



# Mid-Year Report 2011

## Baltic States Capitals

Tallinn, Riga, Vilnius

September 2011





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## Tallinn, Estonia

### *Growing Again*

#### Economy

Estonia has the strongest economy in the Baltic States, with GDP growing 3.5% in 2010 and projected to grow 5.0% in both 2011 and 2012.

Estonia adopted the euro as its national currency on January 1, 2011, becoming the 17th member of the euro zone. Analysts see the euro creating longer-term support for investments through an improved and more stable business environment. This support, in turn, will promote employment, income growth and the recovery of domestic demand.

Inflation at 3.0% in 2010 and 3.8% in 2011 is a concern, especially as the euro adoption is feared to induce further price pressure. The high inflation can largely be attributed to the rise in food and energy prices as well as tax hikes, which are expected to be of a temporary nature. Domestic price pressure could emerge through the reviving economy, but the slowly declining unemployment is likely to restrain wage increases. Thus, most see a modest acceleration in inflation.

Overall, a global recovery is vital for the upswing to continue, as the revival in domestic demand remains fragile. Household demand remains constrained by the weak labour markets, as unemployment hit 17% in 2010. However, positive signs are seen in the relatively high consumer confidence, the modest wage growth and the reduction in unemployment to 13.5% in 2011. Although the initially rapid decline in unemployment is slowing down, unemployment is likely to decline steadily over the next couple of years, below 13% in 2012 and declining thereafter. Reducing structural unemployment on e.g. the industrial sector is a challenge, especially considering the continued rise in long-term unemployment.

We expect the high momentum to be maintained on the back of strong export volumes and gradually recovering domestic demand. The recovery in Estonian economy will remain highly dependent on foreign demand. It was a remarkable achievement that in Q3 exports rose to 2008 highs, erasing completely the 24% drop seen during the downturn.

The Scandinavian banking sector has recovered swiftly from the crisis and is ready to support the economic recovery in the region. The most important factor for the growth of the loan market remains hence the economic confidence of the real estate sector.

One of the risk factors in this general positive and favourable outlook for the Estonian economy remains inflation.

#### Office

##### *A-Class Vacancy Rate Is Decreasing*

#### Supply

If over 100,000 sqm of modern office spaces were brought to the market in 2008, then earlier started projects were finished in 2009 adding almost 80,000 sqm of space. No major development projects were started in Tallinn during 2010, but Finnish origin Technopolis is planning to start with a new office building in Ülemiste City during autumn 2011.

Compared to 2009, market of office spaces showed marks of stabilization last year. During the second half of the year, the number of offers did not increase and the price decline stopped, although the supply in the sector of B-class spaces is still essentially exceeding the demand.



• *Tatari 23/25, new commercial and residential building in city centre.*



• *Peterburi Business Quarter is a modern office building situated next to the city centre.*

## Recent Developments

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

**Tatari tn 23/25** - 6-storey multifunctional building in Tallinn City Centre, first 3 floors will be office spaces, in total 3,000 sqm, price range from 9 - 11.5 EUR sqm, ca 500 sqm is still available.

**Tehnopol I** - development located in Tallinn suburb, close to Tallinn Technical University. In total ca 12,000 sqm development will be ready at the beginning of 2012.



• *Technopol is a science and business environment for knowledge based companies.*

**Peterburi Business Quarter** - a modern office building situated in the city centre, with different efficient building systems in use (so called smart house technology), providing lower operating and energy costs. The first bigger tenant was Siemens. Currently 20% of the building is vacant; the average rent is 7.5 EUR per sqm, the minimum duration of agreement is three years.

## New Projects

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**Ülemiste City** - Development located close to City Centre and Tallinn international airport, especially for the innovative companies. In total ca 160,000 sqm of office space is planned. After project will be finished, there will be ca 30,000 people work in the area.

## Demand

Vacancy rates for A-class office spaces fell in 2010, first and foremost at the expense of the B-class spaces. In some contemporary office buildings, owners of which have behaved flexibly on the basis of the actual market situation, the vacancy rate has fallen already below 10%. At the same time, the vacancy rate of B-class spaces situated in a secondary location may exceed 30%. Compared to the peak prices of 2007 the price decline depending on the object was 30 - 50%. Rents of the B-class spaces were affected the most.

## Rents

The range of rents for offices situated in less favourable locations and buildings of the suburbs are 3.20 to 5.70 EUR, in popular locations and buildings 6.40 to 9.60 EUR and in the city centre from 7.70 to 12.20 EUR per sqm. As the market of office spaces is moving in a shift of a couple of years compared with residential spaces, we see a suitable moment in close perspective for starting new development projects in the sector office spaces.

In connection with the recovery of economic growth, vacancy rate of A-class office spaces will start to decrease even more quickly, while further reasonable operation of several B-class office buildings will demand major investments in close perspective. Strong faith in sustainable economic growth caused the continuing interest of the investors from Estonia as well as neighbouring countries in the objects situated in popular locations of Tallinn, providing stable cash-flow and covered with long-term rental agreements.

## Investment

While former investors expected yields at least 10%, nowadays, due to the stabilization of the economy and rising confidence, most of them are ready to accept a yield rate of 8% in case of objects with suitable structure of tenants.

EFTEN SPV 2, subsidiary company of EFTEN Real Estate Fund, purchased 2 office buildings located in Tallinn at Lauteri 5 and Narva 59 from ERGO Insurance with the transaction amounting to 3.99 million EUR.

In addition there was a strong interest towards buildings with state institutions as tenants, put up to auction by State Real Estate. As an example: Kentmanni courthouse and Police Station at Vikerlase Street were sold with the yield of approx. 7 - 8%.

## Legal Notes by SORAINEN

Rents are usually payable monthly in advance, in some cases up to the 15th day of the current month. Payment of rent in advance for more than one month is not customary. Tenants generally pay for their own utilities, invoiced by the owner after use. Rents are typically indexed to local inflation. Triple net leases may be found but are not universally used. However, the concept of sinking fund is not in use and normal wear and tear is widely accepted. Quite commonly, payment of rent and costs is secured, eg by rent deposit or bank guarantee. Leases survive transfer of property title.

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

## Retail

### Consumption Increases And Expansion Continues

## Supply

Vacancy rates in Tallinn's largest shopping centres is close to zero, but supply of retail space located in a secondary locations constantly increasing, because of trade increasingly concentrating in major centers. During the 2H 2010 number of retail spaces for sale no longer did not grow. Supply will increase during next couple of years as the number of shopping malls and retail chains plan expansion.



• Bauhaus - retail development by Paul Oberschneider, German chain of DIY hypermarkets.

## Recent Developments

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

**Kristiine Centre extension** - located near the city centre well-known shopping centre is widening. Almost 21,000 sqm of gross floor area was added to 30,000 sqm of existing floor area, including the widening of the current tenant anchor Prisma supermarket. 400 additional parking places were also to be added. The project was finished in September 2010, the volume of investments equalled to 15.9 EUR million. Further widening is limited by the lack of the land. Current vacancy rate for the existing space is 0%.

**Bauhaus** - veteran Baltic developer Paul Oberschneider opened his latest retail development in Tallinn in 2010, the 20,000 sqm home to German DIY chain Bauhaus's first offering in the Baltic States. Oberschneider has built eight retail

properties in the region. Bauhaus is a German chain of DIY hypermarkets founded in 1960 comprising 200 shops in 14 European countries.

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

## New Projects

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

**Laagri Rimi** - well known retail chain Rimi will open new shopping mall in Laagri at the end of 2011 with the total space of 5,000 sqm.

**American Corner Retail and Logistics Park** - to be developed by local developer Sūda Maja, the American Corner Retail and Logistics Park is to be situated by the Tallinn - Tartu highway and the Tallinn ring road. The scheme is planned to be as large as 250 EUR million, comprising 110,000 sqm of retail warehouses and 185,000 sqm of high level logistics space. The hope is to attract major European retailers and distributors as potential tenants.



• The 85-hectare American Corner Business Park being developed by AS Sūda Maja is set to become one of the biggest commercial sites of its kind in Estonia.

## Demand

While vacancy rate in retail centres is almost zero and rents have not significantly changed, then for spaces in secondary locations the vacancy rate is quickly rising and the rents continue to become under pressure.

As an essential increase of consumption is expected on the market of retail spaces in the perspective of a couple of years, extension plans of (mainly successfully operating) retail centres have been launched again in Tallinn.

Rental spaces of average size (150 - 300 sqm) in retail centres are leased within the price range of 12.80 to 19.20 EUR, smaller spaces for 22.40 to 32.00 EUR and spaces for anchor tenants for 8.00 to 12.10 EUR per sqm.

As the economic situation in 2010 was only stabilizing, potential investors were in waiting position, and according to our records no significant acquisition of big retail spaces took place. The transactions that took place, were mostly with the smaller retail spaces of local significance.

Decrease of retail trade that had lasted for two and a half years turned into increase in September 2010. In November the growth of retail sale continued by slightly higher speed. In 2010 the number of retail and service spaces for sale did not increase anymore.

No major changes took place in the consumer confidence, nevertheless rapid increase of consumer price index continuing in close perspective, adjustment to euro and high unemployment rate will have a negative effect on consumption. The consumption was influenced by the introduction of the sales tax and increased excise duties.

As an essential increase of consumption is expected on the market of retail spaces in the perspective of a couple of years, extension plans of (mainly successfully operating) retail centres have been launched again in Tallinn, though most likely no real construction will be started in 2011.

The most significant events of 2010 in Tallinn retail sector were German chain Bauhaus arrival to the market and opening of the Kristiine shopping centre extension. The Finnish retail chain Prisma and Lithuanian Maxima continued active expansion in Estonia. In total there are 1.35 million sqm of retail space in Tallinn, which makes 3.5 sqm per each inhabitant.

## Investment

The Torupilli Selver hypermarket, with 4,200 sqm of space, was purchased by private investors in summer of 2010 for an estimated yield of 8.8% from the real estate fund BPT.

Kristiine Centre was bought by Finnish retail owners Citycon in Spring 2011 from a consortium led by Pro Kapital, for an estimated 8.25% yield.

Capfield-Paul Oberschneider sold his shares in holding company to his partners. Capfield is the owner of 6 shopping centres in Tallinn and Pärnu.

### Legal Notes by SORAINEN

Even in investment grade properties there is no standard approach to the set-up and use of marketing funds. Turnover-based rent is widely used. Rents are typically indexed to local inflation, but quite often the indexation is not enforced. Lease agreements are often of low quality, eg distribution of maintenance and renovation obligations may not be clearly set out. Rent reductions, even retroactive, are common and establishing a sustainable NOI may therefore be difficult.

## Industrial

### Lack of Offers For A Modern Space

#### Supply

In Tallinn and Harju county there is ca 100,000 sqm of warehouse and industrial space of different condition on the market. Majority of this is B-class space at the price range of 1.5 to 3.0 EUR per sqm. Supply in logistically good locations is very limited and in certain price level demand exceeds supply. Modern warehouse and industrial space is mainly built by the companies themselves for their own use and there are virtually no sales or letting offers.



• Sõpruse Business Park is located at edge of Tartu Road, ca 4 km from Tallinn airport in logistically very good location.

## Recent Developments

**Trigon Tallinn Industrial Park** - Trigon Tallinn Industrial Park is a new industrial and logistics park in Estonia with an excellent location in Lasnamäe Betooni area and good access to infrastructure, including a direct railroad access to the site. It is targeted to companies who appreciate proximity of the workforce, and an excellent logistical location. Plot sizes vary from 6 000 - 80 000 sqm. The advantages of Trigon Industrial Parks are locations and infrastructure as well as Trigon Capital itself - a Scandinavian owned developer, able to provide financing and to rent out the built-to-suit production premises if needed.

**Sõpruse Business Park** - located at edge of Tartu Road, ca 4 km from Tallinn airport in logistically very good location, 19 plots in total are available of different size (from 5,000 to 20,000 sqm) in price range of 37 to 42 EUR per sqm. In the close area different well known companies such as BMW, Würth and Smarten Logistics have their representation offices. Currently 2 plots are sold.

## New Projects

**Ülemiste City** - in total 16 different companies expected to establish their production in Ülemiste City territory, preferably high performance and innovative manufacturing companies. Production facilities will be established according to specific customer needs, plots from 2,000 to 8,000 sqm.

## Demand

As the moderate growth of industrial production in the beginning of 2010 was followed by rapid increase by 20% to 30% in spring and the second half of the year, a rise of interest on the market for warehouse and production spaces can be noticed after a break of several years.

The number of deals with build-up production plots in Harjumaa and Tallinn rose in the second half of the year.

Related with the introduction of euro, the transfer of companies of Finnish origin into Estonia can be expected in close perspective, which should support positive development of the market of warehouse and production spaces.

During the whole year of 2010 stabilization of rental prices could be noticed mainly in logistically popular areas and no essential change took place in rental prices.

Also the number of warehouse and production spaces offered for sale did not increase. No major development projects were launched as well. Warehouse/production spaces were constructed mainly for own use. In current market situation companies prefer renting spaces to purchasing.

In Tallinn and Harju County rental offers of the new contemporary warehouse and production spaces start from the average price level of 3.20 EUR, rents for older premises start from 1.28 EUR and most of the rental deals are performed in the price range of 2.25 to 3.85 EUR per sqm per month.

The further development of warehouse and production spaces is directly related to the growing foreign demand, export-based economic growth and Scandinavian investors. According to our estimates, the price level will remain stable in the coming months. An essential growth of demand can probably be expected only in the second half of 2011.

### Investment

In the Q3 of 2010 one of the biggest sales transactions with a production building took place in Tallinn. Kobe Asset 2 sold Ericsson factory property for 10.5 EUR million to an investor of Swedish origin. No detailed information about the transaction was made public.

### Forecast

As the market of business spaces is moving in a shift of a couple of years compared with residential spaces, we see a suitable moment for starting new development projects in the sector of business spaces in close perspective.

In relation to the recovery of economic growth the vacancy rate of A-class office spaces will start to decrease even more quickly, while further reasonable operation of several B-class office buildings will demand major investments in close perspective. An essential increase of consumption is expected on the market of retail spaces in the perspective of a couple of years, extension plans of (mainly successfully operating) retail centres have been launched again in Tallinn.

Similarly to the market of office spaces, the investors are continuously and constantly more actively searching for objects with suitable location and productivity also on the market of retail spaces. The development of warehouse and production spaces is related to the growing foreign demand, export-based economic growth and Scandinavian investors.

According to our estimates, the rental prices of business spaces will remain stable in the coming months. An essential growth in demand can probably be expected only in the second half of 2011.

### Legal Notes by SORAINEN

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

## Residential

### *Demand Is Recovering*

### Prices

In general, the fourth quarter of 2010 was characterized by expectation of the coming euro, with related increase of the number of transactions and monetary volume.

According to Ober-Haus Apartments price index, average apartment sqm price have increased by 8% in Estonia and by 9.5% in Tallinn in y-o-y comparison by the end of June 2011. That is mainly because more deals are made with apartments in good locations and condition. Number of offers for sale has increased by ca 10% during 2011.

