Real Estate Market Report 2008

Baltic States Capitals

Tallinn, Riga, Vilnius

SORAINEN

OBER HAUS
REAL ESTATE ADVISORS

Deloitte.

Tallinn, Estonia

Commercial Market Stays Tight, while Residential Activity Cools

Economy

Estonia's GDP grew 7.0% in 2007, following 11.8% in 2006 and 10.5% growth in 2005. Average GDP growth has been over 9% for the last eight years. Growth is projected to be 5% in 2008. The contribution of domestic demand to growth has increased markedly since 2005, as consumption has been fuelled by wages growing over 15% per year, strong consumer confidence and large increases in private debt. Unemployment is at historical lows at 4.7% in 2007.

Retail sales grew 15% in 2007. Consumption is beginning to slow, however, as wage growth decelerates, and banks tighten lending to the consumer sector.

As there are no longer any barriers to trade or migration with Scandinavia or Western Europe, prices and wages are rising quickly to converge with Western levels. Inflation reached 9.6% by the end of 2007, which was much higher than analysts had earlier predicted. However, prices still have room to rise to fully converge with Western Europe - thus consensus estimates are that inflation will be 6-8% in 2008 and 4-5% in 2009.

Although the adoption of the euro is a key economic goal of Estonia, high inflation rates will make the adoption of the single European currency unlikely before 2011-2012.

Like the currency, mortgage rates are linked to the euro, and rates are therefore tightening. Average mortgage rates at the start of 2008 were 5.5% for loans in euros, which was euribor 4.5% plus a margin of 0.8 - 1.5%, depending on the customer.

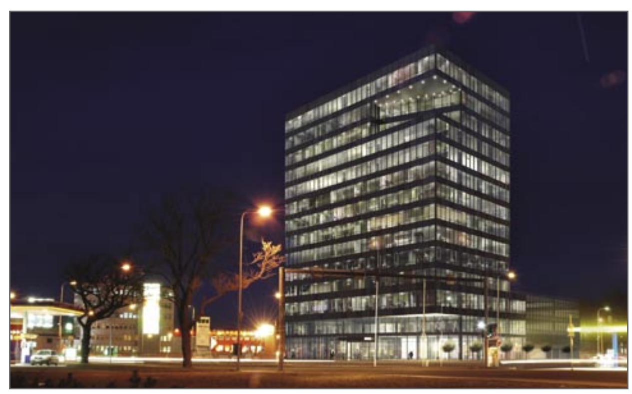
Office

Virtually Zero Vacancy Drives New Boom in Project Starts

Supply

Only 40,000 sqm of class A office stock was added to Tallinn in 2007, bringing the total to 150,000 sqm. The total stock of class A and B office space reached 500,000 sqm by the beginning of 2008.

In 2007 construction permits were issued for over 200,000 sqm of new office developments in Tallinn and the surrounding county. More than 100,000 sqm of new office space will flood the market in 2008.



• *Merko's modern office building on Pärnu Road 141.*

Recent Developments

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

Tornimäe 3-7 – Local developer ELL (Merko) built this multi-functional tower in the city centre in the vicinity of Stockmann and Swisshotel, with 7,000 sqm of office, in spring 2007. Occupancy 100%, rents for €20.00 per sqm.

Lõõtsa 2 – contemporary office building located in the suburb near the airport and Ülemiste retail centre in Ülemiste City, with 20 000 sqm of office space. The first stage offers 10,000 sqm and is 100% occupied at rents of €9.30 to €10.80 per sqm.

Sõpruse 145 – Local developer ELL (Merko) built a 12,500 sqm contemporary office and 5-storey business building near the city centre. Ground floor includes retail and business spaces as well as catering facility. Rents range from €10.00 to €12.00 per sqm, 100% occupancy.

Tammsaare 118D – a 9,500 sqm office complex of two buildings located in Mustamäe, rents from €10.00 to €11.00 per sqm. Occupancy 70% by start of 2008. Total of 204 parking places near the building.

Ehitajate 114 - a 4,000 sqm class A office building in Haabersti district. The building offers space for rent or sale. Rents from €10 to €15 per sqm, or offices can be purchased for €1,850 per sqm. The whole building was filled by the start of 2008.

• *Tammsaare 118b. New office building in Mustamäe, fully leased by Ober-Haus.*

New Projects

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Ülemiste City - The first phase of a new business district called Ülemiste City will be developed near the airport at Lõõtsa 2. Over the next seven years the project will deliver 160,000 sqm of new office space plus 70,000 sqm of light industrial premises for high tech companies. The first phase, to be delivered in 2007, will consist of 20,000 sqm of class A office space in two 10-storey towers. More than 50% of the space was pre-leased at the beginning of 2007.

Pärnu 141 – Delta Plaza, representative A-class 14-storey business and office building near the border of city centre at crossing point of Pärnu Road and Tammsaare tee in logistically extremely favourable location with total area 15 500 sqm, additionally parking building with total area 10 200 sqm.

Rental prices have not been disclosed. Construction cost approximately 21,0 mln EUR. Developer AS Merko Ehitus. Construction is underway, planned term of completion end of 2008.

Mustamäe 16 – class A+ exclusive multifuncational 8-storey business building in Kristiine district, 5 minutes drive from city centre, near one of the major streets of Tallinn with most intense traffic.

I and II floor service – retail spaces, anchor tenant AS Selver. Rental price €11.00 – 13.00 per sqm, developer AS Gildhall, Norway, investment approximately 20 mln EUR.

Construction is underway, planned term of completion end of 2008.

Tammsaare 49 – class A, 22,000 sqm office building near the currently constructed Delta Plaza and Tondi Selver. Rents from €11.80 per sqm. The building has 578 parking places, as well as additional parking lot with 81 places. Planned completion end of 2008.

Demand

Total take-up in 2007 was 60,000 sqm, which completely absorbed all new supply. Vacancy rates have dropped to 1%, there is essentially no modern office space to be found in the CBD.

Due to high rents and parking problems in the CBD, demand is shifting towards cheaper suburban offices with larger parking facilities.

Rents

Class A office rents in Tallinn rose 10% in 2007, to €10,9 to €18,5. Typical service charges in class A buildings are €2.50 to €3.50 per sqm per month.

Class B rents rose by 0% in 2007. Rents for class B office space range from €6,5 to €10.5 per sqm per month. We expect rents to fall a further 10% in 2008 as take-up will continue to exceed supply. However, by 2009, with all the additional supply arriving, and the consensus view of a slowing economy, we expect to see some soften of rents, especially in the class B segment.

Investment

In 2007, Canadian investor Homburg Invest, which owns real estate in the US, Canada, and Europe, acquired SEB Group's entire real estate portfolio in Lithuania, Latvia, and Estonia. The portfolio consisted of 62 real estate sites in various cities throughout the Baltics. The acquired real estate portfolio consists of 47 properties leased by SEB Group, and 15 properties which are rented to other tenants or to the SEB Group on a short-term lease basis. The overall yield was reported to be under 6.0%.

The next largest office investment was the purchase by Baltic Property Trust (BPT) of 35,000 sqm office block from the Toleram Group. The price was €15 million, which reflected a yield of 7%.

Today investors expect to get a yield of 6.5% on office investments in Tallinn.

Legal Notes by Sorainen

Rents are usually payable monthly in advance, in some cases up to 15th day of current month. Payment of rent in advance for more than one month is not customary. Tenants generally pay their own utilities, invoiced after use by the owner. Rents are typically tied to the euro but indexed to local inflation. Triple net leases may be found but are not universally used. However, the concept of sinking fund is not used and normal wear and tear is widely accepted. Use of securities ensuring the payment of the rent and costs, such as rent deposit or bank guarantee, are quite common. Leases survive the transfer of property title. When buildings are sold, the lease agreements are generally of low quality. Typically no standard agreement is used, or even if it is used, many standards have been used based on their development during the years. It is not unusual for buildings to have technical defects, such as with air-conditioning, humidity system, even ventilation. Often foreign investors and local sellers have a different understanding of what is deemed as an A-class or a B-class building. Asset deals and share deals are equally common.

Retail

Rents Growing Fast as Vacancy Stays Near Zero.

Supply

2007 saw 30,000 sqm of new retail space brought to the market, bringing the total modern retail space in Tallinn to 540,000 sqm, more than 1.2 sqm per capita.

Recent Developments

Rotermann Department Store - 5,000 sqm of retail located in city centre near the port and Viru Centre, including world-famous brands, opened 100% leased in spring 2007.

Prisma - new 8,200 sqm Prisma hypermarket opened by Häuser-Oberschneider.

Tondi - 11,000 sqm construction materials store leased by Finnish company K – Rautakesko.

• *Mustakivi Lasnamäe. Tähesaju Office Building in Lasnamäe.*

New Projects

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Rocca al Mare (extension) – Finnish Citycon will extend the shopping centre they bought two years ago. The first extension will bring 16,000 sqm more retail space to the property at the beginning of 2008. Citycon plans a second and third extension of equal size by 2010.

Magistral (extension) - Finnish Citycon will extend this centre they just recently bought in the subrub Mustamäe, by adding another 13,000 sqm of retail and additional parking.

Mustakivi Retail Park – Regional developer Häuser-Oberschneider will add 25,000 sqm of new retail, including a large Bauhaus DIY-store, next to the already existing Lasnamäe Centrum and Prisma. To be open in 2009.

Mustamäe 16 – on main floor of contemporary office building a retail space will be constructed with total area approximately 4,000 sqm, anchor tenant will be Selver retail chain with total area approximately 2,100 sqm.

Pirita – extension of Selver operating in the suburb with total area 2,500 sqm. To be open in 2008.

Sakala Centre – a new retail and entertainment centre located on the site of the former Sakala Centre, in the city centre.

Construction has started and the project will be completed in 2009.

Tallink Entertainment Centre - Ferry operator and tourism company Tallink plans to build 162,000 sqm entertainment centre next to the Mustakivi Retail Park in the Lasnamäe suburb. The first part is retail and entertainment centre with cinema, bowling halls and indoors ski centre, the second part retail, the third part water centre, the fourth hotel and offices. The project will be complete by 2011.

Smuuli Business Centre – Local developer ELL (Merko) plans to invest €170 million to build 150,000 sqm of retail and 50,000 sqm of office on their 18 hectare lot in Lasnamäe.

Rotermann Quarter – a planned €80 million development of 58,000 sqm near the port area, to be completed by 2012.

Gate Tallinn - a massive plan by local investor Trigon Real Estate Developments to invest €190 million to build up to 240,000 sqm outside the Tallinn city limits in Saue, on the Pärnu Road, at the junction with the city ring road. No major anchor has yet been announced.

• Rotermann Quarter, a new business and living area in the very centre of Tallinn.

Demand

Demand for retail space far exceeds supply. Vacancy rates are virtually 0% at the start of 2008. Several shopping centres have a waiting list of potential new tenants. The market situation has encouraged several centres to plan expansions in the future.

The five largest supermarket chains control 72% of the retail market. Rimi is the largest, followed by Prisma, Selver, Maxima and ETK. Lidl has pulled out of the Estonian and Latvian markets and sold their properties.

Demand is driven by growing purchasing power. In 2007, the average Estonian's purchasing power reached 69% of the EU average. Even in the face of tightening credit terms and declining consumer confidence, 2007 saw retail sale growth of 15%.

Rents

Rents on new leases grew 7% in 2007, as demand outstripped supply. New shopping centres charge €29 to €39 per sqm per month for 100 sqm units in prime locations. Food store anchor tenants' rents are €10 to €13 per sqm. Maximum rents for tenants occupying small spaces reach to €50 per sqm. Service charges range from €3.00-5.00 per sqm with a tendency to grow. Rents for a prime located main street units and old city shopping areas range from €20-50 per sqm per month.

Investment

Investors at the start of 2008 looked for yields of 6.5% - 7.0% on retail acquisitions. So recent investments included:

Tammsaare 49 – Finish investors Evli Property Investments (EPI) purchased this newly built 11,000 sqm construction materials store with Finish K – Rautakesko as the tenant.

Magistrali Centre – Finish investors Citycon bought this 9,450 sqm retail centre in Mustamäe for €16.5 million.
Kaubamaja, the owners of the mid-size supermarket chain Selver, bought 13 land lots totalling 59,000 sqm from Lidl for €8.8 million.

Sikupilli – retail centre with total area 16,700 sqm, purchased for €44.7 million by UK based investors Buoltbee.

Legal Notes by Sorainen

When looking at investment properties, keep in mind that there is no standard approach to the set-up and use of marketing funds. Turnover-based rent is not used. Rents are typically tied to the euro but indexed to local inflation. Lease agreements are often of low quality, e.g. distribution of maintenance and renovation obligations may not be set out very clearly in lease agreements.

Industrial

Developers Finally Take Warehouses Seriously

Supply

In 2007, nearly 120,000 sqm of new industrial and warehouses were developed in the Tallinn area, bringing the total stock of modern industrial space to 300,000 sqm. More than 80% of newly developed premises are situated out of the city borders. Build-by-user or built-to-suit projects are predominant type of developments - speculative developments are very limited. The majority of new warehouses and industrial buildings are located along the St. Petersburg and Pärnu Road at Laagri (Tänassilma) and the Tartu Road from the border of Tallinn up to Jüri. Among the mentioned areas, the most developed is the surroundings of St. Petersburg Road, where rents have doubled in recent years. Development of Tänassilma (Pärnu Road) as a warehouse and industrial area is resticted by the congestion on local roads and difficult access to the city.

Recent Developments

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

Tabasalu Technological Park – technological park with the area 15 ha located near the new Tallinn roundabout, the planned Juuliku - Tabasalu roundabout in Laabi village. Total of 15 lots with the area 6,700 – 15,351 sqm. Developer Karumaa AS

Põrguvälja Technological Park – 4 km from Tallinn near Tartu Road in attractive and logistically suitable location. Good connection with city centre, major roads, airport and harbours. Territory of 4 ha, area of warehouse complex 14,000 sqm, rents of warehouse spaces €5.40 per sqm, office spaces €7.70 per sqm.

New Projects

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American Corner Business Park –10 km from the border of Tallinn near the Tartu Road, this new business park is under construction with on 85 hectares of land. Individual plots can be purchased in the park for €45 per sqm. Some warehouse units will be rented for €5 per sqm.

Jüri Technological Park, Stage II - Local developer AS Kodu Grupp is building 15 buildings on 50 hectares of land, with the first to be ready in 2009. Tenants will include Kinema, Kaeser, Husqvarna, Pharmadule, and Buderus.

Põhjaranna Business Park – 10 km from Tallinn in an excellent location near Muuga Port, this will be one of the largest business parks in Baltic countries on 78 hectares of land. Individual plots can be purchased in the park for €100 per sqm, or warehouse space will be rented starting at €5 per sqm.

• *Under development. New Corporate Park NordShore, Muuga Harbour.*

Demand

The preferred area is on the Tartu Road due to lower congestion, good location, and lower rents. Ober-Haus sees that local companies planning to move their production or warehouses have purchased lots near the Tartu Road between the city border and Jüri. This area will develop rapidly as a production and warehouse area in the coming years.

Investment

Investors expect to receive at least 7% yields on good warehouse assets in the Tallinn area. Some recent investments include:

Saue, Oriola - Finish investment fund EVLI purchased a 4,300 sqm warehouse (warehouse spaces 2,900 sqm, office spaces 1,400 sqm) here for €5 million. The vendor was SRV Kinnisvara, tenant AS Oriola dealing with wholesale of pharmaceuticals. Productivity has not been disclosed.

St. Petersburg Road – warehouse complex with the area 6,500 sqm, vendor OÜ Fenar, purchaser Baltic Property Trust. This was a sale-lease-back transaction. Estimated sum of transaction approximately €7.5 mln, productivity has not been disclosed.

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 inflation. Nearly all properties are owner occupied. There is a lack of good-quality tenants and sufficiently universal properties to create an investment market. The number of sale-leaseback transactions is low.

Land

Demand Down, Supply Up, Prices Soften

Supply

Supply of land plots for sale with planning in place increased greatly in 2007, as planning became easier, and also cheap bank financing dissapeared, meaning speculators and even some developers had to put more of their land bank up for sale.

As the credit crunch which began in 2007 continues, and the number of new residential units sold declines, many developers and speculators will continue to unload plots, further increasing supply.

Supply of land with approved planning or construction permission is growing as speculators get their land rezoned or permitted and then put the plots up for sale.

Demand

In 2007 the number of transactions was half the level of a year ago. Speculative developers already have quite extensive land banks. Developers building for own use will only buy plots with planning. Speculative buying of plots without planning has stopped, as banks will no longer finance this speculation.

The number of transactions with private house lots decreased in 2007 in Tallinn and close surroundings of the city several times and the noticed price decrease was up to - 30%, price range of private house land in Tallinn was 70 – 130 €/sqm and close surroundings of the city was mainly 50 – 60 €/sqm.

Prices

Taken on average, the price of residential land in Tallinn increased 10%, business land 30% in 2007, according to the index of land offered by Ober-Haus. Over the last five years, land prices have grown for residential land by 300%, business land 700% in 2003-2007.

Plots in the city centre suitable for commercial development or luxury apartments rose 10% in 2007, to €1390 - 1520 per sqm of land, or roughly € 330 - 600 per gross buildable square metre of building space.

Plots in the suburbs for residential apartment developments grew 10% to range from €200 - 400 per sqm of land, or roughly € 190 - 300 per gross buildable square metre of residential space.

As a rule, purchasers are not ready to pay for the lot more than 15% of the total development cost of the project.

The only areas to increase in value in 2007 were the exclusive private lots in the districts of Nõmme, Pirita, and Haabersti, which gained 22% in value on the year, to a range of €100 to 130 per sqm. In suburbs the prices of large lots actually decreased more than 20% in the face of tighter credit and greater supply.

The average price of a lot in the city centre at the start of 2008 was €590 per sqm, and prices can go as high as €1,550 per sqm depending on the building volumes allowed.

Prices for commercial land near major roads was within the range €90 to 230 per sqm, while in most technological parks land sells for €60 to €80 per sqm.

