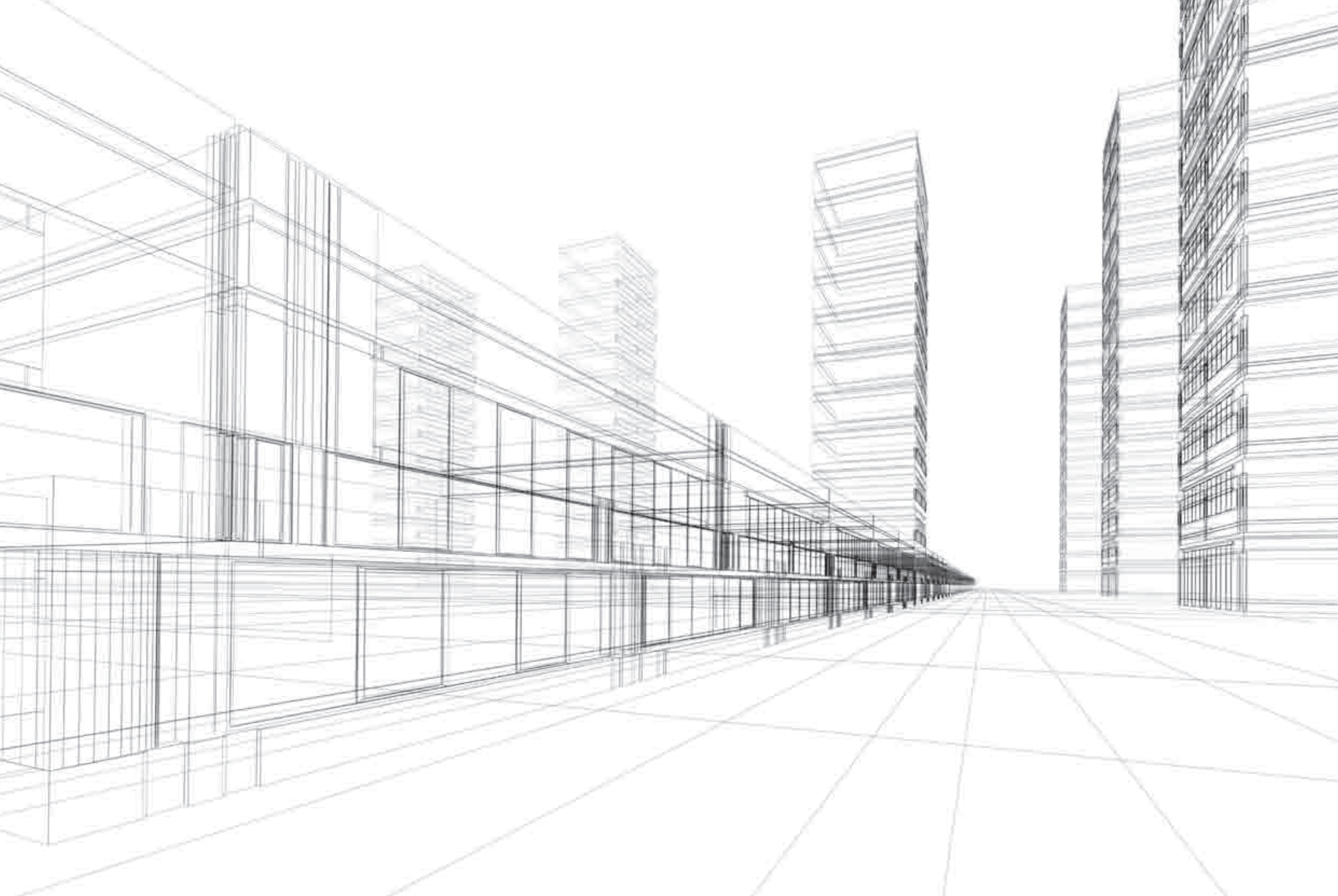

Real Estate Market Report 2012

Baltic States Capitals

Vilnius, Riga, Tallinn

OBER HAUS

REAL ESTATE ADVISORS

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www.ober-haus.com

Ober-Haus Real Estate Advisors is the largest real estate agency operating across the Baltic and Central European region including Poland, Estonia, Latvia and Lithuania. Since 1994, Ober-Haus Real Estate Advisors is a highly experienced provider of the most complete property services:

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

Ober-Haus belongs to Realia Group Oy of Finland, who's main owners are Nordea Bank Finland Plc, Sponsor Fund II, Varma Mutual Pension Insurance Company and Finnish Industry Investment Ltd. The group's turnover in 2011 stood at EUR 112 million.

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

It's so much easier with Ober-Haus!

Contents

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2012

Lithuania

Country overview

Real estate market report 2012

Geography

Coordinates:	56 00 N, 24 00 E
Area:	65,200 km^2
Border countries:	Belarus, Latvia, Poland, Russia
Capital:	Vilnius

Currency

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

Social indexes

HDI:	0.81
Gini (2008):	37.6
Ethnic groups:	Lithuanian 84%, Polish 6.1%, Russian 4.9%, Belarusian 1.1%, other 3.9%

2012 forecasts

GDP growth, %:	2.5
GDP per capita, €:	10,300
Private consumption growth, %:	2.8
Average annual inflation, %:	2.5
Unemployment rate, %:	14.0
Avg. monthly gross wage, €:	649
Avg. gross wage annual growth, %:	3.0

Population	2006	2007	2008	2009	2010	2011
Lithuania	3,403,000	3,384,000	3,366,000	3,349,000	3,329,000	3,244,000
Vilnius	541,000	542,000	544,000	546,000	548,000	554,000
Kaunas	360,000	358,000	355,000	352,000	348,000	336,000
Klaipėda	187,000	185,000	184,000	183,000	182,000	177,000
Šiauliai	129,000	128,000	127,000	126,000	125,000	120,000
Panevėžys	115,000	114,000	113,000	112,000	111,000	109,000

Economics	2006	2007	2008	2009	2010	2011
GDP growth, %	7.8	9.8	2.9	-14.7	1.3	5.8
GDP per capita, €	7,102	8,514	9,667	7,972	8,378	9,496
Private consumption growth, %	10.6	16.5	4.0	-17.7	-4.5	4.3
Average annual inflation, %	3.8	5.8	11.1	4.2	1.2	4.1
Unemployment rate, %	5.6	4.3	5.8	13.7	17.8	14.8
Average monthly gross wage, €	501	594	672	613	614	630
Average gross wage annual growth, %	19.1	18.5	13.0	-8.7	0.2	2.5
Retail sales growth, %	14.1	17.2	4.1	-27.7	-2.9	20.6
FDI per capita, €	2,475	3,055	2,744	2,872	3,174	3,334

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

Economy

2012 Real estate market report

Modest economic growth for 2012

The Lithuanian economy grew 5.8% in 2011, after growing a modest 1.3% in 2010. Analysts forecast growth of 2.0% to 3.0% in 2012.

Annual inflation reached 4.1% in 2011, and forecasts are for CPI growth of 2.5% to 3.0% in 2012 and 2013.

Gross wages increased by 2.5% in Lithuania in Q4 2011 (compared to Q4 2010), to €630 per month before taxes. The average net monthly after tax wages in Q4 2011 was €489. Salary growth in 2012 and 2013 is expected to be 3% to 5%.

According to information of the Department of Statistics, unemployment jumped to an all time high of 18.3% in Q2 of 2010, but softened to 14.8% in Q3 2011. Analysts project 10-13% unemployment in 2012-2013.

Lithuania's export soared 33.2% in 2010 and another 28.8% in 2011. The export upswing was driven by improvements in competitiveness; increased external demand and growth into new markets.

After the collapse of the building boom in Lithuania, construction costs have dropped considerably (salaries, materials, and products). The highest construction costs decrease was 14% year-on-year in August 2009. But in December 2011 the annual change was already positive at 5.2%.

2011 saw 8.8% annual growth in retail turnover (after falling 2.9% in 2010). In this period, the biggest increase was recorded in trade in motor vehicles, technical maintenance and repair works – 60.0%. Besides this and fuel, other retail trade increased by 8.4%.

As of June 2011, direct foreign investment totalled €10.7 bln (4.0% increase during the first half of 2011), which is €3,334 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 was a key economic goal for Lithuania, but it is unlikely to be achieved soon. According to the latest projections of economists Lithuania may adopt the euro no sooner than in 2016 or 2017 as inflation and debt delay plans to introduce the currency in 2014. Also current problems in the eurozone may delay Lithuania's entry. In the meantime, the exchange rate remains fixed through a currency board system.

In order to ensure revenue for 2012 budget and maintain the budget deficit (below 3.0%), the Lithuanian government considered various means for supplementing the budget: taxing of powerful cars, luxury homes, deposit interest or restraining pension growth. After fierce debates on these issues at the end of 2011, Parliament and the Government approved a decision to tax real estate which exceeds 1 million litas (€290,000) in value with a 1% tax rate. The tax will be calculated by putting together all the property owned by an immediate family. The Ministry of Finance estimates that the introduction of the luxury tax on homes will bring approximately 5 million euros of additional revenue to the state budget.

Lithuania

Office market

Real estate market report 2012

Vacancy dropped on almost no new supply in 2011

Supply

2011 was the slowest year for the Vilnius office market since the very beginning of its development in 1999. The near total stop of construction of commercial buildings in 2010 meant that Vilnius saw only one small opening – the Evita business centre with 2,300 m² of modern office space. The opening of this business centre had no influence on the market. At the end of 2011 the total area of modern office premises (A and B class) stood at 446,500 m² gross lettable area (GLA).

The distribution of modern offices by A and B classes from 2004 has practically remained the same. A class constitutes 40% of the total modern office premises in Vilnius, as B class – 60%.

But in 2011, the return of GDP growth, the fractional increase in rents and decreasing vacancy rate encouraged developers to take up new or resume previous projects. Despite the still large amount of vacant office space in Vilnius (equivalent to eight medium-sized business centres), the construction of another eight business centres is currently underway with a total lettable area of 35,000 m². When these projects are completed by the start of 2013, the total supply of modern office premises in the capital will increase by a further 8%.

The the vacancy rate in 2010 dropped dramatically from 18% to 10%, but in 2011, it remained essentially unchanged. In 2011, there was no new demand, whereas 2010 saw a few major lease transactions. Based on this, the new enthusiasm of developers seems too ambitious for the prevailing sluggish demand. Ober-Haus believes that in the absence of faster market recovery, it is likely that the opening of some office buildings will again be postponed, thereby avoiding a sharper rise in supply.

2011 snapshot (Vilnius)*

GDP growth:
5.8%

Total office vacancy:
8.8%

A class office vacancy:
7.4%

B class office vacancy:
9.7%

Office space:
446,500 m²

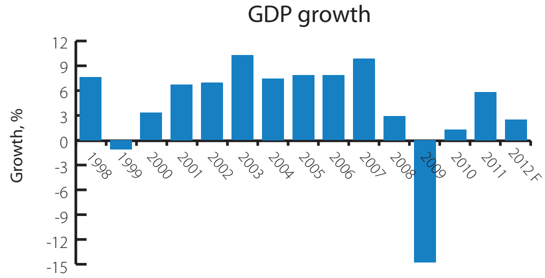
Vacant office space:
39,400 m²

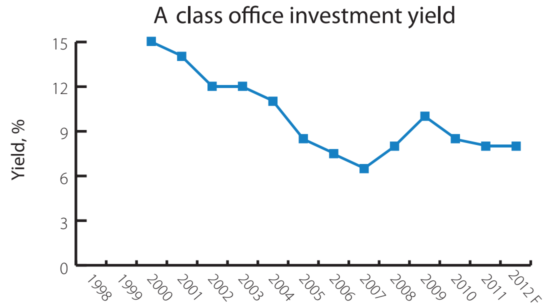
A class office rents (m²):
€11.00 – €13.90

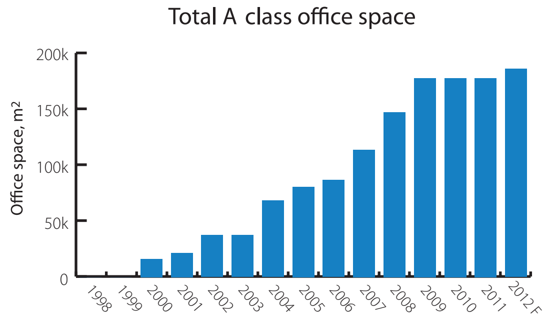
B class office rents (m²):
€7.00 – €10.40

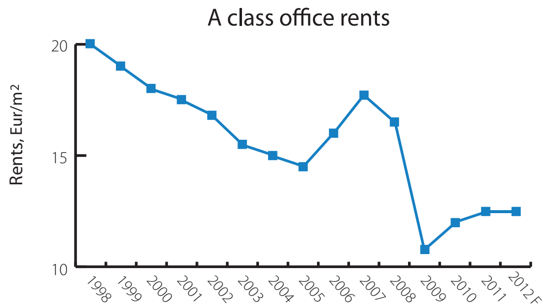
Additional office costs (m²):
€2.90 – €5.80

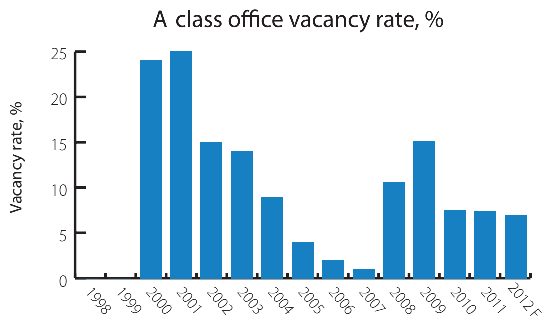
** End 2011 Statistics*











Office market

2012 Real estate market report

Demand

The vacancy rate of modern offices in Vilnius fell from 9.9% to 8.8% in 2011, with the total area of vacant premises shrinking from 44,200 m^2 to 39,400 m^2. If in 2010 particular attention was paid by the tenants in A class office premises, with the vacancy rate falling almost twice over 2010, so in 2011 the largest decrease in vacancy was in B class offices. At the end of 2011 the vacancy rate for A class office space was 7.4%, while for B class it was 9.7%.

The decline in the vacancy rate was due to the opportunity to rent or purchase premises at a lower price, and also by the lack of new supply. Ober-Haus believes that vacancy will rise slightly in 2012, as more space comes to market.

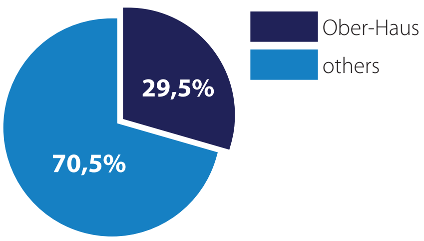
Rents

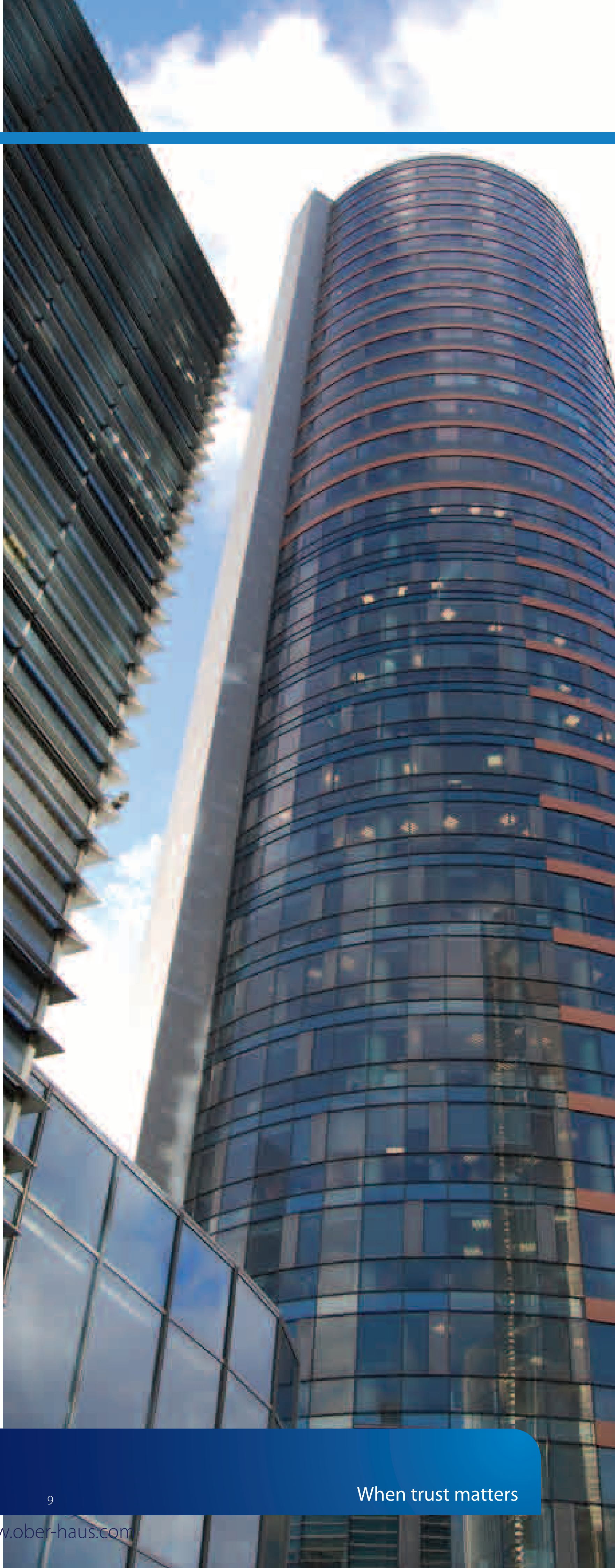
With the fall in the number of office vacancies (especially in 2010), most office owners now have the leverage to raise rents, consequently, in 2011, new rents increased by an average 7% (€0.50 - €1.00 per m^2). At the end of the 2011, A class office rents ranged between €11.00 and €13.90 per m^2 and B class – €7.00 - €10.40 per m^2 in Vilnius.

Depends on the building, direct and indirect costs (single and double net) for tenants cost from €2.90 to €5.80 per m^2.

However, given the uncertain economic situation next year, and a slight increase in supply, Ober-Haus believes that rents will remain unchanged in Vilnius and also in the other cities for the rest of 2012.

Office lease market share in 2011

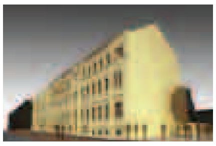
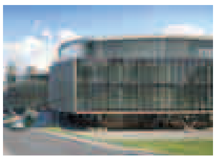
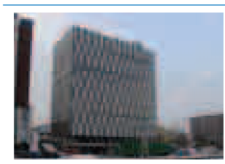




Recent developments

	Description	Size (GLA, m^2)	Completion
	**Evita** – after some delay this 10 and 11 storey mixed use (residential and commercial) towers were finished and opened in the city centre on Savanoriu Avenue. The complex has 2,300 m^2 of modern office space. The project is fully leased.	2,300	2011

New projects

	Description	Size (GLA, m^2)	Completion
	**Merchants' Club** – in 2010, BT Invest, a private investment company, began development of a new office building in the centre of Vilnius on Gedimino Avenue. This was the only new project in Vilnius to be started after a break of a year and a half. It is expected that office area will be 5,100 m^2 and a retail area - 800 m^2. Project will be completed by the start of 2012. Building will have three-levels of underground parking.	5,900	2012
	**Transmeda/Jasinskio** – In 2010, local company Transmeda started the construction/ reconstruction of a 2,500 m^2 office building in the centre of Vilnius on Jasinskio Street. It is expected that this office building will be completed in Q1-Q2 2012.	2,500	Q1 2012
	**Realinija/Vytenio** – local company Realinija, is finishing reconstruction of 2,200 m^2 of office space in the Naujamiestis district on Vytenio Street. The 3-storey building will bring 2,000 m^2 of B class office space at the start of 2012. Office space is available at rents of €9.00 per m^2.	2,200	Q1 2012
	**Trapecija** – DnB NORD bank's subsidiary Intractus acquired an unfinished B class office building in Pilaites Avenue and will finish it in Q2 2012. Intractus will invest an additional €1.2 million and will offer 2,400 m^2 of office space to the market. Asking rents are €8.70 per m^2.	2,400	Q2 2012
	**Ulonu Business Centre** – local developer PST Investicijos started construction of a 7-storey B class office building in the Siaures Miestelis district. The 5,000 m^2 building will offer 4,000 m^2 of office space at the end of 2012.	4,000	Q4 2012
	**Baltic Hearts** – after a few years delay local developer ZVC has resumed construction of it's A class office building on Ukmerges Street. The total area of the building is 10,000 m^2 and consists of three identical structures with 3,300 m^2 each. Completion of the first stage is scheduled for late 2012.	10,000	Q4 2012
	**Gama** – after the successful completion and leasing of the Alfa and Beta office projects, local company Realco is finishing construction of a 13,000 m^2 new office building in Ozo Park, near Siemens Arena and Vichy Aquapark. The 9-storey building will bring 10,800 m^2 of lettable office area in late 2012.	10,800	Q4 2012
	**Jan** – after a few years on hold this B class office building on Pilaites Avenue. could be finished in 2012 as some small investments are needed to finish it. The building has 5,400 m^2 of modern office and some retail space (ground floor) for rent. Asking rents are €10.00 per m^2.	5,400	2012

Office market

2012 Real estate market report

Investment

At the end of 2011 local developer Evolis sold its office building (ETA) in Zirmunai district. 3-storey building with total leasable area of 3,900 m^2 was sold to Norwegian investor. Transaction details have not been disclosed.