Apartment prices reached their bottom in 2009, followed by a 6% increase in 2010. During the autumn of 2010 a slight increase in the number of deals and monetary volume could be noticed, caused by Euro adoption expectations.

Though the number of transactions in 2010 showed a rising trend, it is unclear how big the percentage of the block transactions is, as well as the percentage of the transactions with the apartments acquired at the auctions.

Prices of apartments differentiate mainly according to the location. Most of the deals were made in the city centre with well-maintained apartments in modern or fully renovated buildings at the price level of 1,090 to 1,540 EUR per sqm.

In the high buildings with the best appreciated views or architecturally valuable dwellings the price level of some transactions has exceeded 2,560 EUR per sqm.

The number of transactions with well-maintained renovated apartments with size above average, located in a popular place in the Old Town, increased essentially. Most of the deals were made in the price range 1,800 to 2,900 EUR per sqm.

In suburbs, most of the deals were conducted with the cheaper 1- or 2-room apartments in need of repair and modernization (price range 575 to 705 EUR per sqm) or with apartments in excellent condition situated in popular locations in the price range 830 to 1,150 EUR per sqm. Apartments in satisfactory condition situated in a secondary location are much less marketable.

The prices of modern apartments situated in the popular suburb locations like Pirita, Nõmme and Kakumäe, range from 1,150 to 1,470 EUR per sqm.

## Supply

The first development projects launched in Tallinn in autumn 2009 with total volume of 150 units have been successfully completed. Several new development projects were started at the end of 2010 and at the beginning of 2011, especially in the city centre. Today ca 1 000 apartments are under construction in Tallinn, in total ca 40 different projects.

In addition 500 apartments dating back to the times of the boom are being offered. Most of the unsold units do not meet customers' demands for location, quality or price.



• Pirita 26C is an exclusive residential and office building close to the city centre near the sea..

## Recent Developments

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

**Pirita Road** - exclusive development project in a highly valued area of the city centre not far from the sea, 20 apartments and 20 office spaces. All apartments have balconies, those on the 4th floor have terraces with the sea view. The building has recently been constructed, with prices for apartments ranging from 2,560 to 3,840 EUR per sqm, and prices for office spaces from 1,280 to 1,920 EUR per sqm. The project is sold by Ober-Haus.

**Vabriku Street** - development by local developer Astlanda in the city centre in the Kalamaja historical district. The project totals 30 apartments in different sizes, with prices from 1,474 to 2,560 EUR per sqm. The first building is to be ready by June 2011. The project is sold by Ober-Haus.



• Vabriku - residential development in the city centre in the Kalamaja historical district, developed by Astlanda.



• Väike-Kalamaja – residential development by Metro Capital Management situated close to the Old Town in an historical district.

**Väike-Kalamaja** - development by Metro Capital Management comprising 90 apartments situated close to the Old Town in an historical district; separate security area;

underground parking spaces; the project will have an estimated end value of 6.4 EUR million. The first stage is to be ready by the summer of 2011 and will comprise of 40 apartments. The price for flats ranges from 1,470 to 1,920 EUR per sqm.



•Veerenni is the biggest development project in Estonia, developed by Satnam Europe.

**Veerenni Street** - the biggest development project in Estonia, comprising of more than 1,600 residential units, office spaces, nursery school and a youth centre. The complex will be developed by UK developer Satnam Europe, over a five year period, with construction and sales beginning in 2011.

**Paldiski Road** - business and residential building situated close to the Old Town. The building is to have 7 above-ground and 2 underground floors, totalling over 9,000 sqm. It will comprise of 6 office spaces and 66 apartments. Parking spaces in the underground garage (96 parking spaces in total). The building is to be ready by the end of 2011. Price ranges from 1,474 to 2,560 EUR per sqm.

**Saue Street** - a residential development in a historic city centre street filled with pre-war Estonian republic buildings. The development will have 18 apartments to be completed by autumn of 2011. The project is sold by Ober-Haus.



•Pagari One is situated in Tallinn's charming and picturesque Old Town and will comprise 42 luxury apartments.

**Pagari Street** - an exclusive, renovated 19th century apartment building in the heart of the Old Town, these flats are sure to be the most sought after apartments in town. Prices range from 2,900 to 4,000 EUR per sqm, and with this sort of luxury and location, they are very much worth it. Construction should be completed by Spring 2012. The project is sold by Ober-Haus.

## Private Residences

Compared to 2009, the volume of residential purchase and sales transactions with private residences in Harjumaa and Tallinn in 2010 increased by 28% and prices grew by 8% for modern residences in valuable locations. During the first half of 2011 sales offers are in increasing trend.

By different estimates there are 1,800 to 2,000 private houses on sale in Tallinn and Harjumaa, though only 70 - 100 deals per month take place. Most of the deals were made in Tallinn and neighbouring areas with well-developed infrastructure within the price range 96,000 to 160,000 EUR.

The liquidity of the residences situated in remote regions is very low despite the low offering price, as nowadays the potential buyers realize the value of location.

On the market of private residences a tendency for prices to differentiate depending on the location continued. The number of deals with semi-detached houses has essentially decreased for the reason that the clients prefer a private residence, regardless of a higher price, while terraced houses are gaining popularity. In the valuable districts of Tallinn - Nõmme, Kakumäe and Pirita prices stabilized, number of offers decreased and a slight price surge took place.

## Rents

The vacancy rate in the rental market of apartments in Tallinn decreased fast in 2010 and the prices showed slight rising trend in the second half of the year. Compared to the previous autumn the number of offers decreased even by ca 50%. As the number of offers was sharply falling, price advance could be noticed for the first time after the real estate boom, by 5 - 10% depending on the location and apartment. The price surge concerns mainly smaller apartments with lower utility costs, situated in popular locations. At the same time demand for luxurious and over average cost apartments at the price range of 1,000 to 1,600 EUR per month is recovering.

The demand in the city centre is highest for 1 - 2-room furnished apartments with the price of 160 to 320 EUR per month, preferably together with a parking space. Measurable utility costs are usually added to the rental price.

The gross rental yield of apartments in Tallinn is 5 - 6% depending on the location. This number does not satisfy investors. Unstable situation on the labour market forces to conclude short-term rental agreements and carefully check tenant's profile.

## Land

Compared to 2009 some marks of stabilization in the sector of residential land equipped with utility networks and situated in the valuable locations of Tallinn could be noticed in the first half of 2010. In the second half of 2010 a slight price surge took place in such districts of Tallinn as Pirita, Kakumäe and Nõmme. In Tallinn and Harjumaa the number of deals and monetary volume were in rising trend and the prices continued to differentiate in accordance with the location. The price for a residential plot in a valuable location usually ranges between 50,000 to 100,000 EUR, while for a plot situated in a new development area by the town is between 22,400 and 38,460 EUR. Increase of the number of sales offers was caused first and foremost by the large amount of developments in poorer, secondary locations. There is practically no interest in residential lots without utility networks and with insufficient infrastructure, even despite favourable price.

Alike the market of the residential land, the prices for business and production land continued to differentiate depending on the location. Number of transactions and monetary volume decreased, though the value of the average transaction increased. Most of the deals with business land were conducted at the price range of 100 to 200 EUR per sqm.

## Forecast

As predicted, at the beginning of 2011 the number of sale-purchase transactions decreased, as major part of the purchasers made their purchase decisions during the last months of 2010 under the influence of the introduction of euro, while many people wish to sell after the arrival of euro. Undoubtedly the sellers will try to raise prices on real estate market, referring to euro. If this does not bring also the increase in demand along, such increase of prices will remain unsuccessful.

In case of a residential property, the potential purchasers will start to pay more attention to the location, area of residential space and related costs. On the residential market as a whole we shall see further differentiation of prices proceeding from the location, and in case of the residential spaces situated in popular locations the prices may increase by up to 10% during the year. At the same time prices will probably continue to decrease in the so-called field developments situated in secondary locations. Prices will not change essentially in high density suburban apartment districts. In the following months, rental market will be inevitably influenced by utility costs, especially the price of heating. In general, prices on the market of rental apartments will continue to differ depending on the location, condition and added values. Very likely we will see 5 - 10% increase of the rental prices of apartments in 2011.

## Legal Notes by SORAINEN

Residential leases are generally not subject to rent control, with the exception of residential properties owned by local government. However, when buying a property with tenants, take care that you have checked whether any Soviet-era tenants are subject to rent control. These tenants also have a pre-emptive right, though are unlikely to be financially able to exercise that option.

## Real Estate Law - Residential and Commercial

### Introduction

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

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

### Title to Real Estate, Land Register

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

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

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

### Acquisition of Real Estate

#### General

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

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

#### Letter of Intent and Heads of Terms

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

If an LOI or HOT sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) this is considered valid and binding. Breach of the exclusivity obligation entitles the innocent party to compensation by way of damages, including payment of specific contractual penalties.

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

#### Asset Transfer

Asset transactions must be notarised and therefore are nearly always in Estonian.

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

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

Existing lease contracts remain valid after the transaction.

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

#### Share Transfer

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

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

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

#### Portfolio deals

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

Considering a portfolio deal requires bearing in mind the following:

- Portfolios may include flawed or unwanted properties. Here, due diligence is of utmost importance in order to ensure marketability and rapid resale after closing.
- A number of non-real estate assets are often acquired or need to be acquired together with the portfolio. These might include eg employment contracts, property-related rights, access arrangements and management operations.
- In a multiple jurisdiction portfolio deal, simultaneous closing of the transaction in all countries involved may be difficult to achieve due to differences in local laws and regulations.

#### Sale-leaseback

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

This arrangement requires the following checks:

- Existence of solid tenant/guarantor with strong business track record to ensure stable cash-flow during the lease.
- The lease agreement should be tied to the asset purchase agreement as this is the main reason for the deal.
- The long-term nature of the arrangement requires the lease to be "waterproof". Adequate security on both sides that the other party will duly perform is also required (eg guarantee, surety).
- Closing under the asset purchase agreement should coincide with lease commencement date (book-keeping issues, reconciliation of costs) irrespective of the actual title transfer date.

#### Form of Agreements

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

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

#### Language Requirements

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

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

#### Due Diligence

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

#### Pre-emption Rights

Pre-emption rights may be entered in the Land Register on the basis of a transaction, or may be created by law. For example, a co-owner of real estate has a pre-emptive right on sale of a legal share in real estate to third persons. Further, the state or local government has a pre-emption right on transfer of real estate located within the boundaries of a shore or shore bank building exclusion zone or if real estate is located in certain nature protection zones, or if a heritage protection object is located on real estate.

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

## Typical Purchase Price Arrangements

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

## Related Costs

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

## Merger Control

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

- Turnover in Estonia of participants to the concentration (target undertaking and buyer) exceeds EUR 6,391,200; and
- Turnover in Estonia of at least two participants to the concentration exceeds EUR 1,917,350 each.

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

## Restrictions

### Restrictions on Acquisition of Real Estate

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

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

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

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

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

### Public Restrictions on Use of Real Estate

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

## Encumbrances

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

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

## Mortgage

Real estate is commonly used to secure a loan. A mortgage may be established on real estate by a notarised agreement as security in favour of a bank financing the purchase or for other purposes. The mortgage agreement can be concluded at the same time and in the same document as the sales agreement. If a mortgage already encumbers real estate before sale and the purchaser needs a mortgage for its own financing purposes, the existing mortgage is typically transferred to the bank financing payment of the sale price. This transaction structure is more cost-efficient compared to deleting the existing mortgage and establishing a new one, since it saves on both notary fees and state duty.

## Property Management

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

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

## Lease Agreements

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

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

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

Break options were common in older leases, giving the tenant the right to break the lease with as little as three months notice. Break options were less common in commercial properties from 2004-2007, as owners became more sophisticated. However, as the market became a tenant's market once again in the past three years, we have noticed that break options have become a point commonly insisted on by tenants.

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

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

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

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

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

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

## PPP & Infrastructure

### General

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

### Concessions

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

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

### Sale-Leasebacks

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

Thereafter, the building title is transferred to the private partner and leased back to the tenant (public partner).

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

## Regulated Real Estate Funds

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

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

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

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

## Planning Requirements and Construction

### Planning

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

### Construction

Building, modifying and demolishing buildings and other structures, as well as their subsequent use, requires a building

permit and a permit for use. These permits are issued by local government bodies.

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

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

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

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

## Distressed Assets

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

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

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

If the asset is sold in enforcement proceedings then all rights ranking below the right of the creditor who has initiated the

proceedings will be deleted from the Land Register. Exceptions to this rule are servitudes which serve public interests (such as public utility lines and rights of way).

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

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

## Taxes

### Purchase

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

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

### Rents

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

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

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

Registered sole proprietors may deduct documented business related costs, such as loan interest, repairs, commissions, etc, from their taxable income, and the net income is then taxed.

However, sole proprietors must pay both social tax and income tax on their net rental income, as if it were salary.

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

### Sale

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

### Real Estate Tax

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

# NOTEWORTHY REAL ESTATE TRANSACTIONS

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<p><b>Akropolis Group</b></p> <p>Advising on sale of Akropolis Kaunas shopping centre, the largest real estate transaction in the Baltics to date</p> <p>Seller's Legal Adviser</p>	<p><b>Baltic Property Trust Asset Management</b></p> <p>Regularly advising leading international real estate asset manager in all three Baltic States</p> <p>Legal Adviser</p>	<p><b>Barclays Bank</b></p> <p>Advising on lease of premises for Barclays Technology Centre in Lithuania (one of the largest corporate leases in the Baltics to date)</p> <p>Legal Adviser</p>	<p><b>Carpathian Properties</b></p> <p>Advising on property management of Babilonas I shopping centre</p> <p>Legal Adviser</p>
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<p><b>Irish Forestry Fund</b></p> <p>Acquisition advice and full-scope legal due diligence on approx 200 forest and agricultural land plots in Estonia</p> <p>Buyer's Legal Adviser</p>	<p><b>Larix Property</b></p> <p>Regularly advising client on 27,040 m<sup>2</sup> mixed use project in Riga, Latvia</p> <p>Legal Adviser</p>	<p><b>Regus Management</b></p> <p>Advising the world's largest provider of workspace solutions in all three Baltic States</p> <p>Legal Adviser</p>	<p><b>SEB Group</b></p> <p>Advising on sale-leaseback of SEB Group real estate portfolio in the Baltics, the largest portfolio real estate transaction in the Baltics to date</p> <p><b>EUR 200 million</b></p> <p>Legal Adviser</p>
<p><b>Citycon</b></p> <p>Advising on acquisition of Kristiine Shopping Centre with GLA of 42,600 m<sup>2</sup> – one of the largest-ever real estate transactions in Estonia</p> <p><b>EUR 105 million</b></p> <p>Buyer's Legal Adviser</p>	<p><b>Hes-Pro Finland</b></p> <p>Regularly advising Hesburger restaurant chain in all three Baltic States</p> <p>Legal Adviser</p>	<p><b>Sodra Latvia</b></p> <p>Acquisition of more than one hundred forest land plots in Latvia</p> <p><b>total area in excess of 3,500 ha</b></p> <p>Buyer's Legal Adviser</p>	<p><b>Vicus</b></p> <p>Advising on purchase and development of hypermarket sites in Estonia and Latvia</p> <p>Buyer's Legal Adviser</p>

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## Riga, Latvia

### *Economic Recovery Stimulates Demand For Apartments*

#### Economy

Due to the economic recovery GDP growth by the end of 2010 was as expected near to 0% (-0,3%). The consensus estimate is that GDP will grow 4% in 2011 so far the growth is 3,4% in Q1 of 2011. Growth has been stimulated by raising industry and trade, according to SEB approximately 10% in Q1 of 2011.