Legal Notes by Sorainen

There are no restrictions on foreigners purchasing land except for agricultural and forestry land over 10 ha. Most land is offered without detail plans, which means unclear building rights. In rural areas, one may expect problems with the right of use of the land if privatization was not finished in time.
The pricing of development potential (construction rights) is the most difficult point of purchase negotiations. As sellers are often inexperienced, they have difficulties in evaluating the development potential or the development potential is based on the sellers' optimistic relations with local governments.

Residential

Prices Soften as Global Credit Crunch Hits Baltics

Prices

Prices in Tallinn fell 3% in 2007, after growing 8% in the first half of the year but falling in the second half. While there is still a long-run imbalance between supply and demand, the era of easy bank credit is now over, frustrating speculators betting on further rapid rises.

Prices of newly built apartments in suburbs vary from €1,470 - 1,900 per sqm in the largest suburbs, such as Lasnamäe and Mustamäe, and up to €3,000 per sqm in new developments near the sea in Kakumäe and Pirita. These prices are for fully fitted units. In the Old Town prices for flats in newly renovated buildings are €3,000 - 5,000 per sqm.

In the Soviet-era, pre-fabricated concrete suburbs, prices for unrenovated apartments are between €1,200-1,300. As a result of more of these flats being sold, the average selling period has lengthened and prices have dropped by over 15% in 2007.

Supply

More than 3,500 newly built units were completed in Tallinn and surrounding areas in 2007. That is 30% more than in year 2006. Due to decreasing bank liquidity, declining prices, and falling consumer confidence, Ober-Haus predicts that only 2,700 units will be delivered to market in 2008, and 2,300 in 2009.

Most of the new residential developments are in the suburbs.

The only large city centre development in the city centre was the 180-unit Luther Quarter, but in 2009 business and residential building will be completed at Kentmanni 6 with total of 120 apartments.

Recent Developments

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

Filmi 6 - Developed by Skanska EMV and located in Kadriorg next to the city centre, this project brought 86 apartments tom market ranging from 31-126 sqm. Prices range from €2,300 to €2,700 per sqm.

Pirita 28 – luxury high-rise building near city centre developed by Skanska EMV with views to sea and city. Total of 76 apartments, with areas 33 – 175 sqm, price range €2,500 – 4,500 per sqm. Prices for large apartments with views reach as much as €1 million.

Veerenni 15 – apartment building located in city centre near Hansapank and Luther Quarter. Total of 54 apartments with areas 45 – 145 sqm, price range €2,800 – 3,500 per sqm.

Suur – Ameerika 12 – dwelling in city centre with 37 apartments. Price range €1,900 – 2,100 per sqm.

Mäepealse – 15 apartment buildings on the border of Mustamäe and Nõmme with almost 600 apartments. The first construction stage includes 4 apartment buildings with total of 160 apartments. Price range €1,600 – 2,050 per sqm.

Astangu 50A – 108 apartments in suburb, price range €1,230 - 1,400 per sqm without interior finish.

Rootsiküla - Row houses near the city centre, the first stage sold successfully for €190,000 to 200,000 per house. The second stage now sells for €215,000 to 245,000.

Uuesalu – New residential district approximately 8 km from the city centre of Tallinn, the planned total volume is approximately 400 private houses and apartments.

• Rootsiküla. New homes by Swedish developer Besqab, sold by Ober-Haus.

New Projects

Kentmanni 6 - Local developers ELL (Merko) are building two 15-storey business and residential towers, which will hold 120 apartments.

Kadaka – A large suburban project of 1,200 apartments in Mustamäe.

• *Tallinn city. Historic Luther Quarter, developed by Grove Invest, sold by Ober-Haus.*

Vana-Kuuli – Three eight-storey buildings in the Lasnamäe suburb, with 224 apartments.

Juurdeveo 19 – 85 apartments near the city centre.

Major announced projects still in the planning stage include:

Project	Units
Paljassaare	10,000
Satnam Europe, Veerenni	1,800
Balti Manufakturi	1,500
Raadiku	1,200
NCC Kadaka Mustamäe	1,100
Admiral Bassein	1,000
Paekalda	1,000
Loopealse, Lasnamäe	1,000
NCC Rannamoisa	800
Tivoli	730
Kopli Liinid	900
Balti Jaam	600
Tartu mnt – Lastekodu, City Centre	500
Regati	360
Vasara – Alasi, Kopli	350

Demand

Out of the 3,500 apartments delivered in 2007, over 900 remain unsold. Demand has been dampened by two factors. First, the world-wide credit crunch led Scandinavian banks to shut down their lending to the Baltic subsidiaries for residential mortgage loans. The result was that while new loans climbed more than 30% in the first half of 2007, they dropped precipitously in the second half and there was almost no new loan growth on a monthly basis by the start of 2008.

Second, the hefty price rises of earlier years have spooked buyers, while the market as a whole feared prices had overshot. The result was a decline in demand, which in turn fed through to the price declines in the second half of the year.

The Mortgage Market

Estonia started 2007 with the most heavily mortgaged residential sector in Central Europe, with a total home mortgages to GDP ratio of 32%. By the start of 2008 that figure had grown to 39% (compared to 12% in Lithuania and only 8% in Poland). Therefore there is now much less room for growth of mortgage lending, especially in the face of the global credit crunch. The total monthly volume of new residential loans had grown continuously through April 2007, but has since reversed that trend, and now, while the total volume continues to grow, it grows at a much slower monthly pace than one year ago.

Still, mortgage remain relatively cheap, with euro denominated loans the standard, at rates starting in 2008 at 5.5% for loans in euros, which was euribor 4.5% plus a margin of 0.8 - 1.5%, depending on the customer. The maximum lending period is 40 years. Credit may be granted for up to 90% of the property value.

Although there is still some room for continuing liquidity through convergence with the Western EU (where mortgages average 48% of GDP, and even over 100% in countries like Ireland or the UK) in the medium term mortgage market growth rates are expected to slow down to fit better with actual income growth.

Rents

Monthly rent for a 70 sqm typical three-room new apartment in city centre ranges from €600 (unfurnished) up to €800 (furnished). Rental growth slowed to 5% in 2007, although difficulty in obtaining mortgage finance for first time buyers means we are seeing rents start to increase faster.

In mostly suburban areas of Tallinn there is the greatest demand for two- and three-room apartments. Mostly young families are looking for flats with rental rates between €260-€380 per month. In the city centre area there is a highest demand for two-room flats which price range is between €380-€520 per month. The upturn in rents is driven by the recent increase in property prices, rising interest rates, and stricter bank terms - all of which have made renting - rather than buying - a more reasonable option for some people.

Legal Notes by Sorainen

New residential leases are not subject to rent control, and rent may be agreed freely. However, when buying a property with tenants, take care that you have checked whether any Soviet-era tenants are subject to rent control. Such tenants also have the pre-emptive right to buy ahead of you, but are not likely to be financially able to exercise that option.

Legal

Introduction

After Estonia regained its independence, restitution of land and privatisation of buildings and land started in the beginning of 1990s in order to re-establish private ownership. Most of the land has been privatised by now and the title to the land has been entered into the Estonian Land Register, with some exemptions.

Title to Real Estate, Land Register

The ownership of real estate is registered in the Land Register. This is a national register, which includes information about the ownership and details about the real estate and related encumbrances. It is assumed that each and every entry in the Land Register is correct and valid vis-à-vis third persons acting in good faith.
The Land Register is a public register and everyone with legitimate interest is entitled to access the registered information. The register is maintained electronically.

Acquisition of Real Estate

General

Real estate may be land, apartment ownership or building title. In general, a transfer of a building separately from the underlying land is not permissible, except if a building title is established and so transferred. In such case the building is an essential part of the building title and not of land.
Due to the land reform, buildings may be located on land, which has not yet been entered into the Land Register, i.e. not yet privatised or restituted land. Said buildings – though technically permanent structures – are considered to be movable property.
As of 2 March 2006, no transactions can be made specifically with respect to buildings as movable property. This restriction is not applicable in enforcement, bankruptcy and expropriation proceedings as well as to wills and succession contracts.

Letter of Intent and Heads of Terms

In practice LOIs and HOTs are used to bind negotiating parties to the contemplated real estate transaction. However, in Estonia all transactions related to the obligation to sell and purchase real estate (including preliminary agreements, LOIs and HOTs) require notarisation in order to be legally binding. Without notarisation of said agreements the buyer can neither demand conclusion of the sales contract and transfer of ownership from the seller nor payment of contractual penalties.
If an LOI or HOT sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) this is deemed as valid and binding. Breach of the exclusivity obligation entitles the aggrieved party to compensation of damage, including to payment of specific contractual penalties.
In order for the LOI or HOT to be effective in practice, one must make sure that the exclusivity period is sufficiently long (preferably for intended period of negotiations and e.g. two months thereafter).

Change of Ownership

The title to real estate is considered as transferred upon the registration of the ownership in the Land Register, not upon signing the agreement. The registration of ownership shall be made within one month as of submission of the application along with the signed and notarised agreement to the Land Register.

Asset Transfer vs Share Transfer

Asset deals and share deals relating to real estate are both commonly used in practice.
The following aspects should be taken into account when considering a share transfer of the company holding the target real estate:
• notary fees and state duty arising from real estate sales are saved from transaction costs as the sale of shares of a private or public limited company (the shares of which are registered with the Estonian Central Register of the Securities (ECRS)) is carried out via banks and the ECRS;
• the ownership of shares is transferred as agreed in the sales agreement, usually at the time of closing the agreement, or in case of transfer via ECRS, upon the making of registration in the register, which takes only a few days, whereas in asset transfer the actual transfer of title takes place in one month's time;
• scope of due diligence investigation is extended due to the fact that the share deal transfers an entire company (with all known and unknown rights and liabilities) as opposed to due diligence of the target real estate only;
• LOIs and HOTs for real estate companies are usually binding on the seller;
• Applicability of financial assistance rules (the target company may not secure with its own assets the loan taken by the buyer for purposes of financing the acquisition);
• deferred tax issues.

For an asset transfer, one should consider the following aspects:
• the asset transfer is subject to a notary fee and state duty and, therefore, is more expensive than a share transfer;
• notary agreements are seldom made in English and sometimes notaries do not facilitate the negotiations;
• limited scope of due diligence investigation due to the fact that the review concerns only the target asset unless the transfer amounts to transfer of enterprise (see below);

• lease contracts survive the change of ownership of the target asset;
• agreements on supply of utilities and other services must be assigned or concluded anew;
• LOIs and HOTs are not binding on the seller (see above);
• the asset transaction may be deemed as the sale of an enterprise in which case all the obligations associated with the enterprise will be transferred from the seller to the buyer.

Form of Agreements

For transferring title to the real estate, a sales agreement (determining the terms and conditions of sale) and real right agreement (agreement to transfer title) must be concluded. These two agreements 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 to sell and purchase the real estate. The notary does not only verify the authorisation of the person signing the agreement but also the content of and the will of the parties to the agreement. Parties to the agreement must appear in front of the notary in order to conclude the agreement.

Language Requirements

The sales agreement and real right agreement are drafted and verified by a notary, in the Estonian language. At the request of parties, a notary may prepare the agreements in another language provided that the notary is sufficiently proficient in this language. If the agreements are verified in Estonian, foreigners may ask for a written translation or use the assistance of an interpreter before signing.
As the Land Register is maintained in Estonian, any documents in foreign languages must be submitted to the Land Register together with a notarised translation thereof into Estonian.

Due Diligence

It is advisable to carry out legal due diligence of the target real estate before the purchase has been concluded. In the course of the due diligence, title, encumbrances, planning issues, third persons' rights, public restrictions, permits etc. shall be checked, which give more security or bargaining power to the purchaser. It has become more common to offer compensation of due diligence costs to shortlisted bidders in the sale of real estate in an auction.

Pre-emption Rights

Pre-emptive rights may be entered into the Land Register on the basis of transaction or may be created by law. For example, a co-owner of real estate has the pre-emptive right upon the sale of a legal share of the real estate to third persons. Also, the state has the pre-emption right upon transfer of a real estate located within the boundaries of a shore or shore bank building exclusion zone.
Pre-emptive rights may be used within two months after receiving the notification of conclusion of the sales agreement by the person holding the pre-emption right.

Typical Purchase Price Arrangements

It is common that 5-10% of the purchase price is paid by a buyer to a broker's or seller's account as a deposit before an agreement is made.
Often the purchase price is transferred to a notary deposit account prior to the conclusion of the sales agreement. The notary releases the purchase price to the seller after registration of the ownership in the Land Register or more commonly, after the agreement has been made and filed with the Land Register and there are no other applications in the Land Register that would hinder the transfer of title.

Related Costs

In the purchasing process of the real estate, the following costs may occur depending on which services are used: brokerage fees, evaluation of the real estate (usually carried out by real estate firms), bank fees, legal fees for carrying out a legal due diligence and reviewing the sales and security agreements, notary fees and state duty.
The notary charges a fee for verifying a transaction. The fees are provided for by law. In sales transactions the notary fee for notarisation of the purchase agreement depends on the value of the transaction. For instance, the notary fee for the sale of real estate at purchase price of €319,000 (EEK 5,000,000) is approximately €973 (EEK 15,220) plus VAT.
Registration of ownership and encumbrances in the Land Register is subject to state duty, the amount of which depends on the value of the transaction and is a fixed sum set forth in the law. For instance, in 2006 the state duty for registration of a new owner of real estate with purchase price of €319,000 (EEK 5,000,000) is approximately €372 (EEK 5,800).

Concentration Control

Transfer of real estate (both in asset or share transfer) may be subject to concentration control by the competition authorities if:
• the turnover in Estonia of the participants to the concentration (the target undertaking and its buyer) exceeds 100 MEEK and
• the turnover in Estonia of at least two participants to the con-

centration exceeds 30 MEEK each.
The turnover, which is considered in the process of determining whether concentration control is applicable, is the turnover of sales in or directed to Estonia in the last financial year. If the buyer does not have any business in Estonia (upon the first purchase), concentration control is not applicable.

Portfolio Deals

Portfolio deals have become more common in practice. It is especially foreign investors who typically enter into portfolio deals because it provides an investor with sufficient diversification and volume, thereby reducing overall risk and relative cost. Also, certain transaction costs are kept low as there is a cap on notary fee and state duty if multiple sales are closed simultaneously. Acquisition of a portfolio versus acquisition of lots of single properties is less time-consuming and therefore, with a single portfolio deal, a buyer may gain significant market share.

When considering a portfolio deal, one should bear in mind the following:
• Scope of due diligence investigations is extensive as the high number of properties in the portfolio entails multiple title checks and review of survey materials. Also, the seller may insist that all due diligence be done on a pre-contractual basis, which arrangement in an asset deal (due to failure to notarise the pre-contract) does not give the buyer sufficient assurance about the deal taking place;
• Sellers often use auctions as their preferred sale method. If the due diligence costs of shortlisted bidders are not compensated (at least up to a certain cap amount), the bidders are usually reluctant to take part in such sales or place good bids. The buyer needs to make sure that such compensation offers are valid and binding upon the seller;
• Portfolios may include flawed or mismatched (so-called "dog") properties, the due diligence of which is of utmost importance in order to ensure marketability and rapid resale of those properties after closing;
• A number of non-real estate assets, such as employment contracts, property related rights, access arrangements and management operations, are often acquired or need to be acquired together with the portfolio;
• In case of asset deal, allocation of the purchase price between each of the properties is important as the seller may want to receive at least the book value for each property, which may or may not be the same as the appraised value;
• Remedies available to the buyer are often limited as the seller insists on compensation of damage as the only remedy. Further, since seller strives to limit its liability considerably, the buyer is excluded from submitting any claims for compensation until a certain level of loss is achieved first;
• In case of multiple jurisdiction portfolio deal, simultaneous closing of the transaction in all involved countries may be difficult to achieve due to differences in local laws and regulations;
• Structuring of a portfolio transaction, including a mix of assets and shares, is rather complicated, especially with view to achieving simultaneous closings.

Sale-Leasebacks

More and more local companies are using sale-leasebacks as a cost-effective and efficient alternative to traditional debt in funding the costs of expansion, acquisition and construction of new facilities.

When considering this arrangement one should check for the following:
• Existence of strong tenant/guarantor with strong business track record to ensure stable cash-flow over the duration of the lease;
• Lease agreement should be tied to the asset purchase agreement as this is the main reason for the deal. Also, if the target property is encumbered with a pre-emption right that is subsequently exercised, the lease should transfer to or be made with as well as be binding also on the rightholder;
• 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 (guarantee, surety, reserves, sinking fund etc.) is also required;
• The lease should include a clear split of maintenance responsibilities and cost/service charge break-down between the owner and the tenant;
• Closing under the asset purchase agreement and lease commencement date should coincide (book-keeping issues, reconciliation of costs) irrespective of the actual title transfer date.

Restrictions

In general, there are no restrictions for foreigners to acquire real estate in Estonia, except forestry and agricultural land, plus some island and sea coast and borderline areas of the state.
Even though Estonia is a member of the EU some restrictions for EU citizens and companies will exist until 1 May 2011. Acquiring of real estate the intended purpose of which is profit yielding land and that consists of 10 or more hectares of agricultural or forestry land is unrestricted only for:
• Estonian citizens;
• Citizens of the state which is a contracting party to the EEA Agreement who have lived in Estonia for the past three financial years and have been registered in an Estonian register as sole proprietor in the area of production of agricultural products (forest management for forestry land);
• Estonian legal persons that have been registered in the Esto-

nian Commercial Register or in the Register of Non-profit Associations and Foundations register and a branch of a legal person of a state that is a contracting Party to the EEA Agreement, that is registered in Estonian Commercial Register and that have been operating in Estonia for at least 3 past financial years in the area of production of agricultural products (forest management or production of agricultural products for forestry land).

Other persons may become owners of the respective land on rather limited grounds and only upon approval of the county governor.
The transfer of land on smaller islands and certain border areas is permitted to non-citizens or legal persons of the states which are not a contracting party to the EEA agreement only upon the permission of the Government of the Republic of Estonia.