Looking at the cautious economic forecasts for the European economy, it is unlikely that the commercial premises sector will gain development momentum in the next couple of years or that there will be any growth in rents or sale prices. Foreign investors are wary of peripheral European markets and don't believe in yield compression or growing prices in the future; therefore they do not expect a higher return on investment than the current 8.0% - 9.0% in Vilnius. Thus, those investing in commercial property should justify their investment decisions not by expectations of growth in rents or yields compression, but by calculating return on equity based solely on current cash flow from rents.

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.

Small developments only

Supply

The supply of new retail space in 2011 was miserably small. Only the supermarket chain Maxima opened two similar size (over 4,000 m^2 each) supermarket centres in Vilnius Pilaite & Zirmunai districts and another food retail chain Norfa opened a 3,200 m^2 supermarket centre on Ukmerges Street.

As no large projects were completed in 2011, there are the same 23 shopping centres in Vilnius (counting those over 5,000 m^2 GLA and with over 10 tenants) with a total leasable area of 417,600 m^2. A comparison of Lithuanian cities based on the area of shopping centres per city residents reveals that Lithuania has not seen significant changes in 2010-2011. Currently Vilnius has 0.75 m^2 of shopping area per capita, but this figure is still lower than that of another city in Lithuania, Siauliai, which holds the leading position by area of shopping centre per capita of 1.0 m^2. The remaining major Lithuanian cities are: Klaipeda, Kaunas, and Panevezys (0.71 m^2, 0.55 m^2 and 0.49 m^2 respectively).

Developers are not keen to develop large scale projects since existing space, a diminishing population, and weak economic growth do not bode well for new projects. Due to this, a number of projects (such as Domus Pro or Olinda) are simply awaiting better times. Market participants compete by renovating existing retail areas or developing small but targeted supermarket centres. Breaking this trend, however, Ikea, the world's biggest home furnishings retailer, plans to open its first store in the Baltic States in Vilnius in 2013. Also, German food discounter Lidl re-entered the market, announcing a planned store in Alytus in 2013.

2011 snapshot (Vilnius)*

Consumer retail growth: 8.8%

Avg. salary (brutto): €630

Avg. salary growth: 2.5%

Retail investments yield: 8.0%

Total mall space (GLA, m^2): 619,000 m^2

Shopping centre vacancy: 3.7%

Shopping space per capita: 0.75 m^2

Total shopping area (GLA, m^2): 417,600 m^2

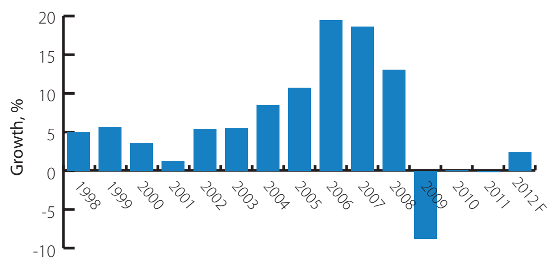
Retail rents (m^2): €10.00 – €30.00

Retail rents for anchor tenants (m^2): €6.00 – €12.00

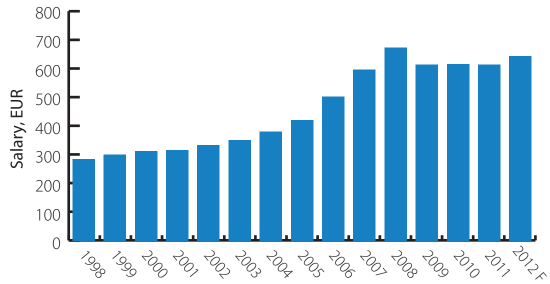
Retail rents in Vilnius high streets (m^2): €11.50 – €32.00

** End 2011 Statistics*

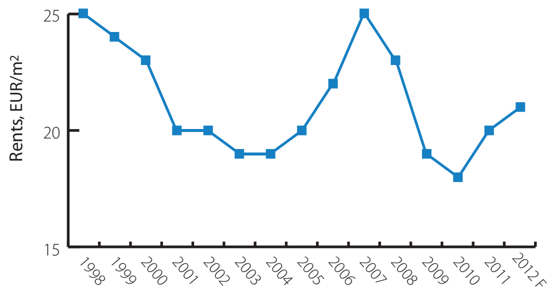
Average salary growth



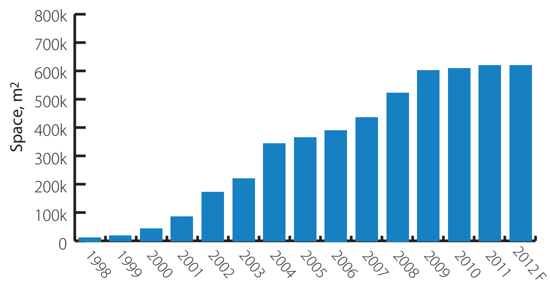
Average salaries (brutto)



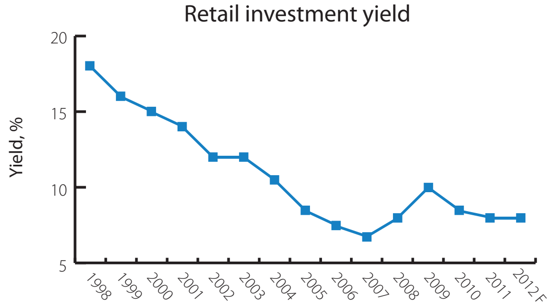
Average mall rents



Total mall space



Retail investment yield



Retail market

2012 Real estate market report

Demand

In 2011, the demand for retail space remained stable. The biggest demand was for small retail premises in popular shopping centres or affordable premises in retail streets of the city.

Not counting fuel, vehicles, or maintenance, consumer retail growth was 8.8% in 2011, after falling 2.9% in 2010. Food sales increased by 2.5%, non-food sales increased by 14.6%, and the turnover of restaurants, bars and other catering firms increased by 18.4%. The turnover of companies selling audio and video equipment, recordings, hardware, paints and glass, electrical household appliances, furniture and lighting equipment increased by 20.6% as compared with 2010.

Retail companies' managers are mostly optimistic: 32% believe their company's economic condition will improve, 24% think it will to get worse (compared to October – 10% and 15% respectively). The big supermarket chains will hire new staff, but 79% of the remaining trading companies promise not to change the number of employees. The growth of retail sale prices in the near future is forecast by 36% of companies, while 59% think that the prices will not change.

Separate premises that had been vacant for lengthy periods are able to find tenants faster. Attractive rents and a broader choice in the central part of the city in particular encouraged small groceries, fast food establishments, cafes, and night clubs to settle there. Retailers of clothes and other commodities prefer shopping centres that guarantee a sufficient flow of people. Better-known trademarks are again trying to establish themselves in venues attractive for sales. In the middle of 2011, the popular apparel chain New Yorker opened a shop exceeding 1,000 m^2 in Gedimino Avenue. Marks & Spencer doubled their retail area to 3,000 m^2, moving from the shopping centre in Gedimino 9 to just across the street.

The best shopping centres enjoy full occupancy and even tenants in the waiting list, as managers of some unsuccessful shopping centres keep their tenants offering lower rents. In 2011 the biggest shopping centres attracted some new known brands. And vacancy rate of shopping centres (over 5,000 m^2 GLA and with over 10 tenants) has decreased from 4.5% to 3.7% in 2011.

Lithuania

Recent developments

	Description	Size (m²)	Completion
	**Maxima Pilaite** – food retail chain Maxima opened two similar size (over 4,000 m^2 each) supermarket centres in Vilnius in Q2 2011. One is in the Pilaite district, which is likely to become a serious competitor to the Pupa (with the key tenant Iki) and Rimi shopping centres operating nearby.	4,000	Q2 2011
	**Maxima Zirmunai** – food retail chain Maxima opened two similar size (over 4,000 m^2 each) supermarket centres in Vilnius in Q2 2011. Second is in Tuskulenu Street in the Zirmunai district.	4,000	Q2 2011
	**Norfa** (Ukmerges Street) – food retail chain Norfa opened a new supermarket centre in Vilnius (Ukmerges Street) at the end of 2011. This supermarket centre with total a area of 3,200 m^2 is the 20th Norfa store in Vilnius.	3,200	Q4 2011

New projects

	Description	Size (m²)	Completion
	**IKEA** – the world's biggest home furnishings retailer IKEA plans to open its very first shop in the Baltic States in Vilnius. Vilnius will have a standard size store of 25,000 m^2 near Vilnius international airport. Total investment in the furniture shopping center is expected to be €47 million.	25,000	2013

New projects

For leasing opportunities in these or other properties,
contact Ober-Haus on +370 5 210 97 00

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.

Retail market

2012 Real estate market report

Rents

Still, the majority of shopping centre owners are rather optimistic. Except for a few unsuccessful projects, the majority of shopping centres are fully occupied and these owners do not reduce rents. Moderately growing retail turnover allows maintaining stable rents or increasing them slightly in individual cases. However, as always the owners of shopping centres located in poor sites or those having a less attractive concept still are sometimes forced to make substantial reductions in separate cases in order to fill vacant areas. Rents in shopping centres virtually did not change in 2011, however.

Rents for a medium sized (150-300 m^2) unit in a major retail centre run from €10.00 to €30.00 per m^2. Rents for anchor tenants are €6.00 - €12.00 per m^2.

After 40-50% drop in rents in 2009-2010 of individual retail premises, 2011 saw some recovery in this segment. Rents for retail premises in the high Vilnius streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street or Pilies Street) went up by 10% in 2011. In the end of 2011, rents for medium sized retail premises (100–300 m^2) in such streets were approximately €11.50 – €32.00 per m^2.

More substantial changes in rents or sales prices are not likely in 2012 and these should remain stable.

Investment

The biggest investment transaction of 2011 was the sale of the shopping centre Babilonas, sold by previous investor Danway Day Carpathian (UK) to Pontos Group (Finland). This shopping centre with a total area of 27,200 m^2 was sold for €24 million. Yields have not been disclosed.

Lithuania

Industrial market

Real estate market report 2012

Slight rent increase, few new projects

Supply

After a two-year break the warehousing and logistics sector has finally seen two large developments in 2011. To the south-west of Vilnius (Sausupio Street) a new building with a warehousing area of 12,500 m² was built. Another new warehouse was finished near Vilnius (Parapijoniskes) totalling 8,500 m². However, the first was built by the end user, and the second by the bank after the developer went bust. The total leasable area of modern warehousing premises in Vilnius and its surroundings increased to 372,400 m² in the end of 2011. Two more new projects will be finished in 2012 totalling 18,000 m² (including office and retail premises).

The largest projects are built by end-users, not by developers on spec. In the near future we should find out whether developers believe in the market recovery and whether they will start development on spec. Ober-Haus does not see any rapid increase of supply in next few years.

Most (75%) of modern warehouses are located within the city limits. The bulk of warehouses are developed in the southwestern industrial zones of Vilnius (Kirtimai, Vilkpede, Austieji Paneriai and Zemieji Paneriai), as well as near the strategic highways: Vilnius – Kaunas and Vilnius – Minsk.

Large warehouses with an area exceeding 10,000 m² currently make up 59% of the current supply. Warehouses with an area from 5,000 to 10,000 m² make up 24% of the supply, and the remaining smallest share (17%) covers warehouses with an area under 5,000 m².

2011 snapshot (Vilnius)*

Warehouse vacancy:
6.1%

Annual warehouse rent increase:
10.0%

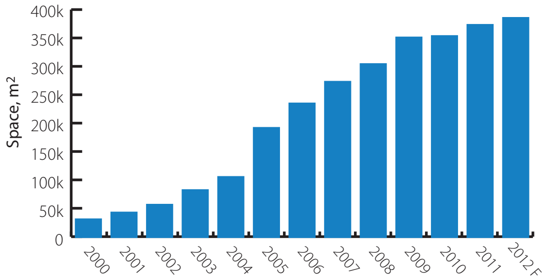
Total new warehouse space (GLA):
372,400 m²

New warehouse rents (m²):
€3.50 – €4.30

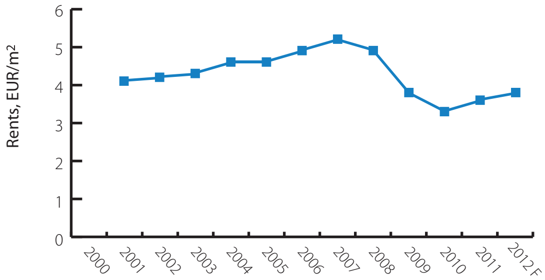
Old warehouse rents (m²):
€1.20 – €2.60

** End 2011 Statistics*

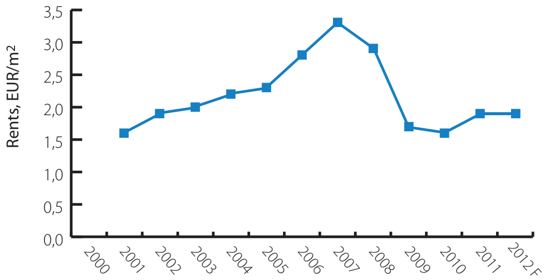
Total modern warehouse space



New warehouse rents



Old warehouse rents



Industrial market

2012 Real estate market report

Demand

The positive mood in the warehouse sector is due to improving results in the transportation sector. According to official statistics, operating revenues of companies providing services typical to storage and transportation in Q1-Q3 2011 increased by 15.2% compared to the same period of 2010. The steadily growing logistics sector has coped well with existing problems, and also shows growth prospects.

In view of the fact that over the past few years only few warehouses have been built, the excess of vacant storage facilities does not threaten this market. In Vilnius, the vacancy rate of new storage premises by the beginning of 2012 amounted to 6.1% and finding premises of a larger area (4,000-5,000 m^2) in completed buildings is very difficult. It's likely that in the end of 2012 this indicator will stay in 5.0-6.0% range as few new projects coming to the market.

Rents

The logistics sector has bounced back. This sector has overcome its problems and has demonstrated some potential for growth in the future. In 2011 rents of both new and old warehouses in the Vilnius region increased by 10% (up to €0.30 per m^2) on average.

For new modern warehouses near the city centre, rents range from €3.50 to €4.30 per m^2, depending on the size. Near or outside the city limits, rents are €2.90 to €4.00 per m^2. Old construction premises are being offered at rents from €1.20 to €2.60 per m^2, depending on the location and quality.

However, it would be too audacious to forecast further growth in rents in this segment. Further prospects in the warehousing sector will be largely determined by the situation in the European economy, eastern neighbours (Russia, Belarus) and consumption in the domestic market. Regardless of the forecasted slowdown in economic growth, it is likely that balanced supply will maintain rents in 2012 at the current level.

Recent developments

	Description	Size (GLA, m^2)	Completion
	**Transekspedicija** (Ukmerges) – local transporting-forwarding company Transekspedicija will finish its 7,600 m^2 logistic centre next to Ukmerges highway in early 2012. The major part of the property is for the company's own use.	7,600	Q1 2012
	**Airport Business Park** (III stage) – after successful completion of the first and second stages, Lithuanian developer Ogmios is developing the third stage of its logistics park in Dariaus and Gireno Street, near the Vilnius Airport. The third stage of the project will be completed by the middle of 2012 and will offer 6,200 m^2 of warehouse premises and 4,100 m^2 of office and retail premises. Warehouse premises are already fully leased (asking rents were €4.30 per m^2). The first and second stages, which were built in 2008-2009, are leased to DHL, Adictus, Avon Cosmetics and others.	6,200 (III stage)	Q3 2012 (III stage)
	**Trilogija** – Homburg Lentvaris, which is owned by Homburg Group, a foreign real estate development and investment company, plans to develop Trilogija, a warehousing, logistics and wholesale park on a 5 ha plot of land in a strategically attractive site in Vilnius (near the highway running between Vilnius and Klaipeda). The park will comprise three individual buildings with the total area of 20,000 m^2. The park is oriented to small and medium-sized wholesale companies who need a small warehouse, office and showroom in one place. During the first stage, it is planned to construct one building of 7,600 square metres. Asking rents for the small sized warehouses are from €4.60 to €5.20 per m^2, and office/retail space €6.30 - €7.20 per m^2.	7,600 (I stage)	2012 (I stage)

New projects

	Description	Size (GLA, m^2)	Completion
	**Transimeksa** (Sausupio) – after a long delay in the industrial market this 12,500 m^2 logistic centre was finished in 2011 in industrial zone of Vilnius on Sausupio Street. The project was built by local company Transimeksa for its own needs, although some part of the space was let to the market. Asking rents are €4.60 per m^2.	12,500	2011
	**Ektornet** (Parapijoniskes) - Ektornet (the subsidiary of Swedbank, which takes over property from defaulting owners) has finished development of a warehousing building near Vilnius (Parapijoniskes, near Rudamina) in Q3 2011. The total area is 8,500 m^2 (7,100 m^2 warehousing/industrial premises and 1,000 m^2 of office premises), and the building is fully leased at rents of €2.30 per m^2.	7,100	Q3 2011

NEW PROJECTS

For leasing opportunities in these or other properties,
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Industrial market

2012 Real estate market report

Investment

At the end of 2011 Atria PLC sold its Vilniaus Mesa factory (7,400 m^2) and land (2.4 ha) in Vilnius (Savanoriu Avenue). Transaction details have not been disclosed.

In Kaunas 25,800 m^2 logistic centre with development potential (Baltic Logistic City) was sold to local investors at the start of 2011. Transaction details have not been disclosed.

Legal notes by Sorainen

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

New projects to double in 2012 as market recovers

Prices

Flats prices in Vilnius grew a mere 0.7% in 2011, while in the other major cities apartment prices fell 2-4%, according to the Ober-Haus Lithuanian apartment price index. Prices grew more in the least expensive segment, i.e. old or new apartments located in residential or middle class (near city centre) districts.

Developers raised prices of new flats by 5-10% in the first half of 2011 due to the diminishing supply of unsold housing, lack of new projects, and optimistic forecasts for the future foreshadowed a shortage of quality housing. However, in the second half of 2011, the situation changed: more new projects appeared in the market and conditions of borrowing became more rigorous, while at the same time forecasts of the country's economic development deteriorated. For this reason, in the second half of 2011 prices stopped rising.

By the start of 2012 prices of newly built apartments in surrounding residential apartment districts ranged from €850 to €1,600 per m² without final fit-out.

Note that while new apartments in Estonia and Latvia are generally sold fully fit-out, in Lithuania new developments are generally sold shell, which is without any fit-out at all. Apartments sold shell require average of €100 - €150 per m² to fit-out with floors, painting, lights, bathrooms and kitchen to a bare economy standard.

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

By the start of 2012, a standard two-room apartment (45-50 m²) in a Soviet-era concrete block building located in a residential district

2011 snapshot (Vilnius)*

Residential investment yield:
3.7%

Annual flat price growth:
0.7%

New apartments built:
737

Avg. apartment area:
54.7 m²

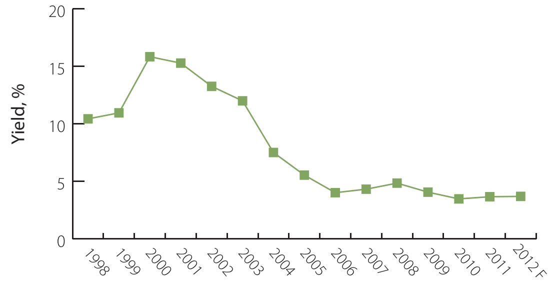
Economy class apartment prices (m²):
€850 – €1,300

Medium class apartment prices (m²):
€1,300 – €1,700

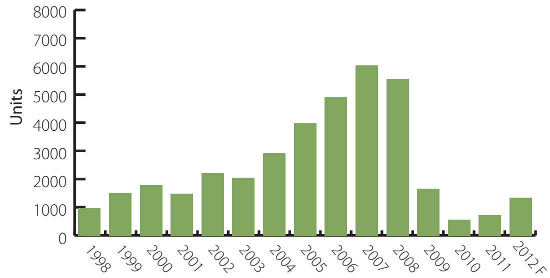
Prestigious class apartment prices (m²):
€1,800 – €2,900

** End 2011 Statistics*

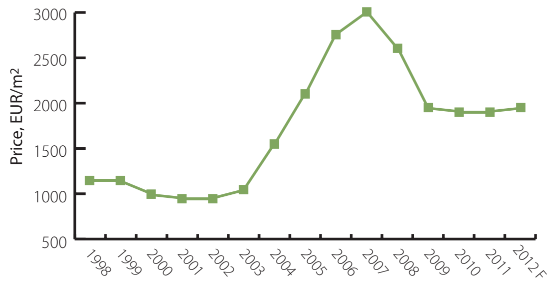
City centre residential investment yield



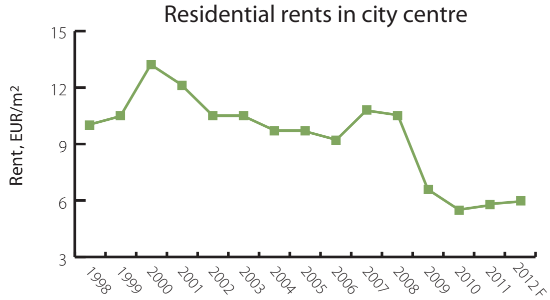
Completed units



Residential prices in city centre



Residential rents in city centre



cost from €39,000 to €50,000. Prices of apartments which are in old brick buildings are 10-15% higher. The lowest price for old construction unrenovated apartments in Vilnius residential districts is €600 per m^2.

