REALIA
GROUP

REAL ESTATE

MARKET REPORT

BALTIC STATES CAPITALS
VILNIUS, RIGA, TALLINN

'19

OBER HAUS

OBER HAUS PART OF REALIA GROUP

Realia Group helps its customers to find the best services and solutions in all questions related to housing and building management. Our vision is to offer better living and real estate wealth to our customers.

Realia Group is the largest provider of expert services specialising in the brokerage and management services of apartments, properties and commercial facilities in the Nordic countries.

Our services include:

- Brokerage services for consumers
- Housing management
- Property management services for commercial properties
- Property management services for residential buildings
- Financial management services
- Energy management services
- Project management and construction services
- Valuation services
- Residential leasing

Realia Group consists of Realia Isännöinti Oy, Realia Management Oy, Arenna Oy, Huoneistokeskus Oy, SKV Kiinteistönvälitys Oy and Huom! Huoneistomarkkinointi Oy in Finland. A/S Ober-Haus operates in the Baltic region and Hestia in Sweden.

Our customers include apartment house companies and real estate companies, private and public owners and end users of apartments and properties, fund companies, banks and many other parties operating in the real estate sector as well as consumers.

All of our companies share the significance of customer experiences in the development of products and services. We are building a better customer experience by investing in customer-oriented service production, an active service culture and strong and competent operations. We want to be a customer experience driven pioneer in our field.

The Realia Group's competitiveness is made up of strong brands, motivated and skillful personnel, and the ability and will to invest in working methods and processes of the future. Realia Group employs approximately 2,000 professionals, and its turnover is approximately EUR 139 million (2017). Realia Group is owned by Altor Fund IV, a Nordic private equity fund.

Ober-Haus Real Estate Advisors is the largest real estate agency operating across the Baltic region including Estonia, Latvia and Lithuania. Ober-Haus Real Estate Advisors is a highly experienced provider of the most complete property services including residential and commercial real estate services, property management and property valuation services and has, since 1994, grown to employ over 260 real estate professionals in 20 offices across the region.

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;
- market research;
- consultancy.

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

OBER-HAUS - ALL REAL ESTATE SERVICES!

REALIA GROUP MEMBERS:

REALIA ISÄNNÖINTI
REALIA MANAGEMENT
Huoneistokeskus
SKV Kiinteistönvälitys
HUOM!
OBER HAUS
HESTIA
ARENNA

CONTENTS

FOREWORD / 4

LITHUANIA

COUNTRY OVERVIEW / 8
ECONOMY / 9
OFFICE MARKET / 10
RETAIL MARKET / 20
INDUSTRIAL MARKET / 24
RESIDENTIAL MARKET / 28
LAND MARKET / 38
REAL ESTATE TAXES / 42
LEGAL NOTES / 46

LATVIA

COUNTRY OVERVIEW / 56
ECONOMY / 57
OFFICE MARKET / 58
RETAIL MARKET / 62
INDUSTRIAL MARKET / 66
RESIDENTIAL MARKET / 70
LAND MARKET / 76
REAL ESTATE TAXES / 80
LEGAL NOTES / 84

ESTONIA

COUNTRY OVERVIEW / 92
ECONOMY / 93
OFFICE MARKET / 94
RETAIL MARKET / 98
INDUSTRIAL MARKET / 102
RESIDENTIAL MARKET / 106
LAND MARKET / 112
REAL ESTATE TAXES / 116
LEGAL NOTES / 118

DATA CHARTS / 126

FOREWORD

As it was expected and forecast, the year 2018 was truly productive in the real estate markets of the Baltics. In the environment of the growing economy, high supply and demand indicators continue to be recorded in the capitals of the Baltics and other major cities. The upward trend is observed both in the commercial and residential property markets.

If since the last economic downturn we have seen a sufficiently rapid recovery in the real estate market in the capital cities of Estonia and Lithuania, the capital of Latvia, Riga, could not boast of greater changes. It seems, however, that the largest city of the Baltic countries is finally waking up from deep winter sleep.

A significant amount of office space of up to 140,000 sqm should supplement the market in 2019–2020. This is exactly what the capital city of Latvia lacked in order to compete with Vilnius and Tallinn for the attention of international companies. A possibility not only to get established, but also to plan any further expansion in modern buildings is one of the main factors for bringing larger companies to a specific region or city. In 2019 Riga will also see the opening of one of the largest shopping centres (Akropole) in the Baltic countries and the expansion of several other shopping centres, which will contribute significantly to the growth of the quality retail space in the city. The number of apartments built in Riga in 2018 increased by 65% compared with 2017. Of course, apartment development volumes are still significantly behind those in Vilnius and Tallinn, but such momentary leap is an indicator of bolder steps taken by developers.

Meanwhile, in the real estate market in Lithuania, some new records were achieved in 2018. One of such records was the highest activity rate in the Baltic real estate market in Lithuania, where investment volumes in core commercial property increased by 36% reaching an all-time high of €422 million. The growing portfolio of quality commercial property in the market encourages investors to take decisions concerning its acquisition, and for sellers – to take the opportunity to sell the property at the highest prices during the past decade. It is therefore no surprise that investment transactions with 6% or even lower yield have been recorded in the markets of the Baltics.

The residential segment both in Lithuania and its capital city also showed spectacular results. If in 2018 the largest number of housing transactions was concluded in Lithuanian since 2007, in Vilnius an all-time peak was reached with nearly 12,000 housing units purchased over a year. The favourable economic situation and huge activity of developers contributed to the further growing activity in the residential segment. In 2018, over 4,300 apartments were built in multi-apartment buildings in Vilnius and this is the largest annual supply indicator since 2008. In the meantime, the volumes of construction of houses for sale in the city of Vilnius and its environs shot to an all-time high. The developers have no intention of stopping and in 2019 will offer an equally large number of residential properties to the market.

Positive changes recorded in the second largest city of Lithuania, Kaunas, are also impressive. In the past few years, the city has seen perhaps the fastest breakthrough in the real estate market in Lithuanian with sufficient number of new residential properties offered to the market. In 2017–2018, the stock of modern office space grew by as much as 80% and thanks to the arrival of international companies (e.g., Continental, Hella, Hollister, Hegelmann, etc.) investment in industrial premises and the number of new jobs in Kaunas Region are on the rise. It is obvious that in terms of the real estate market Lithuania is far from a city-state.

Rapid economic growth continues to support the real estate market development in Tallinn, which in terms of its real estate saturation is ahead of both in Vilnius and Riga. Despite the largest concentration of modern office space in the capitals of the Baltics, in 2018 developers in Tallinn offered a further nearly 80,000 sqm of new office premises and promise a significant growth in supply in 2019–2020. The total floor area of the modern warehousing facilities in Tallinn and its environs has already exceeded 1.3 million sqm (the largest amount of space of this type compared to Vilnius and Riga regions).

In terms of the floor area of traditional shopping centres, Tallinn continues to be a leader among the capitals of the Baltics. At the end of 2018, there were 42 traditional shopping centres with a total leasable area of 665,300 sqm in Tallinn or 1.45 sqm of shopping centre per capita. After successful and rapid expansion in Lithuania, the German supermarket chain, Lidl, plans to open its first stores in Estonia in 2020.

Tallinn is also known for the highest official wages and the highest average prices of apartments in the capitals of the Baltics. In 2018, a more moderate growth in prices of apartments (by +3.5% on average) and the stalled activities in this segment of the real property (in 2018 the number of transactions for apartments decreased by 1% compared with 2017) were recorded. Relatively high prices of residential properties and particularly active developers have also contributed to the more moderate increase in prices. In 2018, about 3,100 new apartments were built in Tallinn with similar figure planned in 2019. The 2017–2019 development volumes were on average only by 15% lower than those in 2006–2007, when the largest number of apartments in a year was built in Tallinn.

It is obvious that 2019–2020 will certainly not be boring in the real estate markets in the Baltic countries and will be eventful. The economic environment continues to remain favourable for active development of the market in the main regions of these countries and at the same time for all of us. We therefore present this annual report, which covers not only the developments in the real estate market in 2018, but also the outlook for the forthcoming years. Also, we are very grateful to our long-term partners, PricewaterhouseCoopers and Sorainen, who have contributed to the preparation of the quality content by providing sections on taxes and legal information.

Tarmo Kase
Ober-Haus Real Estate Advisors
CEO

OUR PARTNERS:

pwc

SORAINEN

OBER HAUS

EXECUTIVE OFFICER IN LITHUANIA

Remigijus Pleteras

Ober-Haus Lithuania General Manager

+370 5 210 9711

+370 659 35 033

remigijus.pleteras@ober-haus.lt

Geležinio Vilko st. 18A, Vilnius

Ober-Haus has 9 offices in Lithuania (Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai, Panevėžys and Druskininkai) with over 140 real estate experts working there and lead the group in terms of the annual number of real estate operations. Major local and foreign companies, medium-sized and smaller companies, investment funds and private investors trust the quality of the services that Ober-Haus offers. A team of independent experts provide all real estate services: mediation in letting, selling and purchasing commercial and residential real estate, valuation of movable and immovable property, business valuation, market research and analysis.

LITHUANIA

OBER HAUS

COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

Coordinates:	56 00 N, 24 00 E
Area:	65,200 km^2
Border countries:	Belarus, Latvia, Poland, Russia
Capital:	Vilnius
Ethnic groups:	Lithuanians 84.1%, Poles 6.6%, Russians 5.8%, other 3.5%

CURRENCY

Currency:	Euro (EUR)
Since:	January 1, 2015

2019 FORECAST

GDP growth, %	2.5 - 3.0
GDP per capita, €	17,000
Private consumption growth, %	4.0
Average annual inflation, %	2.4 - 2.5
Unemployment rate, %:	5.9 - 6.1
Average monthly net salary, €:	775
Average salary growth, %:	7.0

POPULATION	2013	2014	2015	2016	2017	2018
Lithuania	2,943,500	2,921,300	2,888,600	2,847,900	2,808,900	2,794,000
Vilnius	539,700	542,600	543,500	545,300	547,500	551,900
Kaunas	304,000	301,400	297,800	292,700	288,400	286,800
Klaipėda	157,300	156,100	154,300	151,300	148,900	147,900
Šiauliai	105,600	104,600	103,000	101,200	100,600	100,100
Panevėžys	96,300	95,200	93,600	91,100	88,700	87,100

ECONOMICS	2013	2014	2015	2016	2017	2018
GDP growth, %	3.5	3.5	2.0	2.4	4.1	3.6
GDP per capita, €	11,820	12,470	12,886	13,545	14,917	16,111
Private consumption growth, %	5.3	4.6	4.1	4.5	3.6	4.2
Average annual inflation, %	1.2	0.2	-0.7	0.7	3.7	2.5
Unemployment rate, %	11.8	10.7	9.1	7.9	7.1	6.1
Average monthly net salary, €	501	527	554	609	665	725
Average salary growth, %	4.8	5.2	5.1	9.9	9.2	9.0
Retail sales growth, %	5.8	6.2	4.4	7.0	4.7	6.5
FDI stock per capita, €	4,321	4,363	4,673	4,890	5,275	5,544

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS

FDI PROJECTS KEEP FLOWING INTO LITHUANIA

Foreign direct investment in Lithuania is becoming an ever-more important factor in the country's economic growth and an additional boost to the real estate market.

Invest Lithuania achieved its best ever annual results by attracting 45 foreign direct investment projects into Lithuania in 2018, creating a total of over 4,600 new jobs. This represents a 15% increase on 2017 in projects attracted by the investment promotion agency. The growth in 2018 was led by a rapid expansion of the Fintech sector, continued diversification of the Global Business Services (GBS) sector, and Lithuania's emergence as an attractive R&D location. The number of new investment projects coming to Lithuania is showing steady growth since 2010 with around 18,000 directly created jobs and a further multiplier effect of some 17,400 additional jobs.

The Lithuanian economy showed solid growth once again in 2018. GDP grew by an additional 3.6% on top of that of 4.1% in 2017. Analysts forecast a further 2.5–3.0% GDP growth in 2019.

In December 2018, the average annual inflation (HICP) rate was 2.5%. Forecasts are for inflation growth of 2.4-2.5% in 2019.

Due to the introduction of a new, reformed system of personal income tax from 1 January 2019, social security contributions were transferred for the most part from the employer to employees. Gross wages were adjusted by 28.9% to compensate employees for this shift in the tax burden. This wage recalculation had a relatively minor impact on employee's net wages.

The minimum wage in Lithuania was increased to €430 starting January 1, 2019, but after the new individual income tax system reform it was recalculated to €555 (€394 after taxes).

Net wages increased by 8.9% in Lithuania in Q4 2018 (compared to Q4 2017), to €752 per month after taxes. Salary growth in 2019 is expected to be around 7.0% and 6.0-6.5% in 2020.

Unemployment fell to 6.1% in 2018, compared with 7.1% in 2017. Analysts project average unemployment of 5.9-6.1% in 2019.

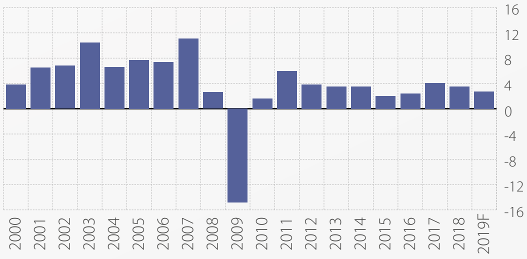
The consumer confidence indicator in December 2018 increased by two percentage points to minus 6 compared to December 2017. In December 2018, 24% of consumers believed that the country's economic situation would improve, but not significantly in the coming 12 months, 22% thought that the country's economy would deteriorate, but not significantly and 46% thought that the situation wouldn't change.

Exports have shown solid growth for the second consecutive year in Lithuania with a 7.3% increase in 2018, compared to 2017.

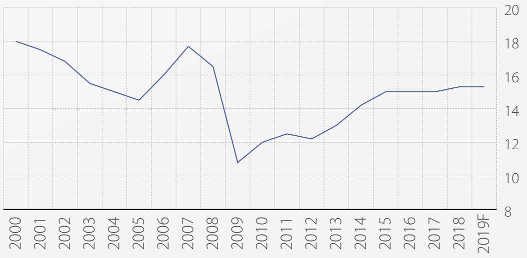
In December 2018, the annual increase in construction costs was 4.3%. The overall change in prices was mainly influenced by a 9.2% increase in wages, salaries and overheads. The biggest increase in this period was recorded for residential buildings (4.8%). Renovation costs of buildings increased by 5.2%.

As of September 2018, direct foreign investment totalled €15.6 bln (9.1% increase compared to September 2017), which is €5,544 per capita.

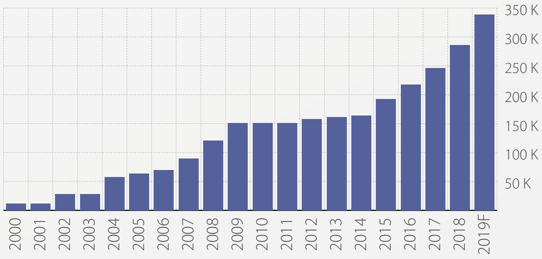
GDP GROWTH, %



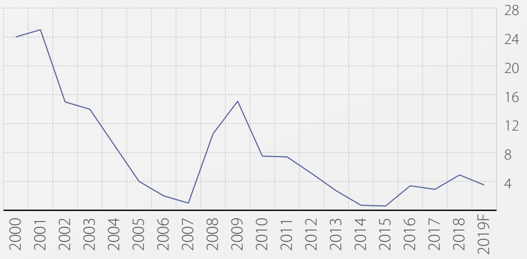
A CLASS OFFICE RENTS, €/SQM



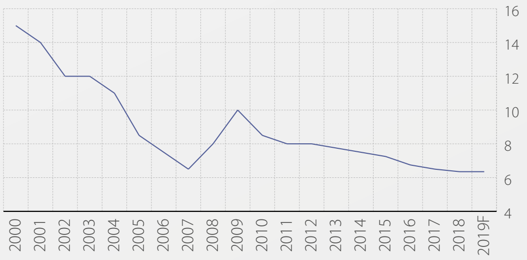
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2018)

TOTAL OFFICE SPACE	718,300 SQM
TOTAL OFFICE VACANCY RATE	3.7 %
VACANT OFFICE SPACE	26,400 SQM
A CLASS OFFICE VACANCY RATE	4.9 %
B CLASS OFFICE VACANCY RATE	2.9 %
TOP OFFICE RENTS (SQM / month)	€17.00
A CLASS OFFICE RENTS (SQM / month)	€14.00 - €16.50
B CLASS OFFICE RENTS (SQM / month)	€8.50 - €13.50
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €4.00

HIGH OFFICE ABSORPTION LEADS TO FURTHER SECTOR EXPANSION

SUPPLY

After a significant increase in new office supply in 2016–2017, the Vilnius market for modern offices continued to grow significantly in 2018. In total six new projects were completed in 2018 bringing 43,000 sqm of office space to market. After completion of these projects, the total area of usable modern office space (A and B class) grew by almost 7% to 718,300 sqm at the end of 2018 (see all projects on OHMAP). Currently, Vilnius has 1.30 sqm of usable office space per capita. By floor space, A class constitutes 39.8% of the total modern office premises in Vilnius, and B class – 60.2%.

High occupancy rates of modern office space and the continuing interest of tenants in new projects encourage further development of this sector. On the other hand, this development is of continuing concern to the owners of older buildings. Rent levels in many cases will no longer become a decisive factor in deciding on the lease of premises, especially for financially strong, high-profile tenants.

Increasing competition is forcing developers to follow sustainable development practices and to aim for international certification of the environmental assessment of buildings

(BREEAM and LEED schemes). At the end of 2018 there were over 20 completed office buildings in Vilnius (33% of the total modern office space stock) either already certified or with a preliminary assessment status with one of the internationally recognised systems. Developers believe that certified sustainable buildings with cost-cutting solutions encourage greater competitiveness among other projects.

In order to offer tenants not only a traditional long-term lease model but also other progressive solutions, landlords, serviced office operators and other investors continue to develop flexible and cost-effective work spaces. Since 2015 there has been a four-fold increase in stock and non-stock flexible office space in Vilnius, totalling almost 29,000 sqm by the end of 2018. This space covers a wide range of different workplaces ranging from micro coworking spaces to large-scale start-up campus models and traditional serviced offices.

It is worth mentioning a few of the operators, who have been to the forefront in offering flexible office space in the marketplace during 2018. Regus has added around 2,400 sqm by opening two such spaces: one in the Quadrum business centre (in a location earlier managed by another flexible office provider) and another in the CITY business centre. Currently, Regus manages four office spaces in Vilnius. The local company opened two co-working spaces, going under the brand-name AltSpace, adding around 1,700 sqm to the flexible office market. AltSpace has plans for the further expansion of such spaces. The share of flexible office space located in modern buildings in total modern office stock in Vilnius has tripled in the last three years and at the end of 2018 had reached 1.5% (end of 2017 – 1.2%).

Other office building owners or operators also have plans for further expansion of such spaces. BPT Group opened a second Workland space in the Old Town at the beginning of 2019 and other well-known flexible office solution providers will open their spaces in Vilnius during the year (UMA Workspace at Technopolis, Spaces by IWG and others).

In total up to eleven new projects (including further phases of earlier projects) should be completed during 2019, as a result of which over 90,000 sqm of new office space will be provided. Despite this significant increase in new office space in the last three years in Vilnius, developers show no signs of reducing the scale of their development volume plans and are, in fact, intending to maintain or increase the extent of new projects in 2020–2021 also (with additional potential office space of more than 100,000 sqm).

DEMAND

The office sector was quite active in 2018. Further development of services centres, new foreign capital investment companies arriving into the Lithuanian market and good performance indicators by local enterprises continued to bolster activities in the office sector. Although overall absorption indicators in 2018 did not reach the 2017 record, the 2018 outturn was the third best in the entire history of modern office development in Vilnius.

In 2018, 71,500 sqm of office premises was leased in Vilnius business centres, which is almost 28% less than the 2017 record and 7% lower compared to 2016. This lower absorption indicator in 2018 was also influenced by a smaller supply of new offices coming on stream compared with that in 2016 and in 2017. As demand for modern offices was still running at a high rate, project developers could, in general, be satisfied with the pace of leasing – almost 80% of total new office supply was already leased by the end of the year. It should also be noted that over the past 8 years, modern office space stock in Vilnius has significantly expanded – the total usable office space area has increased by a substantial 70% since 2010. Increasing office stock has been matched by higher take-up rates over the same period.

Based on preliminary lease agreements concluded in 2018 and further active development of business centres, office take-up should remain at a high level in 2019–2020.

The vacancy rate of modern offices in Vilnius decreased from 5.4% to 3.7% in 2018, and total vacant office space decreased from 37,600 sqm to 26,400 sqm. At the end of 2018, the vacancy rate for B class buildings was 2.9%, while the vacancy for A class buildings was 4.9%.

Owners of older buildings (properties entering their second decade) are expected to face the biggest challenges. The overall growth in the quality level in the market and the construction of buildings that comply with the latest construction standards have put pressure on the options available to such owners. They must either make cosmetic improvements to their existing buildings and compete by offering lower rents, or else invest in major refurbishment and modernisation of the buildings and premises in question. In an environment of fast-growing salaries, the percentage share of office rental expenses is decreasing; therefore, property owners often find it difficult to attract financially secure tenants even if they lower office rents.

As some of the tenants currently occupying older buildings may be attracted by new projects, Ober-Haus forecasts that the vacancy rate could increase in older buildings or in projects which are located in less attractive locations. Ober-Haus also predicts that the number of completed new projects in 2019 will be such as to increase the overall office vacancy rate during the year.

RENTS

High demand for modern office space led to a slight increase in rents in the country's capital in 2018. Despite a relatively abundant supply of new office premises, the market successfully absorbed this supply of new spaces and provided landlords with the opportunity to achieve a modest increase in rental income. Of course, owners of new buildings have the strongest negotiating powers as they can offer tenants premises in technologically advanced buildings whereas the owners of older buildings have significantly less bargaining power and therefore are prevented from any significant increase in rent levels.

In 2018 B class office rents increased by 4% on average and now range between €8.50 and €13.50 per sqm. A class office rents increased by 2% and are €14.00–€16.50 per sqm in Vilnius. Top rents could reach €17.00 per sqm in the more exclusive projects in smaller-sized premises.

Depending on the building, additional costs to tenants (single, double and triple net costs) are from €2.50 to €4.00 per sqm. Newly developed business centres no longer provide free parking spaces for their tenants (this used to be common practice in the market earlier) and they now make additional charges for parking places (€30-€100 per space).

It is likely that in 2019 the balance in the modern office sector will be maintained with ample supply compensated by high demand. However, bearing in mind that the landlords of older buildings will face increasing pressure in the fight for tenants, there is little potential for an increase in rents in that market. Ober-Haus expects that office rents in general will remain at the same level during 2019.

INVESTMENT

The commercial property investment market in Lithuania is breaking new records again. According to Ober-Haus data, 22 investment transactions totalling €422 million were concluded for purchases of core properties (modern office, retail and industrial property worth over €1.5 million), reaching an all-time high in 2018. This represents an increase of almost 36% compared to 2017. In 2018, 71% of the total investment was made in the capital, Vilnius.

Due to the acquisition of Ozas, the second biggest shopping centre in Vilnius, most of the 2018 investment occurred in the retail sector. The share of investment volume by sector in 2018 was as follows: 55% – retail (45% in 2017), 38% – offices (40% in 2017) and 7% – industrial (15% in 2017).

According to the value of the property purchased, Lithuanian- and South African-(with a single property purchase) based companies were the leading investors, with 40% and 30% of all investments respectively. The remaining investments attracted capital from Estonia, The Netherlands, Denmark, the US and Norway.

Despite investors still showing considerable interest in commercial property in Lithuania, some decompression of yields can be seen lately. This is particularly obvious when looking at secondary properties, where yields in general have stabilised. Potential investors are being particularly cautious when assessing the prospects of a specific purchase (current tenant base, future potential income, additional investments in the building or premises, and etc.) and compare these factors with yield indicators offered by the sellers. It would appear that major investors continue to prioritise prime property with a strong tenant base and are ready to accept a lower yield. In 2018, investment yield indicators for modern commercial property in Vilnius remained essentially unchanged and ranged from 5.75% to 6.5% for prime offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

Slightly decreasing yields and increasing rents increased the value of high class offices in Vilnius in 2018. The capital value index for A class offices over 2018 increased by over 4%. Currently, prime property values are 80% higher than the levels recorded at the market low point in 2010 and are just 9% below all-time highs achieved at the end of 2007 – start of 2008.

Based on property value, the largest transaction in the office sector was the acquisition of four Verslo Trikampis office buildings in Q2 2018. LIM Verslo Trikampio Fondas, a property management company owned by the fund management company, Lewben Investment Management, bought the four office buildings from MG Valda. The acquisition price was not disclosed, but it is public knowledge that at the beginning of the year the value of the assets managed by the newly established fund made over €60 million. This closed-type property fund already has both private individuals and companies as investors.