Public Restrictions on the Use of Real Estate

It is important to be aware of the restrictions on certain types of use of real estate. For example, the use of real estate may be restricted in the sea coast area, heritage protection zones, protected zones of power lines, railways etc. The restrictions may mean that part of real estate may not be used for buildings or the owner has to avoid activity in the protected zones, etc.

Encumbrances

The following rights, which are entered into the Estonian Land Register, may encumber the 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 into the Land Register upon the notarised agreement to secure the interest of the purchaser or seller or third persons or the neighbouring real estate.
The Land Register may register a notation of a lease agreement, which ensures that upon change of ownership of the real estate encumbered with a lease the new owner may not terminate the lease agreement within three months as of acquisition of the premises with reference to urgent personal need for use of the premises.

Mortgage

The real estate purchase is often financed by a loan. Usually a mortgage as security in favour of a bank financing the payment of sales price is established on the real estate by a notarised agreement. A mortgage agreement is concluded at the same time and in the same document as the sales agreement.
In case a mortgage is already encumbering a real estate prior to the sale and the purchaser needs a mortgage to be established for its own financing purposes, the existing mortgage is typically transferred to the bank financing the payment of sales price. This transaction structure is more cost efficient compared to deletion of the existing mortgage and establishment of a new one as it saves on the notary fees as well as the state duty.

Lease Agreements

General
In general the freedom of contract applies as to the content and form of the lease agreement. However, as to the residential lease, the law protects the rights of the tenant and provides many mandatory rules. If a residential lease contract with a term exceeding one year is not entered into in writing, the contract is deemed to have been entered into for an unspecified term.
Upon the transfer of the real estate, the lease agreements shall survive the change of ownership. However, the owner may terminate the lease agreement within three months as of acquisition if the owner needs the premises urgently for its own use. This right may not be exercised if a notation about the lease agreement has been made in the Land Register.

Duration and Expiry of Lease Agreement
Lease agreements may be concluded either for specified or unspecified terms. If the parties have not agreed differently, either party of the lease agreement entered into for an unspecified term may terminate the residential or business premises lease by giving at least three months' notice.
The lease agreement entered into for a specified term expires upon expiry of the term. Extraordinary termination is allowed upon the material breach of agreement (for both agreements entered into for unspecified or specified term).
If, after expiry of the term of a lease contract, the tenant continues to use the leased premises, the lease is deemed to have become a lease agreement entered into for an unspecified term unless the owner or tenant expresses some other intention to the other party within two weeks as of expiry of the lease contract (applicable to the tenant) and as of the time when the owner learns that the tenant is continuing to use the thing (applicable to the owner).

Lease Payment and Accessory Expenses
Rent is usually paid once a month to a bank account of the owner. The amount of rent is subject to changes based on the index determined by parties (e.g. changes in CPI). It is common to pay a deposit in the amount of one to three months' rent payment.
Accessory expenses (utilities) such as electricity and water are deemed as included in the rent if not otherwise agreed in the lease agreement. It is quite common that the tenant pays for the utilities extra according to the invoices of the service providers.

PPP & Infrastructure

Concessions

The only type of concessions the granting of which is regulated in the Estonian legislation are construction work concessions. Said concessions may be granted in compliance with the Public Procurement Code. Construction work concession means the exclusive right to exploit a structure, which is granted either for a charge or without charge for the performance of construction work.

Upon granting a construction work concession, a 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

Conclusion of sale-leaseback agreements for structuring PPPs is increasingly used in Estonia. For the lease-back 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 new owner and leased back to the tenant (public partner).

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

Regulated Real Estate Funds

Regulation concerning real estate investment funds has been put in place.

A real estate fund is a fund the units or shares of which are redeemed or repurchased not earlier than after expiry of six months as of submission of the corresponding claim by the unit-holder or shareholder and, pursuant to the fund rules or articles of association, from the assets of which at least 60% is invested into real estate or at least 80% is invested in real estate and securities related to real estate.

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

This investment structure opens up new exciting opportunities for investors for exiting real estate investment or receiving financing without losing control over the investment. Further, managing a fun can be tremendously lucrative in developing markets when success fees for management are provided for in the fund conditions.

Planning Requirements and Construction of Buildings

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 determine building rights for plots as well as to set limits for construction activities in the particular area. After the completion of the project of detailed plan, there are public hearings and discussion. The whole process of approving the detailed plan may take approximately from 6 months to a few years depending on the area and complexity of the project.

Construction

The erection, modification and demolition of buildings and other structures, as well as their subsequent use, require a building permit and permit for use issued by the local government construction supervisory authority.

Construction works have to be performed pursuant to building design documentation and building norms. The building design should be drafted by a professional architect or an engineer as well as be approved by the local supervisory authority. The building design documentation must comply with the relevant detailed plan, if such plan has been established, and meet the official building norms. The intended purpose of the building cannot differ from the intended purpose of the land plot (e.g. it is not possible to build residential buildings on commercial land). In case there is no detailed plan in place or no detailed plan required, any construction works have to be performed based on design criteria issued by local government.

The local government issues building permits based on the building design and respective application, in case the said documents are in compliance with detailed plan or design criteria. Construction without a valid building permit is not allowed. A building permit becomes invalid if construction works are not commenced within two years as of the date of issue of the building permit.

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

Once the constructions works are finished, the construction company must give a guarantee for any faults in the construction works for at least two years after the construction works are finished. The guarantee granted by the manufacturer for equipment incorporated in the construction works cannot be shorter than six months.

Taxes

Purchase

VAT - The purchase any new building or apartment, a significantly renovated building, or a plot of land without a building is subject to 18% VAT. Supply of new buildings, the construction of which began before 1 May 2004, plots of land purchased before 1 May 2004, and used buildings are VAT exempt. A person may opt for adding VAT to the latter supply, unless it is a dwelling. In case of VAT exempt supply of immovable, the adjustment period for input VAT is ten calendar years.

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

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

Rents

VAT – Although the rent of real estate is considered a VAT exempt supply, owners of commercial property have the option to charge VAT on rent. Nearly all owners choose to charge VAT on commercial rents, as owners want to recoup the VAT paid for development of the property. All residential property is rented without VAT.

Income tax – The personal and corporate income tax rate in 2008 is 21%. The specificity of the Estonian income tax system is in the fact that corporate profit is not taxed at the moment it is earned, but rather at the moment it is distributed in the form of a dividend. Non-resident companies which do not have a permanent establishment in Estonia are subject to income tax on business income (which includes lease of immovable property located in Estonia) derived from Estonian sources. Documented business related costs as well as real estate repairs and maintenance expenses may be treated as deductible business expenses in the year they occurred.

Natural persons and sole proprietors pay income tax on rental income. Natural persons not registered as sole proprietors may not deduct any expenses from rental income for tax purposes - the total rental income is taxed at the prevailing rate of personal income tax (21% in 2008).

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

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

Sale

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

Real Estate Tax

There is no real estate tax in Estonia. However, there is a land tax for real estate located in Estonia. The tax rate varies between 0.1% and 2.5% of the taxable value of the real estate, which depends on its location and is determined by the local municipality (not to be confused with market value).

Riga, Latvia

Commercial Property Strong, but Government Anti-Inflation Measures Dampen Residential Outlook

Economy

Latvia's economic growth is among the fastest in the world, with GDP growing 10% in 2007 after 12% growth in 2006. The consensus estimate is that GDP will grow 7-8% in 2008. Growth has been stimulated by domestic demand driven by fast wage growth and private borrowing, boosting consumer price inflation to 10.1% in 2007, even a 14.1% annualised rate in December.

In March 2007 the government introduced measures to slow inflation by slowing domestic demand and price growth, such as stricter requirements for mortgage borrowers. Yet since prices and wages are still significantly lower than Western Europe, and the borders are open to trade and migration, it is reasonable to assume that price and wage convergence with the West should keep Latvian inflation well above core European levels for many years to come.

Unemployment dropped to 4.7% in 2007, far lower than Western Europe, and is expected to decline below 4.5% in 2008, making labour a scare commodity. Latvia joined the Schengen area at the end of 2007, removing all borders and controls with the rest of Western Europe.

Home mortgage rates remain low, with euro denominated home loans ranging from 0.9-1.5% over libor (making 4.65-6.25% at the end of 2007). Mortgage lending growth slowed to less than 20% on an annualised basis by the end of 2007, but total bank lending still grew 47% in 2007 as banks shifted their focus to commercial lending.

FDI inflow in 2007 was €595 per capita, and will remain at this level for the years ahead due to the inflow of EU structural funds.

The national currency, the Latvian lat, remains pegged to the euro at the Central Bank rate of 0.702804 lats to the euro, meaning one lat is worth 1.42 euros. Latvia expects to keep the currency pegged at this level until Latvia joins the eurozone, sometime after 2012.

Office

Large and Growing Supply of New Projects

Supply

By the end of 2007, modern office stock in Riga grew to 482,000 sqm. This represents 144,000 sqm of new office stock in the last 12 months. Ober-Haus projects supply to grow another 189,000 sqm in 2008.

New Projects

To lease space in these or other properties, call Ober-Haus on +371 6728 4544.

SWH Business centre – a modern, multifunctional A class business centre, developed by SWH Grupa, located in the district of Skanstes Street. The 20,000 sqm space is due to open in summer of 2008 for lease €14.00 per sqm. There will be 300 surface parking places on the property. The building was 85% pre-leased at the start of 2008.

Muitas Business centre – a modern A class office building, developed by Jurmalas celtnieciba, located in Riga trade centre on Muitas Street, close to Old Town. The 7,000 sqm space is due to open in the end of 2008. Building complex consists of building No. 1 with a total area of 3,600 sqm and building No. 2 - total area 3,400 sqm. Rents range from €20.00 to 25.00 per sqm.

Akmenu 14 – multifunctional building with commercial, office premises and apartments, developed by Re InvestCOM, located in Akmenu Street with beautiful view to Old town and river Daugava. The 5,500 sqm space is due to open in the end of 2008. Rents range from €15.0.0 per sqm.

Dzimta Seta - a seven storey, 6,200 sqm modern, class B office building, developed by Dzimta Seta, located in Gunāra Astras Street. The office building is due to open in the summer of 2008. Car parks for the new office building will be located on the property and in the underground stories of the building. Rents range from €14.00 to €20.00 per sqm. For leasing information, call Ober-Haus.

• *Teika Business Centre offers all you need: excellent location, service, parking, at a good rent.*

Riga Industrial Park – a modern B class 3 storied office building with storage premises, developed by Riga Industrial park, located in Dzelzavas Street. The premises in the new project shall be both to rent and to sell. The 8,600 sqm space is due to open in the end of 2008. Rents range for office and retail spaces – from €12.00 to €16.00 per sqm. Rents range for warehouse spaces from €6.80 to €7.20 per sqm. Sales range for office and retail spaces – from €2,200 to €2,600 per sqm. Sales range for warehouse spaces from €2,300 to €2,500 per sqm.

TOMO – is a modern 5,000 sqm office complex on Raunas Street. This centre includes a hotel, fitness centre and swimming pool. Office space will be offered for sale, at €3,000 per sqm. There will be 60 surface parking places and 110 spaces in an underground car park.

Teikas Business Centre – in one of the prestigious regions Teika are building 16 storeys, B+ category, 14,300 sqm leasehold area business centre, with multi-storey parking. The developer is Hanner of Lithuania, which is one of the leaders in real estate development in the Baltic States. The building rent is €17.00 per sqm. On one floor there may be an office of up to 2,100 sqm, parking places for 503 cars. This business centre will open on 1 May 2009.

Sporta Street Office – a 14-storey A class office building with 21,000 sqm lettable area, developed by Metro Capital Management. The building will be situated in close centre, with beautiful view to Old town and Gulf of Riga. There will be 8 offices in every floor with space from 100 sqm, 433 parking places. Rents rage from €16 to €19 per sqm. The will be finished in middle of 2009.

Helio II – "Helio biroji" complex 2nd stage, modern B class business centre, developed by Helio biroji, located in the territory of airport "Riga". The 8,000 sqm space is due to open in the spring of 2009. Rents start at €16 per sqm.

Demand

Take-up was 113,000 sqm in 2007. On the one hand the supply is higher than demand, because the potential tenants are becoming more exacting about location, special need, extras etc, but from the other hand the supply of modern, new and qualitative office buildings near the Riga centre is not sufficient. The tendency to move offices away from the city centre still continues and developers offer new office buildings in Riga suburbs. And it makes new business areas. We predict that in the next few years problems like increasingly heavy traffic and insufficient parking places in city centre will become acute. Also the problem will be uninterrupted electricity power supply by the new buildings which need a lot of capacity. Office buildings with local generator and the ability to guarantee their own energy for some time will be the winners.

Rents

Rents in A class offices grew from €17.00-23.00 per sqm in 2006 to €18.00-25.00 per sqm in 2007. Typical service charges are €1.50-3.00 per sqm. Rents for class-B office space ranges from €12.00-16.00 per sqm in 2006 to €12.00-18.00 per sqm in 2007. We expect rents to rise moderately as take-up will continue to exceed supply.

Investment

No significant office building investment transactions were recorded last year.

Legal Notes by Sorainen

Rents

Rents are usually paid on a monthly basis in advance. However, in some cases the rent is payable in advance on a quarterly basis. Rents are typically tied to the euro but indexed to local inflation. Tenants pay their own utilities, invoiced after use by the owner or the supplier. Security deposits for two to three months' rent are generally required. The owner usually pays all the taxes applicable to the real estate.

Investments

Lease agreements of business centres are of rather good quality, other lease agreements for office space are generally of low quality. Typically the owner prepares standard lease agreements, which are mostly one-sided and in favour of the owner. The lease agreements are binding to the new owner of the real estate upon transfer of the title provided such agreements are registered with the Land Book.

The buildings might have technical defects or the construction works do not comply with the legal requirements, e.g. the construction might have been commenced before obtaining the construction permit or the building might be higher than specified in the construction permit, etc. Asset deals and share deals are equally common.

Retail

Tiny Supply Doesn't Satisfy Growing Demand

Supply

Total retail space grew only 44,000 sqm in 2007 to 760,000 sqm. The main developments in 2007 included the addition of furniture and interior design centre to the shopping complex Spice (Phase III) and opening of the shopping centre Sky&More on the busy Duntes Street. Total rental area of these developments added additional 44,000 sqm to the total rentable area. Ober-Haus sees another 267,000 sqm of retail space in the next three years. Many international retailers have shown their interest and opened their stores in Riga; these include Ermenegildo Zegna, Patrick Hellmann and other known names. Hugo Boss franchisee Apranga has opened its biggest store in Northern Europe by leasing 600m2 of retail space. Douglas in partnership with Kolonna is also planning to enlarge and open more stores not only in Riga but other big cities. Retail outlet units are increasingly becoming popular as they are new to the consumers and we see a great potential for it, especially outside the city centre, along the main highways.

Recent Developments

To lease space in these or other properties, call Ober-Haus on +371 6728 4544.

Spice (Phase III) – leading developer Merks (Merko) added 28,000 sqm to its existing 50,000 sqm retail complex on Ulmana Avenue. The new centre includes wide selection of furniture and interior goods. The main tenants include The Pier, Esprit Home, leading Baltic and Scandinavian furniture retailers – Isku, Asko, Sotka, Home4you, Skano, etc. Total investment of the project is €17 million and the centre was opened in November 2007.

Sky & More - a new shopping centre on Duntes Street was opened in spring 2007. Total area of 16,000 sqm, its prime target is upmarket clients. The anchor tenant is Sky; other shops include ONLY, Pierre Cardin, Otto Kern, Takiro Kurosawa, J.Lo, many popular restaurants and cafes.

New Projects

To lease space in these or other properties, call Ober-Haus on +371 6728 4544.

Riga Plaza - Latvian developer Diksna in a joint venture with Plaza Centers Europe is building Riga Plaza Shopping and Entertainment Centre, a 67,000 sqm complex. The planned investment is €80 million. The facility will contain over 160 stores, a supermarket, cinema complex, bowling, restaurants, cafes and a family entertainment site. The centre is located next to the busy Salu Bridge on the south bank of the River Daugava, three km from the city centre. The centre will be completed in spring of 2009.

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

Akropole – Lithuanian developer Vilnaius Prekybas Group is to build one of the largest retail and entertainment centres in the Baltics. Akropole will house the biggest variety of shops in the region and most entertainment in one place. The site, located two km northeast of the centre of Riga will account for more than 150,000 sqm of retail space after completing the first phase, including a "Hyper-Maxima" hypermarket. Total investment will reach €135 million. The centre is planned to be finished by the end of 2009-2010.

Demand

Demand is still high among mid and upmarket international retailers who are looking to open their first shop in Riga city centre. The top most successful shopping centres are Alfa, Domina and Spice. Shopping centres favour large international brands,

especially clothing companies, as market is still new and not saturated yet, and there is not enough competition. Demand still surpasses supply. Retailers queue to get units, as the vacancy rate is 1%. Shopping centres have long waiting lists of tenants wanting to open their shops in the malls.
The most popular and most expensive retail locations are in the Old Town and the city centre. Those are Valnu, Kalku, Audeju, Elizabetes, Terbatas, and Barona. They are popular among the most luxurious brands especially who can pay the top rent. The biggest demand among boutiques remains the same 50-100 sqm units.

The regional shopping centres in second largest cities have also piqued traders' interest. Companies are now ready to go to regions closer to their clients. The biggest potential is among large regional cities - Liepāja, Daugavpils, Rēzekne and Ventspils.

Rents

Rents grew 30% in 2007 due to limited supply. In the city centre rents are €50 - 80 per sqm, in top locations the prices have reached €70-90 per sqm. Further out of the city centre rent level stays the same as previous year – €15- 35 per sqm, in the prestigious Old Town retail space rents are €55-90 per sqm. In shopping centres rents start from €15 per sqm for large units (1000 sqm), €30 per sqm for medium units (150 -300 sqm) and €60 per sqm for small units (50-100 sqm). Anchor tenants, such as supermarkets, typically pay €8 to 12 per sqm. The service charges vary between €3 – 5 per sqm. In suburbs rents are €10 - 20 per sqm.