Prices were unchanged for more expensive residential property (new and old apartments in prestigious areas or the centre of the city) in 2011.

In the city centre and old town, secondary market apartment prices range from €950 to €1,800 per m^2 for unrenovated and to €1,400 – €3,200 per m^2 for renovated apartments. Prices of new construction apartments are now offered for €1,350 – €2,900 per m^2 without final fit-out.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas, Valakampiai), old apartment prices range from €725 to €2,000 per m^2. Prices of newly built apartments range from €1,200 to €2,000 per m^2 without final fit-out.

In 2011, cheaper (up to €150,000) detached and semi-detached houses gained 5-10% in price, while the prices of more expensive houses dropped by 5-10%.

Buyers still are mostly interested in new construction houses in the outskirts of the city. Such houses are usually attractive due to their lower price and fairly short distance to the city centre. Detached houses (150-200 m^2 with land plots of 600–1,000 m^2) located in a new housing area with full infrastructure in Vilnius district or near city limits (typically 10–20 km from the city centre) are sold as shell at prices ranging from €90,000 to €150,000. Full final fit out generally costs €100 - €125 per m^2 or more.

The price for the same type of fully finished house within the city limits (city residential districts) averages between €145,000 and €280,000, and from €240,000 to €550,000 in the city's more prestigious neighbourhoods where a considerable share of the house price is represented by the high price of land in these districts.

In light of the current situation in the market and fore-casted indicators of economic development, Ober-Haus believes that in 2012 housing prices will remain virtually unchanged.

Supply

According to Ober-Haus data, 15 apartments blocks with 737 apartments were built in Vilnius in 2011, which is a 30% increase compared with the 564 apartments built in 2010. Still these numbers look miserable compared with the 2005-2008 boom period when developers were adding 4,000-6,000 new apartments to the market per year.

The average size apartment constructed in 2011 is 54.7 m^2. This average size has decreased over the past eight years (in 2003 the figure was 65.8 m^2) as the price per m^2 increased, and the market demanded affordable smaller-sized apartments.

In 2009 almost no residential construction projects were started or resumed, but the second half of 2010 and 2011 was much more active. In 2011 there was a spate of new residential constructions as developers tried to fulfil weak supply and greater demand as the economy started to show some positive trends.

In 2012 the market will see twice more new construction apartments compared with 2011. At the start of 2012 Vilnius had, 21 apartments blocks (17 different projects), representing almost 1,500, units under construction. In light of the current market situation and the rate of new construction, it is likely that 90% of these new apartments will be built in 2012, totalling roughly 1,350 new units.

Ober-Haus sees that builders are focusing on cheaper, economy and medium class apartments in residential districts of the city or near the central part of the city. These are in the greatest demand from buyers. Low price is the key indicator in choosing homes. Looking at the 17 projects constructed in Vilnius at the moment, 48% will be medium class apartments that sell at €1,300 to €1,700 per m^2. The aggregate supply of economy class apartments (the selling prices of which, partially finished, are between €850 to €1,300 per m^2) is lower and accounts for 44% of the total supply. The more expensive apartments in the central part of the city or the other prestigious districts (e.g., Valakampiai) account for the remaining 8% of supply (about 120 units), and the demand is also very limited, which is not surprising because their price is in excess of €1,800 per m^2. Only 60 detached and semi-detached houses were built by developers in and around Vilnius in 2011, which is a 30% decrease compared to 2010 and almost three times less than were built in 2009.

Demand

The number of residential property transactions in all main cities of Lithuania grew 10% for apartments and 14% for houses in 2011.

Vilnius in 2011 saw an 18% increase in house sales and a 5% increase in apartment transactions. In 2010 on average 27 sales of private homes and almost 500 sales of apartments were made in Vilnius each month, in 2011 this indicator increased to 32 homes and 520 apartment transactions per month. In the wider Vilnius district, the number of house transactions increased by 11% to 26 units per month.

According to Ober-Haus data, the number of unsold new apartments on the Vilnius primary market decreased by 19% during 2011. At the end of 2010 there were 1,376 unsold newly built apartments in the finished apartment buildings, and 1,120 apartments were left on the primary market at the end 2011.

The market rule which - that the cheapest homes sell fastest - remains in force. It takes the longest to find buyers for more expensive homes, because these buyers are the fewest and their requirements are much stricter. However, sellers of medium class apartments also face considerable challenges because the supply of such apartments is quite large and the sales volume (compared to economy class apartments) is more modest.

As living space per person in Lithuania (25.0 m^2) and Vilnius (24.6 m^2) is 40% lower than in Western European countries, there is still great pent-up demand for new residential space, especially in the more active Vilnius market.

The Mortgage market

The total value of outstanding residential mortgages remained almost unchanged in 2011. Analysts predict a small growth (about 2%) of the total in 2012. Currently in Lithuania, the value of housing loans equals about 20% of GDP. This rate is much lower than the 40-50% rate of residential mortgage loans to GDP in neighbouring Latvia and Estonia. Overall Lithuanians are much less leveraged than their Baltic neighbours.

While in 2010 interest rates, which are tied to Vilibor/Euribor showed a significant drop, it almost didn't change in 2011. Interest rates in the local currency, the litas, on average are 3.9%. The majority of loans are still taken in euros, and the average interest rate on new mortgage loans at the start of 2012 was 3.7%.

The Bank of Lithuania approved Regulations for Responsible Lending, which came into effect from November of 2011 and was applied to new credits issued to natural persons. These rules for lending outline clear limits that credit institutions will not be allowed to breach when issuing loans to natural persons and evaluating their solvency. The regulations establish that the loan-to-value cannot exceed 85% of the market value or purchase price (using the smaller of the two values). The maximum amount of the monthly credit repayment cannot be more than 40% of the person's sustainable income, and the maximum credit term cannot exceed 40 years.

Rents

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

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

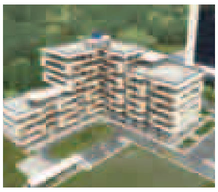
Ober-Haus expects residential rents will keep the same tendencies as their prices in 2012, i.e. will remain stable.

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

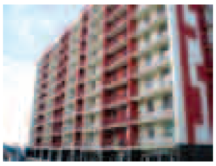
Rents for fully equipped two-room apartments in the central part of Vilnius range from €170 to €400 per month, and for three-room apartments from €220 to €700 per month. Rents for bigger and good equipped apartments in the Old Town can be from €800 to €1,000 per month.

Houses of 100–200 m^2 in the outskirts and living suburbs of Vilnius are usually offered for rent at €400 to €800 per month. Prices in prestigious districts and city centre or Old Town are higher and vary from €650 to €1,700 per month.

New projects

	Description	Price (m²)	Completion
	**Konarskio Apartments** – local developer Vilbra is building a 9-storey apartment building in the Naujamiestis district on S. Konarskio Street. One to four room apartments range from 36 to 110 m². Construction of 90 apartments and commercial premises is scheduled for Q2 2012. Sales prices of the available apartments without fit-out are from €1,450 to €2,000 per m². Over 45% of the apartments have been sold or reserved.	€1,450 - €2,000	Q2 2012
	**Lvovo Street** – construction and development company Statybu Gausa is finishing its residential project in the new city center on Lvovo Street. The 7-storey residential building comprises 41 apart¬ments with sizes from 44 to 83 m². Construction will be completed by the start of 2012. Selling prices without fit-out range from €1,450 to €1,700 per m².	€1,450 - €1,700	Q1 2012
	**M.K.Ciurliono Apartments** – local company Veikme is building 89 prestigious apartments on M.K.Ciurlionio Street, near the city centre and Vingis park. The 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 from 38 to 102 m² are planned for the 4-9 storey building. There are also plans to incorporate commercial premises. The total area of the project will be 14,600 m². Construction will be completed by mid-2012. Sales prices of the available apartments without fit-out are from €1,800 to €2,800 per m².	€1,800 - €2,800	Q3 2012
	**Helios City** (expansion of B tower) – the construction of a residential and commercial complex in the Naujamiestis district, which comprises both 9 and 27 storey towers, was completed in 2007. At present, development of an additional 9 storeys on top of the existing 9-storey residential building is almost completed. About 35 new apartments and a few penthouses on the top floors are offered to the market. Sales prices of the available apartments without fit-out start from €1,300 per m². Construction will be completed in start of 2012	€1,300 - €2,700	Q1 2012
	**Ozas Park** (3A block) – in the territory of Ozas Park, near Siemens Arena and Vichy Aquapark, local developer Realco is building a third residential block with 144 new apartments in mid-2012. The apartments are from 37 to 96 m², and selling price without fit-out ranges from €1,200 to €1,450 per m².	€1,200 - €1,450	Q3 2012
	**Pavasaris** – after successful completion of six 6-9 storey residential blocks in Jonazoliu Street, next to the Lazdynai hospital during 2007-2010, further development of this project is in progress. The K8 block will be built in late 2012 with 150 new apartments. Sales prices of the available apartments in last built blocks (K-4 and K-6) without fit-out are from €1,200 per m².	€1,200 - €1,400	Q4 2012
	**Antakalnis' Terraces** – local developer MG Valda is converting the 5 ha Lithuanian Film Studios territory in Antakalnis district into modern residential quarter. The first stage in 2011 will have eight residential blocks with 189 apartments. One to five room apartments range from 40 to 130 m², which will have balconies or individual terraces. Sales prices of the available apartments without fit-out are from €1,400 to €1,800 per m².	€1,400 - €1,800	Q4 2011
	**Bendoreliai** – local developer Markeris has finished construction of 12 row houses in Bendoreliai District (12 km from Vilnius City centre), next to the Old Ukmerges Road. Partially furnished 109 m² row houses with land plots of 200 m² were successfully sold for €87,000 - €89,000. Another 24 row houses will be built in 2012 with selling prices of €89,000 - €94,000.	€740 - €800	Q2 2012

Recent developments

	Description	Price (GLA, m²)	Completion
	**Zirmunu Namai** – local development company MG Valda bought this unfinished residential building at the end of 2010 and after one year has completed the construction. This residential 9-storey building has 108 apartments. The apartments vary from 32 to 75 m², and sell without fit-out for €1,250 to €1,500 per m².	€1,250 - €1,500	2011
	**Mindaugo 44** – local developer Novotersa has completed construction of 71 apartments building next to Old Town in the end of 2011. Two to four room apartments range from 47 to 97 m². The sales price of the available apartments without fit-out are from €1,200 to €1,300 per m². Underground parking costs €7,800 per space and above ground parking space €3,500. Almost 90% of the apartments have been sold.	€1,200 - €1,300	Q4 2011
	**Riesuto Namai** – in the end of 2011 developer Solo House has finished a four storey building in the Karoliniskiu district, L. Asanaviciutes Street. The building comprises 33 apartments with commercial premises on the ground floor. The apartments are sized from 39 to 70 m². Almost 60% of the apartments have been sold or reserved.	€1,100 - €1,300	Q4 2011
	**Ozas Park** (2B block) – in the territory of Ozas Park, near Siemens Arena and Vichy Aquapark, Realco finished one more residential building with over 120 apartments. Almost 90% of the apartments are sold by the end of 2011. Sales price of the available apartments without fit-out are from €1,150 to €1,300 per m².	€1,150 - €1,300	Q4 2011
	**Eitminu Street** – in the end of 2011 local company Anreka has finished another 108 apartments on Eitminu Street, in the Pasilaiciai district. 1-3 rooms apartments range from 30 to 75 m². Sales price of the available apartments without fit-out are from €850 to €1,100 per m². Over 90% of the apartments have been sold.	€850 - €1,100	Q4 2011

New projects

For leasing opportunities in these or other properties,
contact Ober-Haus on +370 5 210 97 00

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.

Activity in land market sustained only by individuals

Prices

In general, no noticeable price changes were recorded in the land market in 2011. Increased activity and a 5-10% increase in prices were recorded in the agricultural land market only. It is likely that the market for agricultural land plots will also depend on the EU policy of payments for farmers.

Large land plots for residential or commercial developments are not in demand and prices will not change. The prices of smaller land plots, which are purchased for the construction of individual houses, can increase slightly.

Asking prices for plots in the city centre suitable for residential development (with detail plan or construction permit) now stands for €300 - €1,500 per m^2 of land, or roughly €200 - 700 per gross buildable square metre of residential space.

Plots in the living suburbs for residential apartment developments (with detail plan or construction permit) now range from €60 - €200 per m^2, which works out to roughly €70 - €180 per gross buildable square metre of residential space.

Prices for plots for private homes with partial or full infrastructure didn't change in 2011, and are €20-35 per m^2 in the cheaper suburbs, to as high as €50-80 per m^2 in Riese, Bajorai, Kalnenai, Gulbinai.

Demand

Total land transactions increased 13% in 2011, to 340 transactions per month in Vilnius City and in Vilnius District, after growing 19% in 2010, according to the data of the Central Registry.

Demand for land plots for large-scale residential or commercial projects is very weak. Developers and speculators have large

2011 snapshot (Vilnius)*

Annual land price growth (agricultural):
7.5%

Total land transactions growth (Vilnius city & district):
13%

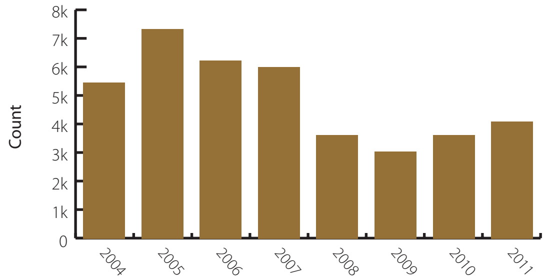
Land prices in city centre for residential development (m^2):
€300 – €1,500

Land prices in city suburbs for residential development (m^2):
€60 – €200

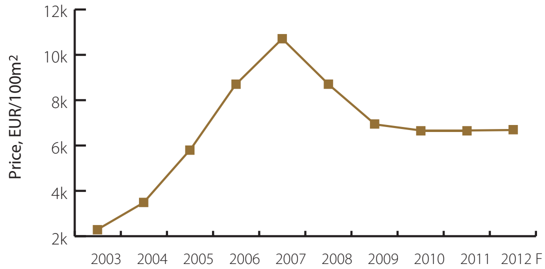
Land prices in city suburbs for private homes (m^2):
€20 – €35

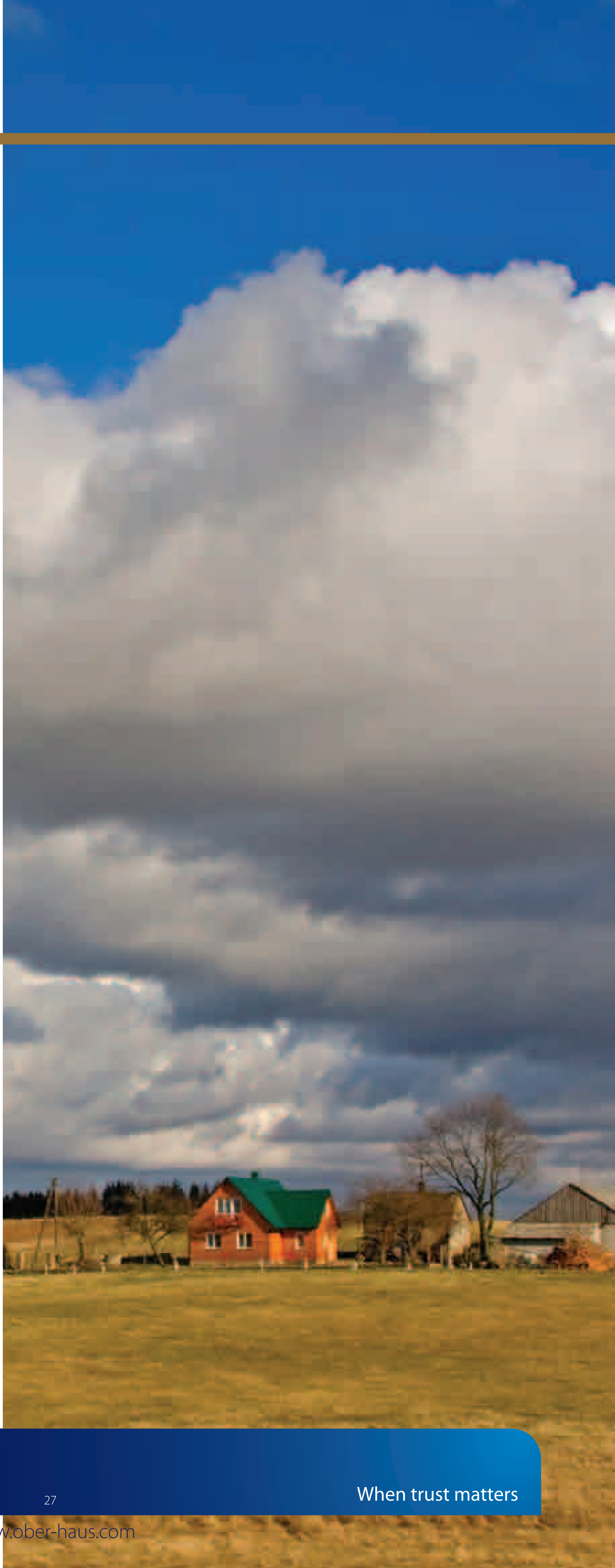
** End 2011 Statistics*

Land transactions in Vilnius city & district



Land prices in Vilnius city & district





land banks, and developments have been suspended, it seems unlikely that there will be any great interest on the part of buyers in large parcels of land. As in 2010 it seems that the only activity in the land sector will only be by individuals who are looking for small plots of land to build single-family houses.

News

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

In 2011 the Lithuanian Parliament passed a new land tax: as of 2013, land will be taxed at 0.01% to 4.0% of its assessed market value, which will be established by mass or individual valuation.

Legal notes by Sorainen

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

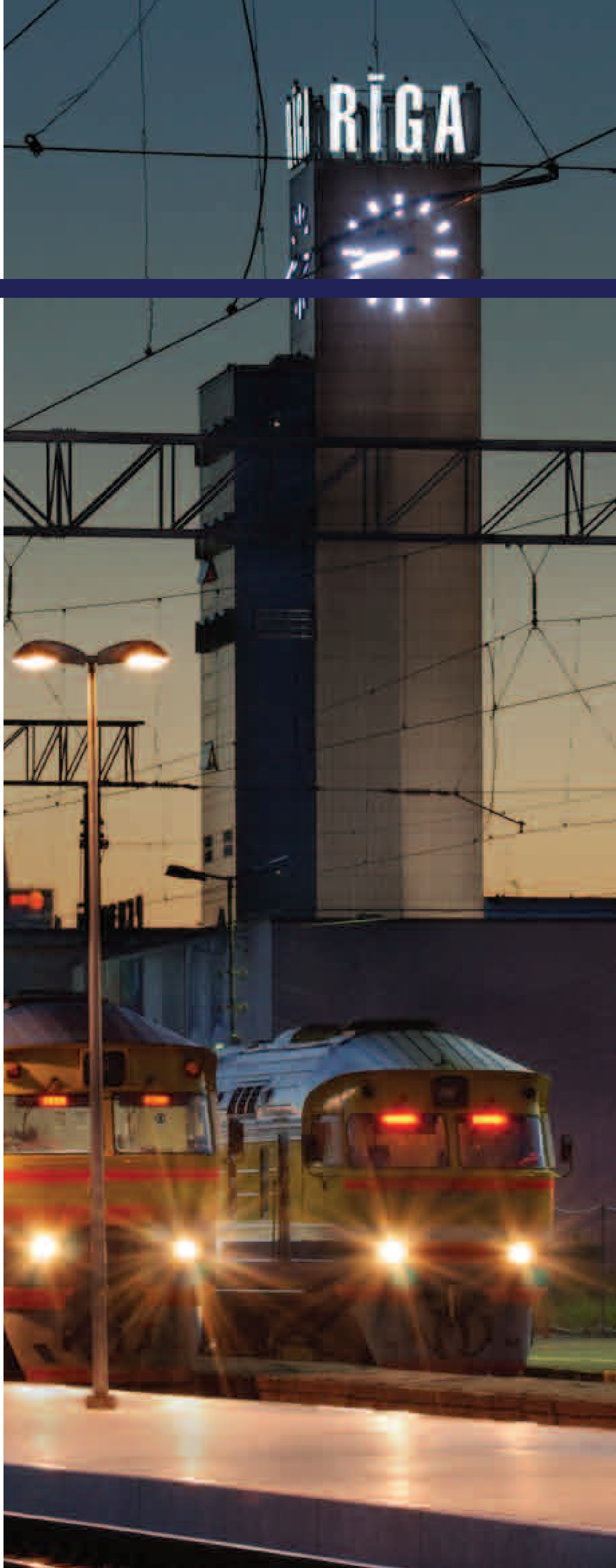
Private land is usually leased for agricultural activities. Lease of state-owned land under private buildings is very common.

In addition to Kaunas and Klaipeda Free Economic Zones, five new economic zones will be established in 2012 and all of them are planned to be managed by a private management company.