The largest single office deal was completed in Kaunas city in Q3 2018. Imlitex Holdings, a group of companies which specialise in the supply of raw materials, sold its office building Arka in the city centre. The A class office building, which has a total above ground area of over 8,600 sqm was completed at the start of 2018 and later sold to a company managed by investment management company DAO FAMILY. The transaction value was around €20 million.

In September 2018, the real estate development company Darnu Group (former MG Valda) completed the sale of its office building (West Hill) in the Park Town project in Konstitucijos CBD, on Lvovo Street. The A class office building, which has a total above ground area of around 7,200 sqm was completed at the end of 2017 and fully leased to Alna Group, Regus, Tieto Lietuva and other tenants. Details of the current transaction have not been disclosed.

At the end of 2018 Baltic Horizon Fund acquired the second Duetto office building close to the new Western Bypass and Pilaites Avenue in Vilnius. The B class office building, which has a total above ground area of over 8,300 sqm, was acquired from its developer YIT. The purchase price under the agreement is €18.3 million resulting in a 7.1% entry yield. The first tenants will move into the building in early 2019 when fit-out works are finished. The first Duetto building was acquired by Baltic Horizon Fund in the start of 2017.

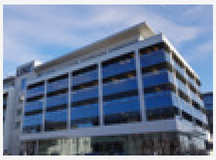
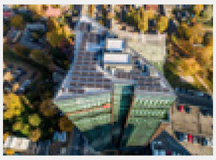
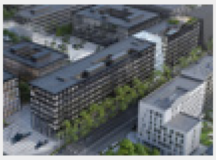
In Q2 2018, Eften Real Estate Fund III, managed by Estonian investment company Eften Capital, bought the Evolution office building, located in Ukmerges Street, in Vilnius. The 10-storey building was built in 2009 and consists of offices, commercial premises on the ground floor and a multi-storey 229 space car parking lot. The building has a leasable area reaching 6,200 sqm. The total transaction value is just slightly above €9 million. According to the buyer – the building should generate a net yield of approx. 8% when fully leased. Ober-Haus, representing the seller, supervised the deal.

SEB HQ

OBER HAUS

Real estate services company Ober-Haus presents an interactive map of business centers OHMAP (www.ohmap.lt). This is the first such virtual tool in Lithuania that helps find all office and mixed-use buildings with a minimum of 1,000 sqm useful office area in Vilnius built since 1999 or currently under construction.

RECENT DEVELOPMENTS

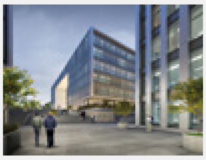
	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**LINK** – At the start of 2018, a local company Baltijos Gildija finished development of an A class office building in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. The 6-storey building with around 8,400 sqm of usable office space and underground parking with 280 parking spaces has been leased to American IT service company Cognizant, satellite monitoring hardware and software manufacturer Teltonika, Baltic News Service, 15min, Diginet LT and others.	8,400	Q1 2018
	**VILNIUS BUSINESS PARK I** – Real estate development company Darnu Group (former MG Valda) finished development of a modern business park in the northern part of Vilnius adjacent to a main transport artery – the intersection of Ukmerges Street and the new Western Bypass. The first purpose-built stage with a total area of 15,300 sqm was completed in Q2 2018. The first stage comprises a warehouse and office building with around 3,100 sqm of usable office space, which is fully let to the leading apparel retailer Apranga Group. Further development of Vilnius Business Park is planned for companies that are looking for office or industrial premises with an area up to 50,000 sqm.	3,100	Q2 2018
	**ASGAARD KEYS** – This office building is located in Zverynas district (Zverynas Circle CBD), next to Ukmerges Street. The 4-storey office building with around 3,800 sqm of usable office space was completed in Q3 2018. A total of around 100 parking spaces are provided in the underground car park. The developer is Asgaard Property, which is owned by Asgaard, a Danish investment company. Office space is available at rents from €14.50 per sqm.	3,800	Q3 2018
	**RADISSON BLU LIETUVA II** – The Norwegian real estate development company Linstow AS has expanded the hotel which it currently owns on Konstitucijos Avenue by developing a new building next to it. This new 8-storey building was finished in Q3 2018. The first floor offers retail space, the second and third floors have around 1,700 sqm of usable office space, and the hotel with 165 new rooms will take up the remaining five floors. Upon completion of this building, Radisson Blu Hotel Lietuva, with a total of 456 rooms, will consolidate its position as the largest hotel in Vilnius. Asking price rents for retail premises are €20.00 per sqm, office space – €16.00 per sqm.	1,700	Q3 2018
	**3 BURES (3RD TOWER)** – Eastnine, a Swedish investment company, has finished the development of a third tower next to the existing A class office project on Lvovo Street, right next to Konstitucijos Avenue. The site with an existing business centre was acquired by this investment company in 2014. A new 23-storey, A class office building with around 12,500 sqm of usable office space was completed in Q3 2018. The third tower has earned a LEED Platinum certificate. Total investment reached €25 million. Major tenants are Swedbank and Visma Lietuva.	12,500	Q3 2018
	**BUSINESS STADIUM WEST** – In Q4 2018, a local developer Hanner has finished the development of an A class business centre in the central part of the city on Rinktines Street. The 8-storey building with a total aboveground area of over 15,500 sqm is one of the first buildings in the vicinity of former Zalgiris stadium area, which was acquired by Hanner in mid-2015. The first floor is designed as an attractive array of shops, restaurants, and a conference hall. The second to eighth floors offer around 13,500 sqm of usable office space. Total investment reached €25 million. Office space is available at rents from €15.50 per sqm.	13,500	Q4 2018

OBER HAUS

NEW PROJECTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**S7 II (TELIA LIETUVA)** – At the start of 2019, the investment company, M.M.M. projektai, finished development of the second stage of office campus in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. After successfully completing the first building at the end of 2017, the company developed a second one. The second building with a total above ground area of 15,500 sqm and around 11,000 sqm of usable office space (excluding common areas) has been fully leased to a technological solutions company, Telia Lietuva. After achieving a BREEAM New Construction Excellent rating certificate for the first building, the developer's aim is to repeat this for the current building. Telia Lietuva will move its 1,200 employees into the new building in early 2019.	11,000	Q1 2019
	**DUETTO II** – At the start of 2019, the construction and development company YIT Lietuva finished the construction of a second office building in the Virsuliskes district next to the new Western Bypass. The 10-storey A class energy efficiency office building with total above ground area of over 8,300 sqm has 8,000 sqm of usable office space. Office space was leased to the engineering consultancy and design company Sweco Lietuva, Rimi Lietuva, Vilnius municipal heating company. Vacant office space is available at rents from €11.50 per sqm. Both identical Duetto buildings were sold to the Baltic Horizon Fund for almost €33 million.	8,000	Q1 2019
	**INHUS HQ** – Design, manufacturing and construction company INHUS, which belongs to Concretus group, is finishing the construction of an A+ energy class office building in Paneriai district, on Zariju Street. The 5-storey building with total above ground area of 4,300 sqm is being developed for Inhus group companies and should be completed in Q1 2019. The total investments will reach over €5 million.	4,300	Q1 2019
	**LIVE SQUARE** – Local developer Eika is developing the muti-functional project in the very heart of the city, on Gedimino Avenue. The project will consist of three residential blocks and a commercial complex. The commercial complex will house an A class business centre with total area of 6,800 sqm and a 7,000 sqm Hilton Garden Inn hotel. The business centre will provide around of 4,500 sqm of of usable office space, which is already fully leased to the law firm Sorainen and flexible workspace provider Spaces (owned and operated by IWG). The retail premises were leased to different retailers, for example, Rimi, Narvesen, Vero Cafe, Benu and others. Total investments will reach €49 million. The project should be completed in Q2 2019.	4,500	Q2 2019
	**PARK TOWN (EAST HILL)** – Real estate development company Darnu Group (former MG Valda) is finishing the development of an A class office project in the Konstitucijos business district, on Lvovo Street. The second building (East Hill), with a total area of 14,800 sqm will offer over 12,000 sqm of usable office space and should be completed in the middle of 2019. The developer is aiming to earn the BREEAM New Construction Excellent rating certificate. Office space is available at rents from €14.7 per sqm.	12,000	MID-2019
	**GREEN HALL 3** – After the successful completion of two office buildings in 2009 and again, in 2017, the development company, Urban Inventors, which belongs to SBA Concern, is developing the third building on the right bank of the Neris River in Upes Street. A 4-storey A class office building with around 2,500 sqm of usable office space, this should be completed in mid-2019. The total investments will reach €9 million. The building was fully leased to an undisclosed tenant.	2,500	MID-2019

NEW PROJECTS

	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**U219** – Local developer Seskines projektai, which belongs to construction company PST, is developing a business centre in Seskines district, on Ukmerges Street. A 7-8-storey office building with total above ground area of over 15,000 sqm (excluding above ground parking) will provide around 12,000 sqm of usable office space. Recreation zones, cafes and retail spaces are also being planned fo the business centre. The project is being developed in compliance with BREEAM. The project should be completed by the end of 2019. Average office space rents are €12.50 per sqm.	12,000	Q4 2019
	**QUADRUM (SOUTH)** – After completion of two office buildings (East & North) on Konstitucijos Avenue in 2016, Norwegian developer Schage is developing the third building (South). The 9-storey A class office building will offer almost 1,600 sqm of retail premises on the ground floor and around 9,000 sqm of office space on floors 2-9. After the completion of the third building at the end of 2019, Quadrum will be one of the biggest A class office projects in Vilnius.	9,000	Q4 2019
	**PAUPYS (RIVERSIDE)** – At the end of 2017 real estate development company Darnu Group (former MG Valda) started a large-scale multi-functional project in Uzupis district. The 5-ha territory of the former Skaiteks factory was acquired by Darnu Group in 2016. The developer plans to establish an exceptional residential area and modern business complex. The business complex with total above ground area of over 15,000 sqm will offer almost 12,000 sqm of office space at the end of 2019. It was announced that Ernst & Young Baltic will move over 300 employees into this business complex.	12,000	Q4 2019
	**S7 III (DANSKE BANK GSL)** – The M.M.M. projektai investment company, is continuing its development of an A class office campus in Zverynas district (Zverynas Circle CBD), on Saltoniskiu Street. After successful completion of the first and second building, the company is now developing a third one. This building, with a total above ground area of 14,500 sqm and around 12,000 sqm of usable office space, has been fully leased to Danske Bank Global Service Lithuania and construction should be completed by the end of 2019. The full development of this 2-ha site should be completed after construction of a fourth office building, which means that in total four office buildings will form one of the biggest office campus sites in Vilnius.	12,000	Q4 2019
	**AVIA SOLUTIONS GROUP HQ** – An international aviation holding company Avia Solutions Group is developing a business centre in the southern part of the city, on Dariaus ir Gireno Street. A 7-storey building will offer around 2,000 sqm of commercial, meeting rooms and leisure premises on the first two floors and almost 6,000 sqm of office space on floors 3-7. An underground car park and a multi-storey car park will provide almost 300 parking spaces. Most of the premises in the project are planned for the holding company's employees. The project should be completed by the end of 2019.	6,000	H2 2019

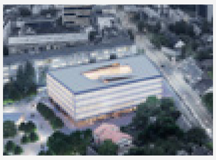
LEGAL NOTES BY SORAINEN

Rent is usually paid in advance, generally monthly. Rent is typically indexed based on local or European Union inflation (HICP) rates. Recent practice shows that rent is usually indexed by European Union or European Monetary Union HICP rates. In addition to rent, tenants pay for utility services and a service charge for property maintenance. Payment of a security deposit or guarantee is usually agreed. Triple net leases are standard for "A" class offices. Double net leases are more common for other classes of property. As a rule, the owner (landlord) is responsible for fitting out leased premises up to a standard level set by the landlord. Typically, standard lease agreements are used for larger properties.

Lease agreements must be registered with the Real Estate Register if they are to be invoked against third parties.

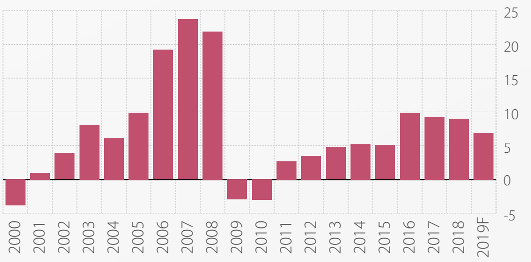
OBER HAUS

NEW PROJECTS

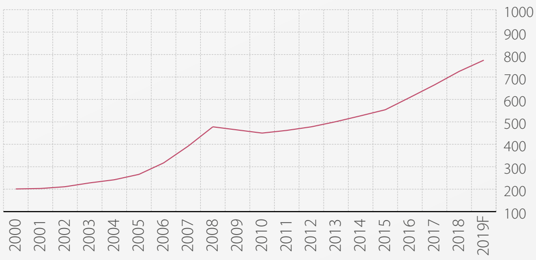
	DESCRIPTION	SIZE (NLA, sqm)	COMPLETION
	**SEB HQ** – At the start of 2018 the fund managed by Lords LB Asset Management announced that a pre-lease agreement with SEB bank had been signed and the bank would occupy a major part of the office building to be built next to Konstitucijos Avenue. In Q2 2018 construction of an A class office building with total area of 12,700 sqm started. SEB plans to move its employees to the new building in the mid-2020. The developer is aiming to earn the BREEAM Outstanding certificate.	12,700	MID-2020
	**SAVANORIU 5** – The investment company M.M.M. projektai, is developing an office building in Naujamiestis district, on Savanoriu Avenue. The building with total above ground area of 9,700 sqm will offer some retail space on the ground floor and almost 7,700 sqm of usable office space on the rest of the floors. The project should be completed in mid-2020. Total investments will reach €18 million. More than half of the space will be occupied by the owner of retail chains Maxima Group.	7,700	MID-2020
	**BUSINESS STADIUM NORTH** – Following completion of the first office building in the abandoned territory of Zalgiris stadium at the end of 2018, local developer Hanner is developing a second A class business centre in the central part of the city on Rinktines and Seimyniskiu Street. The 8-storey building with a total area of around 16,000 sqm should be completed in Q2 2020. The first floor is designed for an attractive array of shops, restaurants and other services. Total investments will reach €25 million. The end of construction works is scheduled for Q2 2020. Office space is available at rents from €15.50 per sqm.	16,000	Q2 2020
	**UPTOWN PARK** – Local development company Vilbra is developing an office building in Naujamiestis district, on Svitrigailos Street. The 5-storey A+ class energy efficiency office building with total above ground area of over 12,500 sqm will provide over 10,000 sqm of usable office space. Underground and above ground parking will provide 300 parking spaces. Total investments will reach €20 million. The project should be completed by mid-2020. The global provider of software solutions, Bentley Systems, will lease 2,700 sqm and have 250 employees in this building.	10,000	MID-2020
	**NOVA** – The Finnish-based international company Technopolis is developing another B class office project in the Technopolis Ozas campus in the territory of Ozo Park. The Technopolis Ozas campus already has five office projects – Alfa, Beta, Gama, Delta and Penta. The new three-block and 5-8-9-storey complex will offer a total of 26,700 sqm of leasable space and should be completed in Q3 2020. The new project is designed and will be certified according to the international LEED green building certification system and will reach A+ energy efficiency. Total investments will reach €51 million. SEB bank's service centre will occupy around 47% of the project when it moves 1,100 of its employees there.	26,700	Q3 2020

NOVA

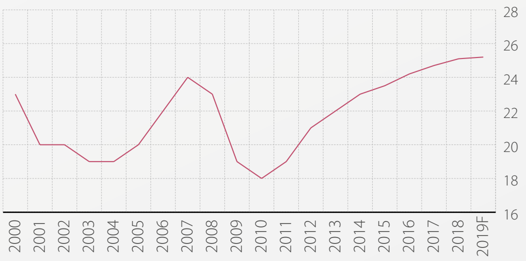
AVERAGE SALARY GROWTH, %



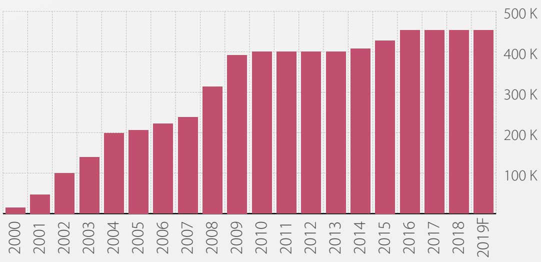
AVERAGE NET SALARY PER MONTH, €



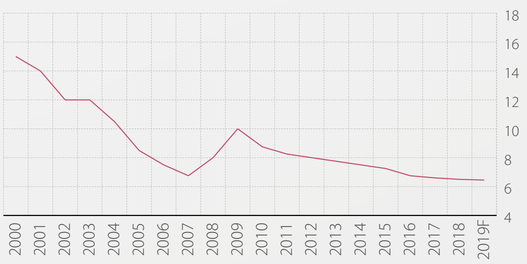
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2018)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	453,000 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	0.82 SQM
SHOPPING CENTRE VACANCY RATE	<1.0 %
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €13.50
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€14.00 - €40.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€50.00 - €75.00
HIGH STREETS RENTS (SQM / month)	€17.00 - €45.00

FOCUS ON SMALLER SCALE RETAIL SCHEMES AND DIY STORES

SUPPLY

The total retail space in larger traditional shopping centres in Lithuania at the end of 2018 amounted to 1.1 million sqm or 0.39 sqm of shopping area per capita. Altogether 41% of shopping space of traditional shopping centres are based in Vilnius. The retail space in such shopping centres in the past five years has increased by over 9% in Lithuania but the population of the country in the same period shrank by 5%. Statistically, the retail space per capita indicator has increased by around 15% in the past five years.

In 2018, no large traditional shopping centres were opened in Vilnius; the capital has not seen any new such projects since the second stage of the NORDIKA shopping centre was opened in May 2016. At the end of 2018 there were 25 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable retail area of 453,000 sqm. Currently, Vilnius has 0.82 sqm of shopping area per capita.

In March 2018, the new Zali shopping centre was opened in Balsiai residential area in Vilnius. Baltisches Haus, a real estate development and management company, invested about €6.5 million in this A+ energy class building, infrastructure and landscaping. Over 3,800 sqm of the building are occupied by the retail chain Iki and the rest is leased by 15 smaller tenants.

At the end of 2018, the French sports and leisure goods retailer, Decathlon, opened its first store in the Baltics. A 5,000 sqm retail building was developed on the VNO Business & Retail Park territory in the southern part of Vilnius, next to IKEA and Nordika shopping centres.

There has been no development of traditional shopping centres in Lithuania recently; instead the country has seen an aggressive expansion of supermarket or DIY type shopping centres.

The German supermarket chain, Lidl, has continued to expand actively in Lithuania. During 2018, this low-priced retail chain opened another 11 stores in Lithuania and has ended the year with 42 stores in total (12 stores in Vilnius and 30 stores in other Lithuanian cities).

Depo, a Latvian retail chain selling construction materials and household goods, which started operations in Lithuania in 2016, opened two DIY shopping centres in Vilnius in 2018. One shopping centre with a total area of almost 31,000 sqm was opened in the western part of Vilnius, between Lazdynai residential district and Gariūnai market and another with a total area of 24,000 sqm next to Ukmerges Street in the northern part of the city.

The owners of traditional shopping centres and other retail schemes continue to steer investments towards the upgrade of already operational retail properties and focus on improving their tenant structure to increase their space efficiency.

At the beginning of 2019, GO9 shopping centre located in the very centre of the city, Gedimino Avenue, and managed by a local investment funds manager Lords LB Asset Management, was essentially closed for planned reconstruction. It is likely that the reconstruction will be completed at some point in 2019, the food store operator will be replaced and other renovation work will be carried out. In addition, the second flexible work space of UMA Workspace controlled by the Finnish real estate investment and management company, Technopolis, will open in the shopping centre (UMA GO9) in mid-2019. UMA GO9 will occupy about 2,100 sqm on the top floor of the building.

In 2019, no change in supply is forecast in the traditional shopping centres segment. A large-scale project is planned in Pilaites district, with completion expected no earlier than the end of 2020. Vilnius Outlet shopping centre with a total area of 60,000 sqm will be developed by the Ogmios group; this will be the largest outlet zone in Lithuania and will also offer other retail and entertainment space totalling around 35,000 sqm.

DEMAND

In 2018 retail turnover in Lithuania grew by 6.5%, after growing by 4.7% in 2017. This continuous growth, year after year, has a positive effect on the real estate market and the interest in retail premises in Vilnius continues to remain high. Growing sales volumes encourage retailers to look actively for new retail premises both in shopping centres and on high streets. Even so, finding any vacant premises in popular shopping centres remains a considerable challenge. Shopping centres in Vilnius are fully leased and a small vacancy rate is found only in a few of the less successful shopping centres. The vacancy rate of shopping centres in Vilnius has remained below 1% since 2013.

The rapidly increasing sales volumes of internet retailing signals a potentially significant change in the retail premises sector. To respond to the growing share of e-commerce, there have been more discussions lately about combining different sales channels, where the customer could be located or retained using both traditional physical and electronic commercial channels. We will therefore continue to see increasing investment in technologies that meet the expectations of the contemporary purchaser. According to forecasts by the market research company, Euromonitor International, in 2017 internet retailing in Lithuania had a turnover of €488 million, which is a 24% increase compared to 2016 and a 53% increase compared to 2014.

The main shopping streets (Gedimino Avenue, Pilies Street, Didzioji Street, Vokieciu Street) have also been enjoying almost full occupancy for the last five years. Small businesses keep expanding in the other zones of the Old Town or central part of the city. For example, changes are obvious in the environs of Vilnius Railway Station, near Hales Market and in Uzupis district, where new eateries, small shops or market-type outlets have opened in the last few years. It is often the case that small shops or cafes are opening in locations which are far from heavy passing foot traffic.

The overall assessment of the situation of the past 5-6 years in the shopping streets in Vilnius shows that the situation has essentially changed. Retail outlets selling clothing and other products have been replaced with gourmet shops, cafes, pubs and other leisure activities so that popular streets have become places of leisure rather than for trade.

RENTS

The continuing moderate increase in the turnover of tenants in the most popular shopping centres in Vilnius continues to create conditions conducive to a further slight increase in rental income. In 2018, rents increased by a further 2–4% in most Vilnius shopping centres. Since the overall occupancy rates of shopping centres remain particularly high, new tenants have had to get used to higher rents than in the past, with the exception of those tenants who can bring a higher added value than the previous tenant (e.g. a new international trade mark in the country/city or a tenant with unique products/services). The negotiating position of such tenants is much stronger both in terms of rents and other conditions.

In the meantime, it is much more difficult for the managers of less attractive shopping centres (shopping centres with a poor image or in less attractive locations) to find and negotiate with tenants. In order to retain or improve the tenant structure, better conditions must be offered both to existing and new tenants in order to be competitive.

Rents for medium sized (150–300 sqm) units in major shopping centres run from €14.00 to €40.00 per sqm and up to €50.00–€75.00 for small-sized units. Rents for anchor tenants are €9.00–€13.50 per sqm.

Despite a very limited choice of retail premises in Vilnius high streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) rents remained flat during 2018. At the end of 2018, rents for medium-sized retail premises (100–300 sqm) in such streets were €17.00–€45.00 per sqm.

It should be noted that since the end of the last economic downturn, rents for retail premises in such locations increased by an impressive 70% and are only 10% lower than the previous peak in 2007. In recent years, the number of tenants with the same profile in the main retail streets have notably increased and have reached full capacity limits in terms of payable rent levels. Ober-Haus believes that retail rents in high streets will remain stable in 2019.

INVESTMENT

The commercial property investment market in Lithuania is breaking new records again. According to Ober-Haus data, 22 investment transactions totalling €422 million were concluded for purchases of core properties (modern office, retail and industrial property worth over €1.5 million), reaching an all-time high in 2018. This represents an increase of almost 36% compared to 2017. In 2018, 71% of the total investment was made in the capital, Vilnius.

Due to the acquisition of Ozas, the second biggest shopping centre in Vilnius, most of the 2018 investment occurred in the retail sector. The share of investment volume by sector in 2018 was as follows: 55% – retail (45% in 2017), 38% – offices (40% in 2017) and 7% – industrial (15% in 2017).

According to the value of the property purchased, Lithuanian- and South African-(with a single property purchase) based companies were the leading investors, with 40% and 30% of all investments respectively. The remaining investments attracted capital from Estonia, The Netherlands, Denmark, the US and Norway.