Investment

The biggest transaction was the sale of the Domina shopping centre with a yield of 6% and price €150 million. Other transaction in the beginning of the year was the sale of Barona Centrs at a yield of 8% and price €10 million. Sellers are asking for yields of 6% in Riga, while investors look for yields of 6.5% - 7.0%. In regional cities yields are at 8%.

Legal Notes by Sorainen

Typically one anchor tenant or a few medium-size tenants lease each property. As a rule, the tenants are charged for the use of common areas and management of the building. The owner usually pays the taxes applicable to the rent and the property. The advertising cost is often fixed and therefore not negotiable. Sinking fund is not used as a separate cost in retail market but it might be included in the maintenance costs. Turnover rents are commonly used in Latvia. As a rule, the tenant is responsible for finishing and furnishing with equipment of leased premises for its usage purposes.

When looking at investment properties, keep in mind that lease agreements are generally of low quality. 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 inflation. Distribution of maintenance and renovation obligations may not be set out very clearly in lease agreements. The lease agreements survive the change of ownership and are binding to the new owner of property provided such agreements are registered with the Land Book.

Industrial

Take–up Outstrips Supply

Supply

2007 was the first year that modern warehouse space was delivered on a speculative basis to the market. The low existing supply guaranteed that all spaces were taken up. Today there are seven new projects coming in 2008-2009, totalling 148,000 sqm. Most are outside of the city, and the biggest are on the ring road around the city. This location is good for companies servicing all three Baltic States' markets, which need to transport goods to Lithuania and Estonia as well.

Demand

Demand in the industrial segment continues to strengthen due to the rapidly growing retail and import sectors.

Over 50,000 sqm of warehouse space was leased out each of the last two years (2006 and 2007). Expectations are that new leasing will continue to grow at the same pace in the next few years. We expect there will be demand in the market for 250,000 sqm over the next five years.

Rents

Warehouse rents in the city of Riga are about €6.00 per sqm, while in the surrounding areas near the ring road modern warehouse space rents for €5.50 per sqm.

Industrial leases are quite simple, finance and construction opportunities are readily available. Rents are tied to the euro but indexed to local inflation. Usually the parties conclude triple net lease agreements where the tenant shall pay all maintenance costs.

Projects are usually built for owner occupiers. Sale-leaseback arrangements rarely take place.

Recent Developments

To lease space in these or other properties, call Ober-Haus on +371 6728 4544.

Dominante Park - Built by local developer Dominante Developments, this park is the largest industrial project in the Baltic Region. The site is on 65 ha of grasslands on the outskirts of Riga, near the crossroads of the Riga ring road and the A7 highway. The first phase of the park development delivered 35,000 sqm of warehouse space and 3,500 sqm of office premises in 2007. Major tenants are: Baltā bura and Jongent. Eventually the project will total 250,000 sqm of warehouse premises and 10,000 sqm of office premises. Current rents are €5.30 per sqm.

Dommo Park - A new warehouse and production centre built by local developers Dommo Logistics, located 13 km from Riga, next to the A5 and A8 road junction. On a total of 54 hectares of land, the complex may comprise up to 200,000 sqm building area. The first 11,000 sqm were delivered in 2007. Current rents are €5.00 per sqm.

Ritausmas Centre - A 14,000 sqm warehouse project, 2800sqm offices, the first phase of 5,200 sqm project was delivered in 2007 and fully leased to Elvi supermarkets. Rent is €6.00 per sqm. total land area 46,656 sqm, 2 warehouses 2,800 sqm office space, car parking up to 120. Office premises rent for €11.00 per sqm, while warehouse premises rent for €5.50 per sqm.

Wellmann - Built by Estonian developers, this project will total 19,000 sqm, the first phase of 12,193 sqm is now finished. Lease terms start from 5 years. The warehouse complex is planned to be one of two buildings constructed on the real property (total area 62,734 sqm) located in Salaspils. The area under the building amounts to 100 x 60 m. Effective height of the building under the frames 8.5 m. The gas heating devices installed on the wall or the water-air heaters heats the warehouse. The biggest tenants include Schneider Electric. Rents are €5.50 per sqm, and office premises €8.50 per sqm.

New Projects

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Kekava Logistics Park - A 50,000 sqm project to be built by Scandinavian developers NCC in Kekava just outside Riga. Kekava Logistics Park encompasses a high quality (A-Class) logistics building for single and/or multi-user purposes. The entirety encompasses modern office and logistics space with practical and adjustable solutions to meet the specific needs of each client.

Altogether the gross volume of the building is approx. 600,000 cubic metres. The building includes roughly 44,000 sqm of leasable warehouse space and up to 6,000 sqm of office/ administrative space. The warehouse space will have at least 10 meters of net working height. The warehouse will be heated according to users needs, most likely about 16° Celsius. The bearing capacity of the floor will be approx. 5 tons per sqm. There will be ca. 100 parking places for cars and ca. 30 places for freight trucks. All parking places are situated in the yard that is covered with asphalt. The price will be €6.00 per sqm for warehouses and be €10.00 for offices.

Airport Commercial Centre - Total area 6,387 sqm of which 1,296 sqm office space in the second floor and 5090 sqm warehouses on the first floor. Space can be divided according to tenant's needs. The property has all communications including electricity, hot and cold water, WC. Warehouses are provided with both cooling and heating system. Free planning possibilities, ceiling height 7 metres, floor endurance 5 tons. Car parking available with up to 50 within the territory. Rental price still not set, but expected rents for warehouses is €7.00 per sqm, and rent for offices is €11.00 per sqm.

Elipse - To be built by local developers Baltic Logistics Company, the first stage of ELIPSE logistics and distribution centre will have a total area of 30,538 sqm, of which warehousing premises will be 26,543 sqm.

It will be one of the most up-to-date logistics centres in the Baltic States which will use energy saving technologies, such as Solar Wall, to reduce operation costs for future tenants.

Logistics and distribution centre will consist of three separated warehouses with a total area of 26,543 sqm. The warehouses will be furnished with modern equipment for storage of goods, professional goods processing appliances and digital goods movement control technologies. The premises have been designed to secure convenient cargo storage and processing.

According to the detailed plan of the territory, the buildings can be used for "light" manufacturing enterprises, buildings for cargo and post office operations, warehouse, wholesale enterprises, station of technical service, parking lot/garage, business enterprises, administrative offices, trade and/or service providing object. Rents will be €6.00 per sqm, and for offices €14.00 per sqm. Tenants will include Sia Pluss Punkts, Greis, Greiss Loģistika.

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 inflation. Usually the parties conclude triple net lease agreements where the tenant shall pay all maintenance costs. Projects are usually built for owner occupiers. Sale-lease-back arrangements rarely take place.

Land

Commercial Land Prices Stabilise

Supply

Riga master plan was approved in 2005; this plan is valid from 2006 to 2018. It is possible to change the allowed use for land plot, but this procedure takes up to two years.

Demand

Demand has been dampened by the lack of bank finance available. Bank loans to finance acquisition of land have become much more difficult to obtain. Whereas in 2006 and early 2007 banks would finance nearly all land purchases, today banks give loans to well known developers, and only to buy land with planning already in place.

Private persons can now only borrow to buy land if they can show their personal income as certified by the State Revenue Service.

Developers are more interested in buying land for commercial projects, as commercial vacancies remain low, while demand for new apartments has decreased.

In 2007 demand dropped for large land plots for rezoning and then splitting up into individual building plots, as the finance available to the final take-out buyer decreased.

Prices

After jumping 60% in 2006, land prices remained virtually unchanged in 2007. The price of commercially zoned land in city centre remains €250 to €900 per buildable sqm of final building space, or roughly €400 to €3,500 per sqm of land.

In suburbs the price of land for residential building is roughly €150 to €250 per buildable sqm of final building space, or roughly €100 to €600 per sqm of land.

News

There are not relevant changes in master plan of Riga.

The privatization of land still is in a process. But the term for submission of new applications is closed in august 2006. There was privatized 67 million sqm land during the time period from 1997 till now.

The owners have pre-emption rights for buildings where the land below belongs to municipality or state by the law of confiscation of property of state or municipality if it is not in conflict with other regulations or laws.

Legal Notes by Sorainen

Investments by foreigners are completely unrestricted, except for the acquisition of agricultural and forestry land and land plots in border territories, special protection zones.

Residential

Prices Soften in Soviet–Era Buildings

Prices

Prices in the primary market grew 5% in 2007 in the city centre and 19% in the suburbs. Prices of newly built apartments in city centre vary from €2,700 - €5,500 per sqm, and prices in historic Old Town from €3,500 - €6,000. New apartments outside the city centre range from €1,500 - €3,500. New apartments in suburbs are usually sold shell, meaning the buyer will have pay at least an other €200 per sqm to finish floors, paintings, plumbing and electricity works.

Prices in secondary market Soviet-era buildings grew 6.2% in the 1Q of 2007, but then fell in the following three quarters and ended the 2007 down 2% for the year, to end in a range from €1,200 – €1,600 per sqm. The prices of secondary market apartments in different city suburbs became considerably similar. The prices in un-renovated pre-war houses become stable and there were not relevant changes. Prices in city centre range from €2,200 - €4,200 in city centre and from €3,500 – €5,500 in Old Town.

Supply

In Riga, 6,845 new units were delivered in 2007, more than a 28% increase on the 5,362 units built in 2006. Based on current construction, Ober-Haus projects that over 7,000 new units will be delivered in 2008.

After that, we see new apartment starts dropping. There were 254 announced new projects in 2007, which is 6% less than 2006. The largest new developments are located outside the city centre. Developers focus on marketing and offer an attractive bonus to get the buyers, including rebates.

• *The Tekstiliana project combines history with modernism, in a renovated industrial setting.*

New Projects

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

Soleville – located on Ulbrokas Street, developed by AFI - Europe Latvia. This project comprises of 17 multi-storey buildings with 2,200 apartments, four kindergartens and 3,000 parking spaces. Apartments range from 50 – 180 sqm, prices starting at €1,900 per sqm. This project will be finished in 2013. The first phase consists of one 13 stories and two 17 stories buildings; totally about 350 apartments and one kindergarten. The first phase will be finished at end of 2009.

Skanstes Virsotnes – located on Skanstes Street 29, developed by Merks (the Latvian subsidiary of Estonian Merko). This project comprises of four 24 stories buildings with 520 apartments and with underground parking for each apartment (parking space costs €15,000). Apartments range from 40 – 150 sqm, prices starting at €2,000 per sqm. This project will be finished in 2010. The first phrase consists of two 24 stories buildings with 260 apartments. The first phrase will be finished in March 2009, and is 70% pre-sold.

Equilibrium – located on Brivibas Street 446 by the lake Jugla, developed by "Brivibas Nams". More than 5,000 sqm of the territory will be a park. This project comprises 23 apartments. These apartments range from 60 -190 sqm, with price starting at €3,300 per sqm. The building will be finish in August 2008, and is 70% pre–sold.

Tekstiliana – located on crossing of Vienibas Avenue and Torkalna Street. Presently at the territory is located an old factory. Project is developed by Capitolia Group. It comprises three six storey buildings with 257 apartments. Apartments range from 57 – 147 sqm, with middle price €2,550 per sqm. The building will be finish in 2009. There is started selling of first – A – building, with 118 apartments.

Matiss House – located in city centre on Matisa Street 69, developed by Jugend Reality. It comprises two seven storey buildings with 32 apartments, two commercial premises and 23 parking lots. Apartments range from 36 – 201 sqm, with prices starting at €3,000 per sqm. The building will be finish in February 2008, and is 30% pre-sold.

Demand

Over 6,300 new flats were purchased in 2007, leaving more than 500 new flats unsold. Market activity slowed in the second half of 2007, after the Latvian government passed its anti-inflation plan, focused on slowing the residential market to slow inflation. The highest demand is for apartments in new projects recognizable with good quality planning and attractive location. Demand for soviet – era projects is dropping.

While many buyers wait to see how the market will change, in the long-run demand will continue to grow as Soviet-era flats become less lovable, and wages and living standards of the population rise.

The Mortgage Market

Average mortgage rates at the start of 2008 were 5.6% for loans in euros, which was euribor 4.5% plus a margin of 0.8 - 1.5%, depending on the customer, with a maximum term of 40 years. Clients can borrow up to 90% of a property's value. Outstanding mortgage loans in Latvia total 38% of annual GDP. The mortgage market has been slowed down by the government anti-inflation plan, and the global credit crunch.

Rents

While purchase prices levelled off, residential rents grew 21% in 2007. Typical monthly rent for a newly built, 70 sqm, 3-room flat in the city centre range from €15 – 20 per sqm, for pre-war buildings started at €12 per sqm, in old town at €15 per sqm for pre-war buildings and €20 per sqm for newly built.
Rental demand is rising as clients find it harder to get loans for purchases.

• *Equilibrium - bring balance to your life.*

Demand is always high for three and four room apartments in the city centre, with the usual premium on those with high-quality standards, attractive location, comfortable planning, good views, renovated facade, lift, and parking.

There remains high demand for cheaper one and two room apartments in suburbs. Also there are rising demand for apartments in newly built projects in suburbs as well. The highest demand is in Purvciems, Teika and Agenskalns but the relevant factor often is rent as a reason for high density of transactions in all suburbs.

Legal Notes by Sorainen

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

When purchasing a leased property, mind that lease agreements are binding on new owners regardless of whether they are registered in the Land Book. Special attention should also be given to the Soviet-era tenants for whom the rent and term provisions of law are applicable.

Legal

Introduction

Restitution to original owners of property that was expropriated in the Soviet period was completed in Latvia by the end of 1990s. Privatisation of the state-owned land, land owned by the municipalities and state businesses also began and should be finished in the next few years.

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 the land reform, a land plot and a building situated thereon may belong to different owners.
The Land Book stores information regarding to the legal status of real estate, including all encumbrances, mortgages, preemption rights and any other relevant rights and obligations. The Land Book is a public register and information contained therein is publicly available and also binding to third persons. It is also available in a database version in Latvian via Internet in return for a fee.
There are a number of real estates not registered with the Land Book but registered with the Cadastral Register. Most of them are privatised apartments and land plots restored to the previous landowners. The privatisation of an apartment is completed after its registration with the Land Book.

Acquisition of Real Estate

General
Real estate may be acquired as buildings and land plot beneath the building (entire or ideal parts) or as building (if the building is registered with the Land Book as permanent property object) or land (if the land is registered with the Land Book as permanent property object) or apartment ownership.
Generally a transfer of a building or land separately from each other is not possible, unless the land plot and the building are registered with the Land Book separately as permanent property objects. This situation might be derived due to the restitution of the ownership rights.

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 the contemplated real estate transaction. According to said agreements the buyer can demand the conclusion of the sales contract.
Usually an LOI sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) and stipulates other obligations of the parties to be followed during certain time period. Breach of the exclusivity obligation according to LOI or preliminary agreements entitles the aggrieved party to compensation of damage, including to payment of specific contractual penalties.

Change of Ownership
Each transaction with real estate and registration of the ownership rights with the Land Book involves a number of formalities, which have to be completed or solved before the title transfer. For instance, one is the real estate tax debt on the particular property, which has to be settled. Otherwise the registration of the ownership rights with the Land Book is not possible. The period of time for the registration of the title to a real estate with the Land Book usually varies from fifteen days to one month after as of submission of all necessary documentation to the Land Book.

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 the company holding the target real estate, the following should be taken into account:
• notary fees and state duty arising from real estate sales are excluded from transaction costs as the sale of shares of a companies;
• the ownership of shares is transferred as agreed in the sales agreement, at the time of signing the agreement, or upon the making of registration in the register, which takes only a few days;
• once the buyer completes the transfer of shares the buyer assumes responsibility for the whole company including any actions that have occurred before the change of ownership;
• due diligence investigations are more extensive as the share deal transfers an entire company (with all known and unknown rights and liabilities) as opposed to due diligence of the target real estate only;
• applicability of financial assistance rules;
• deferred tax issues.

Asset transfer involves the following benefits and drawbacks:
• the asset transfer is subject to notary fee and state duty and is therefore more expensive than a share transfer;
• limited scope of due diligence investigation due to the fact that the review concerns only the target asset;
• lease contracts registered with the Land Book are still binding for 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;
• the asset transaction in some cases may be deemed as the sale of an enterprise in which case all the obligations associated with the enterprise might be transferred from the seller to the buyer.

Form of Agreements

Transactions with real estate require a written form, as well as registration with the Land Book. There are no requirements for the notarisation of the purchase agreement.
The registration of the ownership rights with the Land Book is carried out on the basis of a registration application signed by the seller and the purchaser in the presence of a notary public.
In addition to both the purchase agreement and registration application to the Land Book, a number of other documents have to be prepared and submitted to the Land Book (the statement on the paid real estate tax, statements on the cadastral value of the real estate, etc.).

Language Requirements

There is no specific requirement to use only the official state language (Latvian) in conclusion of agreements relating to real estate under Latvian law. Parties may choose the language of agreement themselves. However, the Land Book shall have at least a translation of purchase agreement and one copy of the original agreement.
In practice the Land Book does sometimes refuse to register the title if the prevailing language is not Latvian. The registration application to the Land Book shall be prepared and signed in Latvian.

Due Diligence

Before carrying out any real estate transaction it is advisable to research the status of real estate, encumbrances, usage purpose of the land plot stated by the municipality, lease agreements of the real estate, etc. The results of such research may serve as the basis for defining the final purchase price reflecting the value of real estate.

Pre-emption Rights

The municipalities have the pre-emption rights in respect of acquisition of real estate (land and buildings) located in their territory. Only after the municipality has decided not to exercise its pre-emption rights, the purchase agreement may be registered with the Land Book and the ownership may be transferred to the purchaser.
Should the building and the land plot have different owners, the owner of the building situated on the to-be-sold land plot has the pre-emption right with respect to land plot and vice versa. Also co-owners of real estate have pre-emption rights with respect to the ideal part (legal share) of the immovable property being sold.
According to law, the state has pre-emption rights upon the sale of cultural monuments of state importance and land plots in preservation zones. According to Latvian laws there are further pre-emption rights of legal entities upon the sale of the land in ports and special economic zones.
Generally the pre-emption rights are exercised within 2 months after the purchase agreement is submitted to the persons entitled to such rights. The municipalities shall decide on using its pre-emption rights within 20 days after the purchase agreement is submitted to the municipality.
Pre-emption rights may be agreed upon between the parties and are in force based on their agreement.