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

Latvia

2012



Latvia

Country overview

Real estate market report 2012

Geography

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

Currency

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

Social indexes

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

2012 forecasts

GDP growth, %:	2.0
Private consumption growth, %	5.0
Average annual inflation, %	3.1
Unemployment rate, %	9.3
Exports annual growth, %	11.0
Imports annual growth, %	9.0

Population

Population	2006	2007	2008	2009	2010	2011
Latvia	2,295,000	2,281,000	2,271,000	2,261,000	2,248,000	2,229,000
Riga	728,000	722,000	717,000	713,000	703,000	699,000
Daugavpils	109,000	108,000	106,000	105,000	103,000	101,000
Liepaja	86,000	85,000	85,000	84,000	83,000	82,000
Jelgava	66,000	66,000	66,000	65,000	64,000	63,000

Economics

Economics	2006	2007	2008	2009	2010	2011
GDP growth, %	12.2	10.0	-4.2	-18	-0.3	5.4
GDP per capita, €	6,948	8,725	9,570	8,256	8,031	n/d
Private consumption growth, %	21.2	13.9	-11	-23.5	-12	2
Average annual inflation, %	6.5	10.1	15.4	3.5	-1.1	4.4
Unemployment rate, %	6.8	6.1	7.5	17.2	14.3	12.1
Average monthly gross wage, €	430	566	684	650	632	644
Average gross wage annual growth, %	23.6	31.5	20.5	-5	-2.8	5.1
Retail sales growth, %	25.3	1.0	-13.2	-28	-2	3
FDI per capita, €	2,499	3,225	3,553	3,654	3,700	n/d

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

Economy

2012 Real estate market report

Recovery boosts demand for all property segments

After three straight years of economic contraction in 2008 – 2010, when GDP fell a total 19%, Latvia returned to growth in 2011 with 5.4% economic growth. The consensus projections are for continuing moderate growth of 2.0% in 2012 and3.2% in 2013.

The downturn was triggered by the shutoff of foreign credits to Latvia during the 2008 crisis. Latvia then required a 7.5 billion euro bailout led by the International Monetary Fund (IMF), the terms of which included drastic cuts in government spending and higher taxes, further decreasing demand. That program ended in 2011.

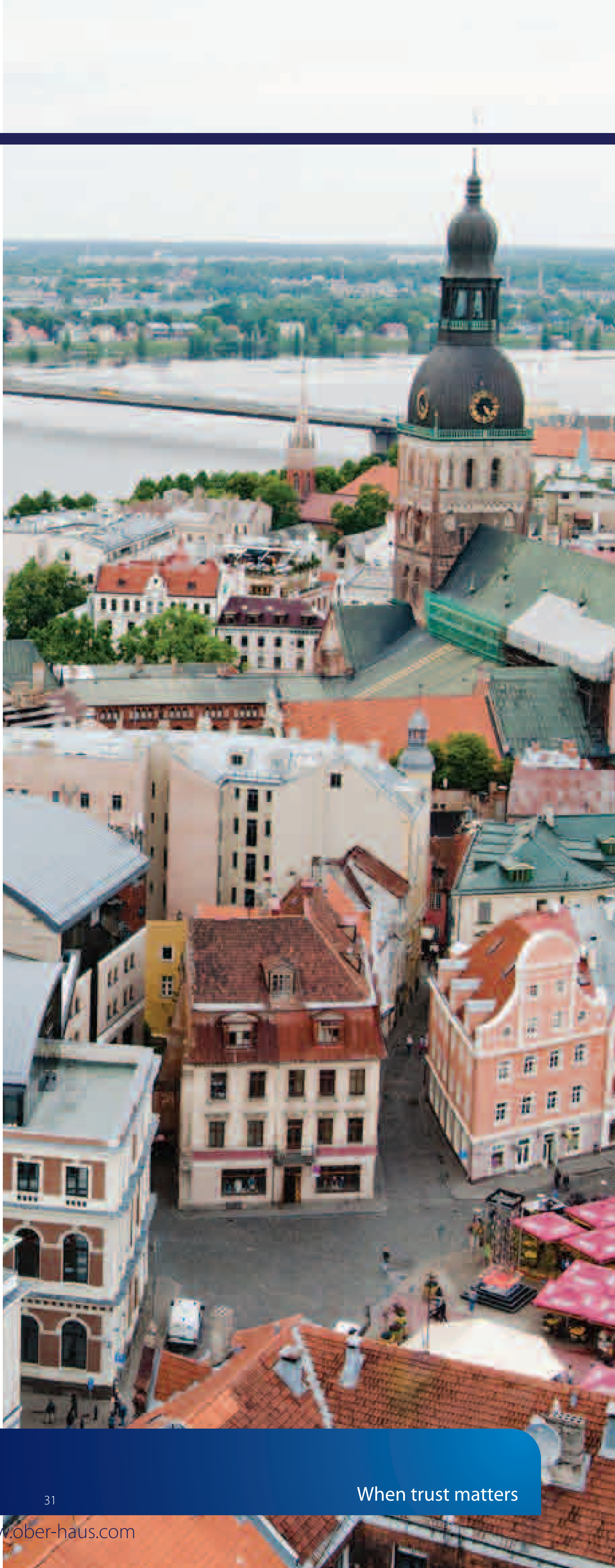
Latvia's goal was to retain its currency peg to the euro, which it managed, while trying to reduce costs and gain export competitiveness. These goals were achieved, but at a loss of 19% of the workforce, who emigrated to find jobs abroad.

The current recovery is based on increasing exports, which grew 33% in 2011, the third highest rate of growth in the EU.

Inflation, which prior to the crisis hit a high of 18%, ran at 4.5% in 2011 and is expected to be just 2.5% in 2012 and 2013.

Latvia's banking sector also went through difficult times, with the largest bank Parex nationalized during the crisis, and the bankruptcy of the mid-sized Latvian bank Krajbanka at the end of 2011.

Throughout the crisis Latvia's main goal was preservation of its currency's peg to the euro at the rate of 0,7028 Latvian lats (LVL) to one euro (1LVL = 1.4299€), with the goal of joining the single currency at the earliest date possible (as Latvia's northern neighbour Estonia did in 2010). The optimistic date for entry is 2014 but it is unclear whether Latvia will meet the criteria for years to come.



Vacancy down as demand outstrips supply

Supply

No new office space was delivered in 2011, as the economic downturn of 2008-2010 halted most projects. The previous year, 2010, had seen 19,500 m² of new space, the majority of which (15,000 m²) was built to suit for one end user, DNB banka. Total modern office stock now stands at 672,000 m².

As the economy recovers, some suspended projects are now being resumed. Z Towers, for example, has restarted and will complete in 2014.

Other completely new projects will start, including the 43,000 m² SRS building to be completed by 2014, see below.

More short-term serviced office offers have become available, as buildings seek to attract new tenants. Previously there was only Valdemāra Centrs, but last year saw serviced office offers in Duntes offices, as well Regus, as the biggest provider of serviced office rental solutions, at Tērbatas Street 14.

2011 snapshot (Riga)*

GDP growth:
5.4%

Total office vacancy:
20.0%

A class office vacancy:
8.0%

B class office vacancy:
25%

Office space:
672,000 m²

Vacant office space:
134,400 m²

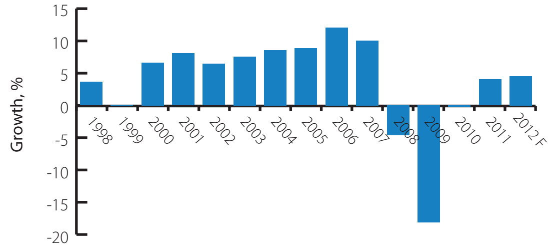
A class office rents (m²):
€8.00 – €12.00

B class office rents (m²):
€6.00 – €8.00

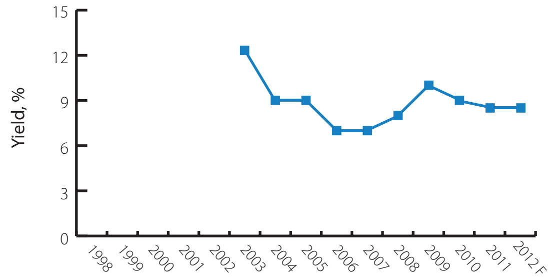
Additional office costs (m²):
€2.35 – €5.00

** End 2011 Statistics*

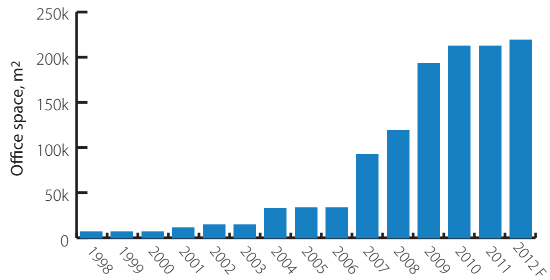
GDP growth



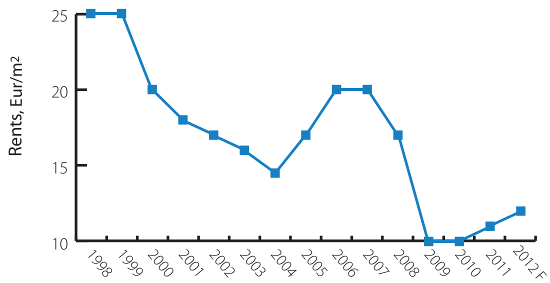
A class office investment yield



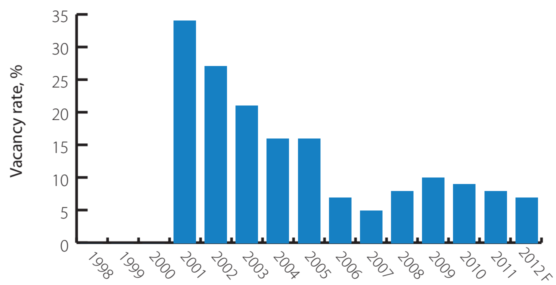
Total A class office space



A class office rents



A-class office vacancy rate, %



Office market

2012 Real estate market report

Demand

Total net take-up was almost 35,000 m^2 in 2011. Given the total stock of 672,000 m^2 and no new buildings in 2011, that rate of leasing was enough to push the vacancy rate down from 25% at the start of 2011 to 20% by the end of the year.

Take-up was strongest for modern offices in the CBD, but poor for offices located in unfavourable places. The recently developed Europa Business Centre, for example, is now 90% leased after launching at the depths of the crisis in June 2009.

Of course the still high 20% vacancy rate means tenants with leases to renew are taking advantage of the situation to lower their rents, either renegotiating with their current building owner, or moving to a new location.

There is high demand for new offices with parking, something that older offers in the city centre lack.

Companies such as Cytec –a global specialty chemicals and materials company focused on developing, manufacturing and selling value-added products – are looking to make centrally located Riga their base for the Baltic States.

Rents

Rents for A class offices in Riga are mostly in the €8.00 to €12.00range, although some such as Citadele Bank Headquarters and Rietumu Capital Centre reach as high as €15.50 - €16.00 per m^2.

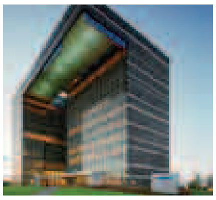
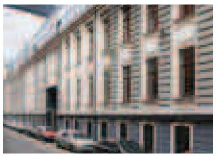
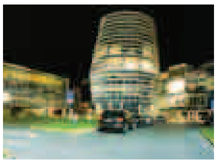
The most successful buildings, such as Europa Business Centre and Ostasskati raised their rents as much as 10% in 2011.

Typical utilities and service charges in A class buildings range from €2.35 to €5.00 per m^2 per month.

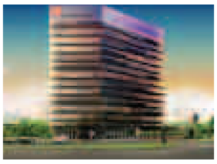
Rents for B class offices in Riga range from €6.00 to €8.00 per m^2, unchanged from the previous year.

Ober-Haus believes that rents will rise in 2012 as take-up continues, no new developments are in the near-term pipeline, and vacancy drops further putting upward pressure on rents.

Recent developments

	Description	Size (GLA, m^2)	Completion
	**DNB banka** – a modern A class business centre with a total area of 15,000 m^2, developed by Skanstes 12 Ltd. The building is let by DNB banka and its subsidiaries. The property is located on Skanstes Street district, which is fast becoming the financial centre of Riga with the head offices of major banks and financial companies. The project was delivered in the summer of 2010, and is 100% leased.	12,000	Q3 2010
	**Z1 Selected Offices** – a modern 4,500 m^2 city centre office building located in the Quiet Centre district on Dzirnavu Street next to the Albert Hotel. Developer Larix Property (part of the Inter IKEA Group) delivered the building in January 2010 for rents of €12.00 per m^2. The building shares 170 underground parking spaces with the hotel. Currently there are 1,000 m^2 available for lease.	4,500	Q1 2010
	**Europa Business Centre** – a modern A class office building, developed by leading Lithuanian developer Hanner, located at the intersection of Brivibas street and Gustava Zemgala avenue. The 15,400 m^2 space was delivered on June of 2009 for rents of €11.00 per m^2. There are 500 parking spaces on the property. The building was 90% leased at the start of 2012.	15,400	Q2 2009
	**Ostasskati** – in 2009 developer Ostas Skati delivered an additional 1,827 m^2 in the third stage of this office building. Rents start at €9.00. The complex is 86% leased as of the start of 2012.	1,827	Q3 2009

New projects

	Description	Size (GLA, m^2)	Completion
	**Jupiter Centre** – a new 6,650 m^2 office development on Skanstes Street by local firm Development Projects, this planned B+ class office will be completed in August 2012 and offered for rents of €12.00 to €15.00. The 14 storey building will have 170 parking spaces, distinguished architecture and high class, sophisticated technological solutions aimed at creating a comfortable business environment for their customers and partners. Jupiter Centre was created with the principles of environmentally friendly and innovative solutions for saving energy.	6,650	Q3 2012
	**SRS Office Complex** –a B class project will be located on the territory of the multifunctional development complex Ezerparks with 43,000 net leasable m^2, of which 40,000 m^2 is built to suit for the State Revenue Service of Latvia (SRS) and 3,000 m^2 offered to the market. The building will be opened in January 2014.	43,000	Q1 2014

NEW PROJECTS

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

Office market

Investment

Rigensis Bank AS bought the office building at Teatra 3, with the total area of 1500 m^2, for €1.85 million. They are planning to rebuild the property and open their central office there by the end of 2012.

Russian investors are looking to buy relatively small office buildings ranging from 400 to 2,000 m^2. We expect some transactions in 2012.

Legal notes by Sorainen

Rents

Rents are paid in advance, usually monthly, sometimes quarterly, and are typically tied to the euro but indexed to local or EU inflation. Recent practice shows that an option to index rent according to European inflation is used more commonly. In addition to rent, tenants usually pay a maintenance fee and 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.

Investments

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

Latvia

Rents stop falling, and the high street recovers

Supply

2011 saw one new multi-tenant hypermarket anchored centre, the RIMI anchored Damme centre in Imanta. Additionally 2011 saw the opening of a new Prisma hypermarketand one new Maxima supermarket in Riga, increasing total retail space by 27,000 m^2.

The last multi-tenant retail centre to be opened before that was the multi-storey city centre Galleria Riga in October 2010, with 24,000 m^2 of retail area. Prior to that was the 49,000 m^2 Riga Plaza opened in March 2009. Total modern shopping centre space in Riga is 869,000 m^2.

2011 snapshot (Riga)*

Consumer retail growth:
3.2%**

Avg. salary (brutto):
€664

Avg. salary growth:
1.5%

Retail investment yield:
8.5%

Total mall space(m^2):
869,000 m^2

Shopping area per capita:
1.24 m^2

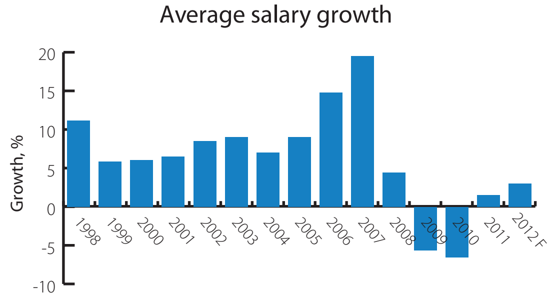
Total leasable area:
650,000 m^2

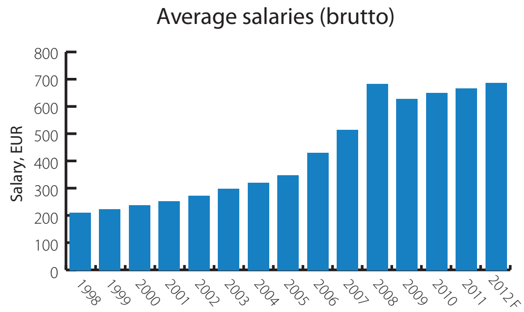
Retail rents (m^2):
€5.00 – €50.00

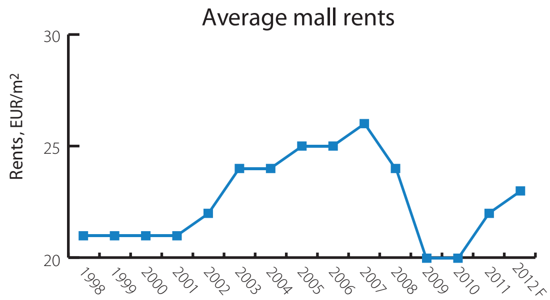
Retail rents for anchor tenants (m^2):
€5.00 – €9.00

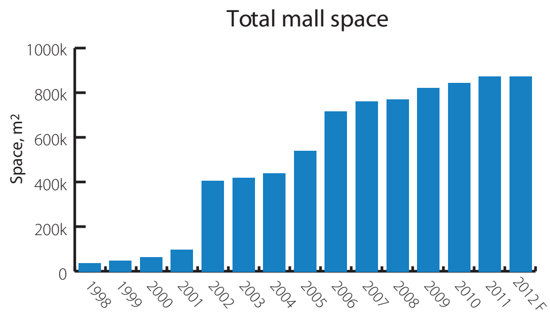
Retail rents in Riga high streets (m^2):
€8.00 – €25.00

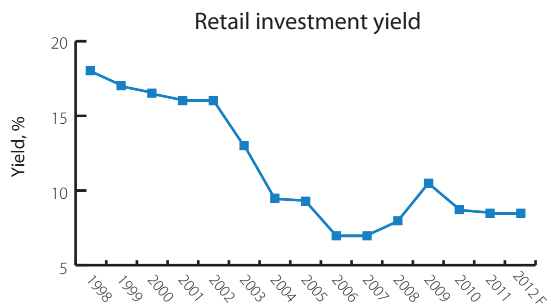
** End 2011 Statistics*
*** forecasts*











Retail market

2012 Real estate market report

Demand

Most shopping centres are nearly fully leased, with minimal vacancy rates. The vacancy at the largest shopping centres at the start of 2012 was zero at Spice and Alfa, just 1.4% at Mols, 2.1% at Origo, 2.5% at Dole, 3.5% at Domina Shopping, and 3.3% at Galeriaja Centrs, although vacancy was 9% at Riga Plaza and Olimpija.

The city centre high street recovered in 2011, with vacancy reduced to just 5% after reaching nearly 20% in the depths of 2009. The greatest demand is for retail space from 50 to 150 m².

New brands to enter Latvia in 2011 included Rieker, Crocs, Snobs, Camicie&Cravate, Brandwatch, and Ingrid Millet. H&M (Hennes&Mauritz) plan to open in Alfa and Galleriga Riga in autumn 2012.

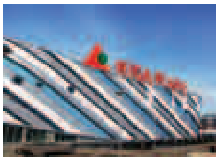
Ober-Haus sees increased demand for retail spaces in the largest suburbs of Riga (Purvciems, Pļavnieki, Āgenskalns, and Ziepniekkalns) by food and household chains, and by construction material suppliers.

Rents

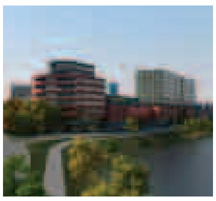
After a 50% fall in rents in 2009 on the high street and in the most expensive retail centres, rents have started to recover. High street rents are now from €8 to €25per m². In the prestigious OldTown retail space rents are now €10 to €35 per m² (some locations had topped €100 per m² before the crisis).

In shopping centres rents start from €5 per m² for large size units (1000 m² or more), from €7 to €25 per m² for medium units (150 -300 m²), and €25 to €50 per m² for small units (under 100 m²). Anchor tenants, such as supermarkets, typically pay €5 to €9 per m².