Former economic crises led to deflation at 1.1% in end of 2010 caused by low domestic demand and decrease of producing costs that was based on wage cuts. Future prognoses shows 4,4% inflation in 2011 that do not fit Maastricht criteria for inflation anymore.

Latvian government has developed a proposal to consolidate the budget to 3% from GDP till 2012. Due to the budget consolidation by 840 million euro in two years from 2011 housing tax and VAT were increased. Taxes increase may solve the problem while also can drag the business deeper into shadow economy.

The national currency, the Latvian lat, remains pegged to the euro at the rate of 0.7028 Latvian lats (LVL) to one euro (1 LVL = 1.4299 EUR).

Due to our former president's resolution to dismiss the parliament and the positive result of the referendum will ultimately lead to instability of the political environment, sure it can do some impact to Latvian economy.

#### Office

### *Strong Demand For Modern Offices Due To Activity Of International Companies*

#### Supply

Despite the last year's poor expectations, there were almost 20,000 modern A class offices built in 2010. That represents about 3% increase and the total office space reached 672,000 sqm by the end of 2010.

The major developments of the last year were DnB NORD Banka (15,000 sqm) and Z1 Selected Offices (4,500 sqm).

Due to the strong demand in new business complexes, the total vacancy rate decreased to 25% in the beginning of 2011 comparing to the last year's 30%. Vacancies continue a stable decrease by 2% and reached 23% in end of the second quarter of 2011. Also recently build new modern office buildings managed to fill in their premises decently, for example the vacancy in Europa Business Centre is just 15%.

Construction or projection works were resumed in several previously suspended projects, for example "Z Towers" are planning to finish their impressive project in 2014. The innovative construction of the two connected buildings is bound to become one of the outstanding architectural landmarks in the Baltic Region. The highest tower will reach 120 meters and the total area of the premises will be around 100,000 sqm. The "Z Towers" development will offer 26 000 sqm of VIP and A-class office space. "Z Towers" will offer several conference halls, a business centre, a first class hotel, shops, restaurants, cafes, beauty salons.

We expect to see the start of construction works for completely new developments, office complex Ezerparks and New building for Aizkraukles bank fell within this category.

At the same time developers are ready to build new office complexes if the pre-lease is assured sufficiently.

### Recent developments

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

**Europa Business Centre** - a modern A class office building, developed by leading Lithuanian developer Hanner, located at the intersection of Brivibas and Vairogu streets. The 15,400 sqm space was delivered on June of 2009 for lease 10,5 EUR per sqm. There are 500 parking spaces on the property. The building was 85% leased at the end of 2Q of 2011.

**DnB NORD Banka** - a modern A class business centre with total area 15,000 sqm, developed by Skanstes 12 Ltd. Main tenants are DnB NORD Banka, DnB NORD Lizings, located on Skanstes Street district, which is becoming a significant financial centre of Riga with the head offices of companies and banks. The project was delivered in the summer of 2010 for lease of 9 EUR per sqm. There are less than 1,000 sqm left for lease.



•DnB NORD Banka, a modern A class business centre, located on Skanstes Street district, which is becoming a significant financial centre of Riga with the head offices of companies and banks, developed by Skanstes 12 Ltd.



•Z1 Selected Offices, business environment of the highest quality, unique mood of an office in prestigious area, developed by Larix Property.

**Z1 Selected Offices** - business environment of the highest quality, unique mood of an office in prestigious area - Riga quiet centre, on the corner of Zala and Dzirnau Streets, next to newly built Albert Hotel. Z1 developer Larix Property is part of Inter IKEA Group. The 4,500 sqm building was delivered in January 2010 for lease 12 EUR per sqm. Z1 office building and Albert Hotel are connected to the modern, two-level underground parking for 170 cars. The building was 47% leased at the end of 2Q of 2011.

**Ostas skati** - 3rd stage with 1,827 sqm of a modern A class office building complex with total of 10,484 sqm, developed by OSTAS SKATI Ltd, located on Matrozu street. The 3rd stage was delivered in the summer of 2009 for lease of 8 EUR per sqm. There are 140 parking spaces on the property. The office complex was 87% leased at the end of 2Q of 2011.

### Demand

Occupancy was 35,000 sqm in 2010. Occupancy rate was good for modern offices in CBD areas with attractive rent, but poor for new offices located in unfavorable locations. Due to relatively low rents in modern office buildings several companies took an opportunity to have their base location in CBD areas. Relatively low real estate prices, qualified labor force and developed business environment makes Latvia, especially Riga, attractive to foreign companies.

Some companies are looking for an opportunity to have their main base location in Riga and there are companies that already have done it in 2010, for example Cytec - global specialty chemicals and materials company focused on developing, manufacturing and selling value-added products.

Interest from international companies expanding their operations in Latvia maintained stability. Such companies

are looking for 500 - 1,000 sqm large office space. There is an interest also in larger spaces - with total area of 2,000 sqm with a potential to expand to 5,000 sqm. A part of companies wanted to purchase office premises and were searching for offices with total area from 300 to 800 sqm.

New offers have emerged in the office space segment - already now short-term office space solutions are available in several office buildings - fully equipped offices, as well as other services are provided, such as, virtual office rent, conference room rent, secretarial services etc. Previously such services were available only in Valdemāra Centrs, but currently they are available also in Dunties offices, as well as the biggest provider of office rental solutions Regus, with the office in Tērbatas street 14, offers such services. The development of services can be explained by interest from other international companies to enter the Latvian market, using the short-term office premises solution for the development of business, or offering them as beneficial short-term solution for small companies until they have a need to rent an office space in a long-term.

Several international companies have used services offered by 'Ober-Haus Real Estate Latvia' during 2010 for search of a new office space. As an example we can mention the company 'DANONE' Ltd. and 'NUTRICIA' Ltd. recently expanding their operations. Each company chose premises for their new central office with a total area of ~ 500 sqm in the new building of joint-stock company 'DnB Nord Banka' on Skanstes Street 12. 'Cemex' Ltd chose premises with a total area of 960 sqm for its new central office in the commercial and office centre 'Panorama Plaza' located on Lielirbes street 17a. Company 'Linedata' has expanded their activities and rented premises space with a total area of 484 sqm in the 'Business Center Europa' in Ropazu Street 10.

Ober-Haus helped the Consular Section of the Russian Embassy in Latvia to find new premises. The Embassy changed its premises to Dzirnavu Street 57 on the Q3 this year. The premises are owned by 'Dominante Rota' Ltd and the total area is 735 sqm.

## Rents

Rents for A-class office spaces in Riga ranged in average from 7 to 12 EUR and in some cases up to 16 EUR per sqm in the most demanded office buildings by the end of 2010. Although the margins remain stable the most successful and almost occupied office buildings raised their rents for 1 to 2 EUR per sqm in end of the second quarter of 2011. Typical service charges in A-class buildings ranged from 0,85 to 2 EUR per sqm per month.

Despite the relatively cheap A-class offices, rents for B-class office spaces in Riga ranged from 5 to 8 EUR per sqm, that also represents stability.

Available office spaces in high quality business centers with good location and high level service has decreased in 2010. We expect this tendency to continue in 2011 and eventually it will lead to higher rents. We expect rents to rise by 10% - 15% till end of 2011 due to the aforementioned tendency.

## Legal Notes by SORAINEN

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

Lease agreements 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. Lease agreements are binding on the new owner of real estate on transfer of title only if registered with the Land Book.

## Retail

### *Vacancies Are Filling Up Supply For Small Retail Units Becomes Limited*

## Supply

Due to the economic crisis new shopping centers are coming slowly into the market.

The only project brought to market in 2009 was Riga Plaza that added 50,000 sqm to existing 769,000 sqm retail stock. Galleria Riga was opened in October 2010. The total area of building is approximately 41,000 sqm including shopping area of 29,700 sqm. The centre offers more than 160 shops and restaurants all together plus entertainment area on the roof where summer lounge garden and wither ice-skating rink are located.

Galleria Riga is located in the central high street retail area of Riga, establishing itself as one of the finest shopping centres of its kind in the centre of Riga.

So far the only project brought in market in 2011 was shopping centre Damme with the total area of 15,000 sqm, which was opened in March of 2011.

Due to low rents there is lack of premises in city centre with space under 60 sqm in beginning of 2011.

In September the Canadian real estate developer Homburg Group is planning to finish the 1st stage of their project in Zolitūde, Priedaines street. In the 1st stage the Maxima XX shopping center and underground parking lot will be constructed, but in the 2nd stage - 12-floor residential building. Total investments of the project will consist of 14 million EUR (9.8 million LVL), but about 7 million EUR (4.9 million LVL) will be invested in the 1st stage. A shopping center in the area of 5,000 sqm and underground parking lot in the area of 4,500 sqm will be constructed during the 1st stage of the project. Homburg Group is planning to obtain a construction permit for the development of two more shopping centers in Riga - in Purvciems and Mežciems.

The real estate company Imanta Retail Park is planning to finish the 1st stage of the project in Imanta in September, in the territory of former factory „Radiotehnika“. Within the 1st stage of the project, the building will be renovated with Prisma hypermarket in it, which will occupy slightly more than 7,500 sqm. A parking lot will be built up, area will be landscaped, a pedestrian road and a park will be constructed. Until the end of the year it is planned to finish also the 2nd stage of the project and renovate the whole 1st floor of a building with total area of 18,000 sqm. In perspective it is planned to develop the building of Radiotehnika and create a shopping and entertainment center.

## Recent Developments

**Damme** - new RIMI shopping centre located in Imanta. The largest RIMI investment project in last five years was opened in March of 2011. There are about 20 million euro invested in this project. The total area of the shopping centre is 15,000 sqm. The building contains of 40 trade places.

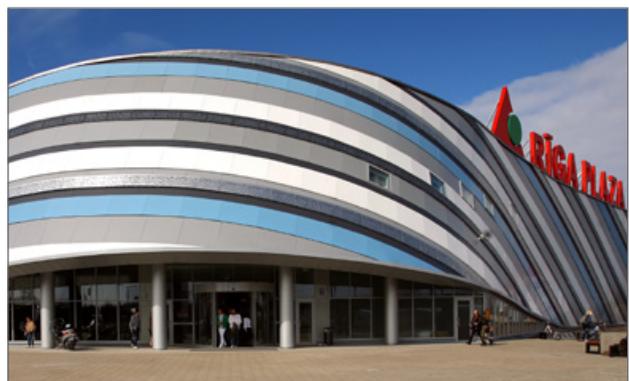
**Galleria Riga** - new shopping centre was developed by Patollo Ltd and was opened on 22 October 2010. Patollo invested around 100 mil. EUR in the development of this shopping center. The authors of Galleria Riga are association of architects Poga, Sarma&Norde whilst the construction contractor is



• Galleria Riga, a new 41,000 sqm shopping centre in prime location in Riga, developed by Patollo Ltd.

Re&Re Ltd. The total area is more than 41,000 sqm including shopping area of 29,700 sqm. All together there will be more than 160 shops and restaurants plus entertainment area on the roof (on 8th floor) where summer lounge garden and winter ice-skating rink are located. Under the shopping center there is a 2 level underground parking with 150 parking spaces. At the end of Q4 vacancy in Galleria Riga was approximately 18%. From 82% of leased area only 65% where opened. It is planned that the rest of the leased shopping areas will be opened till autumn 2011.

**Riga Plaza** - new Fashion and Entertainment Centre in Mukusalas Street developed by SIA "Diksna" was opened in spring of 2009. Total area of shopping centre is 67,000 sqm, rentable area is 50,000 sqm. The facility includes over 140 stores, a hypermarket, 8 screen 3D 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.



• Riga Plaza, a new 67,000 sqm Fashion and Entertainment Centre on Mukusalas street, developed by SIA Diksna.

## New Projects

**Akropole** - Lithuanian company Akropolis was about 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 options in one place. The site, located two km northeast of the centre of Riga will account for more than 92,000 sqm of retail space and 90,000 sqm office space, including a "Hyper-Maxima" hypermarket. Total investment will reach 250 million EUR. The centre was planned to be finished in 2010, but the project was suspended. Based on the latest information they are going to resume this project in 2011.

## Demand

The highest proportion of the occupancy remains in the most popular shopping centers. T/C Spice has completed all the retail space; the vacant space in T/P Alfa is 0.6%; in T/C Origo - 3.5%; T/C Domina Shopping - 2.9%; T/C Mols - 3.6%; T/C Dole - 3.2%; Galerija Centrs - 5.2%; Olimpija - 10.5%; while in Riga Plaza - 10% of all retail space in end of the second quarter of 2011. The first Mohito clothing store in Latvia will be opened in August in the fashion and entertainment center Riga Plaza.

Other smaller shopping centres are occupied depending on the location - further from the city centre more vacant premises and vice versa.

Historically demanded trade streets in the Old Town and the city centre are on the way to gain their attractiveness back. As expected several strong brands were able to keep the retail spaces here. Vacant spaces were occupied with grocery shopping, restaurants and service companies that took opportunity to move their business from less prestigious locations.

The vacancy rate on the high streets in Riga city centre was 15% in beginning of 2011 and only 8% in good locations in end of 2Q of 2011, which represents quite impressive recovery comparing with last year's 25%.

Demand for large retail spaces and for retail spaces out from the active city centre is greatly lower.

A demand for retail space in biggest housing estate centers of Riga (Purvciems, Pļavnieki, Ziepniekkalns, Āgenskalns, etc.) exists with an area from 100 to 200 sqm, suitable mostly for sale of food and beverage.

## Rents

After rapid 50% decrease in 2009 rents remain stable in 2010 and in first two quarters of 2011, although the rents grew about 2 EUR per sqm in good locations keeping previous margins.

Rents are 8 - 25 EUR per sqm in the city centre. In the prestigious Old Town retail space rents are 10 - 35 EUR per sqm. In shopping centres rents start from 5 EUR per sqm for large units (about 1000 sqm), 7 - 25 EUR per sqm for medium units (150 - 300 sqm), 25 - 50 EUR per sqm for small units (under 100 sqm). Anchor tenants, such as supermarkets, typically pay 5 to 8 EUR per sqm.

## Legal Notes by SORAINEN

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

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

## Industrial

### *Vacancies In Modern Industrial Complexes Are Filling Up Due To Poor New Supply*

## Supply

Developers brought another 14,000 sqm of new warehouse space to market in 2010. Still some projects were suspended including the last year's planned Wellman.

The total modern space available in Riga and the immediate surroundings is now 492,000 sqm. Most are outside of the city located at the main highways.