Despite investors still showing considerable interest in commercial property in Lithuania, some decompression of yields can be seen lately. This is particularly obvious when looking at secondary properties, where yields in general have stabilised. Potential investors are being particularly cautious when assessing the prospects of a specific purchase (current tenant base, future potential income, additional investments in the building or premises, and etc.) and compare these factors with yield indicators offered by the sellers. It would appear that major investors continue to prioritise prime property with a strong tenant base and are ready to accept a lower yield. In 2018, investment yield indicators for modern commercial property in Vilnius remained essentially unchanged and ranged from 5.75% to 6.5% for prime offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

There was one major transaction concluded in 2018, which had a major impact on the year's total investment indicators. South African listed NEPI Rockcastle, a commercial property investor and developer, acquired the holding company of Ozas shopping centre in Q2 2018. The reported aggregate purchase price of the shopping centre with around 62,000 sqm of retail space was €124.6 million. By purchasing Ozas shopping centre, NEPI Rockcastle, one of the largest investors in high-class retail property in Central and Eastern Europe, guaranteed themselves a yield of slightly over 7% (excluding potential income from those premises in the shopping centre that have not yet been leased).

At the end of 2018, an Estonian investment company, Eften Capital managed real estate fund Eften Real Estate Fund 4 acquired the RYO shopping centre in Panevezys city. This shopping centre with a total area of over 27,000 sqm is the biggest retail scheme in Panevezys and was sold for €47 million resulting in an entry yield of over 8%. The vendor was the Finnish investment company, Pontos Group, which had acquired this shopping centre in 2011.

In the middle of 2018, Westerwijk Properties purchased the BIG shopping centre with a total above ground area of 20,000 sqm (over 16,000 sqm of retail space) in Klaipeda city for almost €25 million. This shopping centre was part of a large commercial property portfolio that was previously purchased by the international investment company, Partners Group, in 2015.

LEGAL NOTES BY SORAINEN

Typically, 3-5 year lease agreements are common. Triple net leases are not universally used, except in the largest and professionally managed shopping centres. Double net leases are more common. Marketing costs are either fixed or covered by a service charge. As a rule, contributions to a sinking fund are rarely agreed in the retail market, while use of step rents and turnover rents has become more common. 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.

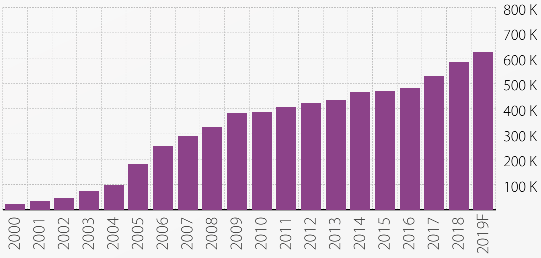
RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**ZALI** – In March 2018, a new shopping centre was opened in Balsiai residential area in Vilnius. Baltisches Haus, a real estate development and management company, invested about €6.5 million in this A+ energy class building, infrastructure and landscaping. Over 3,800 sqm of the building is occupied by the retail chain Iki and the rest is leased by 15 smaller tenants. The development of this shopping centre was strongly supported by the local community, which has been a long time waiting for a new and high-quality shopping, services and entertainment space.	3,800	Q1 2018
	**DEPO DIY** – The Latvian-based chain selling construction materials and household goods, which started operations in Lithuania in 2016, has opened two DIY shopping centres in Vilnius in 2018. One shopping centre with a total area of almost 31,000 sqm was opened in the western part of Vilnius, between Lazdynai residential district and Gariūnai market and another with a total area of 24,000 sqm next to Ukmerges Street in the northern part of the city. Depo opened its first store in Lithuania in Klaipeda city at the end of 2016 and a second in Panevezys city in 2017. Currently Depo has four shopping centres in Lithuania and plans to open a fifth in Kaunas city in 2019.	31,000 + 24,000	2018
	**DECATHLON** – In November 2018, the French sports and leisure goods manufacturer and retailer, Decathlon, opened its first store in the Baltics. A 5,000 sqm retail building was developed for this retailer on the VNO Business & Retail Park territory in the southern part of Vilnius, next to IKEA and Nordika shopping centres. The developer of the project is VPH, which develops and manages commercial properties in the Baltic States and Belarus.	5,000	Q4 2018

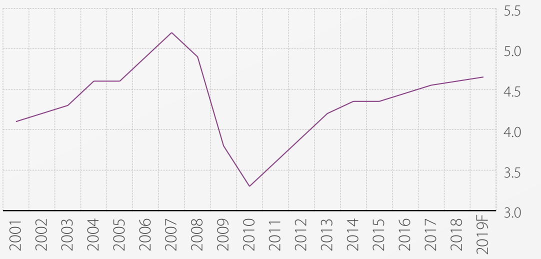
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**VILNIUS OUTLET** – Ogmios group is planning to develop a shopping centre in Pilaites district, on V. Pociuno Street next to the new Western Bypass. The 4-storey building with a total area of 60,000 sqm will host above ground parking on the first two floors. Shops and entertainment will be on the first, third and fourth floors and will offer around 35,000 sqm of retail space in total. The third floor is planned for the outlet zone with around 17,000 sqm becoming the biggest outlet store in Lithuania. The fourth floor is planned for entertainment with a cinema, trampoline centre, sport club, restaurants, leisure zones and etc. Total investments could reach up to €75 million. The construction works are expected to be completed no earlier than the end of 2020.	35,000	Q4 2020

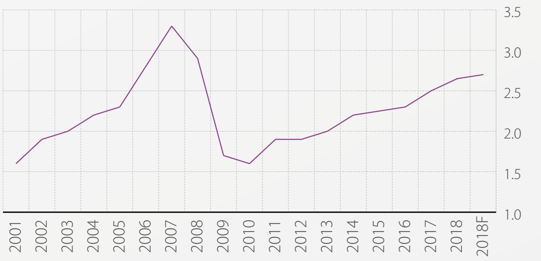
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



VILNIUS SNAPSHOT
(END-2018)

TOTAL NEW WAREHOUSE SPACE	585,300 SQM
WAREHOUSE VACANCY RATE	3.9 %
ANNUAL WAREHOUSE RENTS CHANGE	+ 3.0 %
NEW WAREHOUSE RENTS (SQM / month)	€3.90 - €5.30
OLD WAREHOUSE RENTS (SQM / month)	€1.80 - €3.50
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

TOTAL WAREHOUSING STOCK INCREASED BY 11%

SUPPLY

A strong performance by transport and logistics companies continues to support buoyancy in the warehousing sector. Although the overall number of speculative projects is not growing rapidly, there is a certain level of activity in regards to own-use projects. There is a demand for modern premises for existing and expanding businesses.

Seven new projects with a total warehousing area of 57,700 sqm were completed in the Vilnius region in 2018. These new projects were undertaken by Avisma, Darnu Group, Creolink, Autoverslas, Arginta Investment, Transimeksa and Sirin Development. Recent projects increased the total leasable area of modern warehousing premises in Vilnius and its surroundings by 11% to 585,300 sqm.

At the end of 2018, 81% of modern warehouse supply was located within city limits. The bulk of warehouses developed are located in the southwestern industrial zones of Vilnius (Kirtimai, Vilkpede, Aukstieji Paneriai and Zemieji Paneriai), as well as near the strategic highways: Vilnius–Kaunas and Vilnius–Minsk.

Warehouses with an area exceeding 10,000 sqm currently make up 55% of the current supply. Warehouses with an area from 5,000 to 10,000 sqm make up 27% of the supply, and the remaining 18% are warehouses with less than 5,000 sqm.

LEGAL NOTES BY SORAINEN

Over the past few years, lease agreements of industrial real estate have become of better quality than used to be the case. Rents are usually indexed on the basis of local or European Union inflation (HICP) rates. Triple net leases are not universally used.

At least four new industrial projects with a total warehousing area of around 40,000 sqm are envisaged for Vilnius and its surroundings in 2019. The potential for expansion is much higher but some projects which are ready to begin construction are still awaiting potential tenants. In many cases this is crucial in order to ensure both financing of the project and for taking a strategic investment decision.

DEMAND

After the rapid increase of revenues of companies in the warehousing and storage sector in 2017, growth in 2018 was much more modest. According to Statistics Lithuania, in 2018 revenues of warehousing and storage companies amounted to €171 million (excluding VAT) or over 2% more compared to 2017.

As newly completed projects have attracted considerable interest from tenants and some projects have been implemented for own use, the overall occupancy rates have remained very high. Successful projects also encourage other developers to continue further development or to be more proactive. The vacancy rate of modern warehouses in Vilnius region during 2018 increased from 1.8% to 3.9%.

However, specific requirements of tenants have not encouraged rapid development in the warehousing sector. Despite relatively favourable demand prospects, developers must assess whether their project plans meet contemporary needs and the requirements of clients. Even so, it is clear that projects in progress or pending will increase the choice options for potential tenants.

RENTS

Rents for new warehouses and industrial premises increased by 1%, while older premises jumped by 5% in 2018. At the end of 2018, rents for new modern warehouses closer to the central part of the city ranged from €4.70 to €5.30 per sqm, depending on size. Near or outside the city limits, rents range from €3.90 to €4.50 per sqm. Renovated premises are being offered at prices from €2.60 to €3.50 per sqm. Average and lower quality premises are offered from €1.80 to €2.20 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

Increasing consumption trends and strong results from the transport sector are encouraging the further development of new schemes and investment in the renovation of older buildings. The rapidly increasing costs of construction, however, do not match the slow increase in rents; therefore, developers are continuing to be quite conservative in their approach.

The growing economy of the country, which is leading to increasing consumption and improving performance indicators for business, will support a balanced development of the warehousing premises sector. Ober-Haus forecasts that rents will stay flat or will see just a slight increase in 2019.

INVESTMENT

The commercial property investment market in Lithuania is breaking new records again. According to Ober-Haus data, 22 investment transactions totalling €422 million were concluded for purchases of core properties (modern office, retail and industrial property worth over €1.5 million), reaching an all-time high in 2018. This represents an increase of almost 36% compared to 2017. In 2018, 71% of the total investment was made in the capital, Vilnius.

Due to the acquisition of Ozas, the second biggest shopping centre in Vilnius, most of the 2018 investment occurred in the retail sector. The share of investment volume by sector in 2018 was as follows: 55% – retail (45% in 2017), 38% – offices (40% in 2017) and 7% – industrial (15% in 2017).

According to the value of the property purchased, Lithuanian- and South African-(with a single property purchase) based companies were the leading investors, with 40% and 30% of all investments respectively. The remaining investments attracted capital from Estonia, The Netherlands, Denmark, the US and Norway.

Despite investors still showing considerable interest in commercial property in Lithuania, some decompression of yields can be seen lately. This is particularly obvious when looking at secondary properties, where yields in general have stabilised. Potential investors are being particularly cautious when assessing the prospects of a specific purchase (current tenant base, future potential income, additional investments in the building or premises, and etc.) and compare these factors with yield indicators offered by the sellers. It would appear that major investors continue to prioritise prime property with a strong tenant base and are ready to accept a lower yield. In 2018, investment yield indicators for modern commercial property in Vilnius remained essentially unchanged and ranged from 5.75% to 6.5% for prime offices and shopping centres to 7.25–8.0% for secondary properties. Yields for warehousing premises ranged from 7.0% to 8.5%.

In Q1 2018 Ogmios group sold its developed logistic centre in the southwestern industrial zone of Vilnius, on Kibirksties Street. The logistics centre with total area of 21,000 sqm was acquired by KS investicija, which owns the single tenant Eugesta in this logistic centre. Details of the transaction have not been disclosed.

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**M7** – At the start of 2018, Avisma, a supplier and manufacturer of advertising materials, completed the construction of an A class energy efficiency project in Kuprioniskes district, next to the Vilnius–Minsk Road. The project with 6,400 sqm of warehousing premises and 2,300 sqm of offices was developed both for Avisma itself and with a major part of the space offered to other tenants.	6,400	Q1 2018
	**VILNIUS BUSINESS PARK I** – In Q2 2018 the real estate development company Darnu Group (former MG Valda) completed development of the first stage of a modern business park in the northern part of Vilnius next to the main transport arteries – the intersection of Ukmerges Street and the new Western Bypass. This custom-built development, with around 12,000 sqm of warehouse space and over 3,200 sqm of office space was developed and fully let to Apranga Group, a the leading apparel retailer. Planning is proceeding for the further development of Vilnius Business Park, targeting companies which are looking for office or industrial premises with an area up to 50,000 sqm.	12,000	Q2 2018
	**ARGINTA (MOLETU ROAD)** – In the second half of 2018, Arginta Investment, which belongs to Arginta Group, completed development of a warehouse next to Moletu Road. The warehouse, with around 4,400 sqm of warehouse space and over 1,100 sqm of office space, was leased to a pharmaceutical products distribution company, Armila.	4,400	H2 2018
	**CREOLINK** – At the end of 2018, Creolink, a group of companies involved in the wholesale and retail trade in paper, printing materials, plastic packaging and equipment for advertising manufacturers, completed an A class energy efficiency project for their own use on Vakarine Street, next to the new Western Bypass. The project, with almost 5,300 sqm of warehousing space and 7,400 sqm of manufacturing, retail and office premises, was officially opened at the start of 2019. The total investment was €9 million.	5,300	Q4 2018
	**LIEPKALNIS INDUSTRIAL PARK II** – At the end of 2018 a local developer, Sirin Development, one of the leading industrial property developers and owners in Lithuania, had completed the construction of the second stage of the new industrial park. On the opening date, 90% of the second building, with around 14,000 sqm warehouse space and around 2,000 sqm office space was leased to Lithuania Post, parcel delivery service company DPD and other tenants. Asking warehouse rents for available space are from €4.50 per sqm, offices – from €5.00 per sqm.	14,000 (II stage)	Q4 2018 (II stage)
	**TRANSIMEKSA (SAUSUPIO STREET)** – At the end of 2018 the logistics and cargo services company, Transimeksa, completed the development of a logistics centre in the Vilnius industrial zone on Sausupio Street. The project consists of two buildings with 12,000 sqm of warehouse space and 1,000 sqm of office space. This is the third stage of the warehousing development built by Transimeksa in the same location. Asking rents for the available warehouse space are from €5.00 per sqm, and offices from €9.00 per sqm.	12,000	Q4 2018
	**AUTOVERSLAS** – The logistics company, Autoverslas, has developed a warehouse in Paneriai district, on V. A. Graičiūno Street. The warehouse with 3,600 sqm of warehouse space and 400 sqm of office space, was completed at the end of 2018.	3,600	Q4 2018

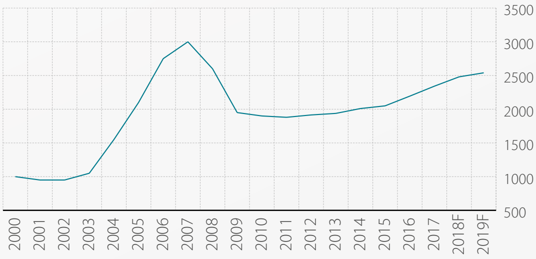
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**LIEPKALNIS INDUSTRIAL PARK III** – After the succesfull completion of the first and second stages, local developer Sirin Development is continuing with the development of an industrial park in the southern part of Vilnius on Liepkalnio Street. The third stage, with 25,400 sqm of warehousing and 4,400 sqm of office space, is scheduled to be completed in Q4 2019. The total investment will reach €17 million. Asking rents for warehousing are from €4.50 per sqm; offices from €5.00 per sqm.	25,400 (III stage)	Q4 2019 (III stage)
	**ELMORIS** – Lug cap manufacturer, Elmoris, is completing construction of a new industrial facility next to Savanoriu Avenue. The total size of the project will be almost 26,000 sqm and total investment will reach around €40 million. The project consists of two buildings, one of which will be for production storage and cover almost 6,100 sqm. The project should be completed in the first half of 2019.	6,100	H1 2019
	**ZARIJU 4B** – An Estonian capital real estate management company, Capital Mill, is preparing to develop a 6,200 sqm warehouse in Aukstieji Paneriai district, on Zariju Street. The warehouse with 5,700 sqm of warehousing and 500 sqm of office space could be completed in the second half of 2019. Asking warehouse rents are from €4.70 per sqm.	5,700	H2 2019
	**LITHUANIA POST** – The construction of the new logistic centre for Lithuania post is planned in the industrial zone in the southern part of the city. A centralised sorting facility with total area of over 14,000 sqm is planned to be completed in the second half of 2020. Around 13,300 sqm is planned for warehousing space and the rest for offices. The construction works are estimated to cost almost €8.4 million and total investment in the project will reach €24 million.	13,300	H2 2020

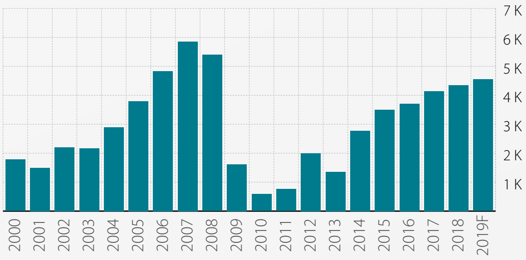
LIEPKALNIS INDUSTRIAL PARK

INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+370 5 210 97 00**

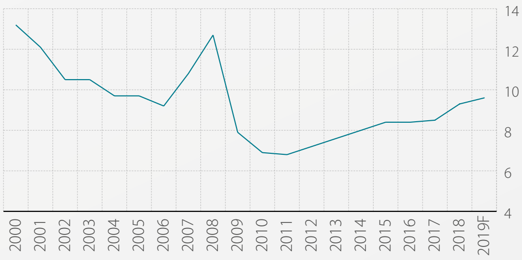
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



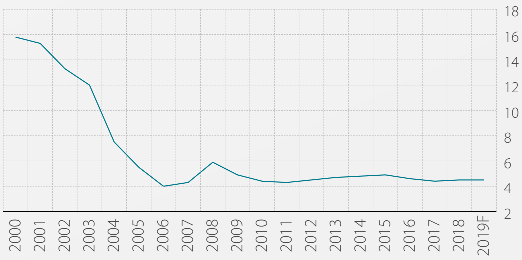
COMPLETED UNITS



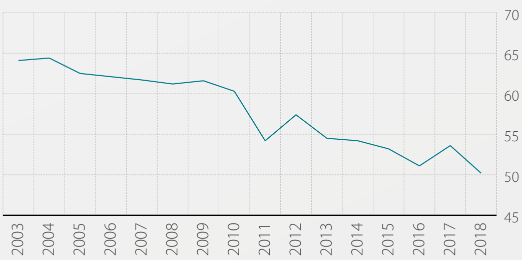
RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



NEW APARTMENT FLOOR AREA, SQM



VILNIUS SNAPSHOT
(END-2018)

ANNUAL APARTMENT PRICE CHANGE	+ 3.0 %
NEW APARTMENTS BUILT	4,355
AVERAGE NEW APARTMENT FLOOR AREA	50.2 SQM
ECONOMY CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	€1,000 - €1,500
MIDDLE CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	€1,550 - €1,900
UPPER CLASS NEW APARTMENT PRICES (SQM/without final fit-out)	FROM €2,000
FINAL APARTMENT FIT-OUT	€250 - €400
RESIDENTIAL INVESTMENT YIELD (city centre)	4.5 %

HIGH HOUSING DEMAND CONVERTED TO THE RECORD SUPPLY

PRICES

Although in 2018 an increase in apartment prices was recorded in all five major cities of Lithuania (Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys), the rate of increase varied in individual cities. The smallest relative increase in apartment prices was recorded in Vilnius and was determined by a high reference point, that is, a big price gap between Vilnius and other cities in the country. Meanwhile in smaller cities a higher increase in prices (from 4% to 11%) of apartments was recorded and it is likely that similar trends will remain in the near future.

Apartment prices in Vilnius increased by 3.0% in 2018, after an increase of 3.6% in 2017, according to the Ober-Haus Lithuanian apartment price index. At the same time, this is the smallest annual increase in apartment prices over the past five years. The average price at the end of 2018 rose to €1,512 per sqm. From the lowest price level in May 2010 up to December 2018, apartment prices increased by 31.0% (by €358 per sqm). In 2018 prices for new construction apartments increased by 1.4% and for older apartments they increased by 4.4%.

The main reasons for current residential market activity in Vilnius and continuing price growth remain the same as in previous years: increasing population (according to official data, the population in Vilnius city in 2018 increased by 0.8% or by 4,400 residents) and its growing income, low mortgage interest rates and continuing positive expectations for the economy and housing price development in the near future.

Prices for new construction apartments in residential districts at the end of 2018 ranged from €1,050 to €1,650 per sqm without final fit-out. In Lithuania, new apartments are still generally sold as shells, i. e. without any fit-out at all. Apart-ments sold in a shell state require an average of €250–€400 per sqm to fit out with floors, painting, lights, bathrooms and kitchen (economy-middle class).

By the end of 2018, a standard two-room apartment (45–50 sqm) in a Soviet-era concrete block building located in a residential district cost from €49,000 to €61,000. Prices of apartments in old brick buildings are 10–20% higher. The lowest price for old construction, unrenovated apartments in typical Vilnius residential districts is €850-€900 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €1,200 to €2,100 per sqm for unrenovated and from €1,650 to €4,200 per sqm for renovated apartments. New construction apartments are now offered for €1,900 to €4,200 per sqm without final fit-out. Prices of new apartments in exceptional projects can reach €4,500–€5,000 per sqm.

In prestigious districts (Antakalnis, Naujamiestis, Zverynas), old apartment prices range from €1,100 to €3,000 per sqm. Prices of newly built apartments range from €1,650 to €3,200 per sqm without final fit-out. Prices of new apartments in exceptional projects can reach up to €4,000 per sqm.

In 2018, the prices of detached and semi-detached houses in the city of Vilnius and in the immediate surroundings of Vilnius were unchanged and have remained at the same level as a year ago.

Detached houses (150–200 sqm with land plots of 600–1,000 sqm) located in new housing areas 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 €115,000 to €165,000. Prices for semi-detached houses (100–125 sqm with land plots of 250–400 sqm) range from €100,000 to €125,000. Full final fit-out generally costs €200–€250 per sqm or more.

The price for a fully finished 150–200 sqm detached house within the city limits (city residential districts) ranges between €170,000 and €390,000, and from €250,000 to €600,000 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. Houses with a large area and in the most prestigious locations of the city are offered for as much as €1,000,000–€2,000,000.

Population surveys predict that in the most densely populated regions of the country housing prices will continue on an upward path in the nearest future. A survey commissioned by SEB Bank at the end of 2018 showed that 65% of the respondents (compared to 69% in 2016 and 64% in 2017) thought that housing prices would increase in the Vilnius region and only 10% of respondents thought that housing prices would decline in 2019.

The change in apartment prices recorded in 2017–2018 showed that the housing market in Vilnius had moved from a rapid development stage to a much more moderate growth phase. Developers who over the past years have accurately assessed market opportunities and who have managed to offer sufficient quantities of new housing onto the market have contributed to the slower rise in prices. If the country's economy develops as projected, Ober-Haus believes that in 2019, housing prices in Vilnius will increase by around 2–4%.

SUPPLY

According to Ober-Haus data, 4,355 apartments (in 58 different projects) were built in Vilnius in 2018, which is 5% more than the number of apartments constructed in 2017. The number of apartments built in 2018 in Vilnius is the highest since 2008 when 5,396 apartments were completed.

Although construction volumes did not reach those achieved in the 2006–2008 period, 2018 was exceptional in terms of the choice available to apartment buyers in Vilnius. In the 2003–2017 period, each year, buyers had a choice of under 50 apartment building projects, in 2018 they had a choice of 58 different projects completed in that year. Consequently, 2018 saw the widest choice of new apartments ever offered to buyers in the history of independent Lithuania.

The abundant number of projects and apartments creates good conditions for sustainable development in the housing market. Purchasers continue to have a particularly wide choice of housing projects in almost all zones of Vilnius city. In 2018, developers built new apartment buildings in 15 out of 21 neighbourhoods of the city of Vilnius. Traditionally, the most popular and most rapidly expanding neighbourhoods were most attractive to developers and over 70% of all apartments were built in just seven urban neighbourhoods: Pasilaiciai (15.3%), Pilaite (13.9%), Snipiskes (13.5%), Verkiai (7.9%), Naujamiestis (7.8%), Zirmunai (6.5%) and Lazdynai (6.5%).

Looking at apartment projects constructed in Vilnius during 2018, most of the supply is economy class apartments that sell at up to €1,500 per sqm without fit-out and account for 45% of total completed apartments. The supply of middle-class apartments – the selling price of which (without fit-out) is between €1,550 and €1,900 per sqm – accounts for 36% of total supply.

The supply of higher class apartments showed a noticeable increase over the last three years in the capital city. Developers have become more daring in bringing on stream higher class apartments costing in excess of €2,000 per sqm (without fit-out). Traditionally, these projects are developed in the centre of the city, the Old Town or in prestigious areas. If in 2013–2015 upper class apartments accounted for 6–8% of the total number of newly built apartments, so in 2016 their share increased to 13%, in 2017 – 18% and in 2018 reached 19%.

The average floor area of newly built apartments dropped by 3.4 sqm and reached an all-time low in 2018 with 50.2 sqm. A rapid decrease in the average floor area of apartments in Vilnius has been recorded since the last economic downturn, when developers began to design and build increasingly smaller apartments and increase the number of apartments in a building. There has been an increase in apartments with fewer rooms, but with a more rational layout (by eliminating/reducing inefficient spaces or spaces which are seldom used) and rooms with a smaller floor area. Such approach is economical, because developers want to offer a product to the market at a lower final price. From 2003–2009, the average floor area of newly constructed apartments was reduced by over 12 sqm, i. e. by around 20%.