Recent developments

	Description	Size (GLA, m^2)	Completion
	**Imanta Retail Park** – a new 8,000 m^2 hypermarket of the Finnish Prisma foodstore chain, opened in September 2011 on the territory of the former Radiotehnika factory. Its second phase in June 2012 will add 10,000 m^2 of other shops and bring the total area to 18,000 m^2.	18,000	Q3 2011
	**Maxima Zolitūde** – Canadian developer Homburg Group opened a 2,503 m^2 supermarket for the Lithuanian Maxima foodstore chain in Zolitūde on PriedainesStreet, total rentable area is 4,000 m^2. The project will include a residential stage, which will be a 12-storey apartment tower. Homburg Group will deliver two more supermarkets to Riga in 2012 in Purvciems and Mežciems.	4,000	Q4 2011
	**Damme** – a new RIMI hypermarket anchored shopping centre located in Imanta, the largest new RIMI in the last five years, with 40 other retail units, totalling 15,000 m^2, opened in March 2011 at a development cost of €20 million.	15,000	Q1 2011
	**Galleria Riga** – This eight-storey shopping centre on Dzirnavu Street opened in October 2010 with 24,000 m^2 of retail space, with the top floor featuring an open terrace with restaurants, bars, and a panoramic view of the city.	24,000	Q4 2010
	**Riga Plaza** – built by Plaza Centers NV and New Century Holding opened in March 2009, this shopping and entertainment centre has 49,000 m^2 of leasable retail space, including 140 stores, a Prismahypermarket, an eight screen 3D cinema complex, bowling, restaurants, cafes and a family entertainment site. The centre is located next to the busy Salu Bridge on the south bank of the River Daugava, three km from the city centre.	49,000	Q1 2009

New projects

	Description	Size (GLA, m^2)	Completion
	**ZUNDA** – Lithuanian developer Akropolis Group plans one of the largest retail and entertainment centres in the Baltics to be delivered in 2014 or 2015. Zunda will house the largest variety of shops in the region and most entertainment in one place. The project, located on Daugavgrivas 31, will have more than 92,000 m^2 of retail space and 91,000 m^2 office space, including a Maxima hypermarket. Total investment will reach €100 million.	183,000	2014 - 2015

NEW PROJECTS

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

Retail market

2012 Real estate market report

Investment

BPT Optima sold its hypermarket on Valdemara Street to its long-term tenant Rimi.

Investors are interested in cash flow objects with yields 8% or better in prime Riga city centre, or 10% or better in suburbs/other cities.

Legal notes by Sorainen

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

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

Vacancy halves, but no major projects in pipeline

Supply

There were no new warehouse developments in 2011. Planned projects were suspended including last year's planned Wellman extension in Salaspils.

In 2010 developers brought 14,000 m² of new warehouse space to market. The total modern space available in Riga and the immediate surroundings is now 492,000 m². Most are outside of the city located on main highways.

Both Dominante Park and Granita Industrial Park are ready to develop another 40,000 m² each, but neither now has the required pre-leases.

Individual properties seized by banks during the crisis are starting to be put back on the market, which will increase supply.

Demand

Due to new leases and the lack of new supply, the vacancy rate for industrial space fell to 25% at the start of 2012, from 55% two years ago at the start of 2010.

The most demand is for warehouses and manufacturing facilities with 1,000 to 1,500 m².

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

Rents

After falling 40% during the crisis years, warehouse rents rebounded 5% in 2011 on greater demand. Warehouse rents in Riga now range from €2.50 to €4.00 per m², and on the surrounding ring road rents range from €1.50 to €3.00 per m².

2011 snapshot (Riga)*

Warehouse vacancy:
25%

Annual warehouse rent increase:
5.0%

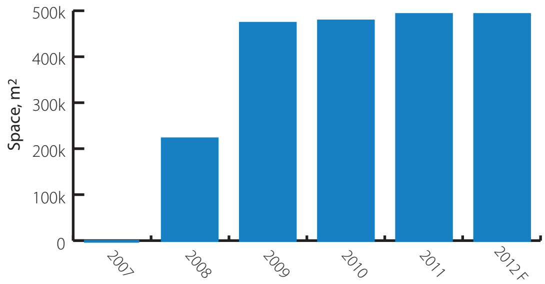
Total leasable area:
492,000 m²

New warehouse rents (m²):
€2.50 – €4.00

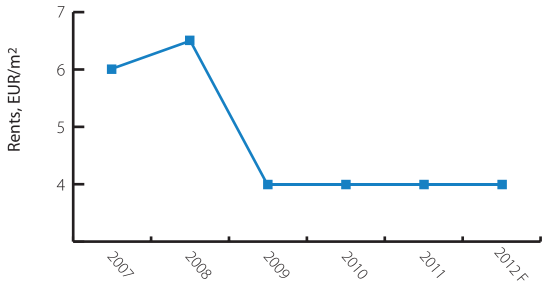
Warehouse rents on surrounding roads (m²):
€1.50 – €3.00

** End 2011 Statistics*

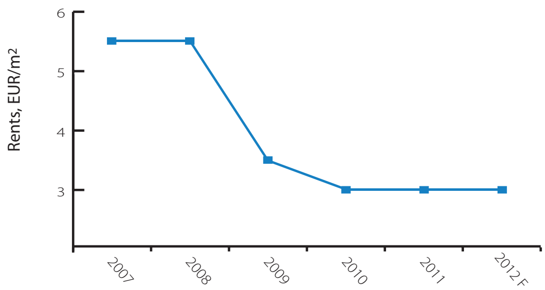
Total modern warehouse space



New warehouse rents



Warehouse rents on surrounding roads



Recent developments

	Description	Size (GLA, m^2)	Completion
	**DLW** – warehouse and office complex built in spring 2009 by developer DLW, located in Krustakalni, Kekava. The complex comprises 13,500 m^2 of warehouse space and 1,900 m^2 offices. Rents are €4.00 per m^2 for warehouses, and €6.00 per m^2 for office premises. The property was 88% leased at the start of 2012.	15,400	Q2 2009
	**NordicTechnologyPark**– one of the most successful industrial parks in Riga, located in Jurkalnes Street, Riga, comprising 36,800 m^2 of industrial and warehouse space and 8,400 m^2 of offices. Developed by NP properties, and delivered in 2007 on the site of a former electronics factory it is now a modern industrial park with fully reconstructed buildings that meet modern commercial and warehousing needs. Thirty-nine domestic and international companies employing more than 500 people have chosen this park as their location. Tenants include companies in the wood processing, publishing, clothing and other industries. Rents are €3.00 per m^2 for warehouses, and €6.00 per m^2 for office premises. The complex was 100% leased at the start of 2012.	45,200	2007
	**Carn Holdings** –a new warehouse complex built in 2010 by Carn Holdings, located in Rudeni 2, Sauriesi, Salaspils. The complex comprises 14,000 m^2 of warehouse space, built for Kuehne+Nagel Latvia.	14,000	2010

NEW PROJECTS

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

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.

Second year of price growth triggers developers interest

Prices

Prices of newly developed apartments rose 6% in the city centre and 15% in the suburbs in 2011, building on growth of 12% in the centre and 8% in the suburbs in 2010. Still, that growth comes after a collapse in 2009 of 35% in the centre and 45% in the suburbs, so prices are still well below the pre-crisis peak.

Prices of new apartments in the city centre and old town range from €1,400 to €3,800 per m^2 at the start of 2012, and prices for very exclusive projects can even reach €4,800 per m^2.

New apartments outside the city centre sell for €950 to €1,500 per m^2 at the start of 2012. New apartments in these suburban areas are sold fit-out with everything except kitchen.

On the secondary market prices grew by just 1.7% in Soviet–era buildings, to €575 per m^2 on average at the start of 2012. Growth appeared stronger at the start of 2011, but weakened in Q2 of 2011, and was flat in the second half of the year.

Supply

Just 500 new units were delivered in Riga in 2011, slightly less than the 580 units delivered in 2010, and a staggering drop from the 6,780 units delivered in pre-crisis 2007.

At the start of 2012, there were just over 1,800 unsold newly developed apartments available on the primary market.

Due to growing demand and less risk aversion among developers, we expect at least 930 new apartments will be completed for deliveryto market in 2012.

According to Ober-Haus's latest data, banks are selling 323 units and are planning to put into market another 652 units during the first quarter of 2012. Usually banks are sells their apartments for average market price, also banks offers favourable credit terms to buyers.

2011 snapshot (Riga)*

Residential investment yield:
4.1%

Flat price growth:
5.8%

New apartments built:
500

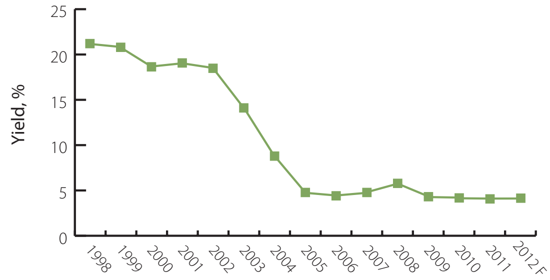
Economy class apartment prices (m^2):
€950 – €1,100

Medium class apartment prices (m^2):
€1,100 – €1,500

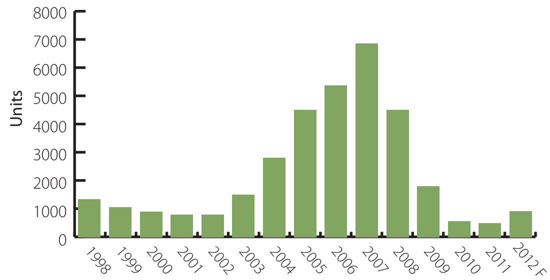
Prestigious class apartment prices (m^2):
€1,400 – €3,800

** End 2011 Statistics*

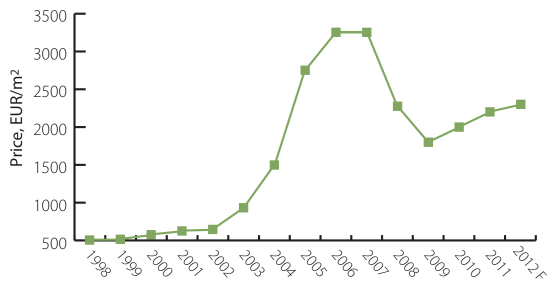
City centre residential investment yield



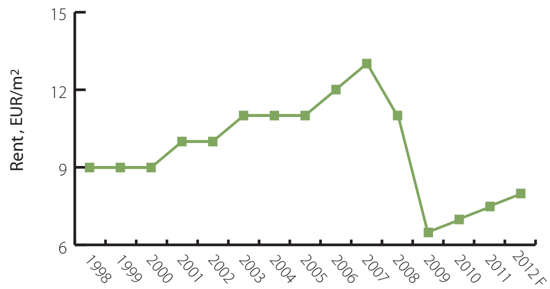
Completed units



Residential prices in city centre



Residential rents in city centre



Residential market

2012 Real estate market report

The supply of apartments in renovated houses with an area from 70 to 150 m^2 in the price range from €150,000 to €300,000 in the quiet centre and old town still does not satisfy demand.

DEMAND

There were 1,023 apartments sold in 2011, of which 547 were new apartments sold by developers, and 476 were either secondary (used) apartments or apartments auctioned in bank foreclosures.

Demand for, and sales of, apartments in new projects has grown compared to the previous year.

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

Local buyers are showing interest in one to three room apartments. For local buyers, an important criteria is the heating system: preference is given to autonomous gas heating. Another critical factor is the overall management costs. In the city centre, an important distinction is parking availability.

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

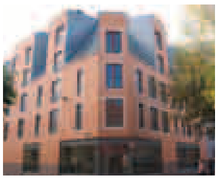
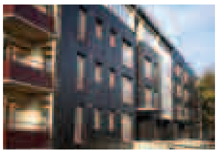
The highest demand is for three to four room apartments (80 to 140 m^2) in the city centre with full finishing, up to €250,000 and for two and three room newly built apartments (60 to 80 m^2) in the suburbs also with full finishing costing up to €80,000.

Another driver of demand is the 2010 year law giving five year visas (good for travel throughout the Schengen Zone – essentially Europe less the UK) to people buying property over €145,000. In the last two years, over five hundred buyers and their dependants, mostly from Russia, have taken advantage of this program to get access to the European Union.

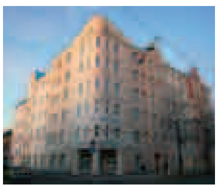
THE MORTGAGE MARKET

Loans are offered in euros, for up to 40 years in length. The average interest rate at the start of 2012 was6-month euribor (1.4%) plus an average margin of 2.0% (depending on the customer's financial standing), to total 3.4%. Clients can borrow up to 90% of a property's value, or up to 75% for Soviet-era apartments.

Recent developments

	Description	Price (m^2)	Completion
	**Aleksandra** – located in the city centre, on Ausekla Street 4, developed by AK Invest. The project is A seven-storey building with 32 apartments and underground parking. Apartment sizes range from 50 to 450 m^2, with prices starting at €4,500 per m^2 for fully finished units. The project was completed in 2010, and 20% of the units are sold.	from €4,500	2010
	**Rīdzenes Rezidence** – located in the city centre on Marstala Street 17, developed by Namu Buvagentura. This project consists of two seven floor buildings with 68 apartments and underground parking. Apartments range in size from 74 to 330 m^2, with prices starting at €2,400 for apartments without final fit-out. The project was finished in 2007 but has sold only 10% of the apartments due to the large unit sizes. The whole project was bought by a new owner, ZalaisFonds, which is dividing the units into smaller apartments for sale.	from €2,400	2007
	**Riverstone**– located in the Pardaugava, on Kipsalas Street 4, developed by YIT Celtnieciba. This Project comprises of two four-storey buildings with 74 apartments and underground parking. Apartments range in size from 29 to 71 m^2, with prices starting at €1,625 per m^2 for a fully finished apartment. The project was finished in October 2011 and 80% of the apartments are sold.	from €1,625	Q4 2011
	**Jauna Teika** – located in the Teika on Ropažu Street 12, developed by Hanner. This project consists of two multi- storey buildings, each of 10 floors. The first building has 123 apartment, and the second has 211. The apartments are sized from 46 to 123 m^2, with prices starting at €950 per m^2 without final fit-out (meaning buyers will spend €150 - €200 per m^2 to complete). This project was finished in 2009, and 58% of the apartments were sold by the start of 2012.	from €950	2009

New projects

	Description	Price (m^2)	Completion
	**Cēsu 23** – located in the city centre on Cesu Street 23, developed by Dekarta Property. This seven-storey building with 38 apartments, sized from 45 to 136 m^2, is priced starting at €1,300 per m^2 for a fully finished apartment. The project will be completed in 2012.	from €1,300	2012
	**Bikerziedi** – located in Teika on Talivalza Street 19, developed by YIT Celtnieciba. The property will have two four-storey buildings with 74 apartments and underground parking. Apartment sizes range from 29 to 71 m^2, with prices starting at €1,200 per m^2 for a fully finished apartment. The project will be finished in 2012, and 10% of the units are already reserved.	from €1,200	2012

New projects

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

Residential market

2012 Real estate market report

Outstanding mortgage loans in Latvia total 50% of annual GDP. The mortgage market slowed down during the crisis years, but banks started actively lending again in the second half of 2010.

Rents

Rental demand has increased in recent years, in spite of lower apartment prices. Whereas before the crisis nobody wanted to rent, and everyone preferred to buy their own flat, the example of people who lost money in the property crash has convinced many young people that renting is the preferable alternative.

Most in demand are one or two room apartments, in new developments if possible, although few are available for rent.

Due to this growing demand, average rents increased 15% in 2011. The typical monthly rent for afurnished, renovated three-room (70 m^2) apartment in a pre-war building in the city centre ranges from €600 to €800 per month and in newly built houses from €700 to € 900 per month.

The highest demand is for furnished two room apartments with total area 50 to 60 m^2 in city centre renting for up to €350 per month.

Foreign customers usually are looking for furnished two or three room apartments with a total area of 50 to 100 m^2 in the quiet centre in the rent range of €550 to €1,000 per month plus utilities and house management costs. The main requirements of foreign tenants are a new or renovated building with security, elevator and convenient parking.

Some international companies are looking for very exclusive apartments for their top managers, usually the size of such flats are over 100 m^2 and the rent can be from €1,000 to €2,000 per month.

Legal notes by Sorainen

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

Prices level out after steep drop. Plenty available and no great demand

Prices

After falling 72% on average in 2009-2010, prices remained largely unchanged in 2011. Land prices in the city centre range from €400 to €1,500 per m² of land plot, or roughly €200 to €400 per buildable m² of final building space.

In suburban areas the price of land is roughly €50 to €100 per buildable m² of final building space.

Looking at transactions in the registry is misleading on price, as most transactions with land were forced sale transactions due to bank foreclosures.

Supply

As prices are low, owners are simply waiting and not selling, unless forced to do so by banks.

Overall the supply in city centre and in advantageous locations in suburbs is limited. Check land details carefully before buying, as many offered plots have issues restricting their use. In other cases, often the land has been approved in the boom years for large scale projects which no longer make sense in the new reality of today's market.

Demand

Now that prices probably have no further to fall, and demand for residential property starts to recover, developers are showing interest in buying new land.

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

2011 snapshot (Riga)*

Land transactions growth:
49%

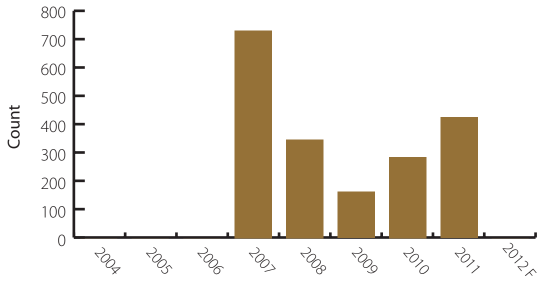
Land prices in city centre for residential development (m²):
€400 – €1,500

Land prices in city suburbs for residential development (m²):
€50 – €100

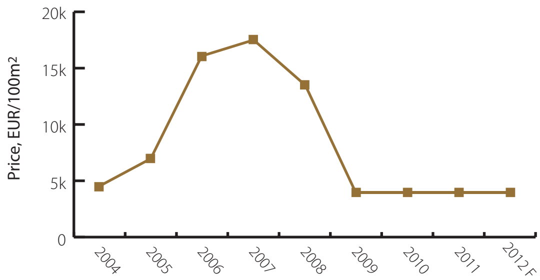
Land prices in city suburbs for private homes (m²):
€30 – €40

** End 2011 Statistics*

Land transactions in Riga



Land prices in Riga



Land market

2012 Real estate market report

Interest by private people to buy land plots for building their own home has diminished, as construction costs rose in 2011 making new construction expensive. The greatest demand is for plots of 1,000 to 1,500 m^2 which cost from €15 to €20 per m^2 close to Riga or €30 to €40 per m^2 in Riga.

News

There were no major changes to the master plan for Riga.

Legal notes by Sorainen

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

Estonia

2012

Estonia

Country overview

Real estate market report 2012

Geography

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

Currency

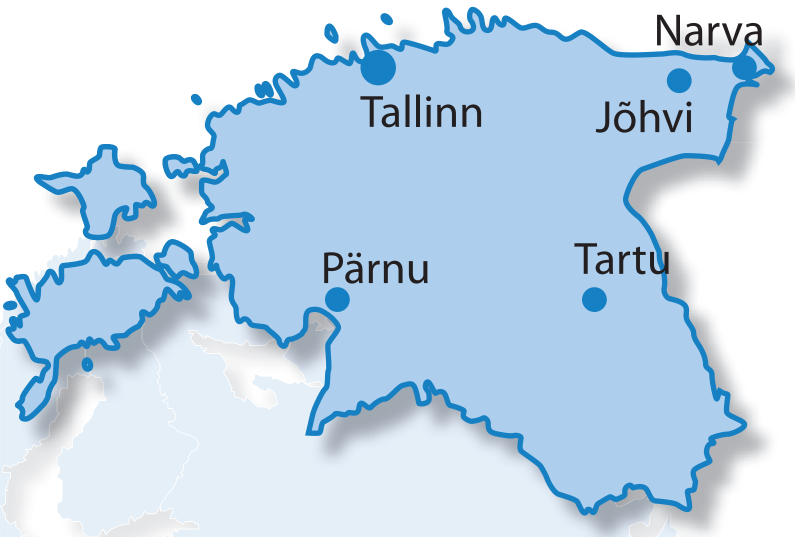
Currency:	Euro (1 EUR)

Social indexes

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

2012 forecasts

GDP growth, %:	2.0
GDP per capita, €	11,500
Private consumption growth, %:	2.0
Average annual inflation, %:	3.0
Unemployment rate, %:	9.0
Avg. monthly gross wage, €	844
Avg. gross wage annual growth, %	3.0



Population	2006	2007	2008	2009	2010	2011
Estonia	1,345,000	1,342,000	1,341,000	1,340,000	1,340,000	1,340,000
Tallinn	399,000	401,000	404,000	406,000	412,000	416,000
Tartu	102,000	102,000	102,000	103,000	103,000	103,000
Narva	69,000	67,000	66,000	66,000	66,000	65,000

Economics	2006	2007	2008	2009	2010	2011
GDP annual growth, %	10.1	7.5	-3.7	-14.3	2.3	7.5
GDP per capita	9,967	11,797	12,161	10,326	10,674	11,362
Private consumption annual growth	10.1	7.5	-3.7	-14.3	2.3	7.5
Average annual inflation, %	4.4	6.6	10.4	-0.1	3.0	5.0
Unemployment rate, %	5.9	4.7	5.5	13.8	16.9	10.9
Average montly gross wage, €	601	724	825	784	792	819
Average gross wage annual growth, %		20%	14%	-5%	1%	3%
Retail sales growth, %	23.0	20.0	6.0	-17.0	0.0	11.0

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

Economy

2012 Real estate market report

ECONOMIC GROWTH IS DECELERATING SHARPLY DUE TO WEAKER EXTERNAL ENVIRONMENT

The Estonian economy grew 7.5% in 2011, a full recovery from the 2008-2009 crisis. Continued strong growth depends on developments in Europe. Consensus projections are for 2.0% growth in 2012 and 4.0% in 2013. If the European situation detoriorates even more, a recession cannot be ruled out.