Typical Purchase Price Arrangements

In complex and long term projects it is common that some part of the purchase price (up to 5-10%) is paid by a purchaser to a seller's account as an advance payment at signing of the agreement. Normally the parties agree on the use of an escrow account with a bank. During the registration procedure of the real estate title, neither the seller nor the purchaser has access to the funds transferred into the escrow account. Generally parties agree on the release of such funds only after the registration of the real estate title with the Land Book in favour of the purchaser.

Related Costs

Sharing of costs incurred during the course of purchase is subject to agreement between 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 – whatever amount is higher. Nevertheless, the state duty shall not exceed €44,843 (LVL 30,000). The stamp duty for the registration and issuing of Land Book certificate is currently €15 (LVL 9).
Preparation and testifying of signatures for the application to the Land Book will cost approximately €23 (LVL 15). Signing of an agreement in presence of a notary public and certification of the signatures of the parties – approximately €15 (LVL 10) for each copy of the agreement and for every page €1.50 (LVL 1). Preparation and certification of agreement by notary public amounts to 1% of purchase price of the real estate.

Concentration Control

Transfer of real estate can be subject to prior approval by Latvian competition authorities where:
• Both concentration participants are engaged in the economic activities in the territory of Latvia (either directly or through a subsidiary); and

• Either of the below criteria is met if:
- the combined turnover of the concentration participants, gained in the territory of Latvia during the previous financial year was at least LVL 25 million; or
- the combined market share of the concentration participants on any of the relevant markets (in Latvia) exceeds 40%.

Please note that the sale of assets may also be considered as concentration if the assets are deemed to be an enterprise (business) and the turnover in question can be attributed to such enterprise (business).

The turnover comprises products sold and services provided by undertakings concerned to undertakings or consumers in the territory of Latvia during the last financial year. The notification shall be made before the share (or asset) transfer completes. The notification shall be submitted after the signature of the agreement since the agreement will have to be submitted to the Competition Council and before the said agreement enters into force.

Portfolio Deals

Portfolio deals have been used in practice more often. Foreign investors enter into portfolio deals because it provides sufficient diversification and volume, reduces overall risk and relative cost, as well as provides a larger market share.

At the same time, when considering a portfolio deal, the following issues should be taken into account:
• High number of properties in the portfolio brings about more extensive and time consuming due diligence investigations;
• Sellers may use auctions as their preferred sales method. Without offering some compensation of due diligence costs to second round bidders, high participation and placing of good bids is unlikely;
• In the case of an asset deal, allocation of the purchase price between each of the properties is important as the seller may want to receive at least the book value for each property, which may or may not be the same as the market value. At the same time the difference between purchase and market value could make some properties attractive to pre-emptive right holders;
• Remedies available to the buyer can be limited and the buyer might be excluded from submitting any claims for compensation until a certain level of loss is achieved first;
• Portfolios may include less attractive properties. For these properties the due diligence is even more important in order to ensure complete understanding of all risks and preparation of resale of those properties after closing;
• A number of non-real estate assets, such as employment contracts, property related rights, access arrangements and management operations, are often acquired or need to be acquired together with the portfolio;
• Structuring of a portfolio transaction that includes a mix of assets and shares or multiple jurisdictions or both, is rather complicated, especially with view to achieving simultaneous closings.

Sale-Leasebacks

Sale-leaseback transactions are becoming more and more popular in Latvia as cost-effective and efficient alternatives to traditional debt funding helping to attract other resources to fund expansion, acquisition and construction of new facilities.

The following points should be reviewed before using this arrangement:
• Lease agreement should be tied to the asset purchase agreement. Also, in case the target property is encumbered with a pre-emption that is subsequently exercised, the lease should transfer and be binding on the rightholder. At this time, in view of existing case law, the binding nature of lease agreements in these circumstances is not entirely clear in practice;
• Existence of strong tenant/guarantor with strong business track record to ensure stable cash-flow over the duration of the lease;
• Since the arrangement is usually long-term, it requires a "waterproof nature" of the lease. This includes existence of sufficient guarantees for performance on both sides (bank guarantee, surety, reserves, sinking fund etc.);
• The lease should include a clear split of maintenance responsibilities and cost/service charge break-down between the owner and the tenant;
• Closing under the asset purchase agreement and lease commencement date should coincide (book-keeping issues, reconciliation of costs) irrespective of the actual title transfer date.

Restrictions

Restrictions on Acquisition of Real Estate

The restrictions regarding real estate acquisition in Latvia refer to land plot purchases. After the accession to the EU as of 1 May 2004, land plot acquisition in Latvia is more liberalised for EU citizens and legal entities. Foreigners from non – EU states should consider that there are many restrictions to acquire land plots in Latvia. Latvian law does not stipulate any particular restrictions or obstacles for foreigners to buy commercial property. The buyers should investigate the restrictions on use of real estate. The use may be restricted in the coastal areas, heritage protection zones, protected zones for power lines, railways etc. Such restrictions can also influence construction area, etc.

Non–EU Citizens and Legal Entities

There are no restrictions imposed on the acquisition of land plot by companies registered in the Register of Enterprises of the Republic of Latvia 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, the shares of which are listed on the Riga Stock Exchange.
If after the land acquisition, the shareholder's structure of an undertaking is changed so that it does not correspond to the requirements of the law anymore, permission from the municipality must be obtained to retain the particular land in ownership. If the local municipality does not issue the permission, the land must be transferred to another person within two years.
Should the potential foreign purchasers fail to fulfil the criteria listed above, they must apply for the permission from the local municipality, which has the discretion to accept or reject such application. Permission is necessary, regardless of the size 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 an 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 the state border territories and special protection zones.

EU Citizens and Legal Entities
As of 1 May 2011 (expiry of transitional period), EU citizens and legal entities domiciled in EU Member States are permitted to acquire land on the same conditions as citizens of Latvia. During the transitional period, EU citizens may only acquire agricultural land or forestry if they live permanently in Latvia and have farmland there within the last three years.
There are no restrictions for EU citizens and legal entities to acquire land plots in the cities of Latvia.

Encumbrances

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

Mortgage

Usually, purchase of real estate is financed by bank loans. Therefore, the bank requires security in the form of a mortgage.
In order to register a mortgage on the real estate, a mortgage agreement should be concluded. An application to register the mortgage with the Land Book shall be signed in presence of a notary public. The Land Book registers the mortgage within 3 days after the submission of necessary documentation.

Property Management

Maintenance of real estate is usually carried out by the owner himself or by the maintenance company. The apartment owners may establish an apartment owner's association. The establishment of such association is voluntary.

Lease Agreements

General
The general terms of the concluding lease and tenancy agreements are stipulated in Latvian Civil Law and Law on Apartment Lease. The content of the lease and tenancy agreement is subject to agreement of the parties. However, the Law on Apartment Lease protects the rights of the apartment tenant.
The tenancy agreements concerning real estate remain valid if they are registered with the Land Book. Otherwise the purchaser of the particular real estate may terminate the unregistered agreement; however, the tenant is entitled to receive compensation from the owner for the termination of the lease agreement before its expiry.
The lease agreements of apartments are binding to the new apartment owners under the Law on Apartment Lease.

Duration and Expiry of Lease Agreement
The duration and expiry of lease or tenancy agreements are usually determined in the agreement. Latvian law stipulates some general rules and such agreements might be concluded for specified or unspecified term. As for termination, the law stipulates only general rules. More specified provisions on termination are regulated by the Law on Apartment Lease, adopted in order to protect the interests of the tenants.

Lease Payment and Accessory Expenses
Prepayment of lease payments (deposit or guarantee) is usually required by the owner, but Latvian law stipulates no specific provisions regarding payment of deposits or its procedure.
Accessory expenses are payments for maintenance and utilities (water, gas, electricity etc.) and as a rule are usually paid by the tenant in addition to lease payments.

PPP & Infrastructure

Concessions

In the light of the guidance of EU law, under Latvian law a PPP project could be procured either pursuant to the provisions of the Public Procurement Law or the Concession Law (most likely a new Concession Law is going to be adopted by the Parliament in 2008). Procurement of both construction works and public services is possible under either of the regimes. The difference lies in the definition of a concession, which, according to the draft Concession Law, is a contract of the same type as a public contract except for the fact that the consideration for the works to be carried out or the services to be provided consists either solely in the right to exploit the construction or service, or in this right together with payment.

Investment Funds and Real Estate

The amendments to the Latvian Law on Investment Management Companies adopted in 2007 clarified operations of the investment funds related to real estate. Both foreign and domestic investments may be administered through an investment fund. The fund units may be subject to public or private offering.

Real estate acquired by the investment fund shall be registered under the name of investment management company, and it can be sold or encumbered only with the permission of the custodian bank. Assets of a closed-end fund may be invested in property located in Latvia, the EU or other countries specified in the prospectus once the property has been evaluated. Real estate owned by the investment fund should be managed by a professional real estate management company.

Planning Requirements and Construction of Buildings

Planning

The municipalities have the authority to define the usage purpose of particular real estate in their territory, to set the limits of construction activities and to issue the building permissions. If the particular territory has no detailed plan, the completion of the detailed plan may take approximately 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 detailed plan of the administrative territory. The Construction Board determines the technical requirements for the particular construction project.

The municipality will require public hearing only in territories that do not have a valid detail plan and:

• If the construction significantly makes worse the living conditions of the inhabitants;

• If the construction significantly lessens the value of the real estate;

• If the construction significantly affects the environment, but it does not need the evaluation of the effect on the environment pursuant to the Law "On the Environmental Impact Assessment";

• In other cases provided by the construction regulations approved by the respective municipality.

The initiator of the construction has to prepare information for a public hearing, including the design project. The real estate owners and population of the particular administrative territory, experts invited have the right to argue against the construction concept and submit their own proposals as to the construction concept.

Changes to the project require additional approval from the Construction Board. The project is valid for two years after the Construction Board approves the project. Construction works require construction permission from the Construction Board.

The newly erected buildings have to be put into operation by a special commission formed by the municipality.

Taxes

Purchase

VAT – The purchase any new building or apartment is subject to 18% VAT. The purchase of used real estate is not subject to VAT. The purchase of a renovated building, within one year after renovation, is subject to 18% VAT on the difference between the purchase price of the building and the value of the building before renovation.

The sale of land is not subject to VAT in 2008, however, it is planned that as of January 1, 2009, the sale of building land will be subject to VAT.

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

Stamp duty - When purchasing property, the buyer pays a stamp duty of 2% of the transaction value for the first two properties purchased. After that, the purchase of additional properties carries a stamp duty of 4% of the transaction value. In all cases, the maximum stamp duty is €43,000 (30,000 lats). Stamp duty also applies to real estate contributed as an investment.

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

Rents

VAT - Property leased to a private person is exempt from VAT. Otherwise all property rentals are subject to 18% VAT.

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

Personal Income Tax - Rents collected by individuals will be taxed at the personal income tax rate of 25%. Individuals have the right to register themselves as a business activity, and take advantage of the lower 15% tax rate. To apply the 15% tax rate the individual has to register as a business activity with the local Tax Authority.

Sale

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

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

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

Personal Income Tax - Private persons pay the 25% personal income tax rate on capital gains from the sale of real estate. Capital gains are tax-free only if the real estate was held for five years, and the real estate is the seller's registered permanent residence. This new, longer holding period was enacted in June 2007 as part of the government's anti-inflation plan aimed at cooling down real estate market rises.

Real Estate Tax

Owners of land or buildings are subject to real estate tax. Starting from January 1, 2008 the real estate tax rate is 1% of the cadastral value. This value is set by the State Land Department and is adjusted annually (by the 15th of May of each year) and may lead to increase of tax base. However, the increase of tax amount may not exceed 25% of the previous year tax during the next 3 years (2008 – 2010).

Vilnius, Lithuania

Strong economy still drives prices up, despite tightening credit, but dark clouds loom

Economy

Lithuanian GDP soared 8.7% in 2007, after growing 7.7% in 2006. Economic growth has averaged a stunning 7.5% for the last eight straight years. The consensus forecast of for GDP growth to continue at a 6-7% growth rate for the years to come.

Inflation (CPI) ran 5.7% in 2007, as the economy, wages, and prices all continued converging with Western Europe. With unemployment at only 4.5%, the lowest in the European Union, Lithuania saw gross wages jump 17.9% in 2007, to an average of €565 per month.

Foreign Direct Investment grew €1,622 mln, or €480 per capita, to total €2,931 per capita. Meanwhile, construction costs grew 12.8% on the year.

Office

Vacancy virtually zero, as demand outpaces supply

Supply

In 2007 the supply of A and B class offices increased 54,000 sqm to 267,000 sqm. The majority (62%) of the currently available offices are B class. Supply will grow even faster in 2008, with another 75,000 sqm of office premises coming to the market, as developers try to keep up with the rising demand fuelled by economic growth.

The years 2008-2011 will see 40 new office projects in Vilnius, but only one will offer class A space in the city centre till the end of 2009. For more details, see below.

Recent Developments

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

Business Port – Lithuanian developer Vėtrūna is finishing construction of a new complex of administrative buildings near Europa Office Centre on Lvovo Street. The total area of the complex is 62,000 sqm, including 25,000 sqm of office in 24-storey and 16-storey A class office towers. The office space is offered for rent at €17.50 - 20.00 per sqm. At the start of 2008 40% of the space had been pre-leased.

State Enterprise Centre of Registers - a 5,000 sqm build to suit project in the Business Port housing the State Enterprise Centre of Registers, Vilnius branch. The remaining area contains underground and above ground parking. The entire complex opens in middle of 2008, and will be the largest business centre in Lithuania.

• *North Star – a modern office building by MG Valda.*

New Projects

North Star – Lithuanian developer MG Valda plans the construction of an office building in Ulonų Street just north of the CBD. The building will consist of two blocks (5 storey and 7 storey) totalling 10,000 sqm, with 390 parking places. The building will be completed in early 2009, and is offered now for rent from €13.00 per sqm.

Business Centre Šeškinė – Lithuanian developer Leandra & Partners is building a 10 storey, 6,000 sqm office and retail building on Ukmerges Street. Delivery will be the beginning of 2009. Office space is available at rents of €13.00 - 15.00 per sqm.

Evita – MEI Baltija is developing 10 and 11 storey mixed use towers in the city centre on Savanorių Avenue. The complex will include over 2,500 sqm of modern office space, which is offered for sale at €2,100 – 2,260 per sqm. The project will be delivered in 2009.

Ukmergės 120 Business Centre – Indeco plans to construct 11,000 sqm of class A offices in three 4-5 storey buildings on Ukmergės Street, next to the already opened Hanner and Vilmesta office buildings and the new Panorama Shopping Centre. The building will be completed in 2009, and is offered for rent for €17.50-19.00 per sqm.

Alfa & Beta – Realco, another local company, has begun construction of 24,800 sqm of new office buildings in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark. The first phase, the 4-storey "Alfa" tower will deliver 8,400 sqm in 2008. The second phase, the 10-storey "Beta" tower will bring another 18,000 sqm in 2009. A third tower, "Gama", is planned. Rents will be from €13.00 per sqm.

Vilnius Office Park – Verdispar, a Norwegian investment and property development company, plans to construct five 7-storey office buildings with 36,000 sqm of office area in a territory of more than 2 ha in the northwestern suburbs of Vilnius. The entire project will be delivered in 2010-2011.

• *Business Port – the largest office complex in the heart of Vilnius.*

Demand

The soaring economy kept demand strong, with total take up of 50,000 sqm in 2007, pushing vacancy rates below 1% by the end of 2007. The trend in demand is away from offices located in old buildings towards new buildings that offer modern amenities, comfortable work areas, whether in the city centre or in new, but cheaper, suburban office space. Given the growing demand for office space, even with the new supply the vacancy rate will probably remain well below 5% in the years ahead.

Rents

Rents on new leases rose 11% in 2007, after rising 15% in 2006. At the start of 2008, rents for A class office space ranged from €16.50 - 20.30 per sqm and for B class offices €12.00 - 15.50 per sqm. In addition to rising rents, owners have become more sophisticated about imposing charges on tenants for common use areas, land tax, and insurance, which can amount to an additional 10-20% more. Annual escalations tied to CPI are now more common. Typical service charges for an A class building are €1.50 - 3.00 per sqm.

Even with the additional supply coming to market in 2008, demand should still slightly outpace supply, and rents may continue to increase, although we estimate the rise for 2008 to be about 5%. As the supply of modern office space grows, rents for offices located in old and unrenovated buildings will likely soften.

Investment

In 2007, Canadian investor Homburg Invest, which owns real estate in the US, Canada, and Europe, acquired SEB Group's entire real estate portfolio in Lithuania, Latvia, and Estonia. The portfolio consisted of 62 real estate sites in various cities throughout the Baltics. The acquired real estate portfolio consists of 47 properties leased by SEB Group, and 15 properties which are rented to other tenants or to the SEB Group on a short-term lease basis. The overall yield was reported to be about 5.5-6.0%.

Legal Notes by Sorainen

Rent is usually paid on a monthly basis in advance. However, in some cases the rent is payable in advance on a quarterly basis. Rent is typically tied to euro and indexed based on local or European Union inflation. In addition to rent tenants usually pay for the utility services consumed. Security deposits are not common, however, may be required in case of lease of substantial areas. Triple net leases can be found, but are not universally used. Double net leases are more common. As a rule, the owner is responsible for finish and equipment of the leased premises. Lease agreements are of rather poor quality. Typically standard lease agreements are used.

Lease agreements may be invoked against third persons only if they are registered with the Register of Real Estate. The tenant is entitled to terminate the lease agreement due to change of the owner of the leased premises. There are attempts to solve the referred issue by obtaining waivers from the tenants concerning termination of the lease agreement due to title transfer of the leased premises. Asset deals prevail in the office market. The buildings might have technical defects or may be constructed not complying with the legal requirements, e.g. the construction might be started before obtaining the construction permit, the building might be higher than specified in the construction permit, etc.