The steadily growing volume of housing construction shows that developers in general continue to believe in the market potential. Good housing sales indicators and the favourable economic situation attract not only experienced real estate developers into the housing development industry but also companies of quite different fields as well as less experienced or financially weaker investors. For example, 56% of the completed apartments in 2018 were built by first-time or relatively inexperienced developers.

Developers in Vilnius do not envisage reducing the scale of construction in the short term and will certainly aim to satisfy market needs for the near future. According to Ober-Haus data, around 4,500–4,600 new apartments should be built in Vilnius in 2019.

The supply of new detached and semi-detached houses hit a new record in Vilnius region in 2018. According to Ober-Haus data, 786 detached and semi-detached houses were built by developers (in projects with over 5–6 units) in and around Vilnius in 2018, which is a 34% increase compared to 2017.

Increasing incomes and a growing desire by those who can afford it for a larger living area (in the light of the decreasing size of new apartments) have pushed developers to direct some of their investment into housing development.

Current trends in housing project developments are dominated by row houses, i. e. attached houses with relatively small areas. While a typical project in the last decade consisted of detached houses and semi-detached houses connected by means of garages, today developers normally offer attached row houses,

ANTAKALNIO KRANTAS

which normally do not have indoor parking facilities. Parking spaces are normally provided outside. The total area of houses is decreasing not only because of the lack of garages but also in terms of living area; it is now normal to design houses with a living area of approximately 80–120 sqm. Some row house projects offer even smaller sized units.

While in the 2000–2010 period the average total area of houses built in Vilnius region was 172 sqm, in 2011–2017 the average area dropped to 122 sqm and reached the all-time low of 101 sqm in 2018.

DEMAND

The year 2018 in the history of the country's capital city will be marked as the most active year in the housing market in the history of Lithuania. The year saw record activities both in the apartment and housing sectors, which exceeded the previous record of overall number of housing transactions, set in 2007, by 6%. In 2018 Vilnius saw a 7% increase in apartment sales and a 17% increase in house sales. In 2018, on average 925 apartment sales and 72 house sales were made each month in Vilnius. According to official statistics, transaction volume in the Vilnius city residential property market reached €970 million in 2018. Volume increased by 9% compared to 2017 figures.

High purchasing activity was also recorded in the primary housing market. According to Ober-Haus data, 4,188 apartments in newly built buildings or buildings under construction were purchased (incl. presales) directly from developers in 2018 in Vilnius. This is 6% more than in 2017, but 5% less than 2016.

Despite this high activity in the housing market, the share of unsold apartments slightly increased in 2018. According to Ober-Haus data, the number of unsold new apartments on the Vilnius primary market increased by 8% during 2018. At the end of 2018 there were almost 1,470 unsold newly built apartments in finished apartment buildings. For example, in the 2015–2017 period the average number of unsold newly constructed apartments in the market in Vilnius was in the range of 1,100–1,200. Since more residential property (both apartments and houses) is being built each year in Vilnius and its environs, it is understandable that the share of unsold apartments is increasing. The increase is, however, not particularly rapid and is not a cause of immediate concern to developers thus far. This is reflected in an unwillingness to reduce the scale of development activity in the short term. Thus, with continuing high overall market activity, further minor increases in unsold apartments or houses can be expected.

It is expected that the demand for housing will stay strong in 2019, as general conditions for purchasing property remain highly favourable, new and well-paid jobs are created, and the population in the capital city keeps increasing. Most importantly, the expectations of the majority of the population, both in terms of their economic prosperity and price changes in the near future, remain positive. Given all these factors, in 2019 we can expect equally high overall activity in the housing market in the country's capital city as it has been over the past 3–4 years.

THE MORTGAGE MARKET

Due to the rising demand for mortgage loans, interest rates in Lithuania continue a slight, but steady increase. According to data from the Bank of Lithuania, the average annual interest rate on new mortgage loans in 2018 was 2.26% (this figure was 1.96% in 2016 and 2.04% in 2017). In December 2018, the average mortgage annual interest rate was 2.38%. In general interest rates have returned to 2013–2014 levels.

The volumes of new mortgage loans and the total mortgage loan portfolio in Lithuania have reached new heights. According to data from the Bank of Lithuania, at the end of 2018 the total value of outstanding residential loans stood at almost €7.8 billion, a historic high. Currently in Lithuania, the value of mortgage loans is just over 17% of GDP. This rate is one of the lowest compared to other EU countries (EU-28 average in 2017 – 45.7%).

Mortgage loan volumes continued to grow in 2018. According to data from the Bank of Lithuania, new mortgage loans worth almost €1.3 billion were provided in 2018, an increase of 10% compared to 2017. In the 2017–2018 period, new mortgage loans of €103 million were provided per month on average, which is over 40% more than compared to the 2015–2016 period.

As residential property price growth slowed in 2018 and people's income increased at a significantly higher pace, housing affordability has reached a record level. In 2018 an inhabitant of Vilnius can purchase 6.6 sqm in a medium-class apartment for their average (net) annual salary (an 0.4 sqm increase compared to 2017). The current price to income ratio is at a historic high point.

RENTS

2018 saw an average 4% increase in apartment rents, after rising 1% in 2017 in Vilnius. Despite different annual changes in apartment rents, the overall rise over the past seven years essentially coincided with changes in sales prices, i.e. from 2011 both apartment sales prices and rents increased by a third on average. Ober-Haus expects that overall residential rents in Vilnius will follow the sales prices pattern, i. e. will increase by around 2–4% in 2019.

A typical two-room, old construction apartment in Vilnius residential districts rents for €240 to €300 per month at the end of 2018. The same size new construction apartment rents start from €320 up to €420 per month. Maintenance costs are additional.

Rents for equipped two-room apartments (old or new) in the city centre and its surrounding areas (inc. prestigious districts) range from €260 to €600 per month, and for three-room apartments from €350 to €800 per month. Rents for bigger and well-equipped apartments in the Old Town can range up to €800-€1,200 per month. Maintenance costs are additional.

Fully equipped houses of 100–200 sqm on the outskirts of Vilnius are usually offered for rent at €600 to €1,200 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and city centre or Old Town are higher and vary from €1,000 to €2,200 per month. Maintenance costs are additional.

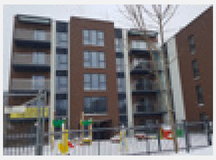
In recent years, there is a trend where, in the hope of higher revenues, some private investors (themselves or with the help of companies working in the area) decided to engage in the short-term rental business, which at least in theory ensures higher rental income than long-term lease. For example, according to AirDNA, the number of short-term rental offers in Vilnius on the Airbnb platform between 2015 and 2018 increased 3.3 times, i. e. 1,000–1,200 new rental offers are recorded on the platform annually. It is obvious that a considerable number of investors were motivated by the higher return on investment and therefore opted for short-term over long-term rentals.

In 2018, the overall gross rental yield stayed flat and for apartments in the city centre was 4.0–5.0% and in residential districts – 5.0–5.5%. In 2018, the average gross rental yield in Vilnius for two-room apartments was 5.1%, i. e. the same as in 2017, but by 30–40 basis points lower than in 2014–2016. The decrease in residential yields is not high enough to discourage investment in rented accommodation. It should be remembered that the declining profitability is partly compensated by growing value of the property.

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 (eg a tenant may terminate a lease agreement on residential premises by giving one month's written notice), and eviction of the tenant (this is possible only by court order). However, rent may be agreed freely. Institutional investors who offer residential property on lease are almost not available at all.

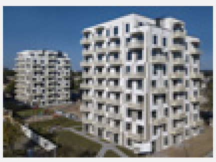
RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**CENTRO DUETAS** – At the end of 2018, local company Spaineta, finished the residential project in Konstitucijos CBD, on Lvovo Street. The 6- and 9-storey buildings comprise 90 apartments and some commercial premises on the ground floor. Apartments of 1–3 rooms range in size from 39 to 74 sqm. At the end of 2018 almost 75% of the apartments had been sold. Asking prices of the available apartments without fit-out are from €1,800 to €2,400 per sqm. Buyers can choose a full fit-out option for an extra €250–€400 per sqm. The project's exclusive selling agent is Ober-Haus.	€1,800 - €2,400	Q4 2018
	**JOGAILA'S RESIDENCE** – At the start of 2018, development company Mulberry Trade, finished the reconstruction (incl. new construction) of a historical building in the city centre, on Jogailos Street. The 4-storey building comprises 21 apartments and some commercial premises on the ground floor. The apartments range in size from 45 to 196 sqm. At the end of 2018 around 85% of the apartments had been sold. The prices of the available apartments without fit-out are from €3,500 to €4,000 per sqm.	€3,500 - €4,000	Q1 2018
	**M26** – At the end of 2018, the real estate development company Vilmesta, finished the construction of a residential project in Markuciai district, on Manufakturu Street. The 4- and 5-storey building with 43 apartments ranging in size from 35 to 77 sqm. All apartments have balconies. At the end of 2018 over 50% of the apartments had been sold. Asking prices of apartments without fit-out are from €1,900 to €2,300 per sqm.	€1,900 - €2,300	Q4 2018
	**FILARETU NAMAI** –In Q2 2018, local company Promo Vision finished development of a small-scale residential project in Rasos district (next to Uzupis district), on Peteliskiu Street. The 5-storey buildings comprise 16 apartments ranging in size from 56 to 99 sqm. All apartments have balconies or spacious terraces. There are 16 parking spaces in the car park. At the end of 2018 over 50% of the apartments had been sold. Asking prices of the available apartments without fit-out are from €2,100 per sqm. The project's exclusive selling agent is Ober-Haus.	from €2,100	Q2 2018
	**RINKTINES URBAN** – In Q3 2018, development and construction company Merko, finished construction of three 5- and 8-storey residential blocks in Snipiskes district, on Celkiniu Street. The A class energy efficiency project comprises 120 apartments ranging in size from 30 to 110 sqm. At the end of 2018 over 90% of the apartments had been sold. The prices of the available apartments without fit-out are from €2,100 to €2,600 per sqm. Currently Merko is developing the second stage with almost 190 apartments, which should be completed in 2020.	€2,100 - €2,600	Q3 2018
	**CENTRO REZIDENCIJA** – A five A class energy efficiency residential building project developed by Hanner in Snipiskes district, on Rinktines Street. The first stage with two buildings and 115 apartments was completed in Q4 2018. Apartments of 1–4 rooms range in size from 29 to 85 sqm. At the end of 2018 over 90% of the apartments from the first stage had been sold. Asking prices of the available apartments without fit-out are from €2,250. Another three buildings with 133 apartments should be completed by the end of 2019.	from €2,250 (I stage)	Q4 2018 (I stage)

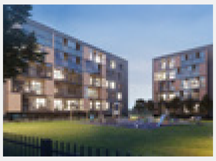
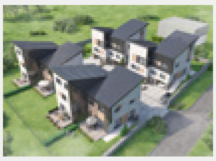
INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+370 5 210 97 00**

OBER HAUS

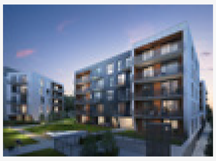
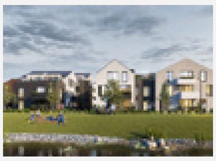
RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**BENDORELIAI** – After successful completion of 133 row houses and 98 apartments in Bendoreliai (Vilnius district) in 2011–2016, next to the Old Ukmerges Road, local developer Kerema is finishing the development of this housing settlement in the 8-ha territory. Two 3-storey residential buildings with 34 apartments from the last stage were completed at the end of 2018. Another two buildings of the same size should be completed in Q1 2019. Apartments of 3–4 rooms range in size from 63 to 79 sqm. All apartments will have private land, balconies or spacious terraces. At the end of 2018 almost all the apartments in the first two buildings were sold and around 50% of apartments of the final two buildings have been sold. Asking prices of the available apartments without fit-out are from €1,000 to €1,200 per sqm. The project's exclusive selling agent is Ober-Haus.	€1,000 - €1,200 (I stage)	Q4 2018 (I stage)
	**KARALIAUCIAUS SLENIS** – In 2015 development and construction company Citus started the construction of a large-scale residential project in Pilaite district, on Elbingo Street. The project consists of 4-storey residential buildings and row houses. Between 2015 and 2018, almost 300 apartments and over 200 row houses had already been built. In 2018 136 apartments and 52 row houses were completed. The apartments range in size from 35 to 64 sqm and row houses – 110 sqm. At the end of 2018 over 90% of the apartments and 40% of row houses had been sold. The prices of the available apartments without fit-out are from €1,300 to €1,500 per sqm and row houses without fit-out range in €1,050-€1,200 per sqm. Further development of the project is taking place.	€1,300 - €1,500 (apartments) €1,050 - €1,200 (row houses)	2018
	**AITVARU NAMAI** – In Q3 2018, development company Eriadas, finished construction of two 4- and 5-storey residential buildings in Lazdyneniai district on Lazdineliu Street. The A class energy efficiency buildings comprise 98 apartments ranging in size from 36 to 61 sqm. At the end of 2018 almost 80% of the apartments had been sold. The prices of the available apartments without fit-out are from €1,400 per sqm.	from €1,400	Q3 2018
	**BIRUTES 18** – At the end of 2018, local developer Verslama, finished the reconstruction (incl. new construction) of an upper-class residential project in Zverynas district, on Birutes Street. The 3-storey project comprises 23 apartments ranging in size from 45 to 174 sqm. Most of the apartments have balconies or terraces. There are 33 parking spaces and storage rooms in the underground car park. Asking prices of the available apartments without fit-out are from €3,200 per sqm. Parking costs €20,000 per space.	from €3,200	Q4 2018
	**NAMU PYNES** – At the end of 2016 local developer EIKA started the construction of a large-scale residential project in a 1.3 ha territory in Zirmunai district, next to Tuskulenu Street. The project will consist of seven residential buildings with over 400 apartments. The first stage with two buildings and 138 apartments was completed in 2017 and the second stage with three buildings and 170 apartments was completed in mid-2018. The 6-9-storey residential buildings offer apartments ranging in size from 26 to 96 sqm. At the end of 2018 around 65% of the apartments from the second stage had been sold. Asking prices of the available apartments without fit-out are from €1,800 per sqm.	from €1,800 (II stage)	mid-2018 (II stage)

NEW PROJECTS

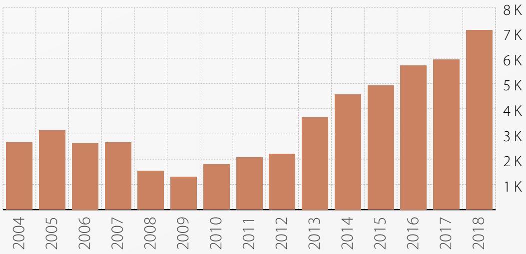
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**OZO KVARTETAS** – After completion of the first stage of a small-sized apartments project (214 units) in 2018, local developer Rewo is developing the second stage of the same type of project in the territory of Ozo Park, near Siemens Arena and Vichy Aquapark. The second stage will consist of two 5-storey residential buildings with 204 apartments. The apartments range in size from 22 to 45 sqm. The second stage is scheduled for completion by the end of 2019. At the end of 2018 almost 90% of the apartments from the first stage and almost 10% from the second stage had been sold. The prices of the available apartments without fit-out are from €1,600 to €2,100 per sqm.	€1,600 - €2,100 (II stage)	Q4 2019 (II stage)
	**ANTAKALNIO KRANTAS** – A local developer is developing the 4-storey residential project in Antakalnis district, on P. Vileisio Street. The project with 43 apartments will be completed in Q2 2019. Apartments of 1–3 rooms range in size from 36 to 102 sqm. At the end of 2018 almost 50% of the apartments had been sold. Asking prices of the available apartments without fit-out are from €2,000 to €2,700 per sqm. Buyers can choose a full fit-out option for an extra €250–€400 per sqm. The project's exclusive selling agent is Ober-Haus.	€2,000 - €2,700	Q2 2019
	**LIVE SQUARE** – Local developer Eika is developing the muti-functional project in the very heart of the city, next to Gedimino Avenue. The project will consist of three residential blocks and a commercial complex. The residential buildings with 86 apartments will be completed in Q2 2019. At the end of 2018 over 90% of the apartments had been sold. Asking prices of the available apartments without fit-out are from €2,900 per sqm.	from €2,900	Q2 2019
	**MARTYNO NAMAI** – In 2017 the real estate development company Eriadas started a residential project in Pilaite district on M. Mazvydo Street. Three 5-storey residential buildings (A, B and C) will offer around 120 apartments ranging in size from 39 to 61 sqm. All apartments will have balconies. The project is scheduled for completion in Q1 2019. At the end of 2018 around 35% of the apartments had been sold (in A and B buildings). Asking prices of apartments without fit-out are from €1,300 to €1,500 per sqm.	€1,300 - €1,500	Q1 2019
	**ANTAKALNIO SILAS** – A local developer is developing a semi-detached house project in Antakalnis district, on Pylimeliu Street. The project will offer eight A class energy efficiency 2-3-storey houses. The houses are 138-176 sqm with land plots of 200-250 sqm and without fit-out are priced at €135,000–€174,000. The project will be completed in the second half of 2019. The project's exclusive selling agent is Ober-Haus.	€135,000 - €174,000	H2 2019
	**MATAU VILNIU** – In 2018 construction and real estate development company YIT Lietuva started a large residential project in the city centre, on Aludariu Street. The project will be developed in stages and will comprise six 2- and 6-storey A class energy efficiency residential buildings. Altogether 250 apartments with offer 1–4 room apartments, ranging in size from 44 to 102 sqm. The first stage with over 90 apartments will be completed in Q1 2020. Asking prices of the available apartments without fit-out are from €2,000 to €3,500 per sqm.	€2,000 - €3,500 (I stage)	Q1 2020 (I stage)
	**VEIKMES PARKO NAMAI** – In 2018 real estate development company Veikme started the development of residential project in Baltupiai district next to Jomanto park, on Didlaukio Street. Seven 5- and 8-storey residential buildings will offer 250 apartments ranging in size from 40 to 105 sqm. All apartments will have balconies. Almost 260 parking spaces will be provided in the underground car park. The project will be A+ class energy efficiency with geothermal heating. The first four buildings with 145 apartments should be completed by the end of 2019. Asking prices of apartments without fit-out are from €1,750 per sqm. The whole project should be completed in 2020.	from €1,750 (I stage)	Q4 2019 (I stage)

NEW PROJECTS

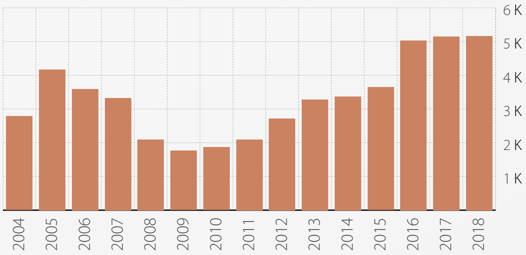
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**FLUX RECORDS** – At the end of 2018 real estate development company Omberg Group, started construction of a 7-storey A+ class energy efficiency residential building in Naujamiestis district, on Vytenio Street. The building with 48 apartments and commercial premises on the ground floor will be completed in Q4 2019. Apartment sizes range from 32 to 73 sqm. At the end of 2018 over 30% of the apartments had been sold. The prices of the available apartments without fit-out are from €1,700 per sqm.	from €1,700	Q4 2019
	**VILNELE VALLEY** – Construction and real estate development company Merko is developing a residential project in Markuciai district, on Pakrascio Street. The project consists of six 4- and 6-storey A+ class energy efficiency residential buildings. Altogether 221 apartments will offer 1–4 room apartments, ranging in size from 35 to 107 sqm. The first stage of four buildings with 126 apartments will be completed in the second half of 2019. Asking prices of the available apartments without fit-out are from €1,800 to €2,500 per sqm	€1,800 - €2,500 (II stage)	H2 2019 (II stage)
	**LEICIU KIEMAS** – Local real estate company Anreka is finishing the development of a residential building in Pasilaiciai district, on Leiciu Street. The 9-storey residential building with 99 apartments will be completed at the beginning of 2019. Apartments of 1–3 rooms range in size from 45 to 93 sqm. At the end of 2018 around 70% of the apartments had been sold. Asking prices of the available apartments without fit-out are from €1,000 to €1,200 per sqm. The same sized second building should be completed in the second half of 2019.	€1,000 - €1,200	Q1 2019
	**TOWN HOUSE** – The real estate development company Rewo is finishing a project of 72 row houses in Justiniskes district close to the new Western Bypass, on Helsinkio Street. All houses will have private land with terraces. The project will be completed in Q1 2019. At the end of 2018 over 80% of the apartments had been sold. Asking prices of the available 56 sqm row houses without fit-out with land plots are from €83,000 to €92,000 per sqm.	€83,000 - €92,000	Q1 2019
	**PAUPYS (RIVERSIDE)** – At the end of 2017 the real estate development company, Darnu Group (former MG Valda), started a large-scale multi-functional project in Uzupis district. The 5-ha territory of the former Skaiteks factory was acquired by the group in 2016. The developer plans to establish an exceptional residential area with a well-arranged infrastructure, modern business complex, spaces for creative and public use purposes, a kindergarten and an Old Town market. The unique concept of the multifunctional area was designed by six Lithuanian architect teams. It is planned to complete over 350 apartments in the first stage by the end of 2019. At the end of 2018 almost 40% of the apartments had been sold. Asking prices of the remaining apartments without fit-out are from €2,200 to €4,500 per sqm. After completion of the first stage, a further development of this location is planned. Total investments will reach €150 million.	€2,200 - €4,500 (I stage)	Q4 2019 (I stage)
	**ZVERYNO PANORAMOS** – In 2018 real estate development company Realco started a large residential project in Seskine district, on Siesiku Street. The project consists of eight 4- and 9-storey A class energy efficiency residential buildings. The project with over 400 apartments offers 1–5 room apartments, ranging in size from 28 to 141 sqm. The first stage of four buildings with 210 apartments will be completed in Q1 2020. At the end of 2018 around 40% of the apartments from the first stage had been sold. Asking prices of the available apartments without fit-out are from €1,550 to €2,800 per sqm. The second stage should be completed by the end of 2020.	€1,550 - €2,800 (I stage)	Q1 2020 (I stage)


ZVERYNO PANORAMOS

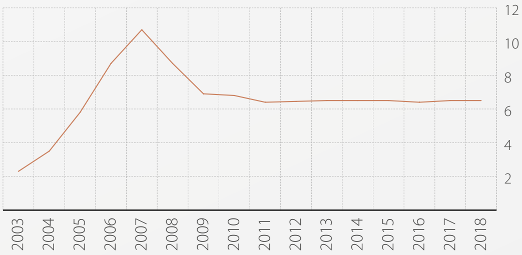
LAND TRANSACTIONS IN VILNIUS CITY



LAND TRANSACTIONS IN VILNIUS DISTRICT



LAND PRICES FOR PRIVATE HOMES IN VILNIUS SUBURBS, €/100 SQM



VILNIUS SNAPSHOT (END-2018)

TOTAL LAND TRANSACTIONS CHANGE (Vilnius city)	+ 20 %
TOTAL LAND TRANSACTIONS CHANGE (Vilnius district)	0 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€400 - €1,500
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€60 - €200
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€20 - €80

ALL TIME HIGH ACTIVITY IN VILNIUS LAND MARKET

PRICES

Despite an increase in the interest in the parcels of land in the central part of the city, there was hardly any noticeable increase in the prices of such parcels, but the negotiating positions of the owners of such sites remained really strong throughout 2018. Asking prices for plots in the central part of the city or other prestigious districts suitable for residential and commercial development (with detail plans or construction permit) are now €400–€1,500 per sqm of land, or roughly €300–€1,000 per gross buildable square metre of residential or commercial space.

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

Sufficient supply of land parcels on the outskirts of Vilnius city has kept prices stable during 2018. Land parcels suitable for the construction of individual houses are offered both by private persons and developers which prepare entire packages of land parcels for sale (communications are installed, access roads are built and any other infrastructure is ensured). Purchasers have a broad choice of any land suitable for individual constructions – from the plain to a fully infrastructured land. At the end of 2018, prices for plots for private homes with partial or full infrastructure were €20–€30 per sqm in the cheaper suburbs, to as high as €40–€80 per sqm in Visoriai, Riese, Bajorai, Kalnenai, Gulbinai.

Prices for agricultural land depending on location, land productivity and size, in Lithuania range from €1,000-€1,500 per hectare for poor quality and smaller sized land plots in less desirables locations to €6,000-€10,000 per hectare for highest productivity mid and large-sized land plots in best locations.

DEMAND

Total land transactions in Lithuania decreased by 1% in 2018, according to the data of the Central Registry. Activity in the land market in Lithuania in 2018 was very high and surpassed activity the 2014–2016 period by 11% on average.