The European debt crisis and the austerity imposed as a solution on the euro area markedly worsened the economic situation of Estonia's main trading partners in the second half of 2011. Euro-area growth was an anemic 1.5% in 2011 and may even contract in 2012, with projections for Eurozone GDP to change from -0.4% to 1.0%.

Faster loan repayments and growing deposits mean banks have cash for higher new lending volumes. At the same time, companies and households postpone borrowing due to the uncertain economic environment. While the strong capitalisation of banks in Estonia and improved loan-to-deposit ratios provide a good basis for financing households and companies, analysts predict bank loan portfolios will shrink in 2012.

A positive surprise was the drop in unemployment from 14% at the start of 2011 to 10% at the start of 2012. But expected economic sluggishness in 2012 may drive employers to cut the number of employees again, if there occurs a longer-term standstill or a recession.

The robust economic growth in 2011 was accompanied by faster-than-expected inflation rate at 5.0%. This was caused by a rapid hike in the price of energy and food commodities in the global market. Nevertheless, the external environment has put no extra upward pressures on prices since the first half of 2011. As a result, inflation in Estonia will slow in 2012 to 3.0%. Wage pressures are not excessive at the moment with average salaries growing 4% in 2011.

Estonia

A class vacancies decreasing rapidly, demand starting to exceed offering

Supply

The overall area of office spaces in Tallinn was around 540 000 m^2 in the beginning of 2011. In 2011 10,000 m^2 new office space entered the market. There were no new special office buildings delivered to the market, all new developments are on the ground and first floors of new residential buildings. During 2009-2010 the development of office space came to a virtual standstill. In 2011 the development of office spaces was restarted, but mainly for own use or by orders from state. In 2012 40,000 m^2 of new office space is planned. In A class demand exceeds new supply, but in B class the supply is still bigger than demand and owners are forced to make investments in order to keep existing clients.

Demand

The A class vacancy rate was 6% at the start of 2012, down from 10% a year earlier. The A class office vacancy rate continues to decrease at the expense of B class space. The B class office vacancy rate was 25% at the start of 2012. Ober-Haus projects due to falling A class vacancy that rents will rise 5 – 10% in 2012. This should encourage developers to build new office buildings, but rising construction prices remains a problem. Most of the clients for A class office spaces are foreign companies or their support units.

The sales market for office space is still limited. There are only a few transactions in the price range of €600 to €1,300 per m^2.

Rents

There were no significant changes in the Tallinn office space market in 2011 compared to 2010, although an increase in demand for A class spaces in valued locations could be observed.

2011 snapshot (Tallinn)*

GDP growth:
7.5%

Total office vacancy:
15.0%

A class office vacancy:
6.0%

B class office vacancy:
25.0%

Office space:
550,000 m^2

Vacant office space:
82,500 m^2

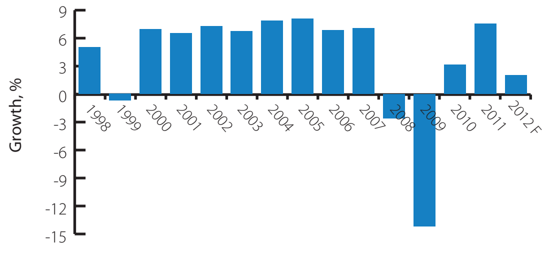
A class office rents (m^2):
€8.30 – €14.00

B class office rents (m^2):
€3.50 – €6.50

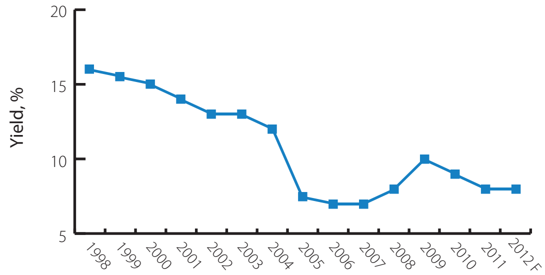
Additional office costs (m^2):
€2.00 – €4.00

** End 2011 Statistics*

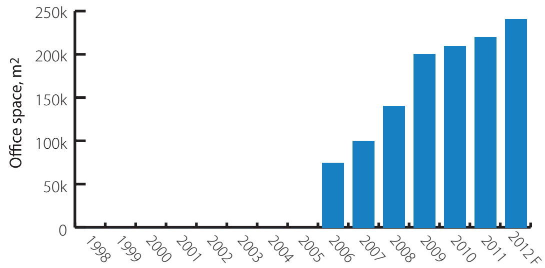
GDP growth



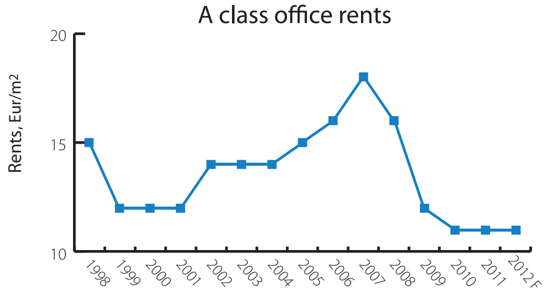
A class office investment yields



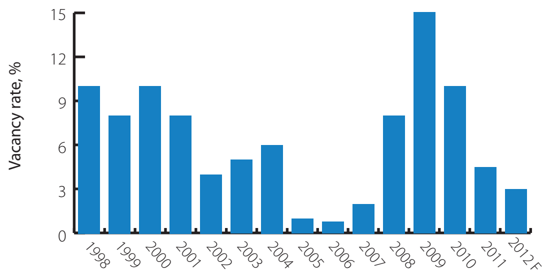
Total A class office space



A class office rents



A class office vacancy rate, %



In the suburbs or less popular regions or buildings rents are unchanged at €3.20 to €5.70 per m^2 per month. In sought after locations and buildings rents are €6.40 to €9.60 per m^2. In the city centre most rental transactions are in the range from €6.00 to €12.00 per m^2 and a few top rentals exceed €13.00 per m^2.

The main causes are high building cost and relatively low renting rate which does not meet the expectations of landlords. In case of new office building constructions, the lease agreements should be concluded with the alteration in rent prices by up to about 20%.

In the near future, two large-scale developments should emerge the market – Ülemiste City Technopol and TTÜ Tehnopol. First of which should be finished in 2013 and covers 24 000 m^2 of office space. Tallinn Science Park Tehnopol, which today consists of 36,000 m^2 of rentable office spaces, is projected to extend to 90,000 m^2 of office spaces within next two years. Due to marginal amount of vacant office spaces in the city centre, there is a great interest in new spaces outside the centre.

In the City Centre area, the next couple of years development plans for office buildings include mainly renovations, reconstructions and extensions of already existing buildings.

The most preferred offices are located in an A-class building with overall rentable area of 100 – 300 m^2. Good access and parking possibilities are priority. It is also important to have professional management service available and other services such as catering, kindergarten and shopping areas nearby.

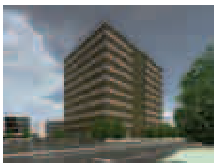
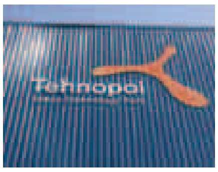
On the other hand, because of some uncertainty about future, tenants are still rather cautious. For instance, currently rented properties are exchanged only if the need for space has grown significantly.

Both, the market and necessity of office spaces in Tallinn is so small that too rapidly growing developments could jeopardize the existing buildings and, as a result decrease the renting prices.

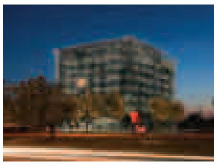
Investments

Throughout 2011 investors` interest continued to be towards well located buildings with stable tenant structure

Recent developments

	Description	Size (GLA, m^2)	Completion
	**Ülemiste City** – A planned 200,000 m^2 office park between Tallinn city and the airport, aimed at innovative IT and knowledge based enterprises. Currently 46,000 m^2 has been delivered and vacancy is 5%. Currently 24,000 m^2 of space is under the construction, anchor tenant will be State Tax and Customs Board who will occupy 11,650 m^2. Building will be delivered during 2013. The parking near the buildings will be arranged in two large parking houses located in close proximity. When completed, Ülemiste City should provide workspace for 30,000 people.	200,000	2013
	**Tehnopol** – a new 12,000 m^2 building in a newly developing region located in Tallinn suburb near the Tallinn University of Technology. Tehnopol has 9.5 hectares of territory to develop the park and first follow-up is to build a commercial building Tehnopol I. Total area is 12,000 m^2, will be completed at the beginning of 2012.	12,000	Q1 2012
	**Tatari 51** – The Estonian state owned real estate company (Riigi Kinnisvara) has contracted local developer Kaamos Group to build 4,800 m^2 building near city centre. The anchor tenant will be Estonian Statistics Board. The building will be completed by the end of year 2012.	4,800	Q4 2012

New projects

	Description	Size (GLA, m^2)	Completion
	**Navigaator House** – A six storey modern office building totalling 10,000 m^2 and underground parking. Construction will start in 2012. The developer is Capital Mill.	10,000	2013
	**G4S, Paldiski** – The Estonian branch of the world´s largest security firm G4S is building itself an eight storey modern office building with high security requirements. Construction will start in 2012 first quarter and will finish in 2013. Total amount of the investment has not been published.	9,000	2013

New projects

For leasing opportunities in these or other properties, contact Ober-Haus on +372 66 59 700 and cash flow. Currently investors expect at least an 8% yield or better. The vast majority of investors are of British or Scandinavian origin.

BPT´s managed Baltic Opportunity Fund bought the Lincona House for €15 million. The building at Pärnu Road 139A is anchored by the IT department of Swedbank. Exact details of the transaction have not been published, but the yield is believed between 8.0% and 8.5%. Lincona business complex has more than 11,000 m^2 of rental space and a separate parking house with 400 spaces.

Estonian Eften Real Estate Group bought two office buildings at Pärnu 105 and Pärnu 102C with a total area of 19,000 m^2. Estimated yield was 8.5% and the total amount was €18.5 million. The total value of properties belonging to Eften Real Estate Group now exceeds €50 million.

Legal notes by Sorainen

Rents are usually payable monthly in advance, in some cases up to the 15th day of the current month. Payment of rent in advance for more than one month is not customary. Tenants generally pay for their own utilities, invoiced by the owner after use. Rents are typically indexed to local inflation. Triple net leases are common for commercial properties but not universally used. The concept of sinking fund is not 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.

Estonia

Retail market

Real estate market report 2012

CONSUMER SPENDING RECOVERS, FUELLING EXPANSION

SUPPLY

During 2011 5,000 m^2 of retail space was bought to the market and during 2012 10,000 m^2 will be added also. There is virtually no space available in the biggest and most popular Tallinn shopping centres and the vacancy is 0%. The offering of retail space located in secondary locations grew, because retail is more and more moving to large shopping centres. The offering of retail spaces will increase during next two years, because many shopping centres and retail chains are planning expansion. Local retail chians Selver and ETK as well as Scandinavian RIMI, Lithuanian Maxima and Finnish Prisma plan now stores in Estonia. The shoping centres Stockmann and Ülemiste are planing expansion and there are many shopping centres in the planning phase. It is possible, that several well-known world wide retail chains, like H&M and IKEA are entering Estonia in near future.

DEMAND

Vacancy rates in the best retail centres is zero but rents have not increased, in worse locations spaces locations the vacancy rate has risen and the rents continue to decline.

As consumer spending increases, successful shopping centres have expansion plans.

2011 SNAPSHOT (TALLINN)*

CONSUMER RETAIL GROWTH:
4.0%

AVG. SALARY (brutto):
€809

AVG. SALARY GROWTH:
4.0%

RETAIL INVESTMENT YIELD:
8.1%

TOTAL MALL SPACE(m^2):
660,000 m^2

SHOPPING AREA PER CAPITA:
1.65 m^2

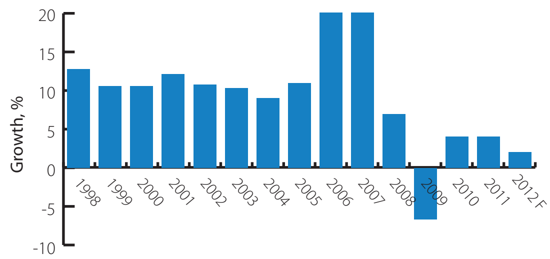
RETAIL RENTS (m^2):
€5.00 – €50.00

RETAIL RENTS FOR ANCHOR TENANTS (m^2):
€5.00 – €9.00

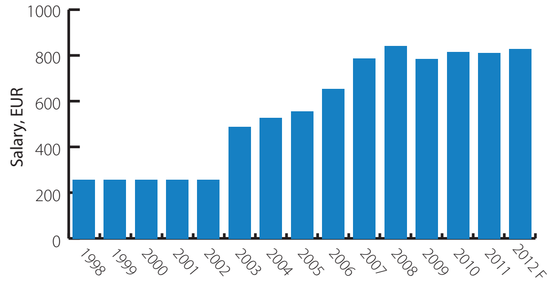
RETAIL RENTS IN TALLINN HIGH STREETS (m^2):
€15.00 – €40.00

** End 2011 Statistics*

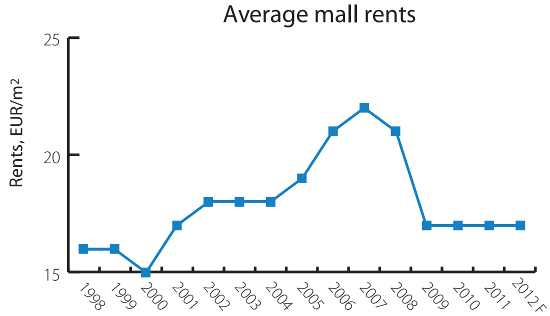
Average salary growth



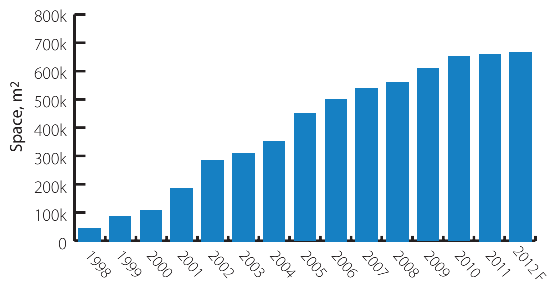
Average salaries (brutto)



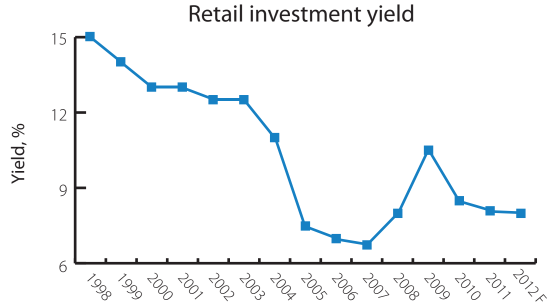
Average mall rents



Total mall space



Retail investment yield



Retail market

2012 Real estate market report

Rents

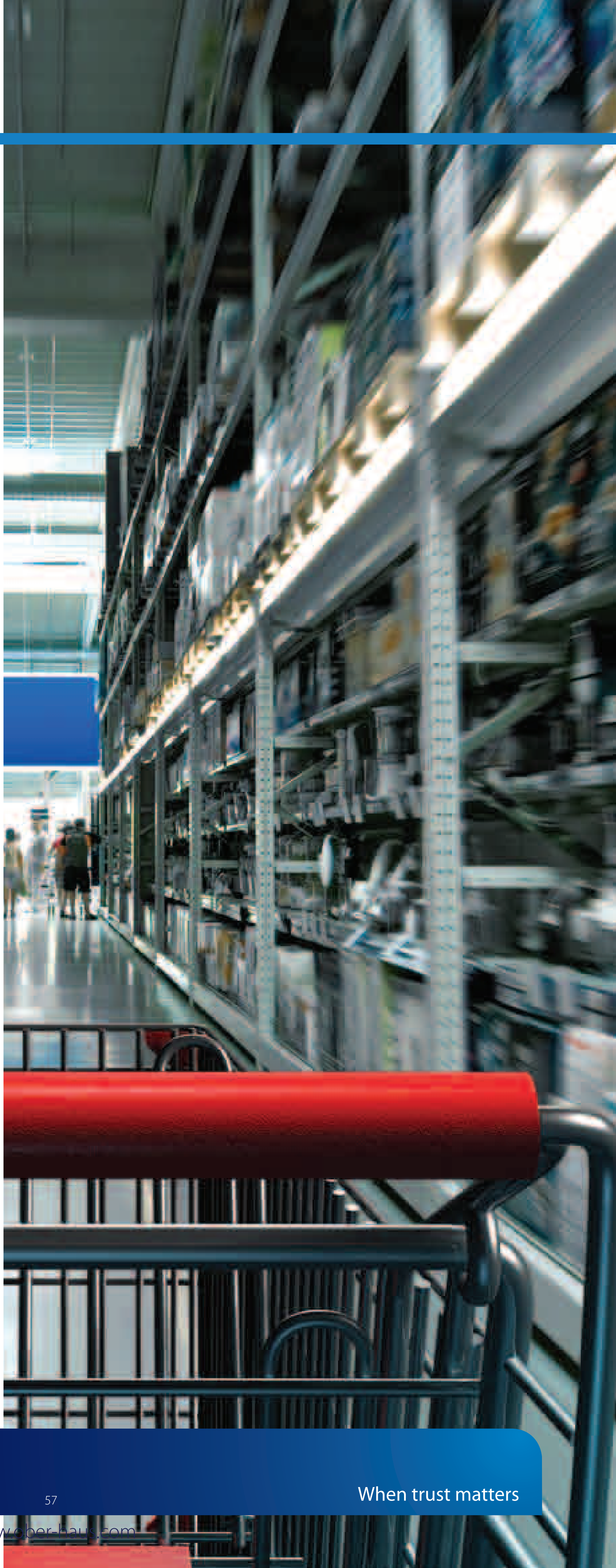
Rents for average size (150 - 300 m^2) units retail centres range from €12.80 to €19.20 while smaller spaces rent for €22.40 to €32.00. Anchor tenants generally pay €8.00 to €12.10 per m^2.

Investments

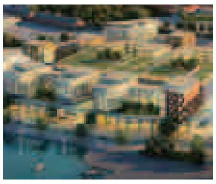
The largest transaction during current year was the sale of Kristiine Centre to Citycon Oy, which already owns Rocca-al-Mare and Magistrali shopping centres. The value of the transaction was €105 million, and the yield was 8.25%. Pro Kapital is planning to use the money to build a new shopping centre at the intersection of Tartu and Peterburg Roads.

Veteran developer Paul Oberschneider exited his last investments in Estonia, selling his share of six shopping centres he developed from 2003 to 2009. The six centres were Lasnamäe Centrum, Lasnamäe Prisma, Bauahaus building, Norde Centrum, Tondi Selver and Pärnu Maxima. The transaction was estimated at an 8.25% yield.

Investors show interest in well-located large and middle sized retail spaces with stable cash flow.