Retail

Supply lagging demand for new retail space

Supply

2007 saw only 42,000 sqm of new retail space brought to the market, bringing the total modern retail space in Vilnius to 500,000 sqm. Vilnius now has 0.9 sqm of modern retail space per capita.

2007 brought only one shopping centre (Gedimino 9), and two multifunctional complexes with retail premises (Vilnius Gates and Helios City), and several construction and decorative material centres (Moki-Veži and Statau) opened in Vilnius. The upcoming years 2008–2009, however, will bring two new commercial and entertainment centres, Panorama and Ozas, which together will add over 110,000 sqm of retail space for rent to the market.

Recent Developments

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

Vilnius Gates — the largest commercial and residential block in the city centre on Gyneju Street, with a total area exceeding 60,000 sqm, which was opened in 2007. Developed by Ranga IV, the project adds 11,000 sqm of retail and entertainment space to the market. The project is unique of the two-storey boutique style shops with separate entrances from the street. A wide range of well known brands – Frette, YvesSaintLaurent, Bottega, Jean Paul Gaultier, Alberta Ferretti, Pucci, Ralph Lauren, Gianni Versace, Roberto Cavalli, Valentino, Brioni and others – are present.

Gedimino 9 – The former city municipal building was bought by the Irish real estate company Duke House Asset Managers and the construction company Constructus for €13 million in 2004. After investing another 35 mln. euros, a shopping centre offering 10,500 sqm of retail space opened there in 2007. The shopping centre houses such world renowned brands as Marks & Spencer, Lindex, Lasenza, Polarn o. Pyret, Almi Decor, Pepe Jeans, Carlo Pazolini, etc.

New Projects

Panorama – Estonian developer ELL (Merko) is building a 65,000 sqm retail centre in the district of Zverynas. The anchor tenant will be Rimi Hypermarket, with 9,000 sqm. The developers plan to invest about €67 million in the project, which will open at the end of 2008.

OZAS — Rubicon Group began building the 93,000 sqm Ozas shopping and entertainment centre near the city centre. The project will offer 62,000 sqm of retail space, and will be the second largest shopping and entertainment centre in the city, second only to Akropolis. Most premises are already pre-leased with expectation of new brands variety. Construction will be completed in 2009.

Velga – In the territory of Velga Factory near Vingis Park, the VP Group is going to develop a territory of 13 ha and build it up with residential and commercial buildings. A shopping and entertainment centre is also planned, however the concept of the centre has not yet been announced. Plans are to complete the entire project by 2015.

• *Ozas — one of the largest new shopping centres, it will open in 2009.*

Demand

All shopping centres are fully leased, as economic growth and fast rising incomes fuel retail expansion. Retail turnover grew 17% in 2007, according to statistics. There are queues of tenants ready to take any vacated space in any shopping centre in Vilnius.

High street locations also do well, but at the higher rents they are demanded more by upmarket brands than the typical shopping mall tenant.

Rents

Rents on the high streets (such as Gedimino Avenue or the old town) were up 5% in 2007, to €23 to €58 per sqm.

In retail centres, rents on new leases were up 12%. A typical 150–250 sqm unit rents for €14.50 to €29 per sqm, with the price going as high as €23 to €45 per sqm for units under 100 sqm.

Investment

Investors are expecting at least 6.75% yields on shopping centres. Although the yields were not made public, the largest two transactions from 2007 were:

In mid 2007, the German company Deka Immobilien Investment purchased BIG shopping centre for 36 mln EUR. The nearly 18,000 sqm shopping centre opened in 2006 near Ukmergės Street. in the Northwestern part of Vilnius.

The Norwegian investment company Verdispar acquired 23 retail shops from the Norfa retail network, which is in most Lithuanian cities. Verdispar paid over 49 mln EUR for the 43,500 sqm of property and land.

Legal Notes by Sorainen

Typically one anchor tenant or a few medium-size tenants lease the property. However, retail buildings with 30 or more tenants may be seen as well. Lease agreements are of rather poor quality. As a rule, the tenants are not charged for the use of common use areas and for management of the building. The advertising cost is usually fixed and usually not negotiable. Sinking fund is not used in retail market, step rents and turnover rents are not common. As a rule, the tenant is responsible for finishing the premises.

Lease agreements may be invoked against third persons only if they are registered with the Register of Real Estate. The tenant is entitled to terminate the lease agreement due to change of the owner of the leased premises. There are attempts to solve the referred issue by obtaining waivers from the tenants concerning termination of the lease agreement due to title transfer of the leased premises.

Industrial

New supply taken up, rents increase 10%

Supply

In 2007 developers brought 42,000 sqm of new warehouse space to the market. The total modern space available in Vilnius and the immediate surroundings is now 257,000 sqm. More than 75% of this space is located in the industrial zones of Vilnius (Kirtimai, Vilkpede, Aukstieji ir Zemieji Paneriai), with the remainder within the city limits. Taking into consideration the growing demand for warehouses, in 2008 we foresee an additional 73,000 sqm of warehousing area in the city and the suburbs. Most of the future supply will consist of warehouses varying from 3,000 to 10,000 sqm, as well as a few larger projects. Almost all of the buildings will also house 1,500–2,500 sqm administrative premises for the tenants.

• *Airport Business Park – Ogmios Group's new 20,000 sqm warehouse complex.*

New Projects

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

Airport Business Park – In Darius and Girėnas Street near the airport, the Lithuanian developer Ogmios Group is building a 20,000 sqm complex of warehouses, administrative, and commercial premises. In early 2008, plans are to finish the first stage of construction, which involves construction of 7,000 sqm of warehousing and administrative premises. The premises have already been rented to DHL and Adictus. Another 12,400 sqm of warehousing, office, and commercial area will be built during stage II. The planned construction term is 2008–2009. Rents for the warehouses begin at €5.80 per sqm.

Business Park Vilija – The Ogmios Group is planning the construction of Vilija Business Park in Aukštieji Paneriai near the

Vilnius–Klaipėda highway. It will be a multifunctional complex, with warehouses occupying most of the area. Implementation of this project is planned in two stages. During the first stage, a 20,000 sqm building including 18,000 sqm of warehouses and 2,000 sqm of offices will be built. The anticipated completion date of stage I is late 2008. Stage II should be finished by the end of 2009. It will be a 10,000 sqm building with offices, warehouses, and commercial premises. The rent for the warehouses will be €5.20 - 6.90 per sqm; for offices €9.80 - 11.00 per sqm.

Demand

Warehouse take-up in 2007 passed 36,000 sqm, which was 85% of the new supply brought to the market. Due to the growing economy and trade in the country, the demand for modern warehouses is also growing. Tenants have become more sophisticated and demanding, requiring all modern features like automatic lighting, ventilation, heating and safety systems, adequately designed loading/unloading ramps, parking sites, secured territory, and onsite office premises.

Smaller warehouses (up to 1,000 sqm) are in demand, but owners tend to wait for larger tenants in order to reduce costs related to managing tenants and splitting premises.

Larger users of warehouses such as retail chains, construction materials manufacturers/trade and logistic companies generally build their own warehouses.

Rents

Warehouse rents in new projects grew 10% in 2007, and the acute shortage of space meant that even rents in older properties jumped 17% during the year.

Rents for modern warehouses near the city centre range from €5.20 to €6.90 per sqm, depending on the size. Near or outside the city border, rents range from €4.00 to €5.80 per sqm. Newly renovated premises are on offer at price from €2.80 to €5.20 per sqm. Average and poor quality premises are from €1.70 to €3.50 per sqm. Due to growing supply in 2008, however, we expect lease rates for modern warehouses to keep steady in 2008.

Investment

At the end of 2007, Norway's Verdispar group purchased the second Vinges terminal logistics centre on a long-term lease. Located near the Vilnius-Klaipeda road, the Vinges terminal was built in start of 2007 and comprises a total combined warehouse and office space of 18,500 sqm. Details of the transaction are not disclosed.

Legal Notes by Sorainen

Industrial leases are quite simple, finance and construction opportunities are readily available. Rents are usually tied to the euro and indexed on the basis of local or European Union inflation. Triple net lease agreements are rarely seen. Sale-leaseback arrangements have been seen as well. As a rule, most premises are still Soviet-era, so the technical conditions of the premises are poor, not complying with standard norms.

Residential

Prices grow in 2007, but level in 2008, while rents climb

Prices

Residential prices accelerated in 2007, growing 17% on the year, after growing 15% in 2006. Almost all the rise, however, was in the first half of the year, when prices jumped 13%. The second half of the year saw only a 3-4% price rise. The reason for the slow down in the second half was credit tightening and a slew of negative stories in the press about the deterioration of real estate markets worldwide, especially in neighbouring Estonia and Latvia.

Still, demand outpaces supply, and the prices of newly built flats in 2007 grew 15-20% on the year, while the prices for secondary market flats in the suburbs grew 20-30% on the year. By the end of 2007, the difference between the prices of newly built apartments and old, Soviet-era units decreased to less than 20%, which we feel is not sustainable. At the end of 2007, a standard two-room apartment (45-55 sqm) in an older apartment building located in a bedroom community was priced from €75,000 to €95,000. The same size new apartment, fully finished, was fetching €80,000–€115,000. We expect in the long run the prices of older, especially Soviet-era stock, will under perform against modern day new apartment stock.

Prices of new apartments in the suburbs range from €1,400 to €2,300 per sqm. In more prestigious districts (Antakalnis, Žvėrynas, Valakampiai, Naujamiestis), prices range from €2,000 to €3,700 per sqm.

Primary and secondary market prices in the city centre and in the Old Town increased the least, by only 7%, as they have had a strong run in the past. At present, the prices of newly built apartments in the city centre and in the Old Town range from €2,300 to €5,800 per sqm.
Mostly new apartments are sold shell in Lithuania, meaning the

buyer will have to pay about €200-300 per sqm more to finish out flooring, painting, lights, bathrooms and kitchen. However, in order to offer a more attractive solution, developers have started selling fully completed apartments, where the buyer only has to provide furniture.

Single family houses saw no significant price change in 2007. The only increase was seen in the prices of the least expensive individual or semi-detached houses (5-10%). They range from 150,000 to 230,000 EUR. Individual houses (about 200 sqm with land plots of 500–1000 sqm) located in a new housing area with full infrastructure in Vilnius district (typically 14–20 km from the city centre) are sold as shell (that is, without interior fit-out) at prices ranging from €200,000 to €290,000. Full final fitout generally costs €150-200 per sqm more.

The average price for the same type of partially finished house within the city limits (suburbs or city residential districts) averages between €290,000 and €580,000, and from €580,000 to €1,150,000 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.

Supply

In Vilnius, 6,207 new units were delivered, more than a 26% increase on the 4,920 units built in 2006.

Of the total supply of 2007, almost 87% of the apartments were built in residential areas of the city (mostly in the rapidly developing Pasilaičiai residential area in the northwestern part of Vilnius), 6% were built in prestigious areas (Antakalnis, Zverynas, Naujamiestis) and 7% in the city centre and old town. The average area of a newly constructed apartment is 61.7 sqm, a figure that has decreased somewhat over the past few years owing to the market demand for smaller-sized and average-sized apartments.

We expect developers to slow down construction in 2008 due to growing costs and decreasing profit margins on residential developments. While over 6,000 new apartments are planned for delivery in 2008, we expect the actual number to be closer to 5,500.

The market for individual houses continues growing at a rapid pace. Both the number of those building houses for themselves, as well as those building houses for sale in individual housing quarters is increasing. In the city of Vilnius and nearby, around 450 individual houses in various housing quarters were constructed for sale in 2007, and plans indicate that the supply of such houses will remain stable in 2008 with 400-500 units.

• *Charisma Vilnius – 69 prestigious flats in the very heart of the capital.*

New Projects

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

Charisma Vilnius – Lithuanian developer Investicinių Projektų Valdymas builds 69 high-quality apartments in the city centre near Konstitucijos (Constitution) Avenue. The apartments range form 40 to 150 sqm and will be sold shell at a price of €2,300 to €2,700 per sqm. Delivery of the units in 2009.

Saltiniu Namai – The foreign company Pro Kapital is developing one of the largest residential projects in the Vilnius Old Town. This residential area will consist of 134 apartments and 11 semi-detached houses. Prices of the apartments, which will be sold as shells, range from €2,300 to €4,300 per sqm. 85% are already sold or booked. Construction will be completed in 2009.

Step Nine – Following successful completion of a residential project near the Old Town on St. Steponas Street, Statybų Aprūpinimas started a project in the neighbourhood. Plans are to construct a complex of residential buildings consisting of nine blocks comprising about 116 apartments. Shell apartments ranging from 37 to 100 sqm will be sold at a price of €2,100 to €2,600 per sqm. The anticipated completion of the entire project is in 2009.

Ozo Park – In the territory of Ozo Park, near Siemens Arena and Vichy Aquapark, Realco has started the construction of residential buildings. During the first stage of construction, by the end of 2008, plans are to build two residential buildings comprising about 119 apartments. Over 90% of the apartments have already been booked or sold will be built during the second stage. Two more five-storey buildings comprising about 283 apartments will be built during the second stage. The second stage of construction works will be complete in mid 2009. The price of partially furnished apartments ranges from €1,700 to

€2,300 per sqm. In the future, Ozo Park residential area will continue expanding in the western part of the territory – five-storey residential buildings will be built there. In addition, in a 9 ha territory near the residential and commercial buildings, the company is planning to erect a green zone for the residents and other citizens as well.

Vakarinis Slenis – Outside the city limits of Vilnius, in Aukstieji Rusokai, already finished semidetached houses are for sale in a new settlement about 15 km away from the centre of Vilnius. The settlement consists of 52 semidetached houses. Partially furnished 139-172 sqm houses with land plots of 5-7 are are being sold at the price of 195,000 to 238,000 EUR.

Demand

In spite of the decreased market activity in the second half of 2007, sales of apartments remain strong. Out of the 6,207 apartments built in 2007, almost 89% have already been sold.

A year ago, the result was almost the same – out of the 4,920 units delivered in 2006, 90% of the apartments were sold.

Although the 2006 and 2007 percentages are the same, it is important to note that the volumes of supply were different: 4,428 apartments were sold in 2006, while 5,524 were sold in 2007. In spite of pessimistic news on the worldwide housing market, Lithuanian people do not stop buying.

People are mostly interested in attractively priced old and newly built housing. Apartments with one or two rooms located in residential areas of Vilnius are the most popular, because the prices are considerably lower than in prestigious areas or in the city centre. The situation is similar in the market of individual homes: individual or semidetached houses that cost up to 230,000 euros are the most popular. Like the prior year, our prognoses for the coming years are similar: with economic growth and purchasing capacity slowing down, and the prices of housing remaining stable or going up, buyers will be looking for smaller (and cheaper) housing.

The Mortgage Market

New mortgages given in 2007 was 1,6 billion EUR, which was 49% growth compared to 2006 figures. Still, total mortgages as compared to one year's GDP was only 16% in Lithuania at the start of 2008, much lower than the 39% figure in neighbouring Latvia and Estonia. Mortgage lending in Lithuania is still conservative in comparison to its peer countries in the region. Although banks are getting stricter in the lending criteria, we still expect another 20-30% growth in new mortgage loans in 2008.

Average mortgage rates at the start of 2008 were 5.4% for loans in euros, which was euribor 4.5% plus a margin of 0.6 - 1.2%, depending on the customer, with a maximum term of 40 years. Loans are almost always taken in euro, and the rates are at least 2.4% cheaper than loans in the local currency. Clients can borrow 100% of the property value using guarantees from the government backed housing loan insurance company or by mortgaging another real property.

Rents

Residential rents rose 15% in 2007. The price rises of the past years, along with the recent tightening of lending conditions, means fewer people can afford to buy a new flat, and have to rent instead. This increasing demand for rental units, even in the face of larger supply, has pushed residential rents up.

As rents have moved up, residential rental yields have increased slightly to 4-6%.

There is, of course, differentiation across segments. The strongest rent increases are in the popular segment, one or two rooms, which rent for €300 - 600 per month. This is because the tenants for these units are exactly the people who can no longer afford to buy, or who choose not to buy at this time. For this segments, yields average 5.5%.

At the higher end of the market, apartments that used to be rented to foreigners, for example, rents are stagnant, as there are more luxury apartments available, chasing a fewer number of high paid expects, who tend to stay for shorter periods. Here rental yields average 4.0%.

Fully equipped one or two room apartments in the city centre or Old Town are offered at €600 - 1,200 per month. Individual homes are offered for rent at €1,000 - 3,500 per month, but again, the number of potential clients in this range is very limited. The most expensive rental homes are in Valakampiai district, where rents can top €5,000 per month.

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 the leased residential premises, right of the family members to reside together with the lessee, termination of the lease agreement and eviction of the lessee. However, rent prices may be agreed freely.

Residential leases may be terminated by either party by giving a six-month prior notice, unless longer notice periods have been set forth in the agreement.

As to the lease of residential premises, the law explicitly states that a landlord is not entitled to demand the payment of rent in advance, with the exception of the rent payment for the first month. The rent must be paid on a monthly basis for the current month not later than by 20th calendar day of the next month.

Residential buildings situated in the old town area are of high value. However, legal restrictions applicable to objects situated in the old town area and objects included in the List of Cultural Heritage must be followed.

Land

Price rise stops as developer demand, and access to debt, declines

Supply

Supply of land plots for sale increased in 2007. Financially weaker companies are forced to sell part or all of their land banks, as interest rates rise and the availability of new credit dries up, bringing even more new plots to market.

Supply of land with approved planning or construction permission is growing as speculators get their land rezoned or permitted and then put the plots up for sale.

Demand

Demand grows for commercial plots, but declines for residential and for speculation.

Demand grows for commercial plots as commercial property vacancies, both office and retail, drop to virtually zero, and rents increased considerably. As always, demand is highest for land plots located in the city centre where office buildings or luxury residential can be built. Developers also seek land plots out of the centre near major roads for development as logistics centres.