Although there were no essential changes to overall activity in the market for land parcels in Lithuania, in 2018, there was a huge increase in the number of transactions and an all-time high was recorded in the city of Vilnius. Total land transactions increased there by almost 20% in 2018, to over 590 transactions on average per month. Total land transactions in 2018 in Vilnius district stayed at the same level as a year ago with 430 transactions on average per month.

In contrast to 2017, when activity in the market of larger parcels of land for development was quite weak, 2018 has shown that developers are still very much in evidence. Transactions which took place in 2018 were characterised by a broad geographic spread in the parcels of land and a broad spectrum of use of the real estate planned for development on these parcels. However, in the past 3 to 4 years, developers have been mostly interested in sites located in the centre of the city or in the vicinity of the centre (Snipiskes, Zverynas, Naujamiestis, Old Town, etc.) where as yet untapped development and increased potential value exist. The increasing spending capacities both of businesses and of individual residents have encouraged developers to develop a higher standard of product.

At the end of 2018, Sirin Development, a subsidiary of the Girteka Logistics company acquired a 18.5 ha parcel of land by the Vilnius–Kaunas motorway at public auction. The transaction, totalling €7.2 million, was completed in early 2019. The company plans to develop warehouses on the site and the first stage development should be finalised in 2021. The site has a total potential development capacity of some 100,000 sqm.

In mid-2018, the Baltic Horizon Fund, a subsidiary of the Danish investment company Northern Horizon Capital, acquired a parcel of land for €1.7 million next to its Domus Pro commercial complex on Ukmerges Street. The parcel of nearly 0.9 ha is intended for further development of the complex.

In mid-2018, the construction and real estate development company YIT Kausta (from 2019 – YIT Lietuva) acquired the shares of a company which manages a 4 ha site in the Snipiskes district of Vilnius (Zalgirio and Linkmenu Streets). The construction of business centres and of apartment buildings is planned on the site which is located in the vicinity of Konstitucijos Avenue.

In August 2018, the real estate development company, PPI Group, purchased about 1 ha of land in Vilnius Old Town near the central station (Sodu Street) for an undisclosed price. Construction of over 10,000 sqm of residential and commercial property is scheduled on the site during 2019.

In mid-2018, a local company, Dolversa, purchased 0.63 ha of land with existing buildings in Vilnius Old Town near the central station (Sodu Street) for an undisclosed price. Development of a residential project with over 7,000 sqm is planned on the site.

In October 2018, telecommunications, IT and mobile communications services company, Telia Lietuva, reported the sale of shares in one of its subsidiaries to real estate development and construction company group, Eika. The subsidiary company of Telia Lietuva had leased a parcel of state-owned land of 0.33 ha on Lvovo Street (in Konstitucijos CBD) and had earlier planned to develop an office building on the site.

In September 2018, the real estate development company, Realco, acquired an old-style construction building (Ibrahim centre) on a leased 0.75 ha state-owned parcel of land on Kalvariju Street (in Konstitucijos CBD). The developer plans to construct a new business centre to replace the existing building. Details of the transaction and specific development plans have not yet been published.

According to the BNS news agency, in March 2018, the Baltijos Gildija real estate development company acquired a site of 1.19 ha with existing buildings at auction on Ukmerges Street in Zverynas district (Zveryno CBD). An initial price of €4.5 million was offered for this site. According to the detailed plan for the area, a commercial property over 35,000 sqm may be built on the site, but the new owners have not yet disclosed their development plans.

LEGAL NOTES BY SORAINEN

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

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

An individual or legal person together with related persons cannot acquire (own) more than 500 ha of agricultural land. Besides the 500 ha limit, some other limitations apply.

Investments in land (including agricultural, forestry and inland waters) by non-Lithuanian citizens or legal persons are not restricted if European and Transatlantic Integration criteria are met. The same rules as those applicable to Lithuanian citizens also apply to non-Lithuanian citizens or legal persons.

OBER HAUS

LITHUANIAN REAL ESTATE TAXES AND LEGAL NOTES

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 are 0.45% on the value of real estate. However, the fees shall not be less than EUR 28.96 or exceed EUR 5,792.40 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 EUR 1,448.1).

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 subject to the notary fee of 0.4-0.5% on the value of transaction (the fee shall not be less than EUR 14.48 or exceed EUR 5,792.40), when:

- ≥25% of limited liability company's shares are sold;
- The sale price of the limited liability company's shares sale exceeds EUR 14,500 except for certain exemptions.

The transfer of shares in a real estate holding entity is subject only to registration of a new shareholder (fee EUR 2.90). Other registration fees do not apply as the direct legal owner of real estate remains the same. The transfer of shares of a real estate holding company is generally exempt from VAT, however, if the value of shares is similar to the value of real estate the transaction from VAT perspective may be considered as sale of immovable property.

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

VALUE ADDED TAX (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 a taxable person registered for VAT purposes. If a company exercises this right in respect of one rent transaction, the same VAT treatment should apply to all analogous transactions for at least 24 following 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. only profit is taxed). Reduced CIT rate applies for small companies - entities with fewer than ten employees and less than EUR 300,000 in gross annual revenues can benefit from a reduced CIT rate of 5% (0% rate for the first year of operation) if certain conditions are met. All income of Real Estate collective investment funds (e.g. rent, capital gains) are exempt from CIT if certain conditions are met.

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. However, if from 2019 annual income not related to labour relations exceeds 120 average national wages, exceeding part is subject to 20% PIT rate. Upon certain conditions, individuals can opt to pay a fixed amount of tax on rent of real estate once a year, if such property is rent to individuals and not to legal entities. In such a case individuals should obtain a business certificate for rent of residential premises.

SALE

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

See the applicable notary and registration fees in section "ACQUISITION".

Sale of shares of a Lithuanian company holding real estate is subject to general taxation rules for sale of shares (i.e. there is no specific taxation due to the real estate being the main assets of the company). The actual taxation generally ranges from 0% to 15% and depends on a number of various criteria and circumstances, e.g. the seller (i.e. corporate or individual and local or foreign tax resident), shareholding proportion (i.e. percentage of total shares held and shares to be sold), holding period, etc. Therefore, in case of a share deal a detailed tax analysis may disclose material tax differences between various options available.

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

VALUE ADDED TAX (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 after 24 months since they are completed or re-constructed is VAT-exempt, with an option to apply VAT if the purchaser is a taxable person registered for VAT purposes. The right of option is implemented in the same way as explained in section "RENT".

CORPORATE INCOME TAX (CIT):

For local Lithuanian entities income from 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. only profit is taxed). Reduced CIT rate applies for small companies - entities with fewer than ten employees and less than EUR 300,000 in gross annual revenues can benefit from a reduced CIT rate of 5% (0% rate for the first year of operation) if certain conditions are met. All income of Real Estate collective investment undertakings are exempt from CIT if certain conditions are met.

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, unless certain exemptions apply. However, if from 2019 annual income not related to labour relations exceeds 120 average national wages, exceeding part is subject to 20% PIT rate. 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. The tax rate may vary from 0.3% to 3% depending on municipalities. In Vilnius, the RET rates established for 2019 are:

- 1% - standard RET rate;
- 0.7% - for cultural, leisure, catering, sport, educational or hotel buildings (with some exceptions);
- 3% - for actually used real estate, that is not 100 percent completed and for real estate that is not used at all or is abandoned or unattended.

Residential and other personal premises owned by individuals are exempt from tax where the total value of EUR 220,000 is not exceeded, whereas the excess value is subject to progressive taxation:

- 0.5% RET rate is applied on taxable value exceeding EUR 220,000 but not exceeding EUR 300,000;
- 1% RET rate is applied on taxable value exceeding EUR 300,000 but not exceeding EUR 500,000;
- 2% RET rate is applied on taxable value exceeding EUR 500,000.

Total non-taxable value is increased by 30% to real estate held by families which meet certain criteria. Tax base is the average market value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (performed every 5 years) or using the replacement value (costs) method. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

LAND TAX

Land tax applies on land owned by companies and individuals, except for the forest land.

Land tax rates range from 0.01% to 4% depending on local municipalities. In Vilnius, the Land tax rates established for 2019 are:

- 0.08% - standard tax rate for individuals;
- 0.12% - standard tax rate for companies;
- 4% - increased tax rate for the land that is not used and for the land with buildings recognized as unauthorised construction.

Exemption from land tax is available in some cases.

The tax base is the average market value determined according to the mass valuation performed not rarer than every 5 years. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20%.

LAND LEASE TAX

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

INTRODUCTION

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

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

Real estate and related rights are registered with a special public body – the Real Estate Register. 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 real estate, and restrictions on those rights. Real estate must be registered with the Real Estate Register in order to be transferred, mortgaged, or otherwise disposed of. Failure to register rights to real estate results in limitations on invoking those rights against third parties.

Title to real estate passes as of the moment the real estate is transferred. An agreement to acquire 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. The rules and requirements for registration are the same throughout Lithuania. Applications for registration of real estate and related rights are usually filed by a notary. An application should be accompanied by documents evidencing transfer of title to real estate (eg, notarised sale-purchase agreement, donation agreement).

ACQUISITION OF REAL ESTATE

GENERAL

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

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

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. It should be noted that LOI are more customary for higher-value business transactions. Usually, a preliminary agreement, HOT or LOI sets out the obligations of the parties to be followed during negotiations for a certain period. Breach of those obligations and (or) main terms and conditions entitles the injured party to claim compensation for damage, including penalties.

The LOI, HOT or preliminary agreement must be in writing. If the parties fail to meet this required form, the agreement is ineffective. There is no legal requirement to notarise an LOI, HOT or preliminary agreement.

CHANGE OF OWNERSHIP

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

LEGAL STRUCTURES OF REAL ESTATE TRANSACTIONS

The Lithuanian legal environment has proven to be largely flexible in meeting the demands and expectations of international investment practices. 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

Share deals relating to real estate are commonly used in practice. Acquisition of a target holding real estate may be performed via an SPV incorporated either in Lithuania or elsewhere.

Note that a share sale-purchase agreement needs to be notarised when more than 25% of the shares are transferred or the price of the share transfer exceeds EUR 14,500 (not applicable to shares in a public limited liability company). This requirement is mandatory except if the accounting of shares is performed following the rules and procedures of Lithuanian law on the securities market.

Currently, investors circumvent the notarial form requirement by switching to a double-tier or single-tier accounting of shares:

- single-tier: accounting of shares is transferred to an independent manager (eg licensed credit institution or financial brokerage firm);
- double-tier: in addition to a single-tier transfer of accounting for shares, the shares in the company are also registered with the Lithuanian Central Securities Depository and an ISIN number is issued.

Costs for switching to single- or double-tier accounting of shares are not yet fixed by law but are slightly lower than notary fees. The notarial fee for certifying a share sale-purchase agreement amounts to 0.4-0.5% of the transaction value and is capped at EUR 5,792.

A share sale-purchase agreement need not be publicly registered, unlike an agreement on sale-purchase of real property. A list of new shareholders must be filed with the Register of Legal Entities; however, failure to do so has no impact on ownership rights to shares.

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

ASSET DEAL

As common as share deals, asset deals usually require a narrower scope of due diligence review than share deals, and are more tax-transparent from the due diligence perspective.

An agreement for 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 marginally increases 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, consent from the landowner must be obtained; prior to sale of certain real estate – such as objects of cultural heritage or real estate under construction – the respective authorities must be notified and specific documents must be obtained.

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

Asset deals may involve re-characterisation of risk, ie an REI transaction structured as an asset deal may be re-characterised 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. When concluding asset deals, potential VAT liability should be carefully considered, including both taxation of the transfer itself and potential obligation to adjust historic VAT liabilities.

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) are commonly used in such REI transactions in order to secure the flow of sustainable income from the target and proper performance of the 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 along with (or without) project financing commitments. The developer usually acts as developer until completion of the project or may act as project developer under a development contract while title to the target property under 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, project management and letting agreements).

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 as well as 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. Local and foreign investors can propose PPP projects for implementation, which are mandatory for public institutions to discuss. The regulation is established to encourage long-term cooperation between state and municipal authorities on the one hand and private investors on the other, while mobilizing private and public investment to revive regional economies, achieve social outcomes and ensure long-term changes.

FORM OF AGREEMENTS

Real estate sale-purchase agreements (asset transfer transactions) must be in written form and certified by a notary.

Share transfer transactions must be in written form. A private limited liability company share sale-purchase agreement must additionally be notarised when more than 25% of the shares are transferred or the price of share transfer exceeds EUR 14,500 (for possible exemption please see above). Note that a share subscription agreement, when all or part of a share issue is paid up by real estate, must also be in written form and certified by a notary.

If these agreements fail to meet their required form conditions, they are ineffective.

LANGUAGE REQUIREMENTS

Transactions by Lithuanian legal and natural persons must be in Lithuanian. Failure to do so, however, 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 also be in Lithuanian.

DUE DILIGENCE

Legal due diligence of target real estate is strongly advisable before investment or divestment. From the perspective of both seller and buyer, due diligence forms a basis for contract negotiations, risk distribution, verification of purchase price, and pre- and post-closing commitments. Due diligence checks on, eg ownership title, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for supply of utility services, environmental and zoning compliance issues – all information including material facts related to real estate. It should be noted that a general statutory principle exists that if an encumbrance of property is not registered with the Real Estate Register, Mortgage Register or Register of Acts of Property Seizure it does not exist until proven otherwise in court.

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 the land plot on which it stands have different owners, the owner of real estate situated on a land plot enjoys a pre-emption right to acquire the land plot if being sold. The state has a pre-emption right to acquire land in state parks, protected areas 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 apply to the court for an order transferring the rights and obligations of the buyer within the statutory limitation period.

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 paid 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 buyer. In order to secure the interests of the 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 respectively involve a notary fee and state duty. The notary fee amounts to 0.45% of the real estate transaction value, capped at EUR 5,792 for transactions that involve one real estate object and at EUR 14,481 for transactions involving two or more real estate objects. State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired and depends on the average market value of the real estate. State duty varies from EUR 3 to EUR 1,448 per object.

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

The notary fee for transfer of shares transactions (when applicable) amounts to 0.4-0.5% of the transaction value and is capped at 5,792 EUR. For transactions that involve transfer of shares of two or more companies, the notarial fee (when applicable) is capped at EUR 14,481.

MERGER CONTROL

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

As of 1 January 2018, irrespective of whether it is a share or an asset deal, 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 EUR 20 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 EUR 2 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, inland waters and forest unrestrictedly, except for acquisition of agricultural land. In the latter case the total area of agricultural land possessed by either a natural or a legal person and persons related to them is limited to 500 ha. For the purpose of this restriction related persons means: (i) spouses, parents together with their children; (ii) persons who directly or indirectly (via an entity in which a person has not less than 25% of votes) have more than 25% of the votes in an entity; (iii) legal persons in which the same person has more than 25% of the votes. Besides the 500 ha limit, for acquisition of agricultural land additional conditions may apply.

Foreign legal and natural persons may acquire title to land, inland waters and forests under the same conditions as Lithuanian citizens and legal persons if they comply with European and Transatlantic criteria set in Constitutional Law. The European and Transatlantic Integration criteria recognized by Lithuania are met by foreign entities if they are set up 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; or
- permanent residents of Lithuania but not holding Lithuanian citizenship.

Entities that do not meet these criteria are not entitled to acquire land, inland waters and forest as owners; they are entitled to use and possess such real estate on some other basis, eg rent.

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 a 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 for an indefinite term by giving three months' prior notice, unless the parties agree on another notification period. A residential lease for an indefinite term can be terminated by the landlord by serving on the tenant six months' advance written notice, whereas the tenant may terminate a 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 a tenant may terminate a 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 require 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 incurred by the owner for maintaining leased premises. A guarantee, deposit or other similar security ensuring payment of rent and costs may also be required.

REAL ESTATE FUNDS

It is possible to establish real estate collective investment undertakings (both closed-ended and open-ended) in Lithuania.

MORTGAGE

A mortgage is established by a contractual agreement between the parties, which may be executed as a separate agreement or be part of the other (main) agreement. A contractual mortgage requires only the approval of a notary and subsequent registration with the Mortgage Register. Mortgage registration with the Mortgage Register is an administrative process (rather than a judicial one, as used to be the case) which is usually done by a notary. Under the amendments, the requirement to execute the mortgage in a standard form is cancelled.

Foreclosure of mortgage is done by applying to a notary for an enforcement record. The possibility to foreclose on a mortgage by transferring the title to a mortgaged immovable property to the creditor is foreseen by the Civil Code. Moreover, it is also possible to mortgage a property to be acquired or constructed in the future.

There 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

Based on regulation of territorial planning, the right to build in urbanised territory and territory under urbanisation may be exercised without preparing a detailed plan if construction complies with the master plan. As a result, construction on a land plot may be carried out according to a master plan.

Other key planning provisions are as follows:

- A district (quarter) is the smallest area for planning.
- State and municipal institutions organise the territorial planning documents.
- Legal acts provide a simplified procedure for establishing special conditions of land use and for changing both the purpose of land use and land plot boundaries.
- For detailed plans some corrections are available during preparation of technical design.
- Environmental impact assessment and public health impact assessment are carried out prior to technical design.
- An information system (TPDRIS) is used in Lithuania for preparation of territorial planning documents in Lithuania and for state supervision of the territorial planning process.

- A territorial planning document enters into force from registration with the register of territorial planning documents.

CONSTRUCTION

According to existing regulations, erecting, modifying and demolishing buildings and other structures (depending on the complexity of intended works) require either documents authorising construction activities or design approval (if obligatory). The State Territorial Planning and Construction Inspectorate under the Ministry of the Environment has been authorised to issue a document permitting construction where a municipal administration fails to issue it within established time limits and does not indicate reasons for not issuing it.

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

The key provisions of the Construction Law are as follows:

- Special requirements for building design (ie special architectural, heritage or protected areas requirements) do not need to be obtained (to be issued only at the request of the client).

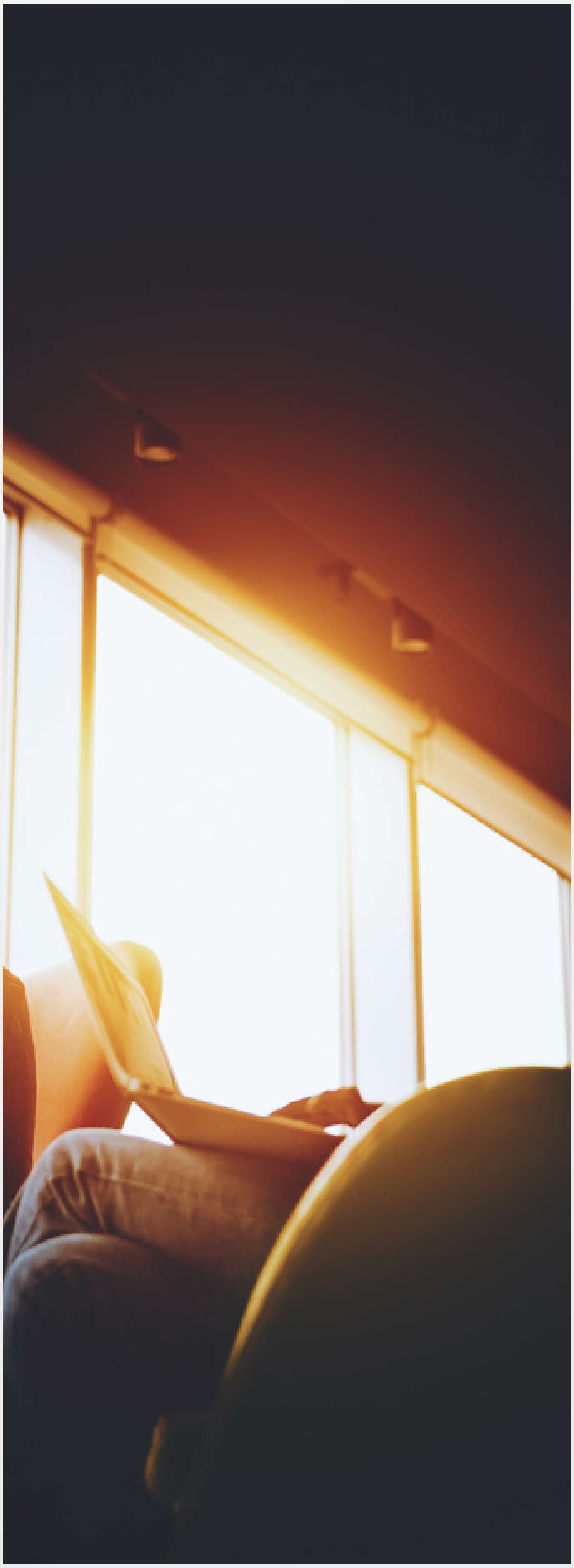
- Conditions for connection and special requirements for building design remain valid for five years if a construction permit has not been obtained.

- Mandatory insurance of construction works (replacing mandatory insurance of the contractor's civil liability) and mandatory third party civil liability insurance of the contractor for expert examination of the building project are required.

- The contractor is required to provide security for performance of its obligations to the client, the amount of which cannot be less than 5 (five) per cent of the construction value, valid for at least three years.

- A developer must also provide security to the buyer of real estate against improper performance or non-performance of the contractor's obligations during the construction warranty period (eg due to the contractor's insolvency or bankruptcy), which must comply with the same terms and conditions as prescribed for the contractor as noted above.

After completion of construction, reconstruction, modernisation or other construction operations (depending on the complexity of work performed), either the state authorities inspect the building to check whether it complies with design requirements and issue a certificate on completion of construction, or the builder issues confirmation of compliance. The building may not be used without this documentation (certificate of completion or confirmation of compliance) or without the building and rights in rem to it being registered with the Real Estate Register.



This requirement also applies to residential buildings.

After completion of construction, real estate and its rights in rem must be registered with the Real Estate Register no later than three months after receipt of the deed of completion of construction.

There is no obligation for the main construction participants (designers, contractors, technical supervisors) to participate in completion of construction. A certificate of energy efficiency of a building should be obtained before issuance of the certificate of completion of construction or confirmation of compliance. Moreover, the certificate of energy efficiency of a building should be obtained before sale or lease of the property. The certificate should be placed in a visible location in hotel, administrative, commercial, service, catering, transport, cultural, educational, sports, medical treatment and recreational buildings (when the area used is more than 500 m2). A certificate of energy efficiency of a class 'A+' building has become a requirement for newly constructed buildings from 1 January 2018, provided that the construction permit is obtained after this date.

The contractor, the architect and the technical supervisor of construction are liable for collapse of the object or defects. Warranty periods (5, 10 and 20 years) are calculated from the date of transfer to the developer (customer) of all construction work carried out by the contractor and/or from completion of construction work.

The Construction Law allows legalisation of an illegal construction if construction is in line with territorial planning documents and with mandatory environmental protection, heritage conservation and protected area legal requirements. However, a fee applies 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 a company may realistically overcome its temporary financial problems. Restructuring the company may not exceed five (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 by the company's management bodies are not suspended during restructuring proceedings, when, in addition, 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 by creditors, which step in only upon an affirmative decision of the court to start restructuring.

BANKRUPTCY

Generally, bankruptcy proceedings may be commenced if a company is insolvent. Operations by 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. Bankruptcy administrators are selected at random, using a special e-system.

EXECUTIVE OFFICER IN LATVIA

Aija Āboliņa

Ober-Haus Latvia General Manager

+371 672 84 544

+371 282 32 008

aija.abolina@ober-haus.lv

Gustava Zemgala st. 76, Rīga

Ober-Haus has 6 offices in Latvia which are located in Rīga, Liepāja, Ventspils, Jelgava, Valmiera, Daugavpils and two representative branches in Ogre and Jēkabpils. In all, over 60 real estate experts are working in the country. Major local and foreign companies, medium sized and smaller companies, investment funds and private investors trust the quality of the services that Ober-Haus has to offer.

LATVIA

OBER HAUS

COUNTRY OVERVIEW

GEOGRAPHY & SOCIAL

Coordinates:	57 00 N, 25 00 E
Area:	64,600 km^2
Border countries:	Belarus, Estonia, Lithuania, Russia
Capital:	Riga
Ethnic groups:	Latvians 62.1%, Russians 26.9%, Belarusians 3.3%, Ukrainians 2.2%, Poles 2.2%

CURRENCY

Currency:	Euro (EUR)
Since:	January 1, 2014

2019 FORECAST

GDP annual growth, %	3.0 - 3.5
GDP per capita, €	15,826
Private consumption annual growth, %	3.9
Average annual inflation, %	2.9
Unemployment rate, %	7.0
Average monthly net salary, €	790
Average salary growth, %	6.5

POPULATION	2013	2014	2015	2016	2017	2018
Latvia	2,023,800	2,001,500	1,986,100	1,968,900	1,950,000	1,934,000
Riga	643,600	643,400	641,000	639,600	641,500	638,000
Daugavpils	89,200	87,400	86,400	85,900	86,100	83,300
Liepaja	73,500	71,900	71,100	70,600	69,400	69,200

ECONOMICS	2013	2014	2015	2016	2017	2018
GDP growth, %	2.4	1.9	3.0	2.1	4.6	4.8
GDP per capita, €	11,321	11,843	12,300	12,779	13,926	15,328
Private consumption growth, %	6.2	4.8	3.5	3.5	3.1	4.3
Average annual inflation, %	0.0	0.6	0.2	0.1	2.9	2.5
Unemployment rate, %	11.3	10.8	9.9	9.6	8.7	7.4
Average monthly net salary, €	516	560	603	631	676	742
Average salary growth, %	5.7	8.5	6.8	4.6	7.1	9.8
Retail sales growth, %	3.8	3.6	4.9	4.0	4.9	4.0
FDI stock per capita, €	5,716	5,995	6,268	6,857	7,385	7,808

SOURCE: LATVIAN DEPARTMENT OF STATISTICS, MINISTRY OF FINANCE OF LATVIA

ECONOMIC GROWTH EXPECTED TO GIVE BOOST TO THE REAL ESTATE MARKET

Latvia was ranked as the 2nd (after Estonia) most competitive taxation system among OECD countries overall and 6th in the real estate taxation category. This shows that the legal and taxation environment is supportive to economic development and foreign investments. Latvia joined OECD in 2016 and was ranked as 3rd overall in 2017. The ranking is prepared by the US-based Tax Foundation.