New projects

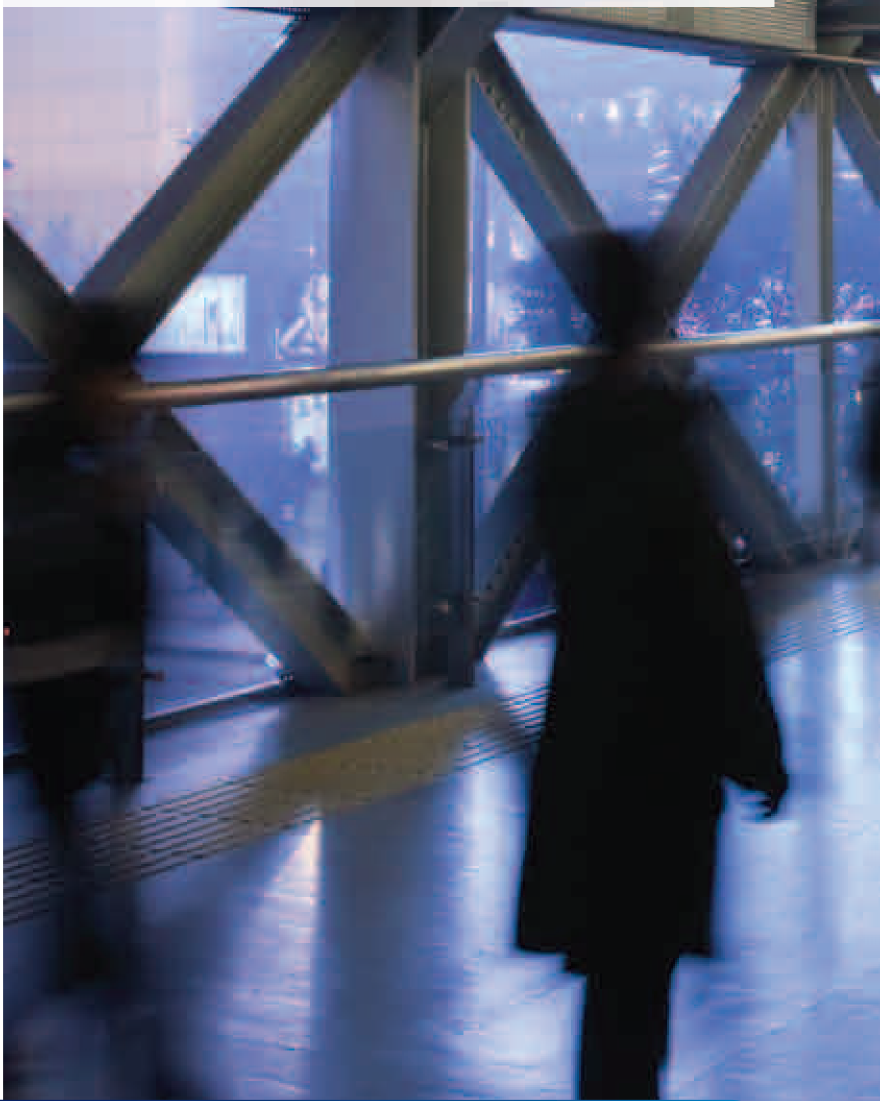
	Description	Size (GLA, m^2)	Completion
	**American Corner Retail and Logistics Park** – to be developed by local developer Süda Maja, the American Corner Retail and Logistics Park is to be situated by the Tallinn–Tartu highway and the Tallinn ring road. The scheme is planned to be as large as €250 million, comprising 110,000 m^2 of retail warehouses and 185,000 m^2 of high grade logistics space. The hope is to attract major European retailers and distributors as potential tenants. First building with total 13,000 m^2 is planned to open during second half of 2012, first tenants will be local Maksimarket and Sportland.	295,000	Q3 2012
	**Panorama City** – Retail and recreational centre developed by Estonia's Merko group with total area of 75,000 m^2 and 150 tenants will be built on the border of Tallinn city centre and the largest suburb Lasnamäe. The centre will be completed by spring 2014.	75,000	Q2 2014
	**Tallinn Gate** – Trigon Property Development plans the largest retail park in the Baltics with 240,000 m^2 planned at the intersection of the Via Baltica and Tallinn ring road. There will also be warehouse and office spaces. The first phase is planned to open in autumn 2013. Tenants are not yet published.	240,000	Q3 2013
	**Pro Kapital Moekombinaat** – Planned at the busy intersection of Tartu and Peterburg Road near the Sikupilli and Ülemiste shopping centres. Planned opening is in the second half of 2014. The size and the amount on investment have not been published.	30,000	Q3 2014
	**Admirality Pool Area** - residential and commercial centre near harbour which will be developed by Hillar Teder. Currently in planning phase, but if additional investors will be found, they will start during 2012.	100,000	2015+
	**EinStein Centre** - just outside Tallinn in Viimsi, 15,000 m^2 multi-use shopping and leisure centre, due to start during 2012, developer is local GMP, first phase with 10,000 m^2 is planned to open at the end of 2013.	15,000	Q4 2013
	**Raudalu Konsum** – local retail chain ETK is building supermarket at the developing residential area near Viljandi Road at city´s edge. The total area is 3,000 m^2 and it will be completed in autumn 2012.	3,000	Q3 2012

Recent developments

	Description	Size (GLA, m^2)	Completion
	**Magistral Center** – Finnish retail owner and developer Citycon is adding 3,000 m^2 to its shopping centre situated in the Tallinn suburb of Mustamäe. The extension will open in spring 2012 and will make Magistral the sixth largest shopping centre in Tallinn. The total investment is €6.5 million.	3,000	Q2 2012
	**Laagri Rimi** – Scandinavian food chain Rimi built 5,000 m^2 shopping centre on the southern border of Tallinn next to Maksimarket. The investment amount is not published. The centre was completed in autumn 2011.	5,000	Q3 2011
	**Linnamäe Maxima** – Maxima will expand its "X" format to have the first "XXX" format Maxima in Tallinn.	3,000	Q2 2013

NEW PROJECTS

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



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 indexation is not always 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.

Estonia

Industrial market

Real estate market report 2012

Mostly built by end users

Supply

There is currently 100,000 m² of warehouse and industrial space in Tallinn. Most of it is B class renting for €1.50 to €3.00 per m². The offering of A class spaces in good logistic locations is limited and the demand is starting to exceeds offers. There are no modern warehouses or industrial spaces for sale. As a rule properties are built for own use, not for sale or rent. Rents are still too low and construction prices too high to stimulate new development.

Demand

In total 25,000 m² of warehouse and industrial space was bought to the market. Take-up was driven by the recovery in production volumes. Estonian industrial production grew in the first three quarters of 2011, although it fell in the fourth. In total industrial production grow 18% in 2011 compared with 2010.

Many potential tentants are waiting with the leasing decision due to uncertainty in the economy. The vacancy rate has decreased from 20% to 10%. B class spaces in secondary locations have problems finding tenants despite favorable rents. Owners have to renovate in order to keep tenants from leaving to better new space.

Rents

In the second half of 2011 rents of A class warehouses rose 10% to €4.3 per m² as take-up grew and demand outpaced supply. Current rents are too low to make new developments profitable. Recent new leases in A class space have been at rents from €3.50 to €4.30 per m², although owners ask for €5.00 per m². Recent B class leases have been signed from €1.00 to €2.00 pre m².

In 2011 40,000 m² of space were sold in various bankrupcy auctions at prices ranging from €250 to €400 per m².

2011 SNAPSHOT (TALLINN)*

WAREHOUSE VACANCY:
10.0%

ANNUAL WAREHOUSE RENT INCREASE:
10.0%

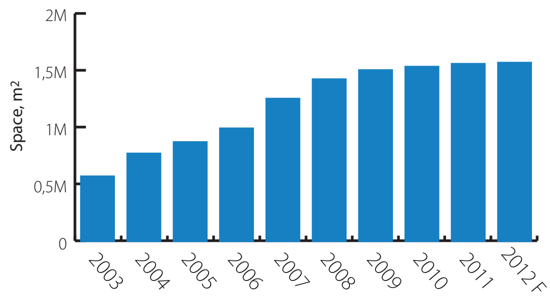
TOTAL LEASABLE AREA:
100,000 m²

NEW WAREHOUSE RENTS (m²):
€3.50 – €4.30

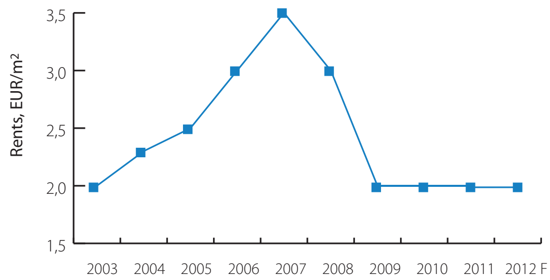
WAREHOUSE RENTS ON SURROUNDING ROADS (m²):
€1.00 – €2.00

** End 2011 Statistics*

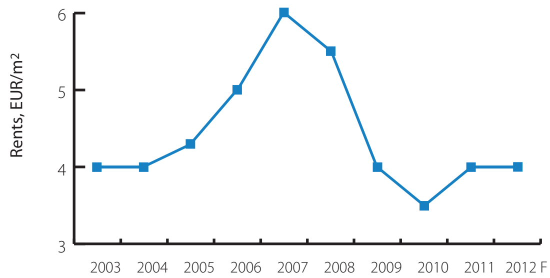
Total warehouse space



Old warehouse rents



Modern warehouse rents



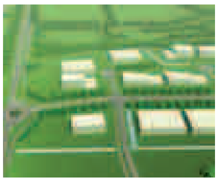
Industrial market

2012 Real estate market report

Investments

VGP Parks has signed a binding agreement with East Capital to sell its newly built 40,000 m² logistics property, located in Tallinn's largest industrial and logistics area of Tänassilma. Property is fully leased to a diversified tenant's base. The transaction value is €24 million, for a yield close to 9.0%.

Recent developments

	Description	Size (GLA, m²)	Completion
	**Sõpruse Commercial Park** – this well located industrial and commercial property has land plots for sale situated only 4 km from Tallinn airport on the side of Tartu road, many well-known companies as neighbours (BMW, Würth, Smarten Logistics). Altogether 19 plots with different sizes from 5,000 to 20,000 m². All communications ready. Two plots are already sold.	20,000	2011
	**Lookivi Logistic Park** – Development project with modern communications in logistically valuable location about 10 km from Tallinn, near Tallinn Ring road and Tartu road intersection. Total size is 62 ha, first phase is three plots with 83,000 m² in total. Construction will start when tenants are found. Rent starting from €5.00 per m². Developer is NCC.	83,000	n/d

New projects

	Description	Size (GLA, m²)	Completion
	**Ülemiste City** – In total there are 70,000 m² under the development, 16 different size industrial buildings are planned on the territory of Ülemiste City. Target tenants are companies with hi-tech or other kind of innovative production. Spaces will be built to suit according to specific clients needs. Plots for industrial constructions are from 2,000 to 8,000 m². All plots are with good logistic accessibility. Rents start from €5.00 per m².	70,000	2014+

New projects

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

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.

Demand recovered

Prices

Average residential prices rose 15.8% in 2011 to €1,063 per m². The number of apartment transactions in Tallinn decreased 2% in 2011 but total values increased by 18%, mainly due to more transactions with new and better quality apartments.

Ober-Haus sees slight price growth in 2012, if the overall economic situation continues to improve and unemployment continues to decline. Any negative development in Europe could have negative effect on confidence.

New apartments cost €1,700 - €2,600 per m² in the city centre and €1,100 – €1,500 per m² in the suburbs.

Prices of apartments differentiate mainly in accordance with the location. Most transactions were in the city centre involving well-conditioned apartments in modern or fully renovated buildings with prices from €1,100 to €1,600 per m².

In buildings with the best views or special architectural features, price sometimes exceeds €2,600 per m². Sales grow for large, well-renovated flats in the Old Town and prices reached €2,000 to €3,000 per m².

In the suburbs, most of sales were for cheaper one or two room Soviet era apartments in need of renovation. These flats cost from €600 to €800 per m². Suburban apartments in excellent condition situated in popular locations costs €900 to €1,200 per m². Apartments in less sought after locations are much less marketable, even if they are in good condition. In popular suburb locations like Pirita, Nõmme and Kakumäe, prices for modern apartments range from €1,300 to €1,600 per m².

Supply

In 2011 developers completed 900 new apartments in 40 new projects in and around Tallinn. Most of the developments were

2011 snapshot (Tallinn)*

Residential investment yield:
4.9%

Flat price growth:
15.8%

New apartments built:
700

Avg. apartment area:
55.0 m²

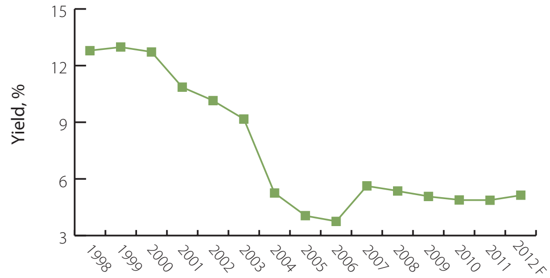
Economy class apartment prices (m²):
€600 – €1,200

Medium class apartment prices (m²):
€1,100 – €1,500

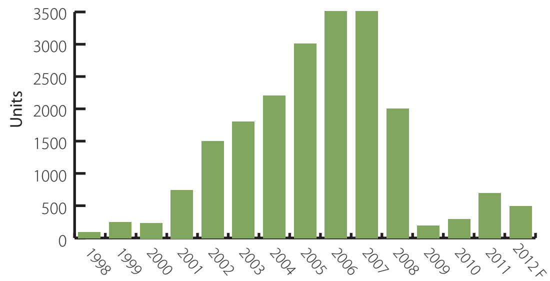
Prestigious class apartment prices (m²):
€2,000 – €3,000

** End 2011 Statistics*

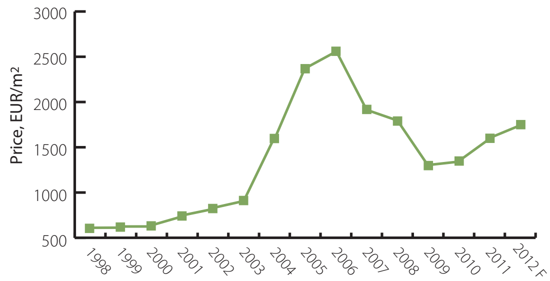
City centre residential investment yield



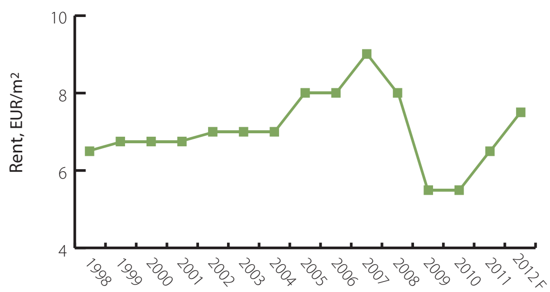
Completed units



Residential prices in city centre



Residential rents in city centre



smaller projects with 10 – 30 apartments.

As construction prices rose sharply and consumer confidence fell during the second half of 2011, no large developments were started. If the situation improves, there are plans for start with 400 apartments in the second half of 2012.

In addition 500 unsold apartments dating back the boom years are still on sale. Most of the unsold units do not meet customers' demands for location, quality or price.

Most probably no large development projects will be started in the first half of 2012, because construction prices have risen sharply, outpacing developers final prices.

The Mortgage market

The average interest rate for a home loan at the start of 2012 was 3.46%, roughly euribor plus a 1.5% to 2.0% margin. The maximum amount of the monthly credit repayment usually cannot be more than 30% of the person's sustainable income, and the maximum credit term cannot exceed 40 years.

Total residential loans outstanding are decreasing as more loans are paid back than new loans issued. One of the most aggressive players in market is Nordea which entered to the market later and less aggressively than its competitors and therefore did not suffer so much from credit losses.

Rents

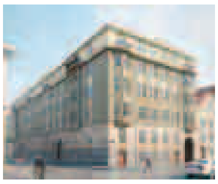
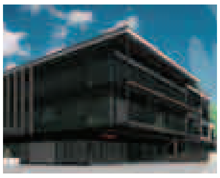
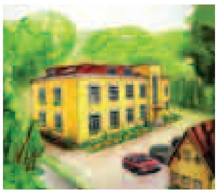
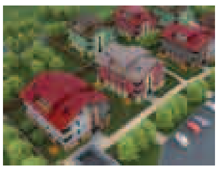
Rents rose 20% in 2011, the first time since before the crisis as supply of rental units available dropped and vacancy plummeted. Supply fell 20% in 2011. Rents rose the most for smaller apartments with lower utility costs situated in a popular locations. Demand for luxurious and expensive apartments in the rent range of €1,000 to €1,600 per month is recovering.

In the city centre demand is highest for one or two room furnished apartments which rent for €250 to €400 per month, preferably with parking. Tenants pay their own utilities on top of the rent.

The gross rental yield of apartments in Tallinn in 2011 was 5% to 6% depending on the location. This number does not satisfy investors. Owners generally conclude short-term

Estonia

Recent developments

	Description	Price (m²)	Completion
	**Pagari Street** – an exclusive, luxury renovated 19th century apartment building in the heart of the Old Town, these flats are sure to be the most sought after apartments in town. Prices range from €2,900 to €4,000 per m², and with this sort of luxury and location, they are very much worth it. Construction will complete by Spring 2013. The project is sold by Ober-Haus.	€2,900 - €4,000	Q2 2013
	**Must Luik (Black Swan)** – an exclusive development in Tallinn city centre between Kadriorg Park and the sea with 32 apartments and 6 commercial spaces. Prices range from €2,550 to €2,970 per m². The project is sold by Ober-Haus.	€2,550 - €2,970	Q1 2012
	**Aedvilja 4** – stylish renovated apartment building from the 1930s with 32 apartments and 3 commercial spaces. Prices range from €1,390 to €1,780 per m². The project is sold by Ober-Haus.	€1,390 - €1,780	Q4 2011
	**Saue Street** – a residential development on a historic city centre street filled with pre-war Estonian republic buildings. Prices range from €1,700 to €2,000 per m². The development will have 15 apartments to be completed by spring of 2012. The project is sold by Ober-Haus.	€1,700 - €2,000	Q2 2012
	**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 fourth floor have terraces with sea view. The building has recently been constructed, with prices for apartments ranging from €2,560 to €3,840 per m², and prices for office space from €1,280 to €1,920 per m². The project is sold by Ober-Haus.	€2,560 - €3,840	2011
	**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 first stage is to be ready by summer 2011 and will comprise of 40 apartments. The price for flats ranges from €1,470 to €1,920 per m².	€1,470 - €1,920	Q3 2011

New projects

	Description	Price (m²)	Completion
	Veerenni Street – the biggest development project in Estonia, comprising more than 1,600 residential units, office spaces, a nursery school and a youth centre. The complex will be developed by UK developer Satnam Europe, over a five year period.	n/d	n/d

rental agreements and most carefully check the tenant's profile.

Another driver of demand is the 2010 year law giving five year visas (good for travel throughout the Schengen Zone – essentially Europe less the UK) to people buying property over €145,000. In the last two years, over five hundred buyers and their dependants, mostly from Russia, have taken advantage of this program to get access to the European Union.

Private residences

Comparing year 2011 to 2010 there were no major changes in the number of transactions and monetary amount 2011.

There are 1,800 to 2,000 private houses on sale in Tallinn and surroundings, with an average of 100 transactions per month. Most of the transactions were performed in areas with well-developed infrastructure in the price range €100,000 to €160,000.

There is growing interest in houses in exclusive locations and very good condition in the price range from €400,000 to €700,000.

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

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.

Interest only on lots with utility networks

Prices

In 2011 prices rose 5-10% and demand grew in most valued districts like Pirita, Kakumae and Nomme. The price for a 1,000 to 1,500 m^2 residential plot in valuable location is between €65,000 up to €110,000. In other locations a 1,000 – 1,500 m^2 plot costs between €20,000 and €40,000.

Supply

In Tallinn and Harju county there are about 2,300 offers for different residential lots today, but only 670 transactions were made during 2011. The large number of sales offers is often in developments in poorer, secondary locations. There is practically no interest in residential lots without utility networks and with insufficient infrastructure, even if cheap. In new residential districts near Tallinn, the number of offers is still influenced by the bankruptcies of several estate developers and forced sales.

2011 snapshot (Tallinn)*

Land transactions growth (agricultural):

5%

Land prices in city centre for residential development (m^2):

€150 – €200

Land prices in valuable locations for residential development (m^2):

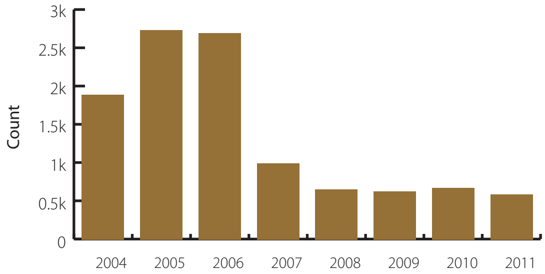
€65 – €110

Land prices in valuable locations for industry (m^2):

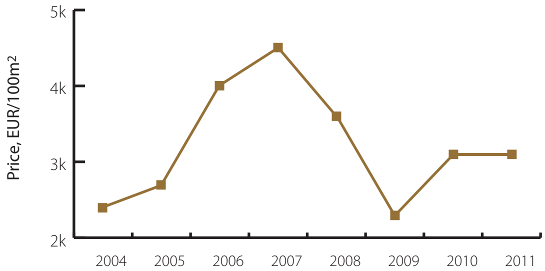
€30 – €50

End 2011 Statistics

Residential Land transactions
(Tallinn and Harju county)



Residential Land prices
(Tallinn and Harju county)



Land market

2012 Real estate market report

Demand

In 2011 prices of good well located industrial land rose, but transactions volumes remained the same. Most of the transactions were made in the price range from €30 to €50 per m^2. The amount of industrial land transactions decreased, but the prices remained the same. Most of the transactions were made in the price range from €30 to €90 per m^2. Only few transactions with residential land suitable for apartment developments were made in City Centre with a price range of €150 to €200 per m^2. Compared to the year 2010, the number of transactions made with agricultural land increased in 2011 by 5%, turnover increased by 30% and m2 price 10%. The growth was mainly caused by the deals with woodland. Average price of woodland was €1,421 per hectare and agricultural land €835 per hectare.

Legal notes by Sorainen

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

Setting a price on development potential (construction rights) is the most difficult point of purchase negotiations. As sellers are often inexperienced, they may have difficulty in assessing development potential, or may base their assessment on optimistic relations with local government in charge of establishing construction rights.

Real Estate taxes & legal notes

2012

Acquisition

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

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

- notary fees vary from 0.2% to 0.6% on the value of real estate; however, the fees shall not exceed LTL 20,000 (approx. €5,800) for one transaction;
- state duties imposed upon the registration of a transfer of real estate are typically not material and vary depending on the real estate value (up to LTL 5,000 (EUR 1,450)).

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

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

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

Rent

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

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

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

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

Personal Income Tax (PIT): for local and foreign individuals income from rent of real estate located in Lithuania is subject to 15% PIT on gross income. If rental income is received from registered individual activity, PIT is levied on the profits (income less expenses). Upon certain conditions, individuals can opt to pay a fixed amount of tax on rent of privately owned real estate once a year.

Sale

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

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

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

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

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

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

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

Real estate tax (buildings/premises)

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

Tax base is the average market value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (performed every 5 years) or using the recoverable value (costs) method. Upon certain pre-conditions the tax payer may obtain an individual valuation and challenge the official value assessment.

Land tax

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

As from 2013 the Land Tax expenses may gradually increase for tax payer (transitional period lasts until 2017), since this tax will be calculated on the average market value of land assessed by mass valuation method. Moreover, the tax rates will vary between 0.01% and 4%, depending on each municipality.