We expect to see another 40,000 sqm of new industrial spaces to be added to the existing Dominante Park and the same amount to Granita Industrial park in 2011.

Developers are ready to build new industrial complexes if the pre-lease is assured sufficiently.

Some companies that developed industrial complexes for their own use are selling them and afterwards looking for other premises.

Some companies have also left Latvia or scaled down their activity, for example Ruukki.

According to tenants demand the large industrial spaces were divided in smaller with area from 500 till 1,000 sqm.

## Recent Developments

**DLW** - a new warehouse and office complex built in spring of 2009 by developer SIA DLW, located in Krustakalni, Kekava parish. The complex comprises of 13,500 sqm warehouse spaces and about 1,900 sqm of office spaces. Rents are 4 EUR per sqm for warehouses, and 6 EUR per sqm for office premises. The complex was 88% leased at the end of 2Q of 2011.



•DLW, a new warehouse and office complex, located in Krustakalni, Kekava parish, developed by DLW Ltd.

**Nordic Technology Park** - one of the most successful industrial parks in Riga, located in Jurkalnes street, Riga, developed by NP properties, delivered in 2007. It has been built in a former electronics factory and now it is a modern industrial park with fully reconstructed buildings that meet modern commercial and warehousing needs. Thirty nine domestic and international companies employing around 500 people

have chosen this park as their location. The following types of tenants are located in the park - wood processing, publishing, clothing, various and other industries. The complex comprises of 36,800 sqm manufacturing and warehouse areas and 8,400 sqm offices. Rents are 3 EUR per sqm for warehouses, and 6 EUR per sqm for office premises. The complex was 95% leased at the end of 2Q of 2011.

## New projects

**Carn holdings** - a new warehouse complex built in 2010 by developer Carn holdings, located in Rudeni 2, Sauriesi, Salaspils parish. The complex comprises of 14,000 sqm warehouse spaces. Complex was build for Kuehne+Nagel Latvia.

## Demand

Due to poor volumes of new buildings vacancy rates in industrial complexes decreased from last year's 55% to 40% at the start of 2011 and are rapidly decreasing this year, reaching 30% at the end of Q2 of 2011.

As an EU country we are looking for growing demand from Russian companies. Having business in EU country, gives opportunities for less complicated formalities and transit expenses to export in EU and more qualified labor force. Some companies are looking for industrial parcels to build they own warehouses in surroundings of Riga.

## Rents

Due to the economic recovery rents remained stable comparing with 2009. Warehouse rents in the city of Riga vary from 2.5 - 4 EUR per sqm for certain objects the rent has increased by 0.5 EUR per sqm, while modern warehouses spaces in surrounding areas near the ring road are rented for 1,5 till 3 EUR per sqm.

## Legal Notes by SORAINEN

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

## Land

### *Lack Of Suitable Land Offers In The City Centre Is Holding Back Potential Investments*

#### Prices

The prices remained stable in 2010. But the land prices in the city centre still vary from 400 to 1,500 EUR per sqm of parcel or rough 200 - 400 EUR per buildable sqm of the final building space. The price of land in suburbs is roughly 50 to 100 EUR per buildable sqm of final building space, or roughly 100 to 300 EUR per sqm of land.

The main part of the registered deals for commercial parcels was takeovers by subsidiary companies of banks that do not describe conditions of free market.

#### Supply

There are no significant changes compared to 2009. The owners are not interested to sell their properties at low prices, unless they are not forced by creditors. Overall the supply in the city centre and in advantageous locations in suburbs is limited. Offered parcels in the city centre are usually located in mixed or centre territory planning zones and the allowed height cannot exceed proximal buildings.

#### Demand

New developers are interested to buy residential parcels in the city centre. But due to the limited supply it seems to be complicated. Offered parcels are usually encumbered with mortgages and developers are not willing to pay pre-crisis price.

The large scale developers are keeping their properties unsold and are making projections for future construction works that are based on future growth of the demand and prices. Overall the suspended projects have stayed at this way.

It seems to be a good timing to start new developments, because the construction prices are low and residential market is on the way to recovery. Some developers are carefully monitoring supply and prices for good located parcels in suburbs, usually for small projects up to 50 apartments.

Demand for single home plots was poor in 2010. Banks were unwilling to finance these deals as exception we can mention properties that belong to banks. Despite the lower construction costs it was more profitable to buy a house than to build it on your own.

Demand remained stable for parcels with the total area of 1,200 - 2,000 sqm, near to water, with at least electricity in price category up to 50,000 EUR.

#### News

There were no relevant changes in the master plan of Riga. It is possible to change the allowed use for a parcel in several cases, but the procedure is time consuming and complex.

Building owners can use their preemption rights for land under that belongs to the state or municipality. But often the privatization value exceeds the market value and the best way is to take the land on lease.

#### Legal Notes by SORAINEN

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

## Residential

### *Growing Prices And Demand Signal For The Right Moment To Purchase An Apartment*

#### Prices

Prices of newly developed apartments raised by 12% in 2010 in the city centre and by 8% in the suburbs, significant rise continues in first two quarters of 2011 as well. Prices rose for another 8% in the city centre and by 10% in the suburbs. Prices of newly built apartments in the city centre and Old Town vary from 1,250 - 3,600 EUR per sqm in the beginning of 2011 up to 1,650 - 3,600 EUR in the end of Q2 of 2011. Prices for very exclusive projects can even reach 5,000 EUR per sqm. New apartments outside the city centre ranged from 800 - 1,250 EUR

in the beginning of 2011 to 970 - 1,350 EUR in the end of Q2 of 2011. New apartments in suburban areas are sold fit-out (with everything except kitchen).

The secondary market prices grew by 14% in Soviet-era buildings, to 565 EUR per sqm on average by the start of 2011. Prices experienced 6% growth in Q1 of 2010 and afterwards slowed down with insignificant growth 2.8%; 2% and 2% in remaining quarters of 2010. The secondary market experienced 2% growth to 577 EUR per sqm in the first two quarters of 2011 comparing with last year's December.

## Supply

580 new units were delivered in Riga in 2010, more than a 65% decrease from the 1800 units built in 2009. We expect about 530 new apartments to be completed and delivered in market in 2011 due to growing demand.

Some new projects also came into market bought by investors in auctions, for example Dienvidu pakavs 2.

Investors are showing great interest for apartment buildings in bank portfolios.

Due to stability and potential lack of high quality apartments in new project market, developers are looking for opportunities to invest in residential segment at end of 2010.

There is a lack of apartments in renovated houses with an area of 70 - 120 sqm in price range from 150,000 till 350,000 EUR in the quiet centre and Old Town. Supply is saturated for 2 room apartments with area of 50 sqm, in prewar buildings with average quality renovation and necessity for small repairs without furniture, for price from 40,000 till 70,000 EUR.

## Recent Developments

**Olive** - located in the city centre, on Jana Asara street 9, developed by „Olive“. This Project comprises one seven floor building, with 48 apartments in total, 26 underground parking lots (cost 15,000 EUR) and 6 ground parking lots (cost 7,000 EUR). Apartments range from 35.9 - 140.5 sqm, prices starting at 1200 EUR per fully finished apartment. Project was finished in 2008. About 55% apartments have been sold.

**Aleksandra** - located in the city centre, on Ausekla Street 4, developed by „AK Invest“. This Project comprises one seven floor building, with 32 apartments in total, underground

parking lots. Apartments range from 50 - 450 sqm, prices starting at 4,500 EUR per fully finished apartment. Project was finished in 2010. About 10% of apartments have been sold.

## New Projects

**NCC houses** - located in Mezciems on Bikernieku street 160, developed by „NCC Konstrukcija“ and „NCC Housing“. This Project will comprise 8 five-storey and 10 four-storey buildings with 322 apartments in the area of approximately 3.5 hectares. Four houses with 80 apartments were finished in 2009, as well as three houses with 80 apartments were built, but not put into use. There are 239 underground parking spaces (cost from 4,000 - 6,000 EUR) and 8 ground parking spaces (cost 3,000 EUR). Apartments range from 47.2 - 80.6 sqm, prices at 988 EUR per fully finished. About 54% apartments of 8 buildings have been sold.

**Jauna Teika** - located in the Teika on Ropažu street 12, developed by Hanner. This Project comprises 2 multi-storey buildings, each of 10 floors with 123 apartments in total, 105 underground parking spaces (cost 10,000 EUR) and 18 ground parking spaces. The second building with 211 apartments in total. Apartments range from 46.5 - 123.3 sqm, prices starting at 950 EUR per sqm without finishing. The project was finished in 2009. About 90% apartments in the first building and 5% in second have been sold.

**Riverstone** - located in Pardaugava, on Kipsalas street 4, developed by YIT Celtniecība. This Project comprises two four storey buildings, with 74 apartments in total and with underground parking spaces. Apartments range from 28.8 - 70.9 sqm, prices starting at 1,400 EUR per fully finished apartment. The project will be finished in end of 2011. About 50% apartments have been reserved.

## Demand

About 600 apartments have been sold in 2010 and 160 apartments in the primary market and 188 in the secondary market at end of first half of 2011. We believe that about 1,600 apartments are available in the primary stock at end of second quarter of 2011.

Demand for apartments in new projects was higher compared to the last year.

Local buyers are more active in the suburb area while the proportion between local and foreign buyers is similar in the

city centre. Due to amendments to the law on obtaining the resident permit 60 - 70% from the total number of buyers in the quiet centre and Old Riga in end of 2010 are non residents, mainly from former CIS countries, especially from Russia. The local inhabitants are mainly looking for apartments in a price range up to 100,000 EUR in the city centre or periphery.

The key factors for a project success are as usual good location, high quality standards and occupancy, at least 50% inhabited apartments.

The highest demand is for three to four room apartments (space 120 - 140 sqm) in city centre with full finishing, in price range up to 250,000 EUR and for two to three room newly built apartments (space 45 - 75 sqm) in suburbs, also with full finishing, in price range up to 80,000 EUR.

### The Mortgage Market

Average mortgage rates at the end of 2010 were 4.5% for loans in euro. The maximum term is 40 years. Clients can borrow up to 90% of a property's value; maximum for the Soviet era projects is 75%.

Outstanding mortgage loans in Latvia total 59% of annual GDP. The mortgage market slowed down during the economic recession, decreasing the real estate prices and credit policies of banks in 2009. Banks resumed active crediting in the residential segment in the second part of 2010.

New projects are bought at cash and crediting in proportion 50% to 50% according to Ober Haus last experience.

### Rents

Average rents increased about 20% due to the growing demand in 2010 and continue growing for 5 - 10% in the first two quarters of 2011.

Typical monthly rent for a newly built, furnished, 70 sqm, 3-room flat in the city centre range from 9 - 10 EUR per sqm. The highest local demand is for furnished two room apartments with total area of 50 - 60 sqm in the city centre in a price range up to 350 EUR per month.

Foreign customers usually are looking for furnished two to three room apartments with the total area of 50 - 100 sqm in the quiet centre in a price range up to 500 EUR For small apartment and up to 800 EUR for large apartment per month.

Some international companies are looking for very exclusive apartments for their top managers, usually the area of such a flats is over 100 sqm and price range from 1,000 to 1,800 EUR per month.

The main requirements for successful lease are renovated building with security, elevator and parking lot near to house. High demand is for apartments in new projects, but considering that there are not many new buildings in city center, there is a limited number of such apartments and the prices are a little higher if we compare with the same apartment in a renovated building.

### Legal Notes by SORAINEN

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

## Real Estate Law - Residential and Commercial

### Introduction

The economic downturn has significantly changed the real estate market in Latvia. However, it has created new opportunities to acquire assets. Potential buyers are now acting much more cautiously before proceeding with planned transactions.

### Title to Real Estate, Land Book

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

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

### Acquisition of Real Estate

#### General

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

#### Letter of Intent and Heads of Terms

In practice, letters of intent (LOI) and preliminary agreements are used in order to bind negotiating parties to a contemplated large scale real estate transaction. According to these agreements, the buyer can require conclusion of a sale contract. Usually, a LOI sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) and states other obligations of the parties to be followed during a certain period. Breach of the exclusivity obligation under LOI or preliminary agreements entitles the relevant party to claim compensation of damage, including specific contractual penalties.

#### Change of Ownership

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

### Legal structures of real estate transactions

#### Asset Transfer vs Share Transfer

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

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

- Notary fees and state duty arising from real estate sales are excluded from transaction costs on the sale of shares of a company;
- Ownership of shares is transferred as agreed in the sale agreement, at the time of signing the agreement, or on registration, which takes only a few days;
- The buyer, on completing the transfer of shares, assumes responsibility for the whole company including any matters that occurred before change of ownership;
- Due diligence investigations are more extensive as a share deal transfers the entire company (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;
- Applicability of financial assistance rules;
- Deferred tax issues.

Asset transfer involves the following benefits and drawbacks:

- Asset transfer is subject to notary fees and state duty and is thus more expensive than a share transfer;
- Limited scope of due diligence investigation since the review concerns only the target asset;
- Only lease contracts registered with the Land Book still bind the new owner after purchase of the target asset;
- Agreements on supply of utilities and other services must be assigned to the buyer or new agreements signed with service providers;

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

### Portfolio Deals

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

### Form of Agreements

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

Registration of ownership rights with the Land Book is carried out on the basis of a registration application signed by both seller and purchaser in the presence of a notary public. In addition to the purchase agreement and registration application, other documents have to be prepared and filed with the Land Book (eg statement confirming payment of real estate tax).

### Language Requirements

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

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

### Due Diligence

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

### Rights of first refusal

Local authorities have rights of first refusal in respect of acquisition of real estate (land and buildings) located in their territory. Only after the municipality has decided not to exercise

its rights of first refusal may a purchase agreement be registered with the Land Book and ownership transferred to the purchaser. Should the building and the land plot have different owners, the owner of the building situated on the land plot to be sold has rights of first refusal with respect to the land plot, and vice versa. Additionally, co-owners of real estate have rights of first refusal with respect to the ideal part (legal share) of immovable property being sold.

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

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

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

### Typical Purchase Price Arrangements

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

### Related Costs

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

State duty amounts to 2% of either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. Nevertheless, state duty may not exceed LVL 30,000 (EUR 44,843). Stamp duty for registration and issue of a Land Book certificate is currently LVL 20 (EUR 28).

Preparing and attesting signatures for the application to the Land Book costs approx LVL 50 (EUR 75).

## Merger Control

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

- The aggregate turnover of the undertakings involved in the transaction exceeds LVL 25 million (approx EUR 35.6 million) for the financial year preceding the concentration; or
- The joint market share of the undertakings exceeds 40% in the relevant market.

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

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

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

## Restrictions

### Restrictions on Acquisition of Real Estate

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

### EU Citizens and Legal Entities

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

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

### Non-EU Citizens and Legal Entities

No restrictions are imposed on acquisition of land plots by

companies registered in the Latvian Register of Enterprises in the following cases:

- If more than 50% of the company's share capital is owned by Latvian citizens, the state or a municipality; or
- If more than 50% of the capital is owned by foreign natural persons or undertakings, and Latvia and the relevant foreign country have concluded agreements on mutual promotion and protection of investments (Latvia has signed such agreements with most European countries, Canada and the USA); or
- If the company is a public limited liability company with publicly listed shares (NASDAQ OMX Riga).