The World Bank's Doing Business ranking for the period from 2 June 2017 to 1 May 2018 ranked Latvia 19th out of 190 global economies, or in 7th place in the EU. However, in the categories of Dealing with Construction Permits and Registering Property Latvia was ranked 56th and 25th respectively, which shows the somewhat bureaucratic obstacles in operating in the real estate business and areas to improve.

In 2018 real GDP (year-on-year) showed a growth of 4.8%, after growing 4.6% in 2017 and 2.1% in 2016. The Bank of Latvia and other official institutions forecast 3.0–3.5% growth in GDP in 2019.

The consumer price index was 2.5% in 2018, after increase of 2.9% in 2017. Prior to that, in the four-year period from 2013 to 2016, the CPI was low, ranging from 0% to 0.6%.

The minimum wage increased by €50 to €430 from 1 January 2018 and it was announced that it would remain at this level for 2019. This was the fourth successive rise. At the end of 2018, the average gross salary had risen to an historic high of €1,004, an 8.4% rise y-o-y. The Ministry of Finance forecasts average gross salary of €1,070 in 2019, and €1,121 in 2020.

Unemployment had fallen to 7.4% at the end of 2018 from 8.7% in 2017. Analysts project average unemployment of 7% for 2019.

Construction industry costs in all categories increased 4.4% y-o-y by the end of 2018, but in the category of new residential houses they increased by 6.4% in 2018. This change in prices was mainly due to the 18.9% increase in wages and salaries. Construction output increased by 21.9 % (according to calendar adjusted data at constant prices). Construction output rise was observed in all sectors – construction of buildings (of 25.6%), civil engineering (11.6%), and specialised construction activities (27.8%). This may put pressure on real estate developers and construction companies to find more efficient ways of construction and apply new technologies.

Retail trade turnover increase at constant prices (year-on-year) was 4 % in 2018.

Foreign direct investment in Latvia at the end of 2018 showed a 3.5% or €513 million y-o-y increase.

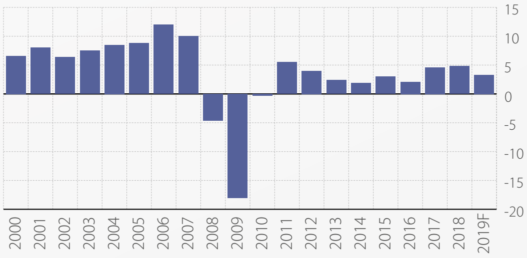
The Latvian authorities did not plan significant changes for 2019, as they had introduced progressive taxation for individuals, raised Corporate Income Tax to 20%, and freed reinvested profits from taxation in 2018. In 2019, the tax-free income for individuals will rise from €200 to €230 for incomes that do not exceed €440 per month. It will gradually decrease depending on the size of income and will not apply to incomes greater than €1,100 per month. The maximum base for State Social Security taxation is €62,800 from 2019 to 2021 (up to 2018 it was €55,000). As one of the measures to fight the "shadow" economy, the government allows an employee of a micro-tax enterprise to be employed at only one such enterprise.

Starting from 2019, all individual sewerage systems in cities and villages, except rural territories, have to registered in special municipal databases and new maintenance regulations will be applied. This may cause additional administrative burden for municipalities and existing and potential home owners, as there are currently 276,000 such individual users in Latvia.

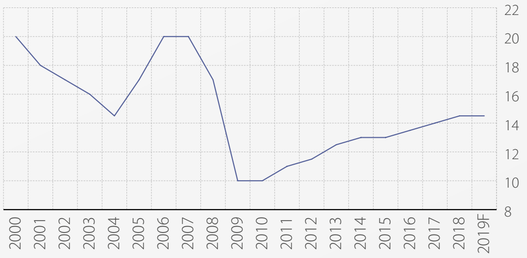
By the end of 2018, almost 10,200 young families had already received financial help worth €72 million from ALTUM, a government housing guarantee programme. From 1 March 2018, when the programme was expanded to include young professionals, up to 31 December 2018, a total of 849 guarantees worth €6 million were issued to young professionals.

OBER HAUS

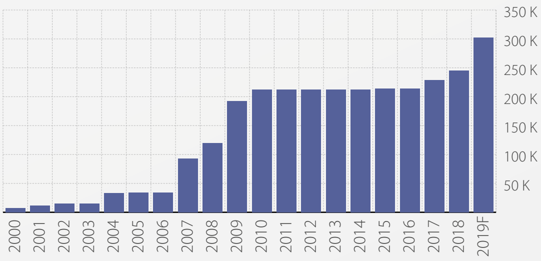
GDP GROWTH, %



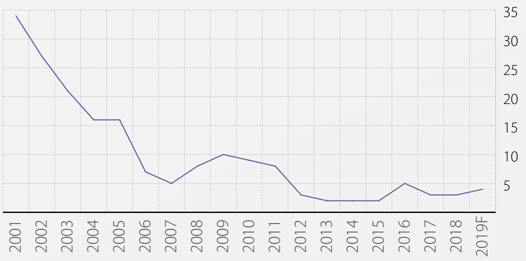
A CLASS OFFICE RENTS, €/SQM



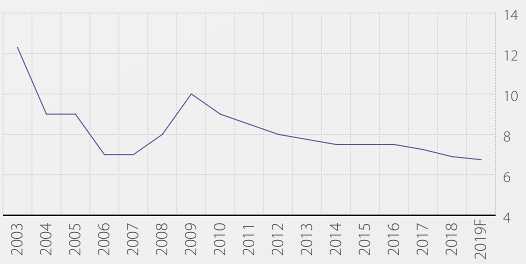
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



RIGA SNAPSHOT
(END-2018)

TOTAL OFFICE SPACE	793,400 SQM
TOTAL OFFICE VACANCY RATE	5.0 %
A CLASS OFFICE VACANCY RATE	3.0 %
B CLASS OFFICE VACANCY RATE	6.0 %
TOP OFFICE RENTS (SQM / month)	€16.00 - €18.00
A CLASS OFFICE RENTS (SQM / month)	€12.00 - €16.00
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €12.00
ADDITIONAL OFFICE COSTS (SQM / month)	€1.50 - €5.50

AS TENANTS FACE SHORTAGE, DEVELOPERS HAVE FINALLY STARTED BUILDING

SUPPLY

The completion of three new office projects in 2018 added 24,900 sqm of office space to the market in Riga. Total office area at the end of 2018 stood at 793,400 sqm.

In the course of 2019–2020, eleven new office buildings are scheduled to come to market in Riga, with a total office space of up to 140,000 sqm.

However, one of the new Skanste CBD projects, New Hanza City an area of 24 ha for office and residential development, was put on hold during 2018, as their main shareholders were connected with ABLV bank, which ceased trading.

DEMAND

The vacancy rate of modern offices in Riga decreased from 5.5% to 5.0% in 2018. The vacancy rate in 2018 for B class offices decreased to 6.0% and decreased to 3.0% for A class offices. Ober-Haus forecasts that vacancy rates will rise during 2019 due to commissioning of new developments.

RENTS

Office rents in Riga stayed level during 2018. At the end of 2018 rents for A class offices ranged from €12.00 to €16.00 per sqm and from €8.00 to €12.00 per sqm for B class offices. Several exclusive office buildings are even asking top rents of €16.00–€18.00 per sqm with additional charges for utilities and services.

Utilities and service charges in A class buildings range from €2.50 to €5.50 per sqm per month and in B class buildings from €1.50 to €3.50 per sqm per month.

Ober-Haus forecasts that if the total vacancy rate increases during 2019, office rents will remain at the same level or even experience a slight drop.

INVESTMENT

Expected and asked yield for A class office centres (as well as shopping centres) was 6.5–7.0%. In total, almost 90,000 sqm of offices changed owners during 2018.

SG Capital Partners Fund and their related companies made several purchases in 2018. They bought Duntes Nami, a 12,394 sqm A class office centre, located in Duntes Street in Riga, for €12 million. SG Capital Partners Fund also bought Open Office building, with 3,000 sqm in Brivibas Street in Riga, for €6.3 million. Towards the end of 2018, they purchased the SWH Biroju centrs office complex, at the reconstruction stage, with an area of 40,000 sqm. The purchase price was not disclosed.

Baltic Horizon Fund purchased LNK Centre in Skanstes Street in Riga for €17 million, area 10,546 sqm.

A Swedish company Eastnine AB bought the 9,000 sqm A class office centre Alojas Biznesa Centrs. This centre has an additional 2,600 sqm of retail and B class office area. The purchase price was €29.6 million.

The France-based investment company Colonna acquired the former Parex banka administration building at Kr. Valdemāra Street. The building is fully leased, with 3,900 sqm of office space over 8 floors.

Corum Origin, a fund managed by French fund manager Corum Asset Management (Corum AM), has acquired an office building complex of the distributor of IT and consumer electronics products ELKO Grupa in Riga on Toma Street with a total area of almost 10,300 sqm, including storage space. The purchase price was €14.2 million. ELKO Grupa will remain as a tenant.

LEGAL NOTES BY SORAINEN

Rents are paid in advance, usually monthly, sometimes quarterly, and are indexed to local or EU inflation. In addition to rent, tenants usually pay a maintenance fee and cover their own utility costs, invoiced by the owner or supplier after consumption. Security deposits of two to three months' rent are generally required by the owner or lessor. Real estate tax payments are made by the owner and are subsequently charged to and compensated by the tenants.

Lease agreements for both business centres and office space are of rather good quality, though typically the owner prepares a standard lease agreement that favours the owner. On transfer of title, only lease agreements registered with the Land Register are binding on the new owner of real estate. Change of ownership of leased real estate does not entitle the tenant to terminate a lease agreement. A lease agreement can be terminated at the discretion of the new owner of real estate if the lease agreement is not registered with the Land Register.

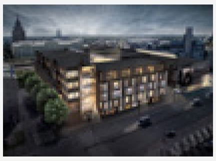
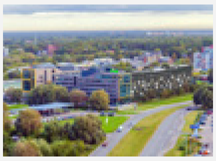
Z-TOWERS

OBER HAUS

RECENT DEVELOPMENTS

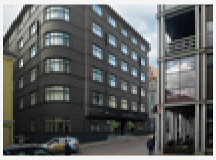
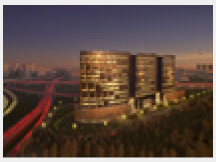
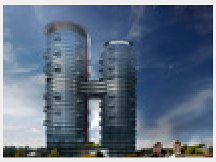
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**JAUNĀ TEIKA (TEODORS)** – In the middle of 2018, HANNER, one of the biggest Lithuanian developers in Latvia, commissioned an A class office centre, Teodors, 16,300 sqm; DNB ASA, Accenture are the main tenants.	16,300	MID-2018
	**CITADELE BIROJI** – In Jūrmala, the city's first A class office centre, the 3,000 sqm Citadele biroji, was opened in 2018. The developer is Citadele nekustamie īpašumi, a local real estate company. At the time of opening 30% of the space had been leased. it includes modern offices, coworking space, conference and other facilities.	3,000	2018

NEW PROJECTS

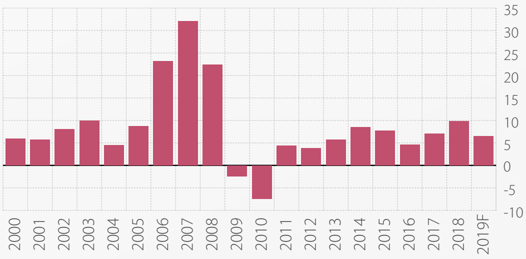
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**JAUNĀ TEIKA (HENRIHS)** – In addition to the Teodors office centre, a new office building (Henrihs) with total leasable area of 22,000 sqm, is currently being developed in the neighbourhood with completion expected in Q4 2019.	22,000	Q4 2019
	**ORIGO ONE** – Origo One office centre, developed by Linstow, a Scandinavian retail centres management company, will supply 11,500 sqm of A class offices (in the upper three floors, while the lower floors will be given over to retail) in 2019 in the very centre of Riga, near the railway station.	11,500	2019
	**SWH BIROJU CENTRS** – Renovation and expansion began at the end of 2017 and will add 12,000 sqm additional office space reaching 40,000 sqm in total of A and B class offices in 2019. The centre changed hands at the end of 2018 when it was bought by SG Capital Partners Fund.	+12,000	2019

JAUNĀ TEIKA (HENRIHS)

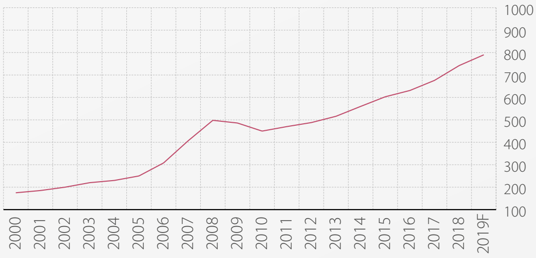
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**TELEGRAPH OFFICES** – The Nordic and Baltic Property Group's sister company Telegraph Offices has begun renovating a building in Old Riga, Audeju Street 15. The renovation will bring over 3,300 sqm of space, consisting of 1,100 sqm retail in the first two floors and around 2,250 sqm of A class offices in 2019.	2,250	2019
	**BUSINESS GARDEN RIGA** – On Riga's left bank, on the border of Marupe municipality, developer Vastint is constructing 14,200 sqm of A class offices, to be commissioned in 2019. The project will consist of five buildings with a total office area of 42,000 sqm.	14,200 (I stage)	2019 (I stage)
	**MEŽAPARKA OFFICES** – Construction has started on a new A class office building in Kelnes Street, an exclusive Riga neighbourhood; completion is expected in Q4 2019. This development is part of a larger residential development, Mežaparka Rezidences. The office building will have a leasable area of around 3,250 sqm.	3,250	Q4 2019
	**SALAS BIROJI** – Bauplan Nord has announced plans to build a new A class office centre, Salas biroji, comprising 4,650 sqm, in the neighbourhood of their existing Upmalas biroji centre. The project is expected to be completed in 2020.	4,650	2020
	**ELEMENTAL SKANSTE** – In the middle of 2018, SIA Kapitel (former E.L.L. Real Estate) announced investments in the office complex, Elemental Skanste, in the new Skanste CBD, where five buildings will be erected with NLA of 41,600 sqm. The first stage will have twin buildings in 11 floors, with more than 20,500 sqm of a leasable area and parking for 420 cars. Expected commissioning is in 2020.	20,500 (I stage)	2020 (I stage)
	**AKROPOLE** – A subsidiary of the Lithuanian Akropolis Group will open 9,000 sqm of office space in 2019 in its newly built shopping centre in Riga. The centre is located 5km from Riga Old Town, near major streets, with good access.	9,000	2019
	**CAPITAL CITY** – groundworks began on this 32,000 sqm large new office complex of three 13-storey buildings near the southern bridge, at Krasta Street in 2018. Developed by Capital Mill. A land plot of 66,000 sqm will also allow 775 parking spaces in a 4-level underground car park. If continued, the project is expected to be completed in 2020.	32,000	2020
	**Z-TOWERS** – Ongoing since 2006, two 30-storey towers for residential and office use. There will be 336 apartments, 10,000 sqm of A class office space, parking spaces for up to 700 cars and more than 4,000 sqm for fitness and SPA. The project is expected to be completed in the first half of 2019.	10,000	H1 2019

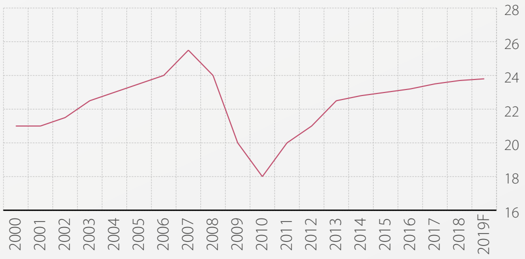
AVERAGE SALARY GROWTH, %



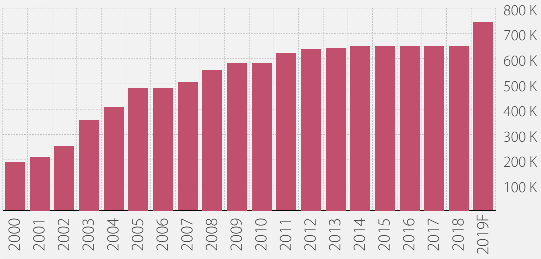
AVERAGE NET SALARY PER MONTH, €



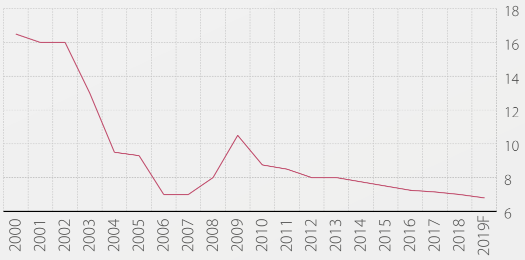
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



RIGA SNAPSHOT (END-2018)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	649,000 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.02 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€5.00 - €9.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€15.00 - €35.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€25.00 - €50.00
HIGH STREETS RENTS (SQM / month)	€20.00 - €40.00

AKROPOLE WILL ADD SUFFICIENT RETAIL SPACE TO THE MARKET IN 2019

SUPPLY

For the fourth year in a row (except for the expansion of existing shopping centres) no new traditional shopping centres (counting those over 5,000 sqm of GLA with over 10 tenants) were opened in Riga in 2018. At the end of 2018, Riga had 649,000 sqm of total leasable space in shopping centres or 1.02 sqm of shopping area per capita. The vacancy rate of shopping centres in Riga at the end of 2018 was around 4%.

The development of the AKROPOLE shopping centre is proceeding, and in 2019 it will be the largest multifunctional retail and office project in Latvia. Located in Riga, Salaspils Street, 5 km from the Old Town, it will comprise 60,000 sqm of shopping area and 9,000 sqm of office space.

Planning work continues at the Imanta Retail Park in Kurzemes Prospect. In October 2018, the first part of the Imanta market was opened, with a planned extension of 3,500 sqm in March 2019. The Imanta market is located in the premises of the former Finnish retailer Prisma.

Expansion of the largest existing shopping centres continued in 2018. The area of the shopping park Alfa will increase by 19,000 sqm after the reconstruction, reaching 67,000 sqm of total retail space in 2019. The number of car parking spaces will increase significantly and access will be more convenient.

Construction of the shopping centre Origo's new space continued during 2018, and after completion of the shopping centre the retail area will increase from 19,200 sqm to 34,800 sqm in 2019. The number of parking spaces will also double to 250 parking spaces.

In August 2018, the world's biggest home furnishings retailer IKEA opened its first shopping centre in Riga in Stopiņi district (near Riga). The total area of the shopping centre is 34,500 sqm on two floors, featuring also a self-service restaurant and a Swedish grocery store on site. There were nearly 20,000 visitors in the early days, which was comparable to numbers of the leading shopping malls in Riga.

In March 2018, Pepco, the low-price retail chain, opened its first store in the Mežciems district of Riga, followed by 3 more stores in Riga. It increased its number of locations with further openings in Kekava, Sigulda, Saldus, Dobele, Cesis, Valmiera, Jelgava, giving a total of 11 stores. The chain plans to increase its presence in Latvia to 30 stores.

Russian retailer Fix Price continued its expansion with the opening of an additional 3 shops in 2018, to give it a total of 8 locations in Riga, and announced plans to open more shops over the next few years.

Rimi, Maxima, Drogas and other food retailers have announced the expansion of their store networks and the opening of new stores in 2019.

Smaller express shops is another trend for retailers. For example, Rimi Express has already opened 5 small-size fast-shopping centres. Rimi-owned Supernetto shops were undergoing remodelling to Rimi Mini. Rimi hypermarkets also underwent interior design and layout changes. Rimi had a total of 123 shops by the end of 2018.

Maxima Latvija has 155 shops with 4 different concepts throughout the country, including Maxima Express – their sub-brand for smaller, more convenient, fast-purchase shops. An important event in the Maxima Latvija calendar was the opening of a 5,000 sqm large Maxima XXX in the shopping mall Domina Shopping.

DEMAND

Overall economic growth, salary and consumption increases influenced higher activity in the retail market during 2018. Retail trade turnover in Latvia increased by 4% in 2018. However, online shopping activity continues to have a negative impact on high-street retail market turnover. Every year more and more people turn to online shopping, with the subsequent closure of shops, for example Zara on Terbatas Street has now closed.

Vacancy rates in major shopping centres remain relatively low.

RENTS

In 2018, rents for retail premises in the centre of the city remained almost intact. Rent level varied from €10.00 to €33.00 per sqm per month for small-sized premises up to 100 sqm.

In high traffic areas in the Old Town, most rents are between €20.00 and €40.00 per sqm per month reaching €55.00 per sqm for exclusive premises. In small cross streets in the city centre and the Old Town rents are between €10.00 and €20.00 per sqm per month.

In 2018 there was no significant change in rents in shopping centres: starting from €8.00 per sqm per month (for premises over 1,000 sqm), from €15.00 to €35.00 for medium-sized premises (150–300 sqm), and €25.00–€50.00 (less than 100 sqm). Anchor tenants pay between €5.00 and €9.00 per sqm per month.

INVESTMENT

Expected and asked yield for well performing shopping centres was 6.5–7.0% in 2018.

The 24,300 sqm Galleria Riga shopping centre, located in the historical centre of Riga, near Brivibas Street, was purchased in Q2 2018, by the East Capital Baltic Property Fund from Fritrade SE and Titan Invest A/S. Details of the transaction have not been disclosed.

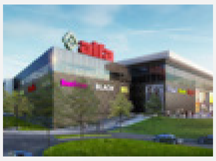
The 18,000 sqm Dole shopping centre, located in Maskavas Street in Riga, was purchased in Q4 2018 by SIA Premier Estates LTD, a Maltese investment company, which operates the local McDonald's franchise and several commercial real estate properties.

Two purchases were concluded in Liepaja city in 2018. The first was the 7,700 sqm Baata shopping centre, bought for €2.4 million by local retailer AS LPB, part owner of TOP, a Latvian retail chain franchise. The second was the Kurzeme shopping centre, of almost 9,300 sqm, bought by investors from the Russian Federation for €7.0 million.

