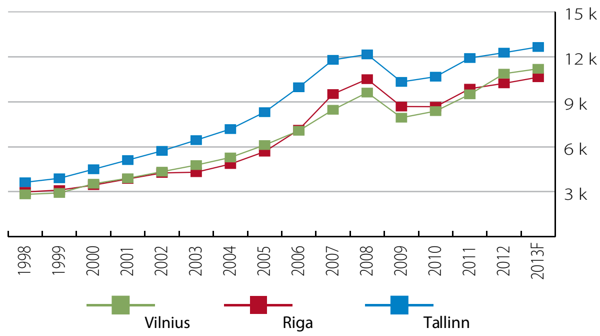
Average salary growth, %



GDP growth, %



GDP per capita, €



SORAINEN REAL ESTATE PRACTICE

SORAINEN
ESTONIA LATVIA LITHUANIA BELARUS

The real estate market in the Baltic States and Belarus is recovering from a complete standstill. Many investors wish to benefit from low construction prices, developers are fighting for their assets, tenants want to exit their leases and in some sectors demand exceeds supply. This unique situation can benefit the knowledgeable and quick-witted.

The SORAINEN Real Estate Practice has been busy even in these times, which is a compliment to the team's abilities and strength. The lawyers of the SORAINEN Real Estate Practice advise leading players in all sectors of the real estate industry and in many of the most significant projects. SORAINEN has extensive experience in advising local and international investors, developers, tenants and financiers on buying, selling, letting, financing, developing and operating all types of real estate and in all transactional aspects.

The SORAINEN Real Estate Practice has in recent years been constantly ranked very high by all major legal directories, such as *The Legal 500* (commending the "international focus and experience of the lawyers enabling the firm to provide the quality of service expected from big international firms") and *Chambers Europe* ("wonderfully experienced and always up to date, with a broad knowledge of the market").

SORAINEN offers expertise in all key real estate areas in the Baltic States and Belarus, including:

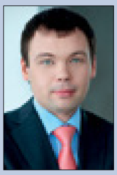
- due diligence of real estate and SPVs;
- sale and purchase, including foreclosures and portfolio sales;
- commercial leases;
- sale and leaseback;
- security (mortgages, guarantees);
- property development;
- design and construction;
- tax advice and tax structuring;
- planning and zoning;
- public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

·E·K·F·L·

SORAINEN is a strategic partner of the Estonian Association of Real Estate Companies (Eesti Kinnisvarafirmade Liit, www.ekfl.ee), the main association in Estonia uniting companies dealing with real estate brokerage, development, management and consultations.

The regional head of the SORAINEN Real Estate Practice is **Ģirts Rūda**, whose contacts appear below.
Local heads of the SORAINEN Real Estate Practice are:

ESTONIA



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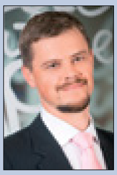

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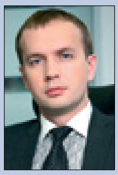

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Everyday application of tax laws is not an easy task. If you need assistance in tax issues, please bear in mind that the team of PwC's tax consultants is one of the most experienced in your region. Half of us have at least ten years of work experience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

We provide advisory services in the following areas:

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

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