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

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

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

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

## Encumbrances

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

## Mortgage

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

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

## Property Management

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

### Management of residential buildings

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

Management structure of residential buildings depends on the ownership structure.

## Lease Agreements

### General

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

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

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

### Duration and Expiry of Lease Agreement

The duration and expiry of lease or tenancy agreements are usually set in the agreement. Latvian law lays down some general rules and these agreements may be for a specified or unspecified term. As for termination, the law lays down only general rules. More specific provisions on termination are

regulated by the Law on Apartment Leases, adopted in order to protect the interests of tenants. Unilateral termination by the owner of a residential tenancy agreement is more limited. Termination is permitted only in cases explicitly stated in the law, for example, the tenant is damaging the apartment or the building, the tenant owes rent or payments for basic services, the tenant sub-leases residential space without the owner's consent. In addition, termination is permitted if capital repairs or demolition of the building is necessary. However, in that case the owner must provide the tenant(s) with equivalent residential premises.

### Lease Payment and Accessory Expenses (Utilities)

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

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

## PPP & Infrastructure

In Latvia a PPP project may be procured in accordance with the Law on Public and Private Partnership (PPP Law), in force as of 1 October 2009, which sets the procedure for awarding contractual PPPs - public contracts and concessions - and setting-up of institutional partnerships. Under the PPP Law a public contract is a long-term (over five years) public works contract or a public services contract where the private partner's consideration is paid by the public partner. A concession, on the other hand, is a contract of the same type as a public contract, except that the whole or a major part of the consideration for the works to be carried out or the services to be provided is the right to exploit the construction or service. This could be, for example, payments by end-users of the object or service, or payments by the public partner which are linked to end-user demand for the object or service, such as a shadow-toll for a road. The PPP law also specifies the framework for institutional partnership where the public and private sector establish a joint venture through a competitive procedure, and afterwards the public partner enters into a public contract or concession directly with the joint venture. The Latvian Government has committed to international lenders (predominantly, IMF, WB and EC) not to commence new PPP projects during 2011 unless they are concession-type.

## Investment Funds and Real Estate

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

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

## Planning Requirements and Construction

### Planning

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

### Construction

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

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

- If the construction significantly worsens the living conditions of inhabitants;
- If the construction significantly lessens the value of neighbouring real estate;
- If the construction significantly affects the environment, but does not need assessment of its effect on the environment under the Law On Environmental Impact Assessment;
- In other cases laid down by the construction regulations approved by the municipality.

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

## Acquisition of distressed assets

The economic downturn has provided opportunities for potential buyers to acquire distressed real estate in Latvia. Although sufficient interested buyers exist for distressed real estate, many real estate owners are reluctant to sell at current market prices (which are generally low). Subsidiaries of commercial banks in Latvia have acquired and manage much distressed real estate.

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

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

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

## Taxes

### Purchase

**VAT** - The purchase any new building or apartment is subject to 22% 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 22% VAT on the difference between the purchase price of the building and the value of the building before renovation.

The sale of building land is subject to standard 22% VAT. With the building land should be understood the land on which can be carried out construction work and if construction permission for respective construction work has been received after December 31, 2009.

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

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

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

### Rents

**VAT** - Property leased to a private person is exempt from VAT. Otherwise all property rentals are subject to 22% VAT.

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

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

## Sale

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

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

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

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

## Real Estate Tax

Owners of land, buildings and constructions are subject to real estate tax.

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

Starting from January 1, 2010 real estate tax applies also to residential buildings:

- with the cadastral value up to 40,000 LVL at 0.1% tax rate,
- with the cadastral value 40,000 - 75,000 LVL at 0.2% tax rate,
- with the cadastral value over 75,000 LVL at 0.3% tax rate.



## Vilnius, Lithuania

### *Economy Shows The First Signs Of Recovery*

#### Economy

After seven years of growth of better than 7%, Lithuanian GDP dropped by 14.7% in 2009 but recovered by 1.3% in 2010 and even by 6.6% in H1 2011. The growth of 5 - 7% is expected in 2011 and 2012.

Average annual inflation (2010 compared with 2009) was 1.2%. In 2011 the forecast for CPI growth is 3 - 4%.

In Q1 2011 (compared to Q1 2010), gross wages have dropped by 2.4% to EUR 600 in Lithuania. The average net monthly wages in the first quarter of 2011 was EUR 467. A slight increase in salaries is expected in 2011 and 2012.

According to information of the Department of Statistics, unemployment rose to an all time high 18.3% in Q2 of 2010, but fell down to 17.2% in Q1 2011. Analysts anticipate the unemployment level of 15% at the end of 2011.

The export increased sharply by 33.2% in Lithuania in 2010. The export upswing was driven by improvement of

competitiveness, increased external demand and capability find new markets.

With the collapse of the building boom in Lithuania, construction costs (salaries, materials, and products) have dropped considerably. The highest annual decrease in construction costs of 14% was in August 2009; in June 2011 annual change was already positive with 4.8%.

In 2010, the total retail turnover was by 2.9% lower than in 2009. It was a notably smaller drop in comparison with the previous year when the retail turnover was 27.7% lower compared with 2008. In 2010, the retail turnover increased only in sale and repair of motor vehicles - 14.4%. The greatest decrease in turnover was registered for food, alcohol, clothes, textile, electrical household appliances selling companies, which dropped by another 4 - 9% in 2010. In May 2011, there was already recorded 23.8% annual growth of retail turnover.

As of March 2011, direct foreign investment totalled EUR 10.5 bln (3.4% increase during first quarter of 2011), that makes EUR 3,253 per capita.

The Lithuanian currency, litas (LTL), remains pegged to the euro at a rate of 3.4528 litas to one euro. The adoption of the euro is a key economic goal for Lithuania, but it is unlikely to be achieved before 2014, at the earliest. In the meantime, the exchange rate remains fixed through a currency board system.

#### Office

### *The Lowest Supply Of New Office Space Since 1999*

#### Supply

In 2010, there was a small supply of modern offices not only in Vilnius but also in the other greatest Lithuanian cities. Last year Vilnius experienced the only opening - Beta business centre. Once this business centre of approximately 20,000 sqm leasable area was built, the supply of modern office premises rose by 5% to 441,000 sqm (A and B class, GLA) in Vilnius. No new modern office projects were finished in first half of 2011.

Beginning from 2004, the distribution of modern offices of classes A and B has remained practically the same. A class constitutes approximately 41% of the total modern office premises in Vilnius, but B class - 59%.

It is unlikely that we shall see a more rapid further development in this sector in 2011, with a number of affordable premises that is considerably lower but still sufficient to attract sizeable investment in the construction of new office buildings. It is likely that this year will see only completion of currently developed projects with 7,500 sqm of modern useable office area or the start of some "built-to-suit" projects.

## Recent Developments

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

**Beta** - the local development company Realco has finished construction of new office building of 21,600 sqm in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark. The 10-storey "Beta" building contributed 20,000 sqm of lettable area at the end of 2010. This buildings opening has not had a negative impact on the vacancy indicators, as the business centre had been opened fully leased. Major space was taken by SEB for bank's back-office. Other space was leased by Ober-Haus to Western Union, which has established a global operations center in Vilnius.



•Beta - the only business centre finished in Vilnius in 2010.

## New Projects

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

**Merchants' Club** - in 2010, BT Invest, a private investment company, commenced the development of a new office building in the centre of Vilnius, on Gedimino Avenue. This was the only new project in Vilnius being started after a year and a half long break. It is expected that the reconstruction and development of the A class office building with a useable office



•Merchants' Club - after a long brake, a new office project was launched in Vilnius.

area of 5,100 sqm and a useable retail area of 800 sqm will be completed in the second half of 2011. This building will have a three-level underground parking with 74 places.

**Evita** - almost finished 10-storey and 11-storey towers of mixed use (residential and commercial) in the city centre on Savanoriu Avenue. The complex has about 2,300 sqm of modern office space. The project will be placed in the market in the second half of 2011.

**Antakalnis Business Centre** - in Lithuanian Film Studios territory in Antakalnis district, which was bought by local developer MG Valda, it is planned to build an 8-storey modern business centre with total area of 25,000 sqm. The first two floors were projected for retail gallery (food, service, beauty and wellness stores and etc.), but the other storeys are designed for modern offices. The project is intended to be placed in the market in the end of 2012.



•Antakalnis Business Centre - a new planned project of local developer MG Valda.

**Transmeda/Jasinskio** - in 2010, local company Transmeda, commenced the construction/reconstruction of a small office building in the centre of Vilnius, in Jasinskio St. The reconstruction and development of the A class office building

with a total area of 2,500 sqm are expected to be completed at the beginning of 2012.

## Demand

After reaching record high office vacancy rate in 2009, it started to decrease rapidly in 2010. The vacancy rate of modern offices (of class A and B) in Vilnius has fallen from 17.7% to 10.4% in Q2 2011, with the total area of vacant premises shrinking from 75,500 sqm down to 45,800 sqm. Particular attention the tenants paid to office premises of class A, with the vacancy rate falling almost twice within the period 2010 - 2011, from 15.1% down to 8.0% in Q2 2011. Occupation indicators of class B office premises have also shown remarkable improvement; however, in the second quarter of 2011, the vacancy rate of such premises, compared to class A, was higher, by as much as 12.1%.

Compared to 2009, office take-up in 2010 increased from 26,000 to 51,000 sqm. It should be noted that these changes were materially predetermined by the decisions of several large companies to take an advantage of the situation, which was particularly favourable for tenants, when rents reached the lowest level, while the number of vacant premises in the market was the largest since the beginning of development of the market of modern offices. In 2010, two thirds of all rented premises of the modern business centres of the Capital of Lithuania - in business centres Green Hall, Vilniaus Verslo Uostas, and Beta - were taken-up by four companies (Barclays, TEO, Western Union, and SEB) on the basis of hire contracts. Only one third of rented premises, the rented floor space of which was 100 to 300 sqm, were occupied on the basis of smaller agreements (concluded mainly with local companies).

The downwards trend in vacancy rate was brought about not only by the opportunity to rent or purchase premises at a particularly favourable price, but also by the non-existence of new supply.

## Rents

Office rents have seen a double decrease over the period 2008 - 2009 with the record low rent at the end of 2009. Year 2010 can be characterised as a period with prices stabilising or even moderate growth in price.

Vilnius experienced about 15% growth of modern office rents in the 2010 and the first half of 2011, i. e. average by 1.5 EUR per sqm. Rents of A class offices in Vilnius currently ranges from

10.4 to 13.9 EUR per sqm, and B class ranges from 7.0 to 10.1 EUR per sqm.

Depending on office building, direct and indirect costs (single and double net) for tenants cost from 2.9 to 5.8 EUR per sqm. As was already demonstrated in the middle of 2010, as the vacancy rate decreased, owners took advantage in negotiation, allowing for an increase in rate. It is likely, however, that as the area of vacant premises decreases in 2011, with new supply unaccounted for, and the rents for modern offices will further increase at a another rate of 5 - 10%.

## Investment

Although higher activity on the part of investors was expected in purchasing commercial objects for generating cash flows, the year 2010 has shown only one big transaction. The Lords LB Baltic Fund I, local investment fund, established in 2009, has acquired an office building of 8,500 sqm useful area of A class in Vilnius in the middle of 2010. While the details of the transaction were not disclosed, this was, however, the first largest investment transaction in Lithuania in almost 2 years.

The absence of investment transactions was caused by incompatibility between the expectations of owners and potential buyers, with the price asked by the owners not satisfying the expectations of buyers and vice versa. Hopefully, the stability in national economy and real estate market and a constructive approach to the situation from both participants of the transaction will finally facilitate mutual dialogue and more transactions on this sort will be done in 2011 - 2012. It is likely that current investment transactions, depending on the type of property, could ensure yields of 7.0% to 10.0% in Vilnius, with a slightly higher risk of 0.5% - 2.0% in other major Lithuanian cities.

## Legal Notes by SORAINEN

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

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

## Retail

### Retail Sector Has Bottom Out

### Supply

The supply of new retail space in 2010 was particularly small. Only one new shopping centre opened in Vilnius - Link Moletu, located close to city borders and having 7,500 sqm of shopping area. Furthermore, the construction of the outlet shopping centre Parkas Outlet with additional 5,300 sqm of shopping area was completed in 2010. In the Q2 2011 food retail chain Maxima opened two ) shopping centres in similar size (over 4,000 sqm each in Vilnius Pilaite & Zirmunai districts).

In the mid of 2011, there were 23 shopping centres in Vilnius (counting those over 5,000 sqm GLA and with over 10 tenants) with a total leasable area of 417,600 sqm. A comparison of Lithuanian cities based on the area of shopping centres per city residents reveals that were not significant changes in Lithuania in 2010. Currently there is 0.75 sqm of shopping area per capita in Vilnius, but this figure is still lower than that of another city in Lithuania - Siauliai, which holds the leading position having area of shopping centre up to 1.0 sqm per capita. The remaining major Lithuanian cities follow: Klaipeda, Kaunas, and Panevezys (0.71 sqm, 0.55 sqm and 0.49 sqm respectively).



•Parkas Outlet - extension of Ogmios Groups outlet shopping centre was completed in 2010.

Although the era of active shopping centre development in Vilnius and Lithuania has ended, some stronger market players continue to strengthen their positions by developing minor projects. These are usually small (up to 5,000 sqm) and targeted mostly targeted at a nearby residential population and contain a foodstuffs or construction and decoration material retail chain.

### Recent Developments

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

**Parkas Outlet** - further development of the outlet shopping centre located in Ogmios retail park in Siaures Miestelis area (Zirmunai district) was finished in the beginning of 2010. After finishing 5,300 sqm of additional space to what was already constructed, now this shopping centre is the largest outlet centre in Vilnius having a total area of almost 13,000 sqm. At the moment this shopping centre is fully leased to companies which sells products of a variety of brands, some of them well known, such as: Adidas, Puma, Triumph, Nike, Reebok and and others. Main retailer is food chain Norfa.

**Link Moletu** - the only shopping centre opened in Vilnius in 2010. This shopping centre having a total area of almost 10,000 sqm is located at the outskirts of Vilnius close to Didzioji Riese. The shopping area of 7,500 sqm has 30 tenants. At present, there is a large supermarket and a DIY shop - Iki and Pasidaryk Pats.



•Link Moletu - new shopping centre near Vilnius borders was opened in 2010.

**Maxima (Pilaite & Zirmunai districts)** - food retail chain Maxima expands - two shopping centres of similar size (over 4,000 sqm each) were opened in Vilnius. One of them is Maxima shopping centre in the Pilaite district and is likely to become a

serious competitor to Pupa (with the key tenant Iki) and Rimi shopping centres operating nearby. The second is Maxima shopping centre on Tuskulenu Street in the Zirmunai district.