Demand for residential land has fallen due to two reasons. Firstly, new residential projects starts are down due to rising constructions cost and falling profit margins. Second, bank finance has become more difficult to obtain, putting further downward pressure on demand for land.

Bank loans to finance acquisition of land have become much more difficult to obtain. Whereas in 2006 and early 2007 banks would finance nearly all land purchases, today banks give loans to well known developers, and only to buy land with planning already in place.

Demand for investment plots outside of the city has also dropped notably, as the region outside the city limits still has not passed a master plan, and therefore the ultimate allowed usage for land outside the city limits is unclear.

Prices

After rising 30-40% in 2006, land prices remained virtually unchanged in Vilnius in 2007, according to the index of land offered by Ober-Haus. Over the last five years, land prices have grown 5-10 times in 2003-2007, and so some levelling off was to be expected.

Plots in the city centre suitable for commercial development or luxury apartments rose by 5% in 2007, to €750 - 3,000 per sqm of land, or roughly €600 - 1,100 per gross buildable square metre of commercial space.

Plots in the suburbs for residential apartment developments unchanged in 2007 and ranges from €150 - 600 per sqm, which works out to roughly €100 - 400 per gross buildable square metre of residential space.

Plots for private homes rose 7% in 2007, to a range of €25-60 per sqm in the cheaper suburbs, to as high as €90-140 per sqm in Riešė, Bajorai, Kalnėnai, Gulbinai. The greatest rises are seen in the cheapest areas, and in areas where others have already made great investments into infrastructure and development.

The price of agricultural land plots outside the city limits has started to fall, about 20% in 2007, as zoning issues are still unclear, and banks refuse to provide finance to buyers for these plots.

News

The most ambitious road project in Lithuania, the Vilnius southern bypass, will be completed by the end of 2008. The bypass links Zirniu Street and Lazdynai Bridge, reducing transit flows through the centre of the city. The total value of the project is €77 million EUR.

The next project, the Vilnius western bypass, will further link Lazdynai Bridge and Oslo Street up to L. Asanaviciutes Street and Ozo Street, and will be built by 2010. Third stage, linking Ozo Street to Ukmerges Street, will be implemented by 2010-2013.

Investment

The Norwegian investment group Verdispar from the Kalnapilis-Tauras Group has purchased a two hectare land plot with buildings in the centre of Vilnius. The purchased area is in the central part of the city, near Gedimino Avenue, where the construction of residential and commercial buildings is planned for 2009. Details of the transaction have not been disclosed.

Legal Notes by Sorainen

Lease of privately owned land is not widely used in Lithuania. Lease of state owned land is more common. Land in free economic zones may be subleased. The right to use the land under a building (ownership, lease right, etc) must be transferred to buyers along with the building.

Investments for foreigners are not restricted except acquisition of agricultural and forestry land until 1 May 2011.

Legal

Introduction

Over the past few years the real estate market of Lithuania has experienced significant growth driven by rapid economic development and local demand, as well as ability to attract foreign investments by offering friendly legal environment, favourable lending opportunities and an advantageous tax system. The real estate market in Lithuania is based on the principles of private ownership and ownership immunity, prudence, fairness, justice and protection of rights of legitimate acquirer of real estate.

Title to Real Estate, Register of Real Estate

Real estate objects as well as respective rights to those objects are registered with the Real Estate Register. Real estate objects which are not registered with the public register cannot be transferred, mortgaged or otherwise disposed of; failure to register rights to real estate objects results in restrictions to invoke respective rights against third parties. The purpose of the said public register is to provide official information about the registered real estate, its owners, the rights of owners and other persons to the real estate, restrictions on such rights and, therefore, to ensure the protection of all the rights to real estate.

A person acquires the title to real estate as of the moment such real estate is transferred into its possession. The agreement on acquisition of real estate is valid and binding on its parties irrespective of its registration with the Real Estate Register. However, as already mentioned above, the agreement on real estate acquisition may be invoked against any third party only after its registration with the Real Estate Register.

Acquisition of Real Estate

The subject matter of the real estate transaction may be the real estate object which was duly formed and registered with the Real Estate Register. The information, i.e. the unique number, area, purpose of use, address, etc., must be properly specified in the title transfer agreement. Also, the land plot whereon the building is located, location of the building on the land plot as well as the location of the premises under the transfer in the building must be indicated in the agreement. Otherwise the agreement may not be attested by a notary and, if attested, becomes null and void.

General

The subject matter of the real estate transaction may be the real estate object which was duly formed and registered with the Real Estate Register. The information, i.e. the unique number, area, purpose of use, address, etc., must be properly specified in the title transfer agreement. Also, the land plot whereon the building is located, location of the building on the land plot as well as the location of the premises under the transfer in the building must be indicated in the agreement. Otherwise the agreement may not be attested by a notary and, if attested, becomes null and void.

According to the general rule the seller must transfer to the purchaser, together with the title to the building, the right to the land plot (a part thereof) which is occupied by the building and which is necessary for the use of the building in accordance with its purpose.

Should the seller be the owner of the land plot on which the building under sale is situated, the buyer must be transferred the right of ownership to the land plot, the right of land lease, the right of development (superficies) or any other right entitling the buyer to use the land for the purpose of proper use of the building.

If the seller is not the owner of the land plot on which the building is situated, the seller is entitled to sell the building only upon prior consent of the land owner and the buyer must acquire the right to use the land on which the building is situated under the same conditions as the seller. Agreement in which the rights of the buyer to the land plot are not contemplated may not be certified by a notary and if certified, is null and void.

Letter of Intent and Heads of Terms

It is customary to conclude a letter of intent (LOI), head of terms (HOT) or preliminary agreement detailing the actions required by the parties prior to entering into the main agreement on acquisition of real estate, main terms and conditions of the agreement, as well as liability of the parties, if agreed, for not entering into the main agreement on acquisition of real estate.

It is advisable to conclude the letter of intent, head of terms and the preliminary agreement in writing. There is no legal requirement to notarise the LOI, HOT or the preliminary agreement.

Change of Ownership

A person acquires the title to real estate as from the moment such real estate is transferred into its possession. Such transfer must be recorded by signing a transfer-acceptance deed that may be either structured as a separate document or incorporated into the agreement on real estate acquisition.

Asset Transfer vs Share Transfer

Real estate transaction may be executed either by purchasing shares in a company holding the target real estate (share transfer) or by purchasing the particular real estate (asset transfer).

When choosing the share transfer the following circumstances must be considered:

• increased volume of due diligence investigation, as more extended review of corporate documents, financial, employment issues and other fields of the targeted company is required;

• the investor may face the risk of historical issues of the targeted company in respect of its foundation, previous shareholders, activity, taxation;
• deferred taxes issues;
• share transfer implies a problem relating to existing contracts, since, as a rule, the change of shareholders has no impact on contractual relations of the targeted company;
• management structure of the company, employees selected by the previous owner, contractual obligations undertaken on behalf of the company not always meet expectations of the new investor;
• the investor is not a "fair third party" with respect to transactions entered into by the company;
• by acquiring the targeted real estate the investor also "acquires" all rights and obligations of the company assigned to the company on legal and contractual basis, including payment of debts, if any, performance of contractual obligations towards the third parties, etc.

Asset transfer involves the following risks and issues:
• the asset transfer is subject to a notary fee and state duty and, therefore, is more expensive than a share transfer. Notary fee for verifying a transaction amounts to 0.45-0.5 per cent of the purchase price, however, the notary fee cannot exceed the amount of LTL 50,000 (ca EUR 14,481). The state duty related to registration of the real estate title with the Real Estate Register depends on the real estate value but should not exceed LTL 10,000 (ca EUR 2,896);
• Lithuanian legislation entitles tenants to terminate lease agreements due to change of the owner of the leased properties;
• in case the seller of the building is not the owner of the land plot on which the building is situated, the referred building may be sold only upon prior written consent of the land owner. Should the building be located on the state-owned land plot, the consent of a respective county governor concerning transfer of the lease right to the buyer together with the building must be obtained;
• agreements on supply of utilities and other services, as well as any other agreements related to the real estate under sale, except the lease agreements registered with the Register of Real Estate, must be assigned or re-concluded;
• since Lithuanian legislation provides for/ the sale of an enterprise as the transfer of an enterprise as a property complex or a material part thereof, there is always a risk that an asset transfer will be recognized as an enterprise transfer. If the transaction is recognised as the sale of an enterprise, additional mandatory legal requirements apply (specific content of the agreement, notification of the creditors, etc).

Form of Agreements

Share transfer transactions must be concluded in a written form. Real estate sale-purchase agreements (asset transfer transactions) must be concluded in a written form and certified by a notary. Failure to notarise the asset transfer agreement makes the referred agreement null and void.

Language Requirements

Transactions of legal and natural persons of the Republic of Lithuania must be conducted in the Lithuanian language. Translations into one or more languages may be attached to them. Transactions with natural and legal persons of foreign states may be conducted in the language acceptable for both contracting parties. However, if such transaction must be confirmed by a notary, it is required that Lithuanian would be the prevailing language of the agreement.

Due Diligence

It is strongly advised that a legal due diligence of the target real estate be carried out before the purchase is concluded. In the course of due diligence the ownership title, encumbrances, the land purpose, third persons' rights, public restrictions, lease agreements, agreement on supply of utility services, etc. are checked, providing more security and bargaining power to the purchaser.

Pre-emption Rights

Pre-emption rights may be established on the statutory or contractual basis. For instance, the law provides that a co-owner of real estate has the pre-emption right while selling a legal share of the real estate to third persons, with the exception of cases when the sale takes form of a public auction. Also, the state has a pre-emption right to acquire the land in state parks, zones of ecological protection and other protection zones.

As a general principle, if the seller of the private real estate fails to comply with the requirement on the pre-emption right, the person who had the pre-emption right may, within the statutory limitation, request the court to transfer him the rights and obligations of the buyer of that real estate.

Typical Purchase Price Arrangements

Purchase price payment arrangements may differ subject to agreement reached by contracting parties. If no credit or third party financing is involved, the purchase price payment is usually divided into two parts: partial payment is made on the day of signing a preliminary agreement or signing and confirming the real estate transaction at the notary, and the remaining part is paid after certain conditions precedent have been met, e.g. signing the transfer-acceptance deed. The title to real estate may be transferred irrespective of settlement between the seller and the buyer for the acquired real estate. For the purpose of securing the interests of the seller or the buyer, the title to real estate may be transferred before or after payment of the entire real estate purchase price.

Related Costs

Conclusion of agreements at the notary and registration of title with the Register of Real Estate involves a notary fee and a state duty. The purchasing process of real estate may bring about also further costs depending on services used: brokerage and valuation fees, bank fees, legal fees for carrying out a legal due diligence and reviewing the purchase agreements, costs of environmental and technical reviews etc.
Value added tax at the rate of 18% is imposed on sales of new buildings.

Concentration Control

In real estate transactions one should check whether the transaction is subject to concentration control.
The intended concentration must be notified to the Competition Council and its permission is required where combined aggregate income of the undertakings concerned (received from Lithuanian market) is more than LTL 30,000,000 for the financial year preceding concentration and the aggregate income of each of at least two undertakings concerned (received from Lithuanian market) is more than LTL 5,000,000 for the financial year preceding concentration.

Portfolio Deals

Lithuanian practice rarely sees portfolio deals which, however, are not completely unknown. The portfolio deal advantages, i.e. acquisition of voluminous market share at relatively lower cost and time consumption, are usually estimated by foreign investors with a high financial capability.

The following issues are to be considered when structuring the portfolio deal:
• The increase in scope and volume of due diligence due to numerous transaction objects which results in necessity to properly estimate the timing, cost and pre-contract risk allocation between the parties to the transaction;
• Acquisition of a portfolio is usually tied-up with takeover of rights and obligations related to all acquired real estate objects (property related rights, access arrangements and management operations, etc.);
• Allocation of acquisition price between the objects within the portfolio;
• Significance of each asset within the portfolio and possibility to acquire all assets within the portfolio (particular assets within the portfolio may not be transferred due to exercise of pre-emption rights by the third parties etc.);
• The mix in portfolio objects and acquisition structures thereof (asset and share deals) raises complexity in structuring the transaction and seeking for the simultaneous closing;
• Multiple jurisdiction portfolio deals face issues arising from the diversity of legal regulations, which may result in differentiation of the transaction structure Further, the simultaneous closing in all involved countries may be difficult to achieve.

Sale-Leasebacks

The sale-leaseback transaction has became more frequent over the past years as it allows the owner of the property to make full use of the asset while not having capital tied up in the asset. Further, the purchaser benefits from stable rent payments during a particular period of time.

The following issues should be analysed when considering a sale-leaseback transaction:
• The structure of the transaction should ensure the tying of the sale of the property with the lease agreement;
• The purchaser should verify the lessee's financial capability to ensure stable cash-flow during the lease term;
• For the purpose of ensuring proper fulfilment of contractual obligations, the arrangement's long-term nature requires adequate security (guarantee, surety, reserves, sinking fund etc.) in respect of both parties to the transaction.

Restrictions

Restrictions on Acquiring the Real Estate
Buildings and other constructions may be acquired into the ownership of Lithuanian or foreign natural or legal persons without any restrictions.
Constitution of the Republic of Lithuania determines that entrails of the earth, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance are owned by the state of the Republic of Lithuania exclusively. In other cases Lithuanian citizens and legal persons with their offices registered in the Republic of Lithuania are allowed to acquire the title to land and forest unrestrictedly.
Foreign legal and natural persons are entitled to acquire the title to the land provided they comply with the European and Transatlantic criteria. It is considered that foreign legal entities are in compliance with the European and Transatlantic criteria, if they are established in:
• Member States of the European Union or the states that are 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 that are parties to the

North Atlantic Treaty Organisation (NATO) or the European Economic Area Agreement.

Foreign natural persons are deemed to be in compliance with the European and Transatlantic criteria, provided they are:
• citizens or permanent residents of any of the states specified above; and/or
• permanent residents of Lithuania holding no Lithuanian citizenship.

However, foreign natural and legal persons even complying with the European and Transatlantic criteria referred to above are not entitled to acquire agricultural and forestry land for the transitional period of 7 (seven) years, which commenced on 1st May 2004, 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 organizations, which have established representative or branch offices in Lithuania.

Public Restrictions on the Use of Real Estate

Real estate must be used in accordance with its purpose, following zoning and planning requirements, conditions of encumbrances (easements, protections zones, etc). Further, the law establishes specific requirements on the use of the real estate objects of cultural heritage. For instance, the owner or the manager of the object of cultural heritage must timely eliminate discovered defects and protect structures against adverse environmental impact, etc.

When transferring title or rights of management, the seller or the manager of an object of cultural heritage must give at least a one-month notice of his intention to conclude a transaction to the heritage protection subdivision of a municipality. Within this period, the municipality must verify whether the condition of the said object and valuable properties thereof correspond to the condition specified in the certificate of the immovable cultural property. The rights, duties and liability of the transferor of an object of cultural heritage shall, upon the verification of the condition of the object, be transferred to the new manager (acquirer) from the signing of a statement of acceptance. Where the condition established at the time of the verification does not correspond to the condition specified in the certificate of the immovable cultural property, the transferor is held liable therefore.

Property Management

For maintenance of real estate the property management companies or associations may be used. In multi-apartment houses owners of the apartments may establish an association of owners. The status, rights and obligations of such associations are regulated by the Law on Association of Multi-Apartment House Owners.

Lease Agreements

General

General terms and conditions of the lease agreement are regulated by the Civil Code. However, the parties to lease agreements may freely agree on most of the lease issues. For the purpose of securing the interests of a natural person as the tenant, residential leases are regulated more strictly than commercial leases by determining specific rules related to the condition of the leased residential premises, right of the family members to reside together with the tenant, termination of the lease agreement and eviction of the tenant.

Lease agreements may be invoked against third persons only if they are registered with the Register of Real Estate prior to title transfer. The Laws of the Republic of Lithuania entitle the tenant to terminate the lease agreement due to the change of the owner of real estate.

Duration and Expiry of Lease Agreement

Lease agreements may be concluded for a fixed-term or for an indefinite period. In all cases the lease term may not exceed one hundred years. Lease term must be determined by the agreement of the parties. In case the term of the lease agreement is not determined in the lease agreement, it is considered that the lease agreement is concluded for an indefinite period. Should the tenant continue to use the leased property for more than ten days after the expiry of the lease term and the owner does not object to such use, the lease agreement is considered to become concluded for an indefinite period of time.

Either party is entitled to terminate the lease agreement concluded for an indefinite period of time by giving a three-month prior notice, unless the parties agree on other notification period. Lease agreements of residential premises may be terminated by either party by giving a six-month prior notice, unless longer notice periods are established by the parties to the lease agreement. The tenant who has duly performed his duties accepted according to the lease agreement has a pre-emption right against other persons to renew the lease agreement upon expiry of the period thereof.

Lease Payment and Accessory Expenses

The terms of rent payment for the lease of commercial premises are subject to the agreement by both parties. Generally, the tenant pays the rent on a monthly basis in advance for the forthcoming month. Provision of utility services, such as electricity, heating, water, etc are charged additionally according to the meters of measurement devices or proportionally to the area of the leased premises in case individual metering devices are not installed. The tenant may also be obligated to compensate the expenses of the owner related to maintenance of the leased real estate object. Guarantee, surety or other similar securities ensuring payment of rent and costs may also be required.

As to the lease of residential premises, the law explicitly states that a owner is not entitled to demand the payment of rent in advance, with the exception of the rent payment for the first month. The rent must be paid on a monthly basis for the current month not later than by 20th calendar day of the next month.

PPP & Infrastructure

Concessions

The Law on Concessions determines concession as an authorisation granted by the awarding authority to the concessionaire to engage in the economic and commercial activity related to the design, construction, development, renovation, transformation, repairs, management, use and/or maintenance of infrastructure objects, to provide public services, manage and/or use state-owned, municipal property. The concessionaire assumes under the concession contract all or part of the operating risk and undertakes the relevant rights and duties. The consideration of the concessionaire for the activity mainly consists solely of the granting of the right to engage in the relevant activity and income from the activity.