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**IKEA** – In August 2018, the world's biggest home furnishings retailer IKEA opened its first shopping centre in Stopini district near Riga. The total area of the shopping centre is 34,500 sqm on two floors, featuring also a self-service restaurant and a Swedish grocery store on site. There were nearly 20,000 visitors in the early days, which was comparable to numbers visiting the leading shopping malls in Riga.	34,500	2018

NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**AKROPOLE** – A subsidiary of the Lithuanian Akropolis Group is developing the largest multifunctional retail and office project in Latvia, located in Riga, Salaspils Street, 5 km from the Old Town. The first milestone was completion of the main structure during 2018 with opening in Q2 2019. It will comprise a 60,000 sqm shopping area and 9,000 sqm of office space. There will be approximately 220 tenants with Maxima XXX, the Lithuanian food retailer being the anchor tenant. Other tenants will include the new multi-brand retailer Van Graff, among others and a wide café and restaurant network. The mall will also feature a year-round skating rink, a cinema, a modern fitness centre, and indoor and outdoor children playgrounds. O'Learys, a US amusement complex, featuring bowling, sport games simulators, laser equipment and a restaurant will be a central part of the mall.	60,000	Q2 2019
	**ORIGO** – This project started at the end of 2017 and was ongoing in 2018; the Scandinavian retail centres management company Linstow was expanding the Origo shopping centre in the heart of Riga, adjacent to the central train station. A new 5-storey multifunctional complex, next to the current building, will include office space on the two upper floors and a shopping centre on the first three floors. The present retail area of 19,200 sqm will be expanded to 34,800 sqm of retail space. There will also be added underground parking for 144 cars. The project is scheduled to be completed in 2019.	+15,600 (expansion)	2019
	**ALFA** – The Alfa shopping park next to the Cinnamon cinema will be expanded. The centre's total area will be expanded from 93,000 sqm to 117,000 sqm. The area available for rent will, therefore, increase from 47,800 sqm to 65,600 sqm. The new building will have three floors: two for shopping and the third for entertainment and restaurants. Alfa will also have underground parking. The project is scheduled to be completed in 2019.	+17,800 (expansion)	2019

INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+371 6 728 4544**

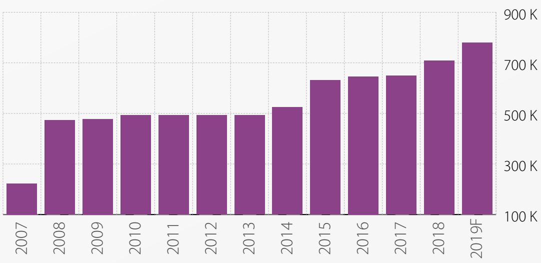
AKROPOLE

LEGAL NOTES BY SORAINEN

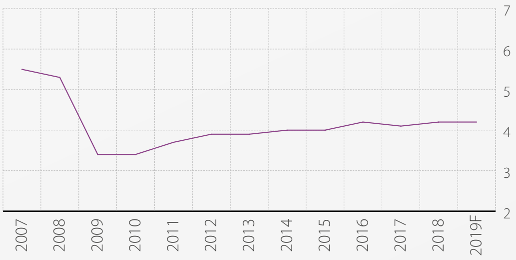
Typically, one anchor tenant or a few medium-size tenants lease each property. As a rule, tenants are charged for use of common areas and management of the building, as well as common marketing activities. Rents are indexed to local or EU inflation. The owner usually pays taxes applicable to the property, and sometimes insurance costs as well. Turnover rents are commonly used in Latvia. In most cases the tenant is responsible for finishing and equipping leased premises for use; during this fitting-out, rent-free periods may be agreed.

Lease agreements for retail properties are of rather good quality, but usually prepared in favour of the owner. When entering into a retail lease agreement, attention must be paid to distribution of maintenance and fitting-out obligations between the owner and the tenant, as these obligations may not be defined very clearly in lease agreements. There is no standard approach to the set-up and use of marketing funds. As with office lease agreements, retail lease agreements only survive change of ownership and are binding on the new owner if registered with the Land Register.

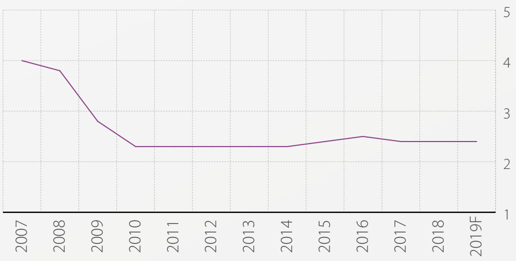
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



RIGA SNAPSHOT (END-2018)

TOTAL NEW WAREHOUSE SPACE	708,800 SQM
WAREHOUSE VACANCY RATE	<5.0 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €5.00
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.20
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€0.50 - €1.00

ALMOST 60,000 SQM OF NEW WAREHOUSING SPACE WAS COMPLETED IN 2018

SUPPLY

Three projects with total warehousing area of 59,800 sqm were completed in Riga in 2018. The total amount of modern warehousing space in Riga and its immediate surroundings reached 708,800 sqm by the end of 2018.

In 2019, at least three major projects in Riga and its vicinity (within 20 km) – and including expansion stages – with total warehousing area of around 70,000 sqm, are scheduled to be implemented. These projects are being developed by VGP, Piche, and Sirin Development.

DEMAND

The warehouse and manufacturing segment has seen significant activity in 2018. There is still a relatively high demand for production premises for purchase and there are also corresponding area offers. The activity in the rental market for warehouse premises is still relatively low due to lack of available warehousing space close to the centre of Riga.

There is also a lack of premises for rent and sale in the vicinity of Riga. There is still strong demand for industrial buildings (factories) built in Soviet times, in the €150-€200 per sqm price range. Due to lack of premises, entrepreneurs look at objects located within a radius of 50 km around Riga.

LEGAL NOTES BY SORAINEN

Industrial leases are rather simple; finance and construction opportunities are readily available. Rents are 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 the specific needs of the owner or the intended end-user of the premises.

The trend is for companies to buy warehouse and production facilities for their own needs. In the area of new warehouses and industrial areas, average rents have risen slightly, which is due to higher construction costs.

RENTS

Rents for warehouses remained intact during 2018. At the end of 2018, rents for new warehouses in Riga city and its surroundings ranged from €3.50 to €5.00 per sqm. Rents for old construction warehouses (from poor quality to fully renovated) range from €1.50 to €3.20 per sqm. Additional costs for tenants are from €0.50 to €1.00 per sqm on average.

For small and older warehouses, factories and service facilities up to 500 sqm, the selling price is on average between €350 and €400 per sqm. Sales prices for hangars built in the 80s-90s starting at 500 sqm range from €70 to €250 per sqm.

INVESTMENT

East Capital Baltic Property Fund III purchased P5 industrial park, a 13,800 sqm logistics complex with two multi-functional buildings in Marupe parish, an area near the Riga-Jurmala/ Liepaja/Ventspils motorway, between Riga airport and SPICE shopping centre for €10.6 million. It was developed by PICHE and was fully rented.

New Hanza Capital investment company bought a logistics complex in Maskavas Street in Riga for €4.6 million. It includes 12.55 ha of land and three warehouse and office buildings (built within the last 10 years) with leasable area of 26,000 sqm. The site allows 7.5 ha of the land to be used for new development, therefore the company has started to design an A class warehouse of 25,000 sqm.

SIRIN LOGISTICS PARK

RECENT DEVELOPMENTS

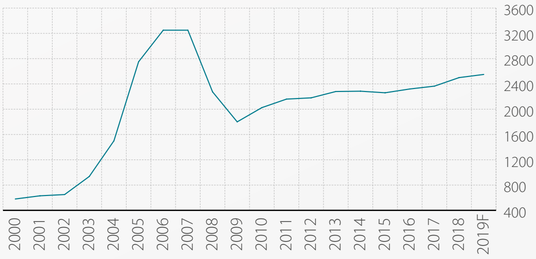
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**P5 (ULMANA GATVES INDUSTRIAL PARK)** – The project is located in Marupe, close to Karla Ulmana Street and Riga International Airport. The project, with a total area of 13,800 sqm, was finished, leased and already sold at the beginning of 2018. The project was developed by SIA Piche, one of the leading Latvian industrial builders.	13,800	Q1 2018
	**VGP PARK KEKAVA I** – The first stage of the complex with 35,000 sqm was completed in 2018 and was fully let by the end of the year. The project is located near the Riga ring road and A7 motorway (Lithuania, Poland, other EU directions), 20 km from Riga.	35,000 (I stage)	2018 (I stage)
	**BALT CARGO SOLUTIONS** – In 2014 the company entered the market with a 24,000 sqm warehouse in Jaunbumani, near Riga. The second stage, with a total area of 15,000 sqm, was delivered in 2016. The third and fourth stages were completed in 2018, with GLA 4,400 sqm and 6,600 sqm respectively.	4,400 (III stage) 6,600 (IV stage)	2018 (III and IV stages)

NEW PROJECTS

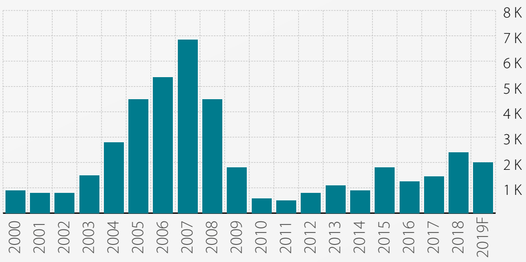
	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**LIDL** – The German grocery store network is seriously preparing to start active operations in Latvia and plans to start building a logistics centre on Ulbrokas Street, Riga, with a total area of 47,000 sqm; completion is foreseen for 2020. Lidl has also bought several plots for its shops in Riga, as well as in the cities of Liepaja and Jekabpils. It has started submitting projects to the respective construction authorities and looking for opportunities in other cities of Latvia.	47,000	2020
	**AIRPORT PARK** – Soon after the sale of P5 (Ulmaņa Gatves Industrial Park), Piche announced the development of one of the largest industrial parks, which was also located near Riga International Airport. The total leasable area of the Airport park is 23,000 sqm, and by the end of 2018, 95% of it had already been pre-leased. It is expected to be completed in Q2 2019.	23,000	Q2 2019
	**VGP PARK KEKAVA II** – The developer announced the second stage of the development of 25,000 sqm of modern warehouses near the town of Kekava, motorway A7. The entire project will consist of 60,000 sqm of warehouse space. It is expected that the warehouses will be commissioned in Q2 2019.	25,000 (II stage)	Q2 2019 (II stage)
	**SIRIN LOGISTICS PARK** – The Lithuanian developer plans to build an A class warehouse and logistics centre in two stages located on Maskavas Street. It plans to finish the first stage of 22,350 sqm in Q4 2019, and another stage of 32,350 sqm in Q3 2020.	22,350 (I stage) 32,350 (II stage)	Q4 2019 (I stage) Q3 2020 (II stage)

AIRPORT PARK

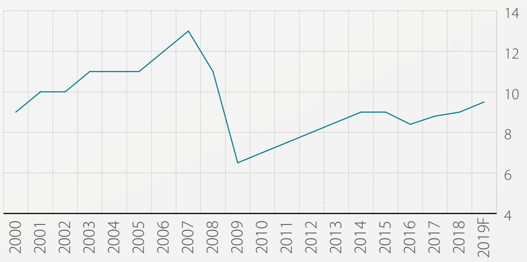
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



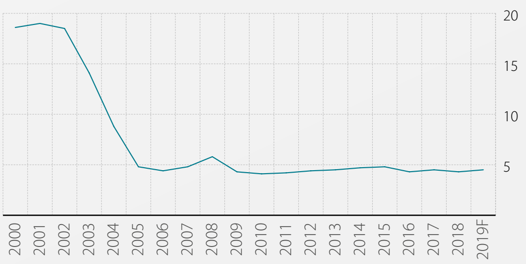
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



RIGA SNAPSHOT (END-2018)

ANNUAL APARTMENT PRICE CHANGE	+ 2.5 %
NEW APARTMENTS BUILT	2,411
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,500 - €2,100
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€2,100 - €4,000
PRICES FOR EXCLUSIVE APARTMENTS IN CITY CENTRE & OLD TOWN (€/SQM)	€5,000 - €6,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.3 %

NUMBER OF COMPLETED APARTMENTS INCREASED BY 65%

PRICES

Apartment prices in Riga increased by 2.5% in 2018, after an increase of 6.1% in 2017. In 2018, prices increased both in old construction buildings as well as in new construction apartments located in residential districts and Riga city centre.

Prices for apartments in Soviet-era buildings increased by 4.6% and stood at an average of €782 per sqm at the end of 2018. Prices per sqm in old Soviet-era buildings are usually 30–50% cheaper than prices in new projects in the same locations.

Prices for new construction apartments in the city centre increased by 1%, and prices for new projects in residential districts rose by 2%.

Prices of new apartments in the city centre and the Old Town ranged from €2,100 to €4,000 per sqm at the end of 2018, and prices for luxury newly developed projects were as high as €6,000 per sqm.

New apartments in the suburbs were selling from €1,500 to €2,100 per sqm at the end of 2018. New apartments are usually sold with final fit out except for kitchens.

SUPPLY

In total, 2,411 apartments were constructed in Riga in 2018, which is a 65% increase compared to 2017 (1,458 in 2017). Ober-Haus expects almost 2,000 new apartments to be completed in 2019.

As demand for new construction apartments rises, new building permits have been growing. In 2018, there were 38 new residential multi-storey building permits issued throughout Riga, and another 37 were issued for repairs and redevelopment of existing buildings.

Developers are offering new apartments in the construction phase and buyers are actively reserving at this stage. Some projects are almost sold out before commissioning, for example developments by YIT Latvija, Merks, HANNER, Bonava Latvija, R.Evolution.

Successful projects with good sales results are built in mixed territories, these projects merge residential and business functions. Clearly there are three perspective areas of such developments – district of Skanste with Merks, Pillar, NP Properties, LNK Group and Hanner developments, residential and business complex of Jaunā Teika developed by Hanner, and Kliversala and Kipsala neighbourhood developed by various developers. All these territories share similar qualities – business environment successfully merges with residential environment, both existing nearby, experiencing synergy and providing high infrastructure standards. Usually these advantages combined with appropriate marketing activities guarantee good sales results.

DEMAND

In 2018 Riga saw a 4% decrease in apartment sales; on average 762 apartments were sold in Riga each month.

At the end of 2018 there were almost 800 unsold apartments available in the primary market in completed projects. The number of unsold apartments is 24% less than it was at the end of 2017.

THE MORTGAGE MARKET

At the beginning of 2019, the average mortgage interest rate for new borrowers was 3.0–4.5%, depending on a client's financial standing. Clients can borrow up to 80% of a property's value with a standard mortgage, and up to 95% if they qualify for the government's housing guarantee programme.

Outstanding mortgage loans in Latvia total 32% of annual GDP. The mortgage market slowed during the crisis years, but banks resumed active lending in the second half of 2010. Since 2010 the total portfolio of mortgage loans has decreased by almost 15% in Latvia. In 2018 the value of new mortgage loans in Latvia decreased by 6.3%.

RENT

Riga saw no significant changes in apartment rents in 2018, after a 5% increase in 2017. Nevertheless, some small decrease can be observed in exclusive apartments in Riga in 2018.

The highest rents for apartments are in the city centre, Old Town and other prestigious districts and new construction buildings across Riga. Two-room upper-storey apartments are available for €650–€800 per month. A three-room apartment costs €700–€1,500 per month, four- and five-room apartments from €1,500 to €2,100. During the second half of 2018 there was a big demand for unfurnished four- to five-room apartments. Currently the highest rise in demand in the city centre is for well-renovated two- and three-room apartments, with the possibility for short-term rental. Much of this demand comes from international students and foreigners who are relocating on a short-term basis. As for rental decrease, it was noticed that some owners did drop their price by up to 10% for exclusive apartments (for example, apartments which normally rent at €1,500), just to avoid having an unoccupied apartment.

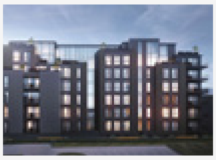
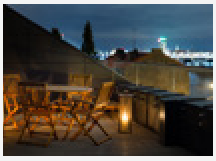
Rents for old construction one-room apartments in popular residential districts range from €200 to €300; two-room apartments rent for between €250 and €400 and three-room apartments for €350–€550 per month. Demand is constant throughout the year. It is noted that owners sometimes give discounts in order to stimulate faster rental deals, in exchange both parties agree not to have the apartment refurbished thus saving time and money.

Rents in new construction residential buildings in residential neighbourhoods are usually 30–40% higher and usually two-room apartment monthly rents range between €350 and €550 and three-room apartments from €500 to €750.

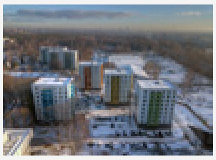
The Ministry of Economics tackled the topic of termination of rent agreements, including termless Soviet-era rental agreements during 2018. Landlords and potential landlords hoping to invest in property are looking forward to a new regulation in this sector, hoping to get into the business. This law is expected to come in force at the beginning of 2019, consequently it is expected that rental market supply will increase by roughly 10–20%.

The new draft law, unlike current rental rules, will oblige the owner and his potential tenant to register their rental agreement in the Land Register, thus providing publicly available and reliable information on completed transactions which will protect both tenants and owners of properties. Also, new lease regulations will do away with termless rental agreements. And probably the most important part is that owners and tenants who have old rental agreements will have to replace existing rental agreements with new ones which will also have to be registered in the Land Register.

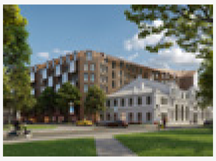
RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**MAGDALĒNAS KVARTĀLS** – In Riga's best neighbourhood, the Quiet centre, bounded by Antonijas, Emīla Melngaiļa and Strēlnieku streets, Magdalēnas kvartāls is emerging – a completely new experience of living and working, where everything is being done to make its inhabitants feel good. The developer is Vastint Latvia SIA. A residential zone with spacious private gardens is harmoniously linked to well-developed public areas. Leisurely strolls and safe play for children will be ensured by keeping the space car free. In 2017, two buildings with 116 apartments were built in the first stage of the project. The apartments range in size from 46 to 152 sqm. Sales began in 2018, at prices from €2,600 per sqm. In total, 300 apartments are planned.	from €2,600 (I stage)	2017 (I stage)
	**SERMULIŅU IELA 14** – Project developed by Bonava and located in Petersala/ Andrejsala – area bordering both the Quiet centre and the modern centre of Riga. It combines the dynamic rhythm of the city with the proximity of the Quiet centre, becoming a great place to live for those who work in the city centre, and to spend evenings and holidays in a tranquil, peaceful and comfortable environment. There are 88 small apartments located in 2 four-and five-storey buildings ranging in size from 45 to 66 sqm. Prices range from €1,750 to €1,950 per sqm. The project was completed in Q4 2018.	€1,750 - €1,950	Q4 2018
	**PARKERS** – The project is located in the city centre on Valdemāra Street and is being developed by Loft Group. The buildings ensemble is at the forefront of the 19th century masterpiece of wooden buildings, surrounded by a new 7-storey building in PARKERS, with a choice of noble black tone facades and entrance portals, as well as a magnificent panoramic view of the city. The project consists of 68 apartments ranging in area from 40 to 149 sqm. Prices start from €2,400 per sqm. It was commissioned in 2018.	from €2,400	2018
	**PROMENĀDE** – The first loft project, Promenāde, was implemented in Pārdaugava on Mūkusalas Street at the start of 2018. The range of residential apartments has been complemented by the unusual and exciting project, located on the left bank of the River Daugava. The first building consists of 41 unique one-, two- and three-storey apartments ranging from 40 to 79 sqm. The price of apartments is about €2,400 per sqm.	~€2,400	Q1 2018
	**JAUNĀ TEIKA** – The buildings complex is located in Teika, Ropažu Street and developed by HANNER. The third construction phase will consist of three buildings with 360 apartments. Apartments will range from 43 sqm to 87 sqm. Prices of apartments will start at €1,480 per sqm. Construction works are ongoing, with completion dates from 2017 to 2019. On completion of the third stage, the project will have more than 800 apartments. The completed building at Ropažu Street, consisting of 127 apartments still had apartments available at the end of 2018. Two more buildings were in the construction phase and being put up for sale.	from €1,480 (III stage)	2018 (III stage)
	**TREBŪ HOME** – The project is located on the right bank of the River Daugava in Riga, in a quiet, green area between Lubānas, Salnas and Kupriču Streets. The developer is AFI Europe. Modern technological solutions are used to provide classical home values to residents, including comfort, energy efficiency, and safe environment. There will be 1,400 apartments in total. The first stage with 108 apartments was completed in 2018. Apartments range from 36 to 80 sqm and prices start from €1,500 per sqm for a fully finished apartment. The whole project is expected to be completed in 2028.	from €1,500 (I stage)	2018 (I stage)

NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**AKĀCIJAS** – This apartment complex is located in Imanta on Jurmalas Street and is being developed by SIA KBO. The project consists of 4 nine-storey apartment buildings with a total of 216 apartments with full interior trim and equipped with every convenience for modern-day living. Each apartment is provided with a storage unit in the basement. Within the territory of the apartment buildings, there is a playground, car and bike parks and a green courtyard. Apartments range from 39 to 78 sqm, and prices start from €1,600 per sqm. It will be completed in Q2 2019.	from €1,600	Q2 2019
	**DZIRCIEMA NAMS** – The project is located in Dzirciems, Eiženijas Street. Developer YIT Latvija. The project will be located in one of the most charming and greenest districts of Riga, where the rhythm of the city meets the proximity of nature, making the neighbourhood ideal for a peaceful and comfortable life. In total, 74 apartments ranging from 39 to 97 sqm are planned. Prices start from €1,600 per sqm. Completion is planned for spring 2019.	from €1,600	H1 2019
	**HAUSMAŅA TERASES** – The project is located in Purvciems, Stirnu Street. Developer – Bonava Latvia. The new project will entice buyers with its family-friendly features and good neighbourly relations. A unique architectural solution will be the underfloor heating system that will allow the installation of floor to ceiling panoramic windows. The spacious ceilings and large balconies provide an extra sense of space. There will be a total of 84 apartments ranging in size from 44 to 80 sqm. Prices start from €1,700 per sqm. Construction started in spring 2018 and will be completed in 2019.	from €1,700	2019
	**GREEN CITY** – The project is located in Purvciems, Stirnu Street. Project developer is YIT Latvija. Two apartment blocks are planned in the project. There will be 100 apartments in each 8-storey building ranging in size from 34 to 92 sqm. Prices start from €1,550 per sqm. Construction of the first building is planned for autumn 2019.	from €1,550	H2 2019 (I building)
	**GAIĻEZERA NAMI** – The project is located in Mežciems, Gaiļezera Street. The project is being developed by the construction company Merks – one of the largest construction companies in Latvia. In total, the project involves six 9-storey buildings. At the moment, the construction of the second stage, which is located closer to the lake, has been started. Next to the existing three buildings, three more buildings are being built and the surrounding area is being landscaped up to the lake shore. Apartment areas range from 60 to 100 sqm. Prices start from €1,600 per sqm.	from €1,600 (II stage)	2019/2020 (II stage)
	**EZERPARKA NAMI 2** – The multifunctional Ezerparks project is located on Rusova Street in Čiekurkalns and is being developed by New Europe Real Estate. The unique advantage of the project is the well-maintained and integrated environment that will develop around the residential complex in the coming years. The second stage will consist of three 5-, 6- and 10- storey buildings with 184 apartments ranging in size from 31 to 73 sqm. Prices will start from €1,550 per sqm. Construction works started in Q4 2016 and will be finished in 2019.	from €1,550 (II stage)	2019 (II stage)
	**TALLINAS IELA 86** – On the corner of Tallinas and Krasotaju Streets, dynamically developing area in Riga city centre, is a reconstructed magnificent building from the early 1900s. Reconstruction is being carried out by Baltic Investment Group. There are 48 apartments for a wide range of potential buyers ranging from 24 to 70 sqm. Future tenants will have an opportunity to choose the most suitable option for themselves – a studio apartment or an apartment with one or two bedrooms. Every apartment is fully decorated. The prices of apartments range from €2,000 per sqm. Construction to be completed in Q1 2019.	from €2,000	Q1 2019

NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**HOFT** – Located in the heart of Riga's Quiet centre, Strēlnieku Street, this project is a combination of historical architecture, nature, technology and art. The project is developed by R.EVOLUTION CITY. A unique hovering oasis is positioned over the carefully preserved and restored historic facade like a glass showcase built for design objects, but nature itself is its creator. There will be a total of 42 apartments. Apartments will range in size from 76 to 261 sqm, prices from €2,800 to €7,000 per sqm for a fully finished apartment. It is expected that construction will be completed in Q2 2020.	€2,800 - €7,000	Q2 2020
	**LOFTS & ROSEGOLD** – Located on Strēlnieku Street, the Lofts & Rosegold residential development is a prime example of synergy between the architectures of two different periods, in which the historic building is a gemstone, and the newly built one is a marvellous rose gold frame, bringing out the beauty of Lofts. The project is being developed by R.EVOLUTION CITY. There will be 75 apartments complete with terraces, balconies and private gardens in the Rose Gold residential building, ranging in size from 51 to 172 sqm and prices from €2,000 to €4,800 per sqm. It is expected that construction will be completed in Q1 2020.	€2,000 - €4,800	Q1 2020
	**PHILOSOPHERS RESIDENCE** – Project located on Raņka Dambis Street, and developed by R.EVOLUTION CITY. There will be a total of 114 apartments located in two buildings (20- and 21-storey), connected via underground garage which will accommodate around 122 vehicles. Apartments range from 37 to 258 sqm with prices from €1,900 to €5,300 per sqm. All technical and designed parameters exceed anticipated/projected European Union Construction Guidelines. Completion of the project is planned for Q1 2019.	€1,900 - €5,300	Q1 2019
	**LĀČPLĒŠA IELA 11** – An elegant and modern new development with high quality bright and spacious apartments located at the intersection of Baznīcas and Lāčplēša Streets in the heart of Riga. Apartments are offered with full interior finish – sustainable wood flooring, Italian tile flooring and high-quality fixtures. Underground parking and storage spaces. The 27 apartments range in size from 47 to 212 sqm. Prices are about €3,500 per sqm. Construction began in 2017 with projected construction completion in 2019.	~ €3,500	2019
	**MERKS VIESTURDĀRZS** – The project is located in the Quiet centre, on Rūpniecības Street, and developed by MERKS. The project Merks Viesturdārzs will be realized in three stages, with the construction of 350 different sized apartments, all of which are combined with high-quality construction and modern designs. Three 5–7 storey buildings will be built within the project. The first building, which will be closest to the park, will have 96 apartments and will be available in the first half of 2020. Apartment sizes range from 36 to 123 sqm. Prices start from €2,100 per sqm.	from €2,100	H1 2020 (I building)

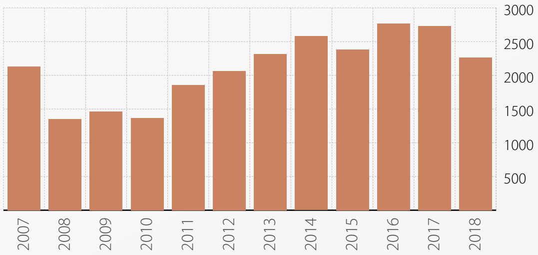
LEGAL NOTES BY SORAINEN

Residential leases are regulated by Latvian law more strictly than commercial leases. However, the amount of rent may still be agreed upon freely. Residential leases are binding on new owners regardless of whether they are registered with the Land Register. Currently a draft law on Residential tenancy is under review in the parliament. If passed, this law will require that all residential lease agreements are registered with the Land Register and only when registered will they be binding on the new owner of the apartment. This law will also promote more effective mechanisms for eviction of bad tenants.