## Demand

The official statistical data of 2011 showed first recovery signs in retail sector - despite the retail turnover drop of 2.9% in 2010 compared to 2009, in the first half of 2011, the turnover bounced 22.1% compared to same period of the year 2010.

The situation in general in shopping centres is not also particularly alarming. For example, the vacancy rate of shopping centres has decreased from 5.7% in the end of 2009 to 4.5% in the end of 2010.

However, shopping centres are now in a different position, with managers of certain shopping centres enjoying full occupancy, while others ensure occupation rates of only 80 - 90%.

The still low level of consumption has a great impact on the owners of individual premises, since finding a stable tenant, even for a market price, remains a fairly difficult task. Tenants are generally looking for premises, which can offer either large customer flows or low rents.

## Rents

The owners of premises in shopping centres have had to take drastic changes in 2009 with respect to rents in order to fill the vacant premises or to retain current tenants. During the 2010, rents on the major shopping streets and in shopping centres undergoing difficult times went down by another 10%. Rents at successfully operating shopping centres have remained unchanged and it is likely that their owners look forward to the growth in the lessees' turnover, i.e. for a strong argument to review rents.

Rents for a medium sized (150 - 300 sqm) unit in a large retail centre vary between 10.0 to 25.0 EUR per sqm. Rents for anchor tenants vary between 6.0 - 12.0 EUR per sqm. The owners of individual retail premises were facing the same previous problems in 2010: the steep drop in revenue and scarcity of tenants.

Rents for retail premises on the highest street of Vilnius (such as Gedimino Avenue or streets in Old Town) remain at their record low and do not show signs of revival - rents went down by another 10% in 2010 and remained stable in first half of 2011.

In the mid of 2011, rents for medium sized retail premises (100 - 300 sqm) on such streets were approximately 10.0 - 29.0 EUR per sqm.

The current situation can only be improved by a more rapid economic revival and a growth in consumer purchasing power. It is also likely that second half of 2011 and 2012 will bring good news for owners of large commercial areas and of individual premises as well. The greater positive changes are expected to be recorded in retail turnover that will certainly have an effect on the record low prices.

## Investment

At the end of 2010, the German company ECE Projekt management Vilnius acquired 50% shares of shopping and entertainment centre Ozas from Lithuanian company Icor (ex. Rubicon Group) and now owns 100% of the share capital. Details of the transaction have not been disclosed. Ozas - the second largest shopping and entertainment centre in Vilnius. This 3-storey building a leasable area of 62,000 sqm has about 180 tenants and 2,500 parking places.

The absence of investment transactions was caused by incompatibility between the expectations of owners and potential buyers, with the price asked by the owners not satisfying the expectations of buyers and vice versa. Hopefully, the stability in national economy and real estate market and a constructive approach to the situation from both sides of the transaction will finally facilitate mutual dialogue and more transactions of this sort will be done in 2011 - 2012. It is likely that current investment transactions, depending on the type of property, could ensure yields of 7.0% to 10.0% in Vilnius, with a slightly higher risk of 0.5% - 2.0% in other major Lithuanian cities.

## Legal Notes by SORAINEN

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

Lease agreements may be invoked against third parties only if registered with the Real Estate Register. The tenant may terminate the lease agreement on change of ownership of

the leased premises. In practice, this issue is attempted to be resolved by obtaining estoppels (upfront waivers of these rights) from tenants.

## Industrial

### *Recovering Export Market Provide Optimism For Industrial Sector*

#### Supply

As the demand in new warehousing space still weak, only one warehousing building of 12,500 sqm was built in Vilnius city and its surroundings in 2010 - 2011. And a total supply increased to 347,000 sqm of leasable area in the mid of 2011.

Most (73%) of modern warehouses are located within the city borders; the rest are situated in Vilnius district.

The bulk of warehouses are developed in the south-western industrial zones of Vilnius (Kirtimai, Vilkpede, Austieji Paneriai and Zemieji Paneriai), as well as near the strategic highways: Vilnius - Kaunas and Vilnius - Minsk. It is also noteworthy that logistic centres are being developed in Vievis which is strategically located between Vilnius and Kaunas.

Large warehouses with an area exceeding 10,000 sqm currently make up 61% of the current supply. Warehouses with an area from 5,000 to 10,000 sqm make up 21% of supply, and the remaining smallest share (18%) covers warehouses with an area under 5,000 sqm.

It is unlikely that we will see the rapid development in this sector during the rest part of 2011, as this would only be possible if there is stable and considerable recovery in the national economy and an increase in consumption.

#### Recent Developments

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

**Transimeksa/Sausupio** - the only project opened in 2010 - 2011 in Vilnius. This is a project having 12,500 sqm of warehouse space located in industrial zone of Vilnius, in Sausupio Street.

The project was commenced by local company Transimeksa for particular needs, but some part of space was build for the market needs.



• *Transimeksa/Sausupio* - new warehousing project on Sausupio Street for particular and market needs.

#### Demand

The key reason for the negligible demand is consumption that is still low and prevents sellers from excessive production of warehousing or searching for new areas.

The warehousing sector is still increasingly encouraged by the improving results of transportation and warehousing companies already. According to official statistics, the sale revenue of warehousing and transportation-related service companies grew by 52% in 2010 (revenues from the sale of warehousing and storage services alone increased by 35%) compared to 2009. However, this had no noticeable direct impact on certain major positive changes in this sector.

As rents dropped to all time lows, vacancy also decreased from 10% at the end of 2009 to about 8% at the end of 2010. It's likely that this indicator will lower to 5 - 6% at the end of 2011, as almost no new supply entering to the market and economy has started to show signs of recovery.

#### Rents

2010 was negative also for rents of warehousing premises. Over this year, the rents of both new and old warehousing premises have experienced an average decrease of approximately 10% (with fall of rents of about 35% in 2009) in Vilnius region. Only in first half of 2011 warehousing premises rents increased by about 5%.

For new modern warehouses located near the city centre, rents range from 3.5 to 4.3 EUR per sqm, depending on the size. Near or outside the city boundaries, rents are 2.9 to 4.0 EUR per sqm. Premises of old construction are being offered at rents from 1.2 to 2.3 EUR per sqm, depending on the location and quality.

It could be forecast that, with the further successful revival of the national economy and increasing demand, the construction of new or suspended projects will be resumed and the noticeable positive changes in rents will be recorded in 2012.

## Investment

No major transactions in industrial sector were registered in Vilnius in 2010 - 2011. Only in Kaunas city the logistic centre of 25,800 sqm having development potential (Baltic Logistic City) was sold to local investors in the beginning of 2011. Transaction details have not been disclosed.

The absence of investment transactions was caused by incompatibility between the expectations of owners and potential buyers when the price asked by the owners does not satisfy the expectations of buyers and vice versa. Hopefully, the stability in national economy and real estate market, as well as a constructive approach to the situation from both participants of the transaction will finally facilitate mutual dialogue and the more transactions of this sort will be done in 2011 - 2012. It is likely that current investment transactions, depending on the type of property, could ensure yields of 7.0% to 10.0% in Vilnius, with a slightly higher risk of 0.5% - 2.0% in other major Lithuanian cities.

## Legal Notes by SORAINEN

Rents are usually tied to the euro and indexed on the basis of local or European Union inflation rates. Triple net leases are not universally used. Double net leases are more common. Sale-leaseback arrangements have occurred.

## Land

### *Very Slight Increase Of Land Market Activity*

## Prices

After a huge drop in land prices in 2008 - 2009 (by 40-80% depending on location and land segments or purpose), no noticeable changes in price were recorded in 2010 and first half of 2011.

With a more rapid revival of residential and commercial premise sectors, certain small positive changes in the land sector may happen in 2012. However, it is unlikely that there will be any major revival of this sector in the nearest future. The prices of large parcels of land, which are suitable for the development of various types of projects, will remain the same. The prices of smaller land plots being purchased for the construction of single-family houses will increase slightly.

Now, asking prices for plots located in the city centre suitable for residential development (having detail plan or construction permit) are 300 - 1,500 EUR per sqm, or roughly 200 - 700 EUR per gross buildable square metre of residential space.

Now, land prices in the living suburbs for residential apartment developments (having detailed plan or construction permit), range from 60 - 200 EUR per sqm or roughly 70 - 180 EUR per gross buildable square metre of residential space.

Prices for plots for private homes with partial or full infrastructure did not change in 2010 and first half of 2011, and are 19 - 35 EUR per sqm in the cheaper suburbs, to as high as 58 - 80 EUR per sqm in Riese, Bajorai, Kalnenai, Gulbinai.

## Demand

According to the data from Central Registry, the total number of land transactions in Vilnius City and Vilnius District, after the decrease 22% in 2009, increased by 18% in 2010. On average it is 150 transactions per month in Vilnius City and the same amount per month in Vilnius District.

Developers, which seek land for large-scale residential or commercial projects, normally look for particularly attractive offers. Taking into consideration the fact that at present there are a number of different types of vacant premises, as well as developments which have been suspended in the market, it seems unlikely that there will be any great interest in large land

parcels from buyers' side. For now, the investors seek for land plots costing 'next to nothing' in order to make more profits from such transactions in the future.

It seems likely that any activity in the land sector will only be showed by individuals who look for small plots of land to build single-family houses.

## Investment

No major land parcels-related transactions were registered in Vilnius in 2010.

## News

In April of 2011, the European Commission let Lithuanian Government to prolong the prohibition to sell agriculture land in Lithuania to foreigners until 2014. But this restriction is not applicable to foreigners, if they have been permanent residents in Lithuania and have been engaged in agricultural activity for at least three years.

## Legal Notes by SORAINEN

Investments by non-Lithuanian citizens are not restricted except for direct acquisition of agricultural and forestry land. The European Commission approved an extension of this restriction until 30 April 2014; however, it is disputed if this extension was properly implemented into Lithuanian law.

It is a common practice of non-Lithuanian citizens to acquire agricultural land through legal persons established in Lithuania. Private land is usually leased for agricultural activities. Lease of state-owned land under private buildings is very common. Land in free economic zones may be subleased.

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

## Residential

### *Positive Price Trends In The Capital Of Lithuanian*

#### Prices

Year 2010 could be defined as the year of searching for the bottom because the drop in residential prices in the main cities of Lithuania have stabilised considerably and the first positive price changes were recorded in Vilnius from mid of 2010. Vilnius was the only city in Lithuania where a symbolic positive apartments price change of 0.1% was recorded in 2010. But in June of 2011, annual apartment price growth has reached 3.6%.

After dropping 13.7% in 2008 and 30.3% drop in 2009 as well as small increase in 2010 - 2011, the apartment prices in Vilnius in the mid of 2011 are down 39.1% from their peak in December 2007.

The changes in price for apartments also experienced different trends in different segments. A positive price change was recorded only in the least expensive segment, i.e. old or new apartments located in residential districts.

More significant change in price was observed in the new apartment market, because shrinking supply and new and more attractive projects allowed the developers raise the price in individual cases by as much as 10 - 15%. Overall price growth in this segment, however, was only 5% in H2 2010 - H1 2011.

In the middle of 2011, the prices of newly built apartments in the residential districts range from 800 to 1,600 EUR per sqm without final fit-out.

Note that, while new apartments are generally sold fully fit-out in Estonia and Latvia, in Lithuania the new apartments are generally sold shell, having no any fit-out at all. Apartments sold shell require average of 100 - 150 EUR per sqm to fit-out with floors, painting, lights, bathrooms and kitchen to comply with minimum economy standard. However, in order to offer a more attractive solution, developers sells also fully completed apartments, where the buyer only has to provide furniture.

A slight rise in was also observed for old apartments located in residential districts, as they attracted potential buyers due to having the lowest prices in the market.

In the mid of 2011, a standard two-room apartment (45 - 50 sqm) in a Soviet-era concrete block building located in a residential district was priced from 40,000 to 50,000 EUR.

Prices of apartments, which are in old brick buildings, are higher by 10 - 15%. The lowest price for non-renovated apartments of old construction in Vilnius residential districts is 600 EUR per sqm.

A slight drop of 3 - 6% was noted in the segment of more expensive residential segment (new and old apartments in prestigious areas or the centre of the city) in 2010 and almost no changes in first half of 2011.

In the city centre and old town, secondary market apartment prices range from 900 to 1,850 EUR per sqm for non-renovated apartments and to 1,400 - 3,200 EUR per sqm for renovated apartments. Prices for apartments of new construction without final fit-out are now offered at 1,300 - 2,900 per sqm .

In prestigious districts (Antakalnis, Zverynas, Valakampiai), the prices for old apartment range from 750 to 2,000 EUR per sqm. Prices of newly built apartments without final fit-out range from 1,200 to 2,000 EUR per sqm.

In 2010, the prices of detached and semi-detached houses in Vilnius and its surroundings dropped by another 5 - 10%. In the first half of 2011 almost no changes were observed in this segment.

The considerable fall in land prices and construction costs within the period between 2008 and 2009, as well as the existing supply of houses, may be said to have contributed to the house prices being record low in 2010. Buyers are mostly interested in new construction houses in the outskirts of the city. Such houses are usually attractive due to their lower price and fairly small distance to the city centre.

Detached houses (150 - 200 sqm with land plots of 600 - 1,000 sqm) located in a new housing area with full infrastructure in Vilnius district or close to city boundaries (typically 10 - 20 km from the city centre) are sold as shell at prices ranging from 90,000 to 150,000 EUR. Full final fit out generally costs more by 100 - 125 EUR per sqm.

The price for the same type of fully completed house within the city boundaries (city residential districts) averages between 130,000 and 260,000 EUR, and from 260,000 to 580,000 EUR in the more prestigious neighbourhoods of the city, where a considerable share of the house price is represented by the high price of land in these districts.

As it was forecasted by Ober-Haus a year ago, it becomes a reality. It may be said that last year was slightly better than 2009 for both the buyers and the sellers of residential property. Sellers could benefit from the greater activity of the buyers and more stable prices, and buyers were interested in emerging

new supply, notably improved mortgage conditions, and the still attractive decreased prices of residential property. The stabilised price level of residential property, the country's economy showing the first signs of recovery, and the greater mortgage activity of banks should mean that in 2011 - 2012 the residential property market will be at least as active as it was in 2010, whereas the evidence of the rise in price observed will likely be recorded not only in the Capital of Lithuania but also in other cities.

## Supply

According to Ober-Haus data, only 564 apartments were built in Vilnius in 2010, i.e. 3 times fewer than were constructed in 2009 and 11 and 12 times (!) less than in 2007 and 2008. And only 87 apartments were finished during first half of 2011.

The average size of apartments constructed in 2010 is around 61.4 sqm - a figure which has decreased over the past 8 years (in 2003 this figure was 65.8 sqm) due to the market demand for smaller-sized and average-sized apartments. Such a drop in supply was expected because developers remaining in the market tried to accomplish only few projects that had been launched earlier. In 2009, hardly any residential construction projects were commenced, but the year 2010 was more hopeful. Last year there was increasingly more mention of renewed building work and some companies did indeed start or renewed construction works.