Pursuant to the concession contract the concessionaire may be granted an authorisation to engage in the economic and commercial activity in the areas of energy, railway lines and systems, water economy, waste water, roads, bridges, tunnels, parking and other infrastructure of road transport, health care system, telecommunications infrastructure, educational system, airport infrastructure, etc.

The term of a concession agreement may not exceed 25 years.

Sale-Leasebacks in Structuring PPP

Sale-leaseback model is not commonly used in Lithuania in structuring PPP. However, long term leases are used as one of the PPP models. The advantage of long term lease is that the infrastructure objects are modernized and maintained using private funds. Further, the rent is paid by the private investor (tenant) to the public owner of the respective infrastructure object. After the expiry of the lease term the renewed and profitable infrastructure objects are transferred back to the public owner.

Real Estate Funds

New investment possibilities are foreseen by the amendments of the Law on Collective Investment Undertakings coming into force as of 1 March 2008.

The said amendments establish the possibility to constitute the real estate collective investment undertakings. Since said undertakings are specified as the special collective investment undertakings, their units or shares cannot be distributed in other EU member states, and the EU laws are not applicable to the activities of such undertaking.

The real estate collective investment undertaking must ensure that the real estate objects comprising the portfolio of the said undertaking would be evaluated by not less than two independent property valuators. Further, the diversification rules of the investment portfolio are specified with the said law.

The units or the shares of the real estate collective investment undertakings are to be acquired by investors under concluded written agreements following rules specified by the founding documents. The redemption/repurchase of units and shares is to be performed under the order established by the founding documents and prospectuses; however the full settlement for the redeemed/repurchased shares must be effected within 30 calendar days as from the submission of the respective demand on redemption/repurchase.

Planning Requirements and Construction of Buildings

Planning

The approval of a detailed plan lies within the competence of the local authorities. As a rule, detailed plans are established for city areas and rural municipality areas where constructions are intended to be performed. The new detailed plan must be approved in case of change of the purpose of the land. The process of establishment of detailed plans involves evaluation of the results of the detailed planning, as well as public hearings and discussions. The process of approving the detailed plan may take approximately from six months to one year.

Construction

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

The construction must comply with building norms that are set forth by the legal acts. Construction works have to be performed pursuant to the design documentation of the building. The contractor, the architect and the technical supervisor of the construction are liable for the collapse of the object or the defects, if the object collapsed or the defects were discovered within a period of 5 years, 10 years – in case of hidden elements of the structure (structures of construction works, pipelines, etc.) and 20 years in case of intentionally concealed defects. These time-limits commence on the day of handing over the result of the work.

Construction may be carried out only based on a building design that is drafted by a professional architect or an engineer and approved by the local supervisory authority. The building design documentation must comply with the relevant detailed plan, if such plan has been established, and meet the official building norms.

In order to commence construction, a building permit should be issued by the State Territorial Planning and Construction Inspectorate. The validity period is provided for in the permit, however, it may not exceed ten years.

After completion of the construction work, the state authorities inspect the completed building for the purpose of attesting whether the building is fit for use. If the building complies with the building design, building standards, engineering and utility networks and traffic routes are tested, and geodetic pictures have been taken, the state authorities issue an act recognizing the building fit for use. Use of a building is not allowed without such an act. Buildings, which are accepted as fit for use, are registered with the Register of Real Estate.

Taxes

Purchase

VAT – The purchase of any new building or apartment is subject to 18% VAT. The building is considered as new for a period of 24 months from the date it was put into use or materially improved. Old buildings are exempt from VAT with an option for taxation in case the customer is a VAT payer. In case the option to tax is used, it must be maintained for at least 24 months.

The purchase of plots of land generally is VAT exempt except if land is with new buildings or for construction purposes. Tax payers have an option to sell land with VAT under the same condition as mentioned above (customer is VAT payer).

Fees - Notary fees depend on the value of the transaction, and are approximately 0.5% of the transaction value, but capped at a maximum of €14,500 (50,000 litas). Notary fees are expected to change shortly.

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

Rents

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

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

Personal Income Tax – Rents collected by individuals are subject to Personal Income Tax at rates 15% or 24%. An individual may choose to pay a 15% flat rate on gross rental income without cost deductions, or pay 24% on final income after all costs. Rents to individuals may be subject to a low one-off yearly tax under a special permit system.

Sale

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

Personal Income Tax – Capital gains earned by private persons on the sale of property owned for more than three years is exempt from tax. Capital gains earned by private persons on the sale of property owned for less than three years is taxed at the flat rate of 15%.

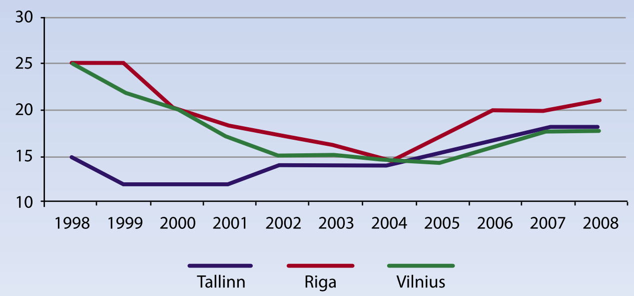
Real Estate Tax

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

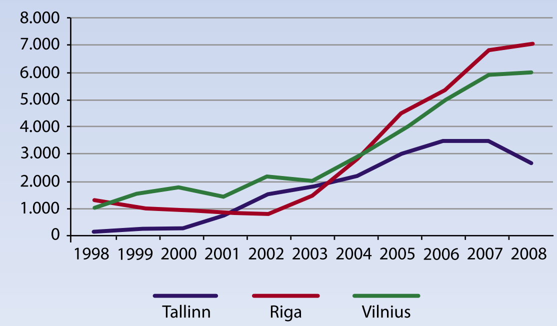
Buildings are subject to Real Estate Tax at a rate of 0.3-1.0%, depending on the municipality where the building is located. Exemptions apply to individuals for own dwelling and certain other personal property. Depending on the type and purpose of buildings, the tax base is either based on fair market value or reconstruction costs (established by the State Enterprise Centre of Registers). If the taxpayer disagrees with the assessment, he may get a valuation done and challenge the assessment.

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

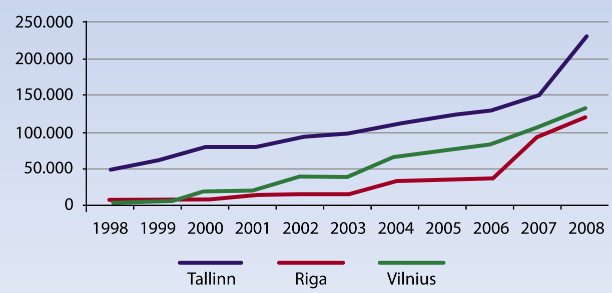
Avg class A office rents (EUR)



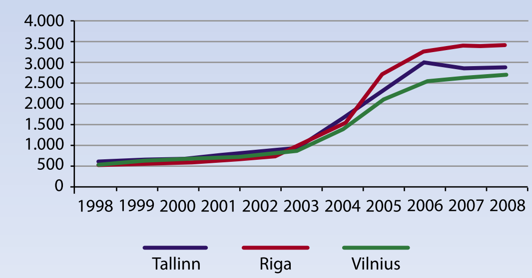
Completed residential units



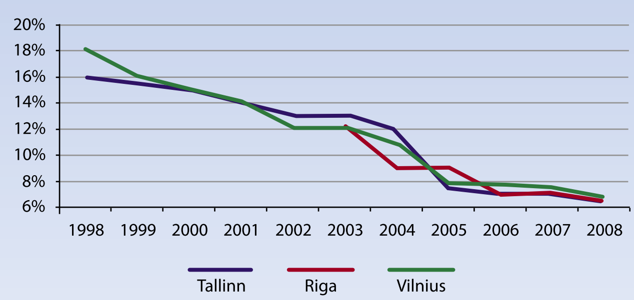
Total class A office space (sqm)



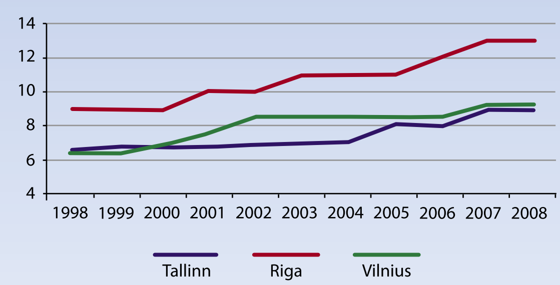
Average city centre residential prices (EUR/sqm)



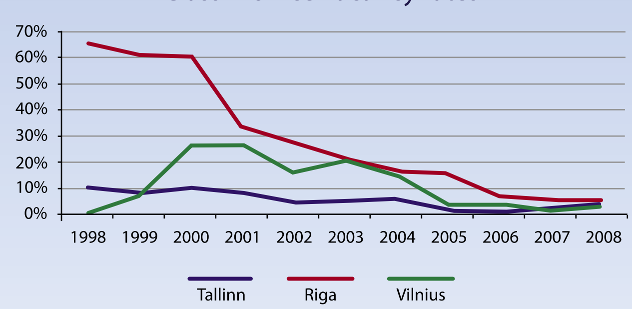
Class A office investment yields



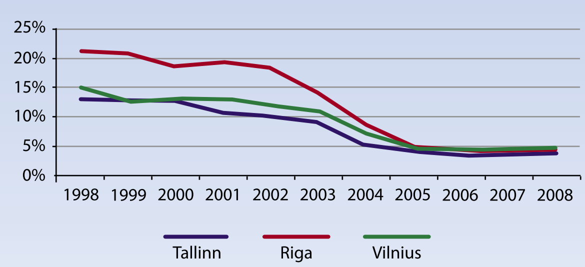
Average residential rents (EUR/sqm/month)

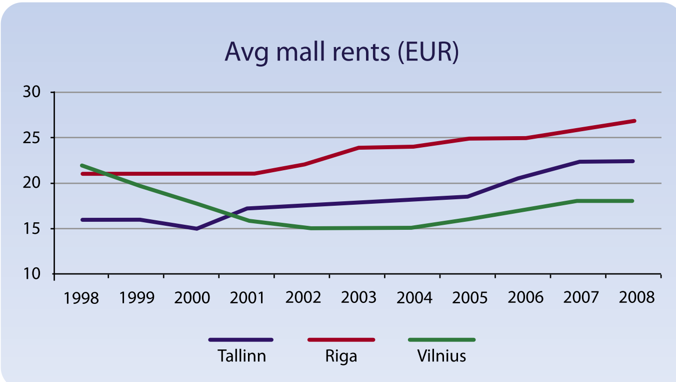


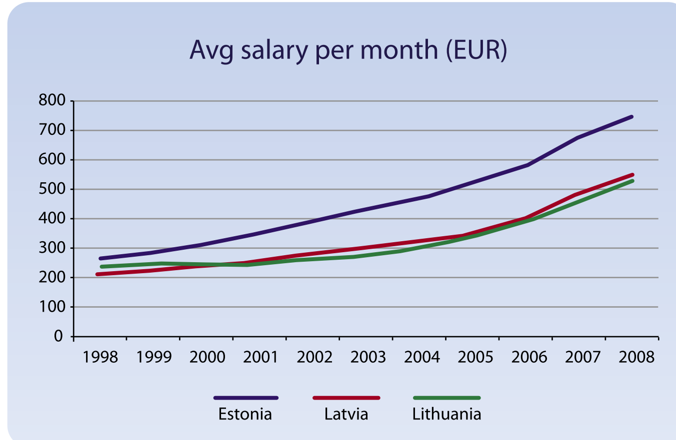
Class A office vacancy rates

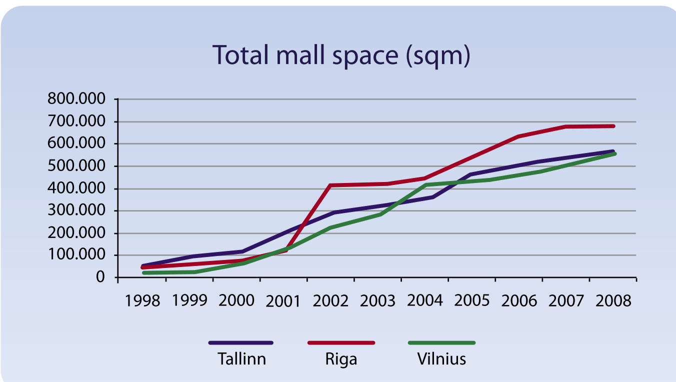


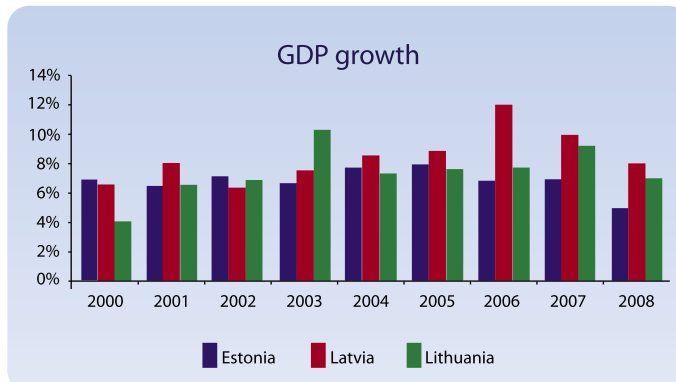
Residential investment yields

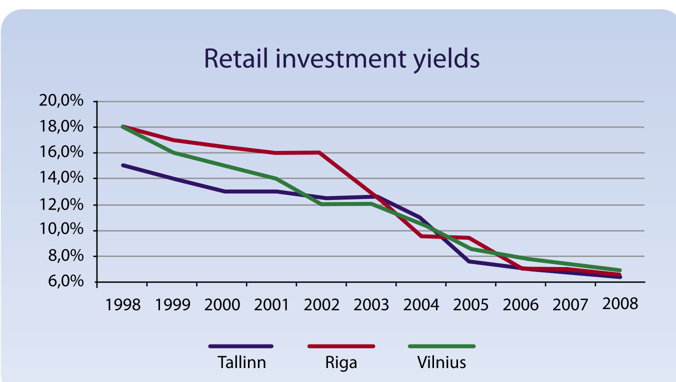


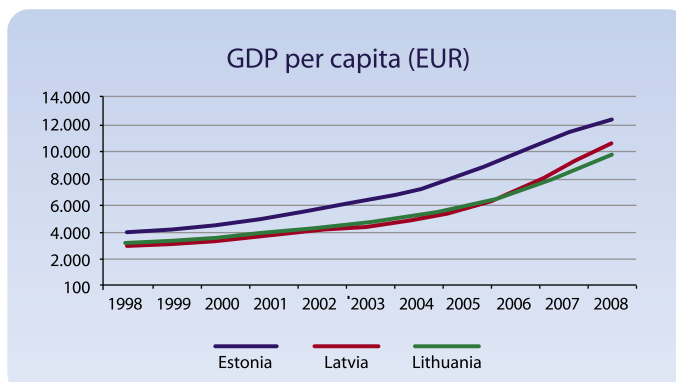

Avg mall rents (EUR)
30
25
20
15
10
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Tallinn
Riga
Vilnius

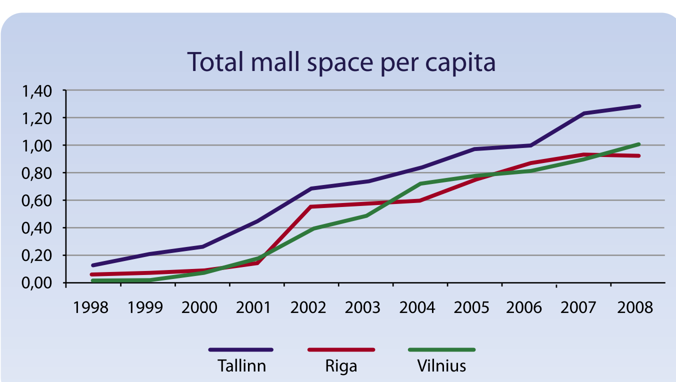

Avg salary per month (EUR)
800
700
600
500
400
300
200
100
0
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Estonia
Latvia
Lithuania

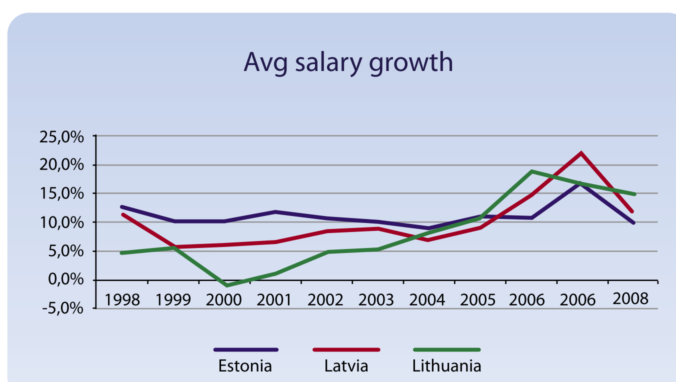

Total mall space (sqm)
800.000
700.000
600.000
500.000
400.000
300.000
200.000
100.000
0
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Tallinn
Riga
Vilnius


GDP growth
14%
12%
10%
8%
6%
4%
2%
0%
2000 2001 2002 2003 2004 2005 2006 2007 2008
Estonia
Latvia
Lithuania


Retail investment yields
20,0%
18,0%
16,0%
14,0%
12,0%
10,0%
8,0%
6,0%
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Tallinn
Riga
Vilnius


GDP per capita (EUR)
14.000
12.000
10.000
8.000
6.000
4.000
2.000
100
1998 1999 2000 2001 2002 '2003 2004 2005 2006 2007 2008
Estonia
Latvia
Lithuania


Total mall space per capita
1,40
1,20
1,00
0,80
0,60
0,40
0,20
0,00
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008
Tallinn
Riga
Vilnius


Avg salary growth
25,0%
20,0%
15,0%
10,0%
5,0%
0,0%
-5,0%
1998 1999 2000 2001 2002 2003 2004 2005 2006 2006 2008
Estonia
Latvia
Lithuania

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