Introduction

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

Title to real estate, real estate register

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

Real estate must be registered with the 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 details what the parties have to do before entering into the main agreement for acquisition of real estate, the main terms and conditions of the contemplated transaction, and liability for not entering into the main agreement.

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

Change of Ownership

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

Legal structures of real estate transactions

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

Principal legal structures

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

Share deal

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

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

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

Asset deal

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

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

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

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

Asset deals may involve recharacterisation risk, ie a REI transaction structured as an asset deal may be recharacterised as sale of a business. As a result, investors may be exposed to additional risks related to transaction validity and liability to creditors and employees of the former owner of the target.

Sale-leaseback

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

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

Forward purchase

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

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

Joint venture

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

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

Public-private-partnership projects (PPP)

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

In recent years PPP projects started enjoying increased attention. Under the initiative of the Ministry of Economy six pilot projects were developed and two of these are already under implementation. In addition, preparation of standardised PPP documentation (eg tender documents, template contracts, output specification for different sectors) to help in procuring public-private initiatives was launched. A number of new PFI projects are pulled in packages and now are at feasibility stage: four prisons, five police stations and four infrastructure projects. 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 (approx €5,792) for transactions that involve one real estate object and at LTL 50,000 (approx €14,481) for transactions involving two or more real estate objects. State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired and depends on the average market value of the real estate. State duty varies from LTL 20 (approx €6) to LTL 5,000 (approx €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 €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 €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.

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

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

Public Restrictions on Use of Real Estate

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

Property management

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

Lease agreements

General

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

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

Duration and Expiry of Lease Agreement

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

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

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

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

Lease Payment and Accessory Expenses (Utilities and Service Charge)

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

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

Real estate funds

From March 2008, it became possible to establish real estate collective investment undertakings (both closed-end and open-end) in Lithuania. However due to lack of coordination between legislation over procedural and taxation issues related to acquisition, development and disposal of real estate, alternative investment possibilities remain under-exploited. In existing practice, uncertainties arising are usually tackled by structuring investment vehicles and investments themselves.

Mortgage

As of 1 July 2012, amendments to the Civil Code will eliminate the institution of mortgage judges and, as a result, simplify execution and foreclosure of mortgages in Lithuania. A contractual mortgage will only require approval of a notary. Mortgage registration will become an administrative process (rather than a judicial one, as it used to be). Under the amendments, the requirement to execute the mortgage in a standard form is cancelled. As a result, a mortgage agreement may be executed as a separate agreement or be part of the other agreement. Foreclosure of mortgage will no longer be carried out through the courts but instead by applying to a notary for an enforcement record. A possibility to foreclose on a mortgage by transferring the title to the mortgaged immovable property to the creditor is foreseen by the amendments to the Civil Code.

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

Planning requirements and construction

Planning

Approval of detailed plans lies within the competence of local authorities. As a rule, detailed plans are established for city areas and rural municipality areas where construction is intended. A new detailed plan must be approved in case of change of purpose of the land and the main land use solutions, such as high density and intensity. Establishing detailed plans involves evaluating the results of detailed planning, as well as public hearings and discussions. The process of approving detailed plans is still lengthy and may take approx from six months to over one year. Further, a new draft Law on Zoning and Planning which aims at significantly simplifying planning procedures is pending an approval in the Parliament.

Construction

The last year has seen changes to legal regulation of certification of persons that may direct the main areas of technical construction activities. Furthermore, qualification requirements and certification were added to the Law on Construction for the following: a contractor of a construction of special structures, contractors of expert examination of construction work design documentation, contractors of expert examination of construction works. As a result of these amendments, regulations related to certification of participants in the construction process are more accurate. The requirements for companies regarding certification of design works of special structures are significantly simplified.

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.

Transfer of a construction permit was simplified during past year. Under an amendment to the regulation, a person acquires a land plot where a construction permit has been issued may also receive transfer of the construction permit.

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.

A building may not be used without this documentation.

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 amendment to the Law on Construction introduces 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.

Insolvency

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

Restructuring

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

Bankruptcy

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

Distressed Assets

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.

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Acquisition

- Upon acquisition, stamp duty is levied at 2% of the property value, capped at LVL 30,000 (€42,686);
- if the legal title is transferred under a deed of gift, stamp duty is charged at 3% of the property value, capped at LVL 50,000 (€71,144);
- if real estate is invested in the share capital of a company, stamp duty is payable at 1% of the investment value, capped at LVL 1,000 (€1,423).

Rent

VAT: In general, companies are required to pay 22% VAT on the rental value, with the exception of residential property leased to individuals for dwelling purposes, which is exempt from VAT.

Corporate Income Tax (CIT): Rental income attracts corporate income tax at a rate of 15%. Companies can deduct all expenses related to their rental business, and the value of real estate used for commercial purposes can be depreciated for tax purposes at a rate of 10% a year under the reducing balance method.

Personal Income Tax (PIT): Rental income attracts personal income tax at a rate of 25%. As of 2012, if the person is not registered with the tax authorities for commercial purposes, the tax is payable after filing the annual income tax return, with no deduction for any expenses related to rental activities. If the person is registered with the tax authorities for commercial purposes, PIT is payable in advance four times a year, the final payment being due after the annual income tax return has been filed. In this case all expenses related to rental activities are deductible, and any loss can be offset over a period of three years.

Sale

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

- new unused buildings,
- a new building that has been used and is sold for the first time in the first year of maintenance,
- real estate after or during reconstruction, and
- real estate under construction.

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

The applicable rate of VAT is 22%. In the case of reconstruction, VAT is levied on the difference between the selling price and the value before reconstruction.

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

Corporate Income Tax (CIT): If a company sells real estate, any capital gain attracts corporate income tax at a rate of 15%. Generally, the taxable gain is calculated as selling price less net book value and any balancing charge/allowance arising on removal of property from tax accounts.

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

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

If a person has held real estate for at least 60 months and it has been registered as that person's primary residence for at least 12 months before the sale, it is exempt from PIT.

A person selling real estate for commercial purposes must register with the tax authorities, and PIT will be levied at a rate of 25%.

Real estate tax

Real estate tax is levied on all land and buildings that are situated in Latvia and owned by individuals or companies. The rate on dwelling houses varies according to their cadastral value:

- 0.2% of cadastral value below LVL 40,000 (€56,915)
- 0.4% of cadastral value below LVL 75,000 (€106,715)
- 0.6% of cadastral value above LVL 75,000 (€106,715)

From 2012 the same rate applies to dwelling houses, auxiliary premises and garages if they are not used for commercial purposes. All other real estate, including land and property used for commercial purposes, attracts RET at a rate of 1.5 of cadastral value. Unused agricultural land is taxable at a rate of 3%.

Introduction

The economic downturn has significantly changed the real estate market in Latvia. However, it has created new opportunities to acquire assets.

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

Title to real estate, Land Book

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

The Land Book stores information regarding the legal status of real estate, including all encumbrances, mortgages, 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 and tax for the entire year on a particular property has to be settled – if not, registration of ownership rights with the Land Book is not possible. The period for registration of title to real estate with the Land Book is ten days as of filing all necessary documentation with the Land Book.

Legal structures of real estate transactions

Asset Transfer vs Share Transfer

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

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

- notary fees and state duty arising from real estate sales are excluded from transaction costs on the sale of shares of a company;
- ownership of shares is transferred as agreed in the sale agreement, at the time of signing the agreement, or on registration, which takes only a few days;
- the buyer, on 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 70 (EUR 100).

Merger control

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

- the aggregate turnover of the undertakings involved in the transaction exceeds LVL 25 million (approx €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 €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 and other particulars of the land plot to be purchased.

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

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

Encumbrances

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

Mortgage

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

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

Property management

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

Management of residential buildings

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

Management structure of residential buildings depends on the ownership structure.

Lease agreements

General

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

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

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

Duration and Expiry of Lease Agreement

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

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

Investment funds and real estate

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

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

Planning requirements and construction

Planning

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

Construction

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

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.

Obtaining temporary residence permit

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

- LVL 100,000 (approx €142,287), if the real estate is purchased in the Riga region or in Latvian cities; or
- LVL 50,000 (approx €71,144) if the real estate is purchased outside the Riga region or in rural areas of Latvia.

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

I plan, a detailed plan can be required. This may take approx from six months to over one year.

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Acquisition

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

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

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

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

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

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

Rent

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

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

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

Personal Income Tax (PIT): Estonian resident individuals pay 21% income tax on gross rental income, i.e without the right to make any deductions on the expenses incurred in relation to the property.

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

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

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

Sale

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

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

Personal Income Tax (PIT): As a general rule, private individuals are liable to pay 21% income tax on the capital gain upon sale of real estate.

Real estate tax (buildings premises)

There is no real estate tax in Estonia.

Land tax

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

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 aggrieved party to compensation by way of damages, including payment of specific contractual penalties.

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

Asset Transfer

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

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

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

Existing lease contracts remain valid after the transaction.

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

Considering a portfolio deal requires bearing in mind the following:

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

Sale-leaseback

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

This arrangement requires the following checks:

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

Form of agreements

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

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

Language requirements

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

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

Due diligence

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

Pre-emption rights

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

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

Typical purchase price arrangements

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

Related costs

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

Concentration control

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

- turnover in Estonia of participants to the concentration (target undertaking and buyer) exceeds €6,391.200; and
- turnover in Estonia of at least two participants to the concentration exceeds €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 and other utility lines, roads and railways. Restrictions may mean that part of real estate may not be used for buildings or the owner has to avoid activity in protected zones.

Encumbrances

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

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

Mortgage

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

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

Property management

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

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

Lease agreements

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

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

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

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

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

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

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

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

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

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

PPP & infrastructure

General

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

Concessions

Estonian law provides regulation for construction work concessions and services concessions. These concessions may be granted in compliance with the Public Procurement 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 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.

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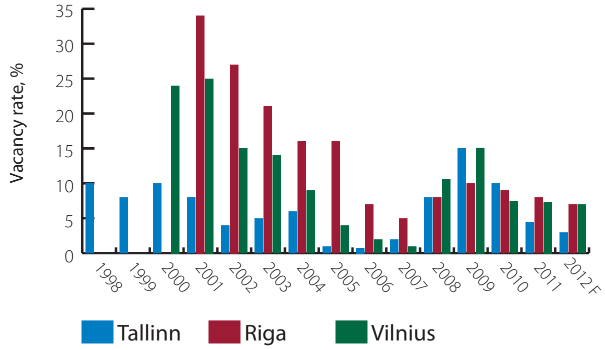
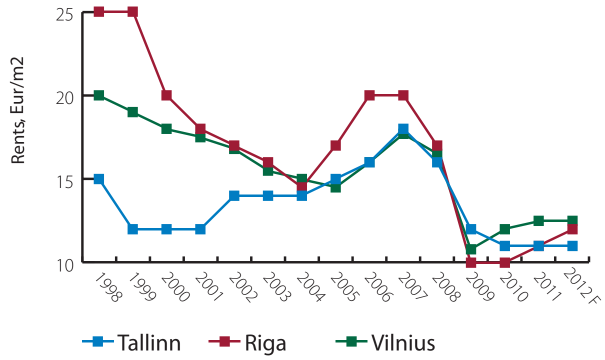
Office

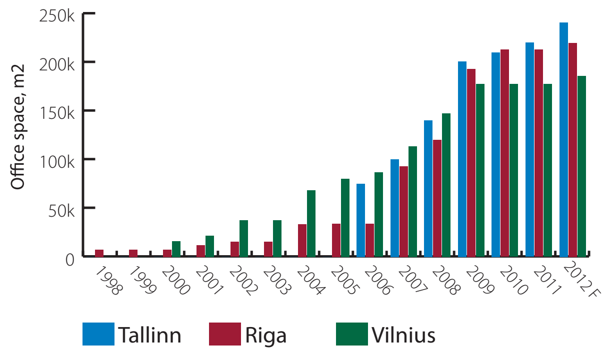
A-class office vacancy rate, %



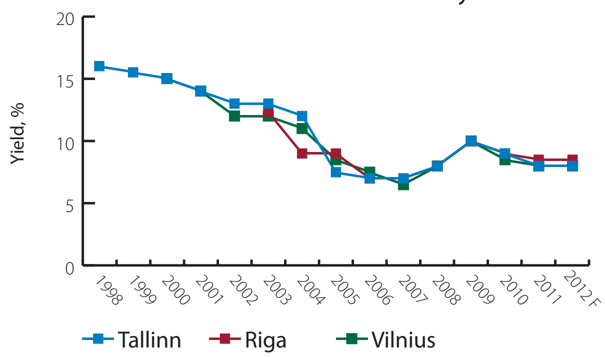
A-class office rents



Total A-class office space

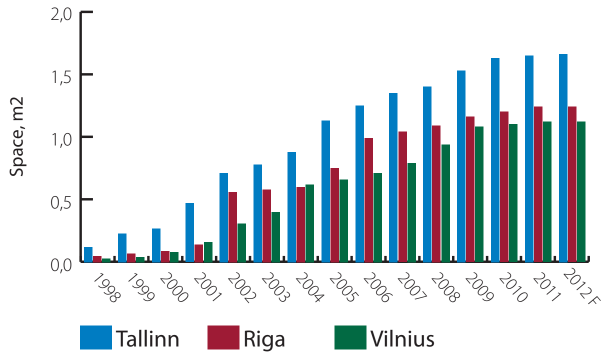


A-class office investment yields

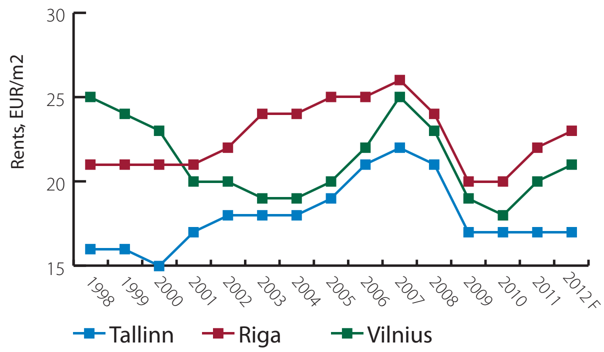


Retail

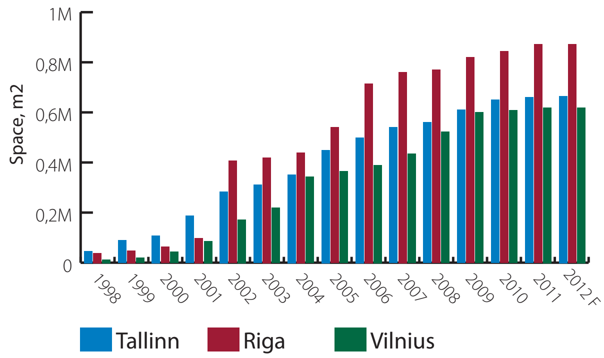
Total mall space per capita



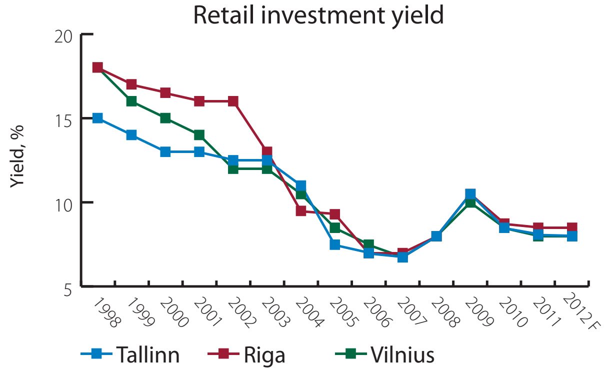
Average mall rents



Total mall space

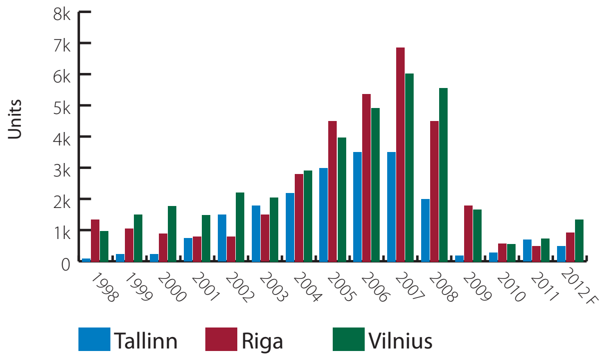


Retail investment yield

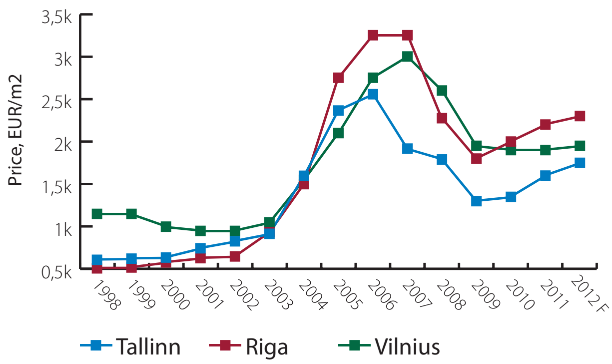


Residential

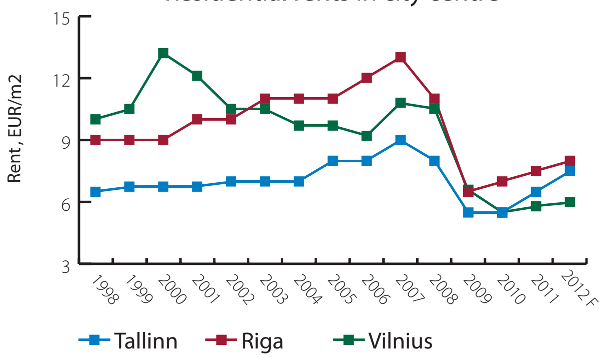
Completed units



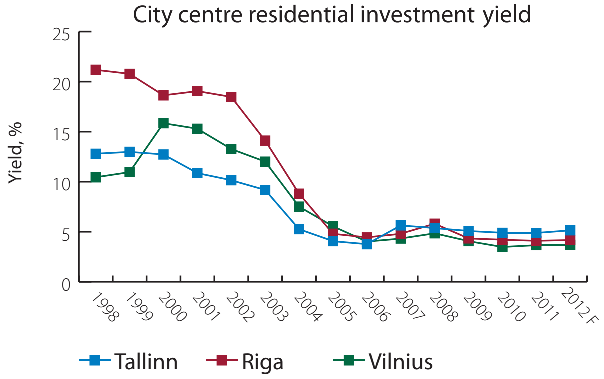
Residential prices in city centre



Residential rents in city centre

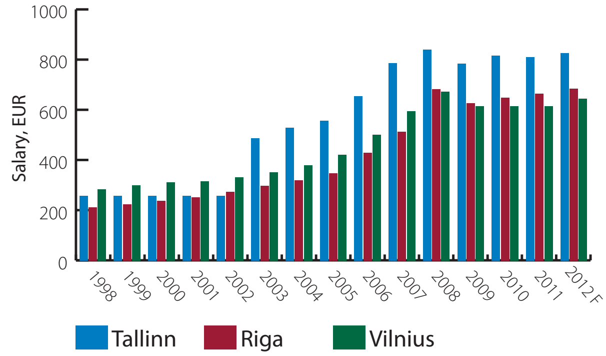


City centre residential investment yield

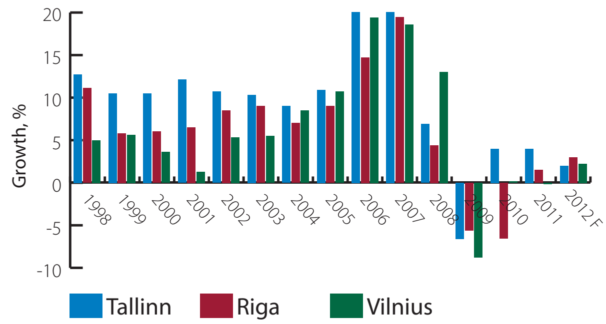


Economics

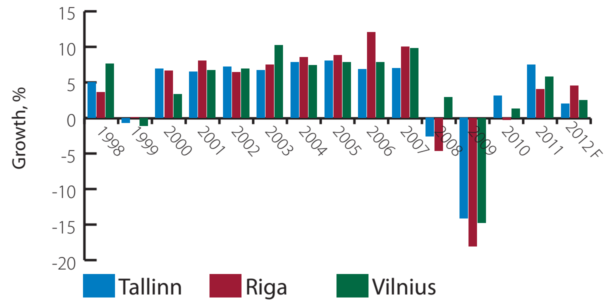
Average salaries (brutto)



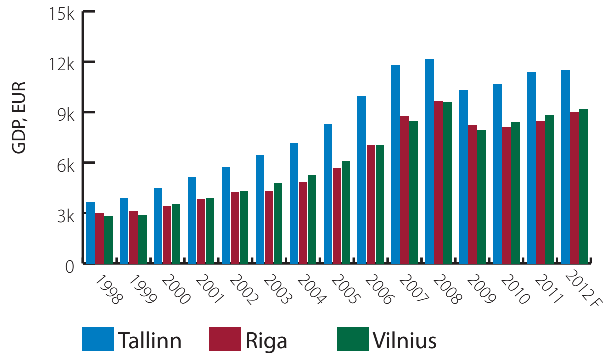
Average salary growth



GDP growth



GDP per capita



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