And in 2011, expecting a demand for more attractive new housing, developers are already confidently proceeding with new projects. In the mid of 2011 there was about 20 projects of apartment blocks, representing a total of 1,400, units under construction in the city of Vilnius. In light of the current market situation and the rate of new construction, it is likely that about 750 new apartments will be built in 2011, i. e. 35% more than in 2010.

## Recent Developments

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

**Park Residence** - at the beginning of 2010, the local developer Eika has finished 5 storey building near the city centre and Vingis park. The building comprises 15 apartments with commercial premises on the ground floor. The size of apartments is from 41 to over 100 sqm. 75% of the apartments have been sold.

**Perkunkiemis** - the local company Ranga IV has finished active development of the largest residential quarter in Pasilaiciai, next to Ukmerges Street. Almost 1,900 apartments have been built by the end of 2009. Sales price of the available apartments without fit-out are from 800 EUR per sqm, and with fit-out from 950 EUR per sqm. At the mid of 2011, over 90% of the apartments have been sold.

**Pavasaris** - during the period 2007-2010, the local developer has finished six 6-storey to 9storey residential blocks in Siltnamiu Street, next to Lazdynai hospital. Sales price for available apartments in last built blocks (K-4 and K-6) without fit-out are from 1,200 EUR per sqm. At the mid of 2011, about 55% of the apartments have been sold in these two blocks.

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

**Ozo Park** - in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark, At the end of 2010, Realco has finished one more residential building having over 120 apartments. Sales price for available apartments without fit-out varies from 1,250 to 1,450 EUR per sqm. In the mid of 2011, almost 65% of the apartments have been sold.

**Eitminu Street** - at the end of 2010 local company has finished 108 apartments building in Eitminu Street, in Pasilaiciai district. The size of 1 - 3 rooms apartments varies from 30 to 75 sqm. Sales price of the available apartments without fit-out are from 800 to 1,000 EUR per sqm. In the mid of 2011, 90% of the apartments have been sold.

**Zygio Street** - in the mid of 2009, the local company Ukmerges Statyba has completed the last residential blocks (D and E) in Siaures Miestelis, Zirmunai district, which is close to the city centre. Sales price for available apartments without fit-out are from 1,200 to 1,550 EUR per sqm. At the mid of 2011, about 80% of the apartments have been sold in these blocks.

**Avizieniai, Liepu Street** - near the boundaries of Vilnius, in Avizieniai, already finished detached houses are for sale. New settlement is about 12 km far from the centre of Vilnius. The settlement consists of 6 individual houses. Partially furnished 170 sqm houses (with garages 35 sqm) having land plots of 7 - 8 are being sold at the price of 145,000 EUR.

## New Projects

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

**SoHo Lofts** - one of the few loft projects in Vilnius. The development of the project is planned in Naujamiestis district, in the existing industrial architecture building, which was previously used as an administration building of factory. The façades will be heated and decorated using textured plaster and large wooden windows will be installed. The ceiling height will be from 3 to 6 metres. Recreational areas are planned for the surrounding area: wooden, lounge-type stairs, elegant benches, and trees with creative lighting solutions in a closed yard. New pavement surfaces will be provided. The loft areas will be from 35 to 450 sqm. Sales price for such space without fit-out is from 825 to 1,100 EUR per sqm.



• SoHo Lofts - new loft concept project in the existing industrial architecture building in Naujamiestis district.

**Veikme Apartments** - the local company Veikme has begun construction of prestigious apartments building in Ciurlionio Street, near city centre and Vingis park. The 89-apartment building will have passive house construction technology: for instance, the solar energy generated by photo modules will be used for lighting the common use areas. Apartments of 38 to 102 sqm are planned for the 4-storey to 9-storey building. The commercial premises are also planned to be incorporated. The total area of the project will be 14,600 sqm. Construction will be completed in first half of 2012.



• Veikme Apartments - prestigious apartments building on Ciurlionio Street with passive house construction technology.

**Pilies Gyvenvietė** - the local developer RED HAUS plans to develop the settlement of 11 detached houses in eastern part of Vilnius, in Pavilnys. The territory of 1.5 hectares is about 7 km far from the centre of Vilnius. Prices for partially furnished 211 - 316 sqm houses with land plots of 11 - 12 are from 235,000 EUR.

**Mindaugo Street** - the construction of 71 apartments building next to Old Town. The size of 2 - 4 rooms apartments ranges from 47 to 97 sqm. Sales price for available apartments without fit-out is from 1,100 to 1,300 EUR per sqm. Underground parking costs 6,300 EUR per space and above ground parking-space 3,500 EUR.

**Helios City (expansion)** - the construction of a residential and commercial complex in the Naujamiestis district, which comprises two 9-storey and 27-storey towers, was completed in 2007. At present, development of the second residential tower (B) has started. There are plans to build an additional 9 storeys on top of the 9-storey residential buildings. Approximately 40 new apartments will be built. Sales price of the available apartments without fit-out starts from 1,300 EUR per sqm. Construction will be completed in the end of 2011.

**Antakalnis' Terraces** - the local developer MG Valda has started conversion of Lithuanian Film Studios territory in Antakalnis district next to Nemencines road. In the territory of 5 hectares the modern residential quarter will be built. During the first development stage in 2011, 8 residential blocks with 189 apartments will be built. The size of 1 - 5 rooms apartments range from 40 to 130 sqm, which will have balconies or individual terraces.



•Antakalnis' Terraces - MG Valda has launched the conversion of Lithuanian Film Studios territory in Antakalnis district.

## Demand

According to Ober-Haus data the number of unsold new apartments decreased by 37% in primary market in Vilnius during 2010. At the end of 2009 were almost 2,200 unsold newly built apartments in the apartment buildings in Vilnius, and in the end 2010 over 1,350 apartments were left in the primary market. This number has lowered to almost 1,100 apartments in the mid of 2011.

The number of residential property transactions in all the main cities of Lithuania experienced a rise in 2010. According to the data of the Central Registry, by 2010, the total number of residential transactions (houses and apartments) increased by 28% in Lithuania in general, but by 31% in Vilnius compared to 2009.

It is evident that significantly lower residential property prices and improving financing conditions in 2010 increased the number of potential buyers. Even though market activities have notably become more dynamic, in comparison with the years 2004 - 2007, the most active period in the real estate market of Lithuania, shows that the situation in the market is still fairly sluggish. The indicators of 2010 were half what they were between years 2004 and 2007, when the average number of residential transactions in Lithuania was about 4,000 transactions per month. In 2010, the average number of residential transactions per month in Vilnius was over 500 and it is by 35% less than in most active market period.

As living space per person in Lithuania (25.0 sqm) and Vilnius (24.6 sqm) is about 40% lower compared with EU-15 countries, there is still great scarcity in new residential space. Especially in most active market in Vilnius.

## The Mortgage Market

The whole housing loans portfolio decreased by another 1% in 2010. Besides, in previous year, banks still lent less money for buying residential property. Analysts predict a little growth of portfolio in 2011. At present, in Lithuania, the value of housing loans equals about 22% of GDP, and this rate has increased only due to significant drop of GDP. This rate is much lower than the rate of mortgage loans to GDP in neighbouring Latvia and Estonia. In general, Lithuanians are much less leveraged than their Baltic neighbours.

In 2010 the interest rates in local currency shows the significant drop. Average interest rates in local currency, litas, are 3.6%. The majority of loans are still taken out in euros, and the average

interest rate on new mortgage loans at the mid of 2011 was about 3.4%.

In some cases banks can lend up to 100% of the property value, especially if the loan is made on a new property where the bank is already the lender to the developer.

In other cases 80 - 90% of the property value can be expected. Compared with the period 2008 - 2009, the obviously better borrowing conditions can be seen in residential market.

## Rents

As usual, the rental market activity in Vilnius is traditionally higher in late summer and early autumn. The number of rental transactions with apartments and houses finalised by Ober-Haus during Q3 was up by as much as 75% compared to Q2 of 2010. However, the greatest activity and slight price rise was recorded in the cheaper 1 - 2-room apartment sector. This was determined not only by students arriving to places of studies in the Capital, but also by the number of foreign students participating in various exchange programmes that increased in previous year. In general, during whole 2010 rents for such apartments keep the same level. It is expected that we will see the same tendencies in 2011.

In the last months of 2010, the owners of apartments had to work harder to find the tenants. They had to reduce rent prices by 10% to attract new tenants and to keep existing ones. This was particularly the case where the apartments were large or required high maintenance costs. Larger and more expensive apartment segment has increased considerably in recent years due to the supply of this type of apartment, and this forced their owners to drop rents by 10% during whole 2010.

Ober-Haus expects that the residential rents will keep the same tendencies as their prices in 2011.

Typical 2-room apartment of old construction in Vilnius residential districts is offered for 150 to 200 EUR per month. The rent price for new apartments of the same size are from 230 EUR per month. Maintaining costs are not included.

Rents for fully furnished 2-rooms apartments in central part of Vilnius range from 180 - 400 EUR per month, and for 3-rooms apartments between 250 and 700 EUR per month. Rents for bigger and well-furnished apartments in Old Town can be up to 800 - 1,000 EUR per month.

The individual houses of 100 - 200 sqm in outskirts and living suburbs in Vilnius are usually offered for rent at 350 to

900 EUR per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and city centre or Old Town is higher and vary from 700 to 1,700 EUR 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 leased residential premises, the right of family members to reside with the tenant, termination of the lease agreement, and eviction of the tenant. However, rents may be agreed freely. Institutional investors usually do not lease residential premises in the local market.

## Real Estate Law - Residential and Commercial

### Introduction

The real estate market in Lithuania is based on principles of private ownership and ownership immunity, prudence, fairness, justice and protection of the rights of those legitimately acquiring real estate.

The Lithuanian legal environment has proven to be tailored not only to prosperous economic times, but also to complicated market circumstances. However, certain surprises were seen. In June 2011 the Lithuanian Supreme Court decided that the conditions of a lease agreement may be challenged due to the economic downturn, provided none of the parties contractually assumed this risk.

### Title to Real Estate, Real Estate Register

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

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

### Acquisition of Real Estate

#### General

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

Generally, the seller must transfer to the buyer both the title to real estate and the right to use the land plot occupied by real estate and which is necessary for use of the real estate according to its purpose. If the real estate sale - purchase agreement does not include the buyer's rights to the land plot on which the real

estate is located, it may not be certified by a notary and, even if certified, is ineffective. If the seller does not own the land plot on which the building stands, the seller may sell the building only with prior consent of the land owner.

#### Letter of Intent and Heads of Terms

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

A preliminary agreement must be in writing. There is no legal requirement to notarise a preliminary agreement.

A preliminary agreement may not be enforced in kind. However, a party to it may claim damages from the other party that concluded a preliminary agreement in bad faith. A preliminary agreement may be recognised by the court as the main agreement, if certain conditions are present. Court practice in such cases exists.

#### Change of Ownership

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

#### Legal structures of real estate transactions

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

#### Principal legal structures

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

- Share deal

Acquisition of a target holding real estate may be performed either via an SPV incorporated in Lithuania or elsewhere.

The share sale-purchase agreement need not be notarised or publicly registered, unlike an agreement on sale-purchase of real property.

Issues usually to be tackled while structuring the REI transaction as a share deal include, eg: target company history, employees,

unnecessary assets, subsidiary operations, transferability of loan facilities, deferred taxes and financial assistance.

- Asset deal

Asset deals usually require a narrower scope of due diligence review than share deals, and are more tax-transparent.

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

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

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

Asset deals may involve requalification risk, ie a REI transaction structured as an asset deal may be requalified as sale of a business. As a result, investors may be exposed to additional risks related to transaction validity and liability to creditors and employees of the former owner of the target. However, in practice proper structuring of the transaction minimises requalification risk.

- Sale-leaseback

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

The structure of a sale and leaseback transaction should ensure tying the sale of the property to a lease agreement.

Various security instruments (eg guarantees, deposits, reconciliation) are commonly used in such REI transactions in order to secure the flow of sustainable income from the target and proper performance of long-term obligations of the parties.

- Forward purchase

Projects under development may also be structured as forward purchase transactions. In these cases the investor undertakes a forward commitment to purchase the property. The developer usually acts as a developer until completion of the project or may act as project developer under a development contract while title to the target property on construction goes directly to the investor.

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

- Joint venture

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

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

- Public-private-partnership projects (PPP)

PPP projects in Lithuania may take the form of a concession, Private Finance Initiative (PFI) or mixed capital venture.

In recent years PPP projects started enjoying increased attention. Under the initiative of the Ministry of Economy PPP methodology and standardised PPP documentation (eg tender documents, template contracts, guidelines) were prepared to help in procuring public-private initiatives. Six pilot projects were developed and one of these is already under implementation. Furthermore, sectoral project (eg, prisons, transport infrastructure) feasibility studies were launched.

As a result, the scope of works financed and developed in cooperation between public and private sectors should notably increase.

## Form of Agreements

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

## Language Requirements

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

## Due Diligence

Legal due diligence of target real estate is strongly advisable before investment or disinvestment. From the perspective of both seller and buyer, due diligence forms a basis for contract negotiations, risk distribution, and verification of purchase price.

Due diligence checks on eg ownership title, encumbrances, permitted land use, third party rights, public restrictions, lease agreements, agreements for supply of utility services.

## Pre-emption Rights

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

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

## Typical Purchase Price Arrangements

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

## Related Costs

Certification of real estate sale – purchase agreements by a notary and registration of title with the Real Estate Register involves a notary fee and state duty respectively. The notary fee amounts to 0.45% of the real estate transaction value, capped at LTL 20,000 (EUR 5,792) for transactions that involve one real estate object and at LTL 50,000 (EUR 14,481) for transactions involving several real estate objects. State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired and depends on the average market value of the real estate. State duty varies from LTL 20 (EUR 6) to LTL 5,000 (EUR 1,448) per object.

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

## Concentration Control

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

An anticipated concentration must be notified to the Lithuanian Competition Council, whose consent to a concentration is required where the combined total income of the undertakings concerned (received from the Lithuanian market) is over LTL 30 million (approx EUR 8.7 million) for the financial year preceding the concentration and the aggregate income of each of at least two undertakings concerned (received from the Lithuanian

market) is over LTL 5 million (approx EUR 1.4 million) for the financial year preceding concentration.

## Restrictions

### Restrictions on Acquiring Real Estate

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

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land and forest unrestrictedly.

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

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

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

- Citizens or permanent residents of any of the states specified above; and/or
- Permanent residents of Lithuania but not holding Lithuanian citizenship.

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

- Foreign natural persons who permanently reside and are engaged in agricultural business in Lithuania for at least three years; and
- Foreign legal persons and other foreign organisations with established representative or branch offices in Lithuania.

The European Commission approved extension of the above restrictions to acquire agricultural and forestry land until 30 April 2014. However, there are disputes whether such

extension was properly implemented into Lithuanian law and is effective. In any case, as previously, acquisition of agricultural and forestry land through a legal entity established in Lithuania may be involved.

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

### Public Restrictions on Use of Real Estate

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

## Property Management

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

## Lease Agreements

### General

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

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

### Duration and Expiry of Lease Agreement

Lease agreements may be concluded for a fixed or indefinite term. The term is agreed by the parties, but the maximum term

in any case cannot exceed one hundred years. If the tenant continues to use leased property for more than ten days after expiry of the term and the owner does not object, the lease agreement is taken to be for an indefinite term.

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

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

Last but not least, under Lithuanian law the tenant may terminate the lease agreement following change of real estate owner. This risk is mitigated by collecting estoppels from tenants.

#### **Lease Payment and Accessory Expenses (Utilities and Service Charge)**

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

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

#### **Real Estate Funds**

From March 2008, it became possible to establish real estate collective investment undertakings (both closed-end and open-end) in Lithuania. Practical examples of operating real estate funds exist and there are more to come.

## **Planning Requirements and Construction**

### **Planning**

Approval of detailed plans lies within the competence of local authorities. As a rule, detailed plans are established for urban and rural areas where construction is intended. A new detailed plan must be approved in case of change of purpose of the land, mandatory requirements of territorial management and use regime. Establishing detailed plans involves evaluating the results of detailed planning, as well as public hearings and discussions. Though a recent amendment to Law on Territorial Planning has simplified certain procedures, eg detailed plans are no longer required for division of land plots, adjustment of land plot borders, the process of approving detailed plans is still lengthy and may take approx from six months to over one year.

In order to simplify and shorten lengthy and complex planning procedures, substantial amendments to the existing legal regime are proposed, which is expected to reduce the number of cases when planning procedures are needed up to 80%. According to suggestions, the existing one-purpose land use regime should be replaced by a multifunctional use system, ie the land manager should be entitled to use the property for any of the alternative purposes determined with regard to that land. Further, detailed plans should no longer relate to particular land plots and should cover larger areas. Last but not least, the amendments should significantly reduce the need for detailed planning when the land use regime could be established by other documents (master plan, construction regulations), so should save costs and shorten timing (up to six months).

### **Construction**

Within the last year, substantial amendments were introduced to legal regulation over construction activities, essentially amending certain definitions and procedures, introducing new terms and expanding the scope of applicability of the Law on Construction over Lithuanian territorial waters and continental shelf.

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

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

After completion of construction, reconstruction, modernisation or other construction activities (depending on the complexity of works performed) either the state authorities inspect the building to check whether it complies with design requirements or the builder issues confirmation on compliance.

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

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

Last but not least, the amendments establish legal persons' liability for certain violations of construction laws, eg for illegal construction.

## Insolvency

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

### Restructuring

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

### Bankruptcy

Generally, if a company is insolvent bankruptcy proceedings may be commenced. Operations of the company's administrative institutions are suspended and management

is performed by the insolvency administrator. Declaration of bankruptcy triggers suspension of accumulation of loan interest, interest set by law, contractual penalties, and late payment interest. Creditors are ranked, with first priority given to claims secured by mortgaged/pledged property.

### Distressed Assets

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

## Taxes

### Purchase

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

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

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

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

### Rents

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

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

**Withholding Tax** - Income from the lease of property immovable by nature located in Lithuania is subject to withholding tax at the rate of 15%, if this income is paid to non-residents (companies and individuals) and residents (only individuals).

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

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

### Sale

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

**Withholding Tax** - Income from the sale or other transfer into ownership of property immovable by nature located in Lithuania is

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

**Personal Income Tax** - Capital gains earned by private persons on the sale of immovable property (except for residential premises and immovable property used for the purpose of individual activities) are not taxable if that real estate was owned for at least 3 years, if that property was acquired before 1 January 2011 and is located in EEA. Capital gains from the sale of immovable property, that was acquired after 31 December 2010 and is located in EEA, or sale of immovable property, that was acquired before 1 January 2011 and was used for the purpose of individual activities, are exempt from taxation if the property is owned for at least 5 years before the sale. In case of transfer of residential premises, the income is not taxable provided that the domicile has been declared in those residential premises for at least 2 years or when less than 2 years - when the income from the sale is used (within one year) to obtain other residential premises where the domicile will be declared. Otherwise, the capital gains earned by private persons on the sale of property are subject to personal income tax at the rate of 15%.

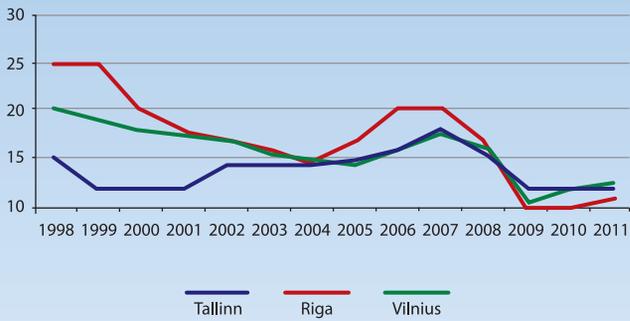
### Real Estate Tax

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

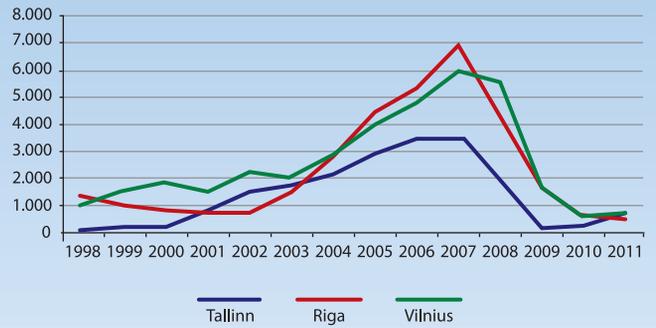
Buildings are subject to Real Estate Tax at a rate of 0.3 - 1%, depending on the decision of the municipality where the building is located. Exemptions apply to individuals for residential premises and certain other personal property. Depending on the type and purpose of buildings, the tax base is assessed either based on the massive valuation or the recoverable value (costs) method. As from 1 January 2011, the taxpayer may get a valuation done and challenge the assessment every year within 3 months from the beginning of a new tax period.

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.

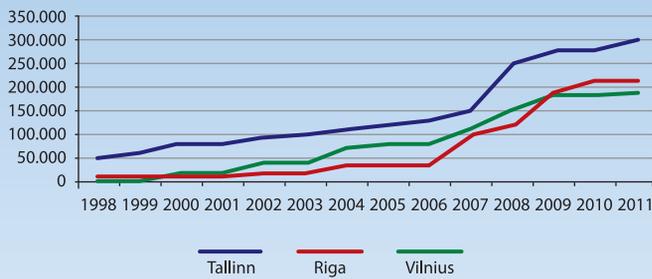
Avg class A office rents (EUR)



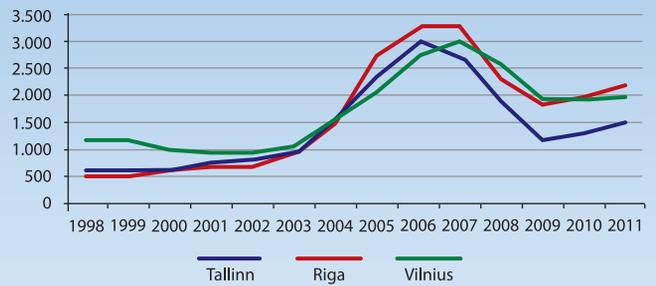
Completed residential units



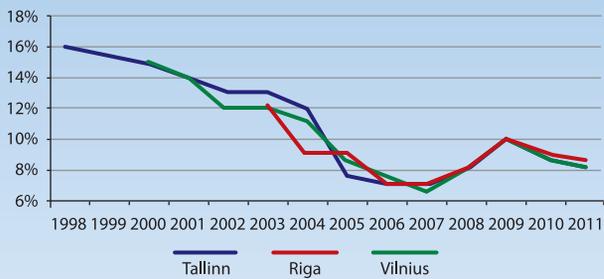
Total class A office space (sqm)



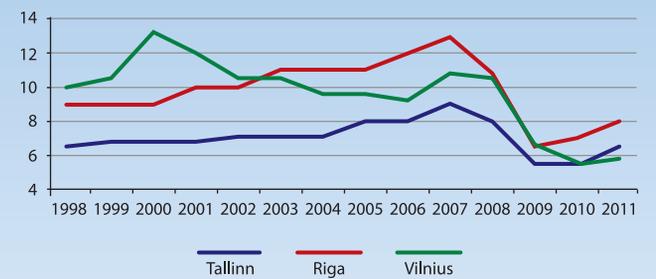
Average city centre residential prices (EUR/sqm)



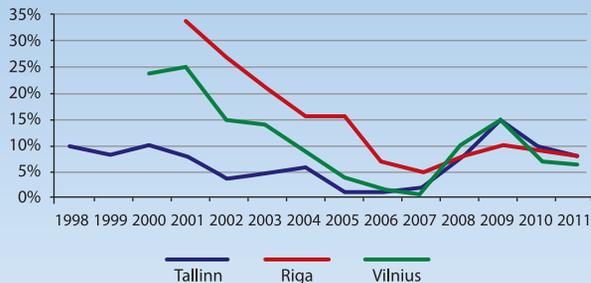
Class A office investment yields



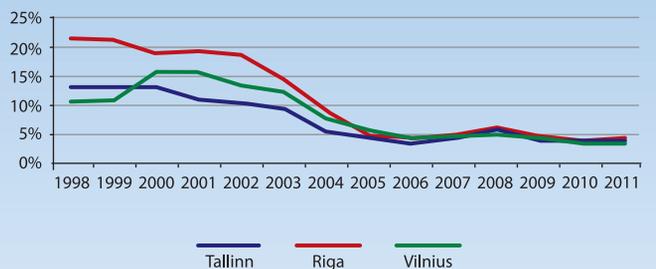
Average residential rents (EUR/sqm/month)



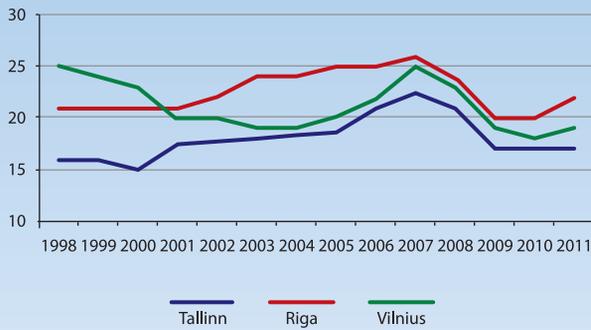
Class A office vacancy rates



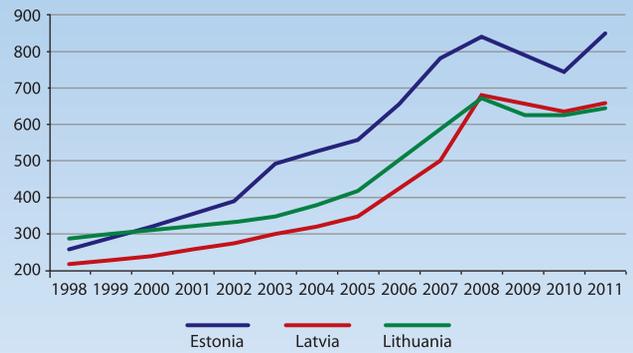
Residential investment yields



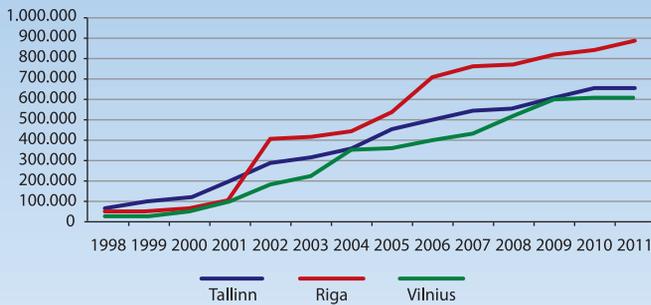
Avg mall rents (EUR)



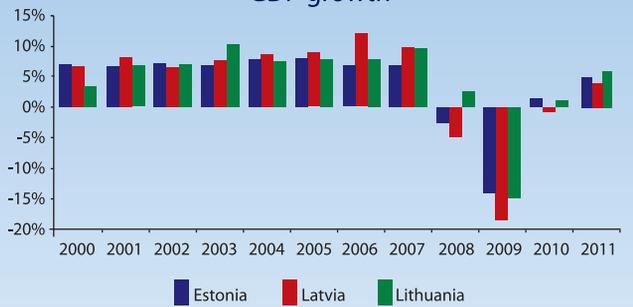
Avg salary per month (EUR)



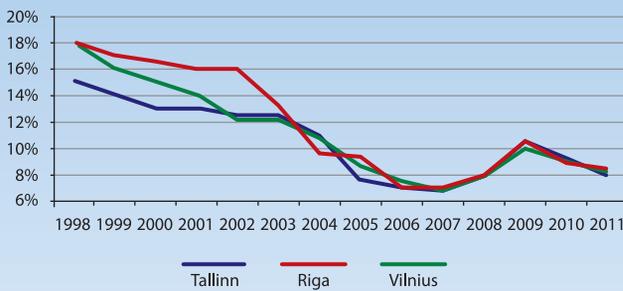
Total mall space (sqm)



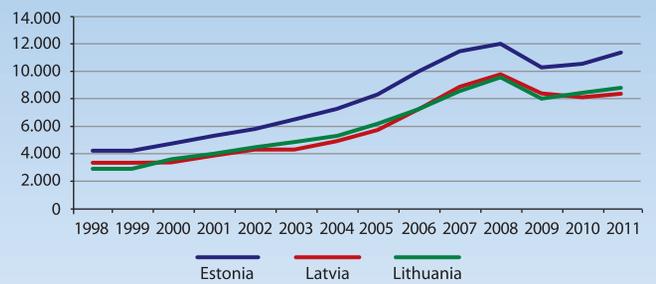
GDP growth



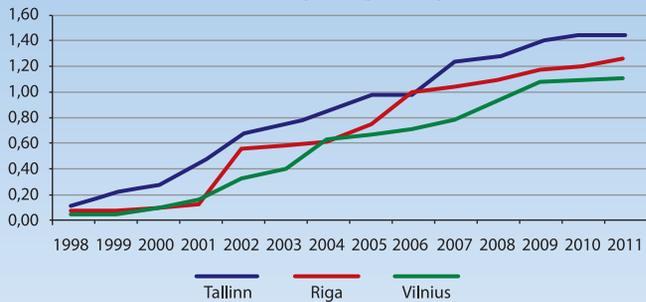
Retail investment yields



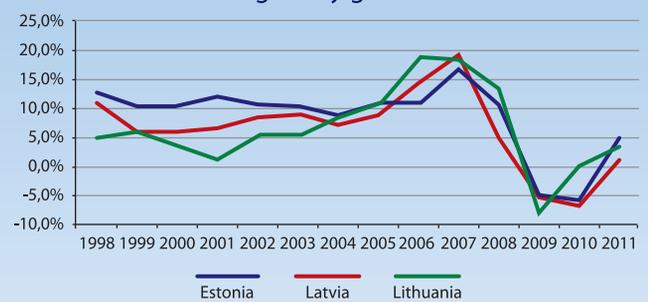
GDP per capita (EUR)



Total mall space per capita



Avg salary growth



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