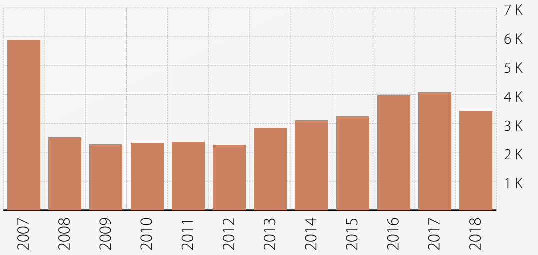
NEW PROJECTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**PARK ALLEY 2** – An innovative and modern residential area located at Pulkveža Brieža Street – in the historical centre of the city, which is included in the UNESCO list of places of world cultural and natural heritage. The project developer is Park Lane. Each apartment building has 100 apartments over 7 floors, 88 parking spaces and 34 bike-stands. Each apartment has a terrace or a balcony. Apartment areas range from 57 to 203 sqm. Prices start from €2,000 per sqm. The project is expected to be completed in 2019.	from €2,000	2019
	**U10** – Apartments are offered in a renovated Art Nouveau building at Ernesta Birznieka-Upīša Street in the centre of Riga. There are 34 apartments available in the courtyard house, ranging in size from 31 to 115 sqm and 24 apartments available in the facade house, ranging in size from 27 to 84 sqm. The prices of apartments range from €2,200 to €2,800 per sqm. A private closed car parking space in the courtyard is available at an additional charge. The project is expected to be completed in 2019.	€2,200 - €2,800	2019
	**KRASTA RAJONA TREND** – The project is located in the Krasta neighbourhood on Maskavas Street and developed by Bonava Latvia. This ambitious new project will be located near the historic Krīdenera Dam. The Krasta District, as part of the new Moscow Fortress, began to develop during the construction of the Salu Bridge in the 1970s, but it became the most lived in neighbourhood in Riga only after Latvia regained its independence, with intensive construction of commercial, office and residential buildings in the area. In the enclosed area, which will be equipped with a modern video surveillance system, it is planned to build six 9-storey buildings with 500 apartments, as well as planting and landscaping around the house. It is planned to complete the first stage of 94 apartments ranging in size from 31 to 73 sqm by the end of 2019. Prices start from €1,500 and more than half of the apartments had been pre-sold at the end of 2018.	from €1,500	Q4 2019 (I stage)
	**MEŽAPARKA REZIDENCES** – Mežaparka Rezidences is located in a location that successfully combines all the necessities for modern living – Kokneses prospekts 1A. The project concept includes the creation of exclusive villas, twin-villas, row houses, and premium apartments in low rise buildings. Penthouse-type apartments with terraces and exclusive designs are created in a subdued decorative style, observing proportions and carefully thought-out details ranging in size from 60 to 145 sqm. Completion is planned for 2020.	N/A	2020
	**DREILINGA MĀJAS TREND** – The project is located in Dreiliņi, Robežu Street and is being developed by Bonava Latvia. The large residential house project will consist of two concept houses (Trend and Comfort). New dwellings in an ambitious project will certainly appeal to young families and young professionals who are looking for their first home. Relatively smaller flats will be available in the Trend building, ranging from 41 to 65 sqm. Prices start from €1,500 per sqm. The project is planned completion by the end of 2019.	from €1,500	Q4 2019
	**ANNINMUIZAS PARKA REZIDENCE** – An apartment house with natural exterior finishing materials and large panoramic windows towards the surrounding park. The project is located in Imanta, Anniņmuižas bulvāris. The 6-storey building will have 1–4 room apartments with full finish ranging in size from 33 to 102 sqm. Apartment prices range from €1,500 to €1,900 per sqm. It is expected that construction will be completed in Q1 2020.	€1,500 - €1,900	Q1 2020

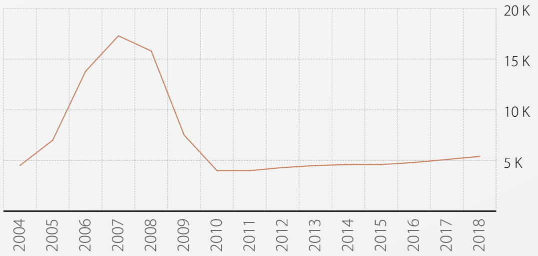
LAND TRANSACTIONS IN RIGA CITY



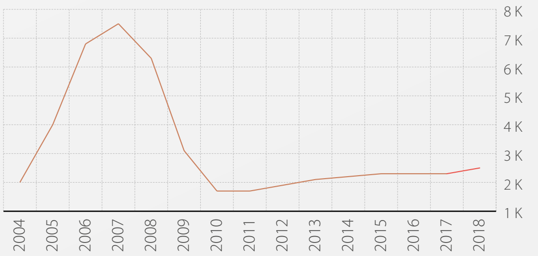
LAND TRANSACTIONS IN RIGA DISTRICT



LAND PRICES IN RIGA CITY, €/100 SQM



LAND PRICES IN RIGA DISTRICT, €/100 SQM



RIGA SNAPSHOT
(END-2018)

TOTAL LAND TRANSACTIONS CHANGE (RIGA CITY)	- 8.6 %
TOTAL LAND TRANSACTIONS CHANGE (RIGA DISTRICT)	- 9.8 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€300 - €1,000
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€50 - €300
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€35 - €95

RESIDENTIAL AND COMMERCIAL PROPERTY DEVELOPERS WERE ACTIVE IN LAND PURCHASE

PRICES

Prices for plots for residential development (multi-apartment buildings) are generally in the range of €50–€300 per sqm in Riga neighbourhoods and for mixed commercial and residential development €300–€1,000 per sqm in Riga central areas. Commercial land near highways €15–€20 per sqm, commercial land in Riga neighbourhoods €20–€70 per sqm.

DEMAND

Total land transactions in Latvia decreased by over 9.4% in 2018, according to the data of the Central Registry, nevertheless the land market is considered active with significant purchases made in all segments and price increase by 6-10%.

Decrease was slower in Riga city, showing 8.6% decline from the previous year. Total land transactions were 2,267 in the city, averaging 189 transactions per month. Total land transactions decreased by 9.8% in 2018 in Riga district, to 285 transactions per month.

Investors continued to actively consider and buy plots for the construction of apartment and office buildings, as well as unfinished apartment buildings. They are also interested in plots for retail, office and logistics purposes.

An interesting trend was the demand for niche positioning, the development of small service stations, as well as the development of self-service carwashes. In the next two years, competition in these segments is expected to grow.

INVESTMENT

The market has been active throughout 2018, with purchases of land plots suitable for commercial and residential developments.

The biggest deal in January 2018 was in the historic centre of Riga – Strēlnieku Street, next to the MAGDALĒNAS NAMI project, where SIA Strēlnieku 8 bought 3,959 sqm of land with an existing building, where a new apartment house is also likely to be built. The transaction amount was almost €4.0 million.

In Riga, in Vecmīlgrāvis area, SIA Crater (possibly associated with Maxima Latvija) bought three plots of land with a total area of 6,025 sqm for €1.4 million or €232 per sqm. The land plots are located next to the nearby Maxima store.

In February 2018 Domisol Estate Ltd. purchased 11.76 ha of land for €2.8 million or €24 per sqm on Kaivas Street, in the territory of the former Riga greenhouses. The land is suitable for warehouse, production and office development.

A significant deal in Riga neighbourhoods was the purchase of 32.92 ha of land for €2.21 million from Stopinu municipality. Buyer SIA Jūlija Būmaņi.

The Lithuanian company Nevertel bought two land plots in Old Riga with a total area of 986 sqm for €1.3 million, or €1,313 per sqm, purchased in addition to the existing plot of land at Grecinieku Street to develop a hotel.

In March 2018, significant purchases of land with and without buildings were made by Lidl Latvija SIA – seven properties in Riga, Jurmala, Liepaja, Jelgava, Ventspils and Tukums were bought for €11.5 million. Of these, the biggest deal in Latvia – Riga, Duntes Street – €3.0 million for 11,494 sqm of land or €263 per sqm. The next largest deal was the purchase of 24,644 sqm in Riga, S. Ezeinšteina Street, for €2.7 million or €108 per sqm.

SIA KK bought a 19,090 sqm plot for commercial use in Riga, near the Jūrmala highway, located at Rikšotāju Street in Riga. The translation price was €1.32 million (€69 per sqm).

Investors focus on the centre of Riga, its neighbourhoods and vicinity with good infrastructure. This is evidenced by the transactions that took place in Riga, such as the purchase in the Ulbrokas Street warehouse and office zone – a land plot of 25,810 sqm was purchased for €0.75 million or 29 €/sqm. It is also worth mentioning the purchase of land in Riga's Katrīnas Street – a 6,407 sqm land plot in the centre/perimeter building area was purchased for €0.58 million or €89 per sqm.

In Q4 2018, a 3,315 sqm land plot in the strategically located at Lucavsalas Street, near the A7 motorway, the Riga ring road, Salu bridge crossing, near Neste DUS and Senukai store, was purchased for €0.9 million which is €275 per sqm.

In Q4 2018, next to the SKY supermarket, in Riga, at Bikernieku Street (access from Hipokrata Street), a land plot of 9.8 ha in a forest area was purchased for €0.7 million and the related 1 ha plot for €0.6 million in a commercial area, totalling €1.3 million.

Two purchases registered in the new Skanste CBD. A plot of land with a total area of 10,276 sqm was purchased for €2.3 million in Riga on Sporta Street (€224 per sqm). The plot is located in a 7-floor, mixed-use development area. Another plot with area of 1.35 ha sold for €4.35 million on Hanzas Street (€322 per sqm). The plot is located in the 10-floor, centres development area.

A new trend has been observed – developers are showing interest in old-stock buildings (100+ years old) in the historic centre of Riga, with the aim to re-develop apartments for sale or rent, to make office centres, including a mixed commercial function usually on the ground floors. It is expected that 2019 will certainly be active in this segment as well.

Several buildings were purchased, among which were those on Tērbatas Street, Elizabetes Street, Merķeļa Street, Audēju Street, average purchase prices were €300–€700 per sqm. It should be noted that an additional €500 per sqm will have to be invested in re-development.

One such transaction was the sale of two historic apartment houses built in 1900, at Dzirnavu Street, with a total of 4,231 sqm for €2.2 million or €520 per sqm. Another property worth mentioning is the 2,766 sqm property sold at Merķeļa Street – a house with an auxiliary building (built in 1870) – for €2.0 million or €723 per sqm. On the outskirts of the historic centre, on Ģertrūdes Street, a 3,237 sqm plot of land with a 5,885 sqm multi-apartment building (1912) and a 496 sqm large wooden house (1900) and a smaller auxiliary building were sold for €1.33 million; this gives a price of €208 per sqm. At Lāčplēša Street, a 2,979 sqm office building (1960) sold for €1.83 million or €612 per sqm. Outside the centre, in the Āgenskalns historic area, a 1,906 sqm office building (1930) was sold for €0.87 million or €457 per sqm.

LEGAL NOTES BY SORAINEN

Investments by foreigners from the EU and countries that have agreements on mutual promotion and protection of investments with Latvia are generally unrestricted. Restrictions on foreign (non-EU) entities exist for acquisition of agricultural and forestry land (except if construction is permitted there) as well as land plots in border areas and special protection zones.

OBER HAUS

LATVIAN REAL ESTATE TAXES AND LEGAL NOTES

ACQUISITION

- Upon acquisition of land or land and buildings, or a building property which includes a residential building (including function-related buildings) or non-residential buildings and related engineering structures, a 2% stamp duty is levied on the property value. In case of acquisition of a residential property (an apartment) by a legal person, which carries out business activities, a 6% stamp duty is charged on the value of the residential property.
- If legal title is transferred under a deed of gift, a 3% stamp duty is levied on the property value.

The reduced rates may apply in following cases:

- In all three cases described above, if legal title is transferred to spouses, children, parents, siblings, stepsisters/stepbrothers, grandchildren, great-grandchildren and grandparents, for registration of legal title in Land Register, a 0.5% stamp duty is charged on the value of a real estate (RE).
- As of July 2016, the reduced rate of 0.5% is applied to registration of the rights to the property with the land register for a RE, which is obtained through statutory government assistance and the value of which does not exceed EUR 100,000; in case the value of such RE exceeds EUR 100,000, the stamp duty is EUR 500 plus 2% of amount exceeding EUR 100,000.
- If a RE is invested in the share capital of a company, a 1% stamp duty is payable on the investment value.

The value of a RE for the purposes of stamp duty is determined as the highest value of:

- The value stated for each property in case of acquisition agreement;
- The value of a property with higher value in case of exchange agreement;
- The value of open-ended or eternal payment in case of sustenance agreement;
- The value of investment in case the RE is invested in share capital;
- The highest bid value of a property in case an auction has been conducted, or in case there was no auction – a starting price;
- The cadastral value of each property and the value of forested areas. The cadastral value of the property is valid for unlimited time if it has not changed according to a written Notice or electronically available information from the Land Register.

There are number of persons exempt from paying the stamp duty for registration of legal title in the Land Register, for example:

- A company if the legal title has been obtained as a result of reorganisation;
- Companies providing services for needs of society, such as public transport companies, ports, companies providing water, gas, electricity to society, etc.

RENT

VALUE ADDED TAX (VAT):

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

CORPORATE INCOME TAX (CIT):

Rental income is tax exempt until company's profits are distributed in dividends or deemed dividends. When profits are distributed, the effective CIT rate is 25% (the statutory rate of 20% is applied to a tax base that is calculated as distributed dividends divided by coefficient of 0.8).

PERSONAL INCOME TAX (PIT):

Rental profit for individuals is taxed at a progressive rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 62,800), 31.4% (annual income above EUR 62,800). A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filled. Expenses can be deducted for up to 80% of the rental income (certain exceptions apply). Thus, PIT would be paid for at least 20% of the rental income.

A person that is not registered with the tax authorities for commercial purposes, but who has informed the tax authorities on the real estate renting activities, pays PIT at a reduced rate of 10% applied on total amount of rental income after filing the annual income tax return, if the lease agreement is registered with the Latvian tax authorities within 5 business days after signing it with the lessee. The taxable income may be reduced by the amount of real estate tax paid, with no deduction on any other expenses related to the rental activities allowed.

If a person has not registered the lease agreement with the Latvian tax authorities, nor has it registered for commercial purposes with the tax authorities, the income from lease will be subject to progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 62,800), 31.4% (annual income above EUR 62,800) with no deduction for expenses associated with rental activities.

SALE

VALUE ADDED TAX (VAT):

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

- A new unused buildings, or its part, and the related land, or part of the related land;
- A new building, or its part, that has been used and is sold for the first time in the first year of maintenance, and the related land, or a part of the related land;
- A building, or its part, in case it has not been used after reconstruction, renovation, restoration, and the related land, or a part of the related land;
- A building or its part, that has been used and is sold for the first time in the first year after reconstruction, renovation, restoration, and the related land, or a part of related land;
- A building under construction, or its part under construction, that has not been maintained, and the related land, or a part of related land;
- A building, or its part, that is under reconstruction, renovation, restoration, and has not been maintained, and the related land, or a part of the related land.

The 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 land is not meeting the definition of development land if the construction permit for construction works has been issued:

- Before 31 December 2009, and renewed or extended after 31 December 2009;
- After 31 December 2009, but the purpose of the land has been changed and no longer is intended for building purposes.

The applicable rate of VAT is 21%.

In 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. VAT-registered traders may opt to charge VAT on supplies of used real estate (generally exempt) if the sale is made to VAT registered person.

In addition, please note that Latvian tax authorities has issued an opinion which states that in case the RE and the related land belong to two different persons and one of the real estates is sold, VAT applies to this particular transaction if the related RE is subject to VAT (i.e. it is unused RE or development land). The same conditions would apply in case of trilateral agreement.

CORPORATE INCOME TAX (CIT):

If a Latvian company sells a RE, any capital gain is tax exempt until company's profits are distributed in dividends or deemed dividends. In such case the profits are taxed at an effective rate of 25%. Generally, the gain is calculated as selling price less net book value

Sale of RE by non-residents would be subject to 3% CIT on gross proceeds. This tax must be either withheld by the Latvian purchaser or, in case the transaction is between two non-residents, declared and paid by the non-resident seller. CIT Act allows non-residents from EU or Double Tax Treaty (DDT) countries to pay 20% on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence.

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

There is a ruling by the State Revenue Service which exempts WHT on proceeds where shares in a RE company are sold through a share exchange as part of a group reorganisation.

Re-evaluation of RE

In the situation where one company invests RE into the share capital of another company and performs revaluation for this purpose, the income should be increased/decreased by the respective difference between the market value determined by a certified expert and the nominal value, as a result of revaluation before the investment in another company.

Nevertheless, this income is tax exempt until company's profits are distributed in dividends or deemed dividends.

PERSONAL INCOME TAX (PIT):

If an individual sells a RE for non-commercial purposes 1, a 20% PIT is charged on the difference between the acquisition cost and the selling price.

The capital gains tax return must be submitted once per quarter (if the gain exceeds EUR 1,000.00) or once per year (if the gain is below EUR 1,000.00).

The exemptions:

- RE held for at least 60 months and registered as the seller's primary residence for at least 12 months before the sale during the period of 60 months is PIT exempt;
- RE held for at least 60 months, provided that during 60 months prior to the sale it has been the sole RE of the taxpayer;
- The sole RE has been reinvested during 12 months period from the sale into another RE of the same function.

The above mentioned exemptions is applicable also to the residents of EU/EEA and countries with which Latvia has concluded DTT.

A person selling RE for commercial purposes must register with the tax authorities and such income is subject to progressive PIT rate of 20% (annual income up to EUR 20,004), 23% (annual income between EUR 20,004 and EUR 62,800), 31.4% (annual income above EUR 62,800).

REAL ESTATE TAX (RET)

RET is levied on all land and buildings in Latvia owned by individuals or companies. The local authorities in Latvian regions and towns are free to set tax rates on RE located in their area between 0.2%–3% of cadastral value. If not done, then state defined rates apply. A rate exceeding 1.5% may be charged only on improperly maintained RE. Applicable rates for the following year must be published by 1 November of the current year.

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

- 0.2% of cadastral value below €56,915;
- 0.4% of cadastral value between €56,915 and €106,715;
- 0.6% of cadastral value above €106,715.

The residential property owned by proprietors is eligible for reduced rates (0.2% to 0.6%), but only in cases the property is rented out and the rent rights are properly registered within the Land Register of Latvia. There is also anobligation to notify the local council in case the business activities are carried out in the residential property. The same notification must be submitted in case the business activity has ceased.

Relief is available to certain categories of taxpayers (such as families with three or more children under the age of 18). Certain municipalities can apply specific rules to enable a taxpayer to a reduced rate, e.g. the obligation to have registered primary residence in the particular RE.

All other types of RE, including land and property used for commercial purposes, attract 1.5% RET.

3% RET applies to structures that are environmentally degrading, have collapsed, or endanger human safety. The same rate of 3% is also applied for newly constructed buildings in case the permitted construction period has expired. The tax is applicable from the next month following the expired date and will be charged till the month the building is maintained in line with statutory procedures. The rate will be charged on the highest of cadastral value of the related land and the cadastral value of the building itself. There is a specific transition period, covering the construction permits issued before 1 July of 2013 and not extended till 31 December 2014, according to which the tax will be payable until the building is placed into service.

Unused agricultural land is taxable:

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

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

The RET is not applied to the state, local, state or municipal limited liability companies and limited liability companies providing regulated public services, the ownership or legal possession of an existing engineering:

- railways, city rail tracks, airport runways,
- bridges, trestles, tunnels and underground roads,
- ports and navigable channels, berths and their quays, constructions of port aquaria,
- dams, aqueducts, irrigation and cultivation waterworks,
- main pipelines for supplying water,
- trunk lines of communication,
- trunk electricity transmission lines,
- gas distribution systems,
- power station buildings,
- sport engineering structures,
- chimneys,
- lighting constructions and fences.

There is a list of other real estate objects that are not subject to RET in specific circumstances.

To ensure that the tax burden rises proportionately, from 1 January 2016 any increase in the cadastral valuation of land units (their parts) with an area of over three hectares situated in administrative territories outside towns and cities is capped at 10% of their taxable amount set for the previous tax year. To apply this cap, at least one of the uses of such land must be 'Farmland,' 'Forestry land and protected nature territories where business is prohibited by law,' or 'Land of water bodies.' The cap is to apply up to the tax year 2025.

[1] *A person is considered to be performing activities for commercial purposes if:*

- There are three or more similar transactions a year or five similar transactions over three years, or

- Income arising from the transaction exceeds €14,229 in a taxation year except for sale of private property,

- The economic nature of the activity or the amount of property owned by the individual indicates a systematic action to obtain remuneration.

INTRODUCTION

Recent trends in the real estate market indicate that the number of deals and their value are the same level as the previous year.

During 2018, investments were mostly in non-residential properties; investments in residential properties by foreigners from non-EU states have rapidly decreased. In addition, due to the amended regulation on acquisition of agricultural land, some difficulties have arisen with investments in the agricultural (and consequently the forestry) sector.

TITLE TO REAL ESTATE, LAND BOOK

Title to real estate is transferable and must be registered with the Land Register. In addition to land plots, buildings can also be registered with the Land Register. In general, buildings are considered to be a part of the land beneath them. However, as a result of land reform in the 90's and due to formation of long-term lease relations, a land plot and a building on it may belong to different owners. Additionally, the so-called "building right" was introduced in 2017. The building right allows construction of a non-residential building on another person's land with the right to use the building as a separate property during the term of the building right. Construction of residential buildings is prohibited under the building right set-up. The building right is a transferable right with a minimum term of 10 years and must be registered with the Land Register in the name of the person entitled to erect a non-residential building or an engineering structure on a land plot encumbered by a building right.

In addition, certain engineering constructions, such as roads, bridges and landfills, can be registered with the Land Register as independent real estate objects, thus ensuring broader financing opportunities because these constructions, once registered, can serve as fully-fledged collateral.

The Land Register keeps a record of any information regarding the legal status of real estate, including the composition of real estate, its area, history of ownership, encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations. The Land Register is a public register: information it contains is publicly available and is binding on third parties. Land Register data can be accessed on a digital online database for a set fee. For convenience of users, the Land Register and State Land Service continue to increase their mutual cooperation, thus reducing information overlap and the number of documents to be filed in order to register any changes in relation to property. Please, however, keep in mind that both Land Register data and State Land Service data in respect of the same real estate may sometimes not match and any differences in the data kept by both registers might burden further action with real estate, including transfer of title.

ACQUISITION OF REAL ESTATE

GENERAL

Real estate in Latvia may be acquired in one of the following ways – as an individual land plot, as an individual building, as a land plot together with buildings situated thereon as an apartment or an engineering construction.

Specific regulation applies to acquisition of constructions that need not be registered with the Land Register as separate properties. Registration of legal possession in this case is performed and maintained by the State Land Service. However, public credibility of such registration is not clear.

LETTER OF INTENT AND HEADS OF TERMS

In practice, a letter of intent (LOI) or preliminary agreement may be used in order to bind negotiating parties to a contemplated large-scale real estate transaction. Under such agreements, each party can require (insist on) conclusion of a purchase agreement.

Usually, a LOI sets out the parties' obligation not to negotiate with third parties (so-called exclusivity) and lays down other obligations to be followed during a certain period. Breach of the exclusivity obligation under a LOI or preliminary agreement usually entitles the aggrieved party to claim compensation for damages, including specific contractual penalties.

CHANGE OF OWNERSHIP

Each transaction with real estate and registration of ownership title with the Land Register involves several formalities, which have to be completed or resolved before title transfer can occur. For instance, any real estate tax debt and tax for the entire year on a particular property must be settled in advance – if not, registration of ownership title with the Land Register will not be possible. The period for registration of title to real estate with the Land Register is 10 days as of filing all necessary documentation with the Land Register, although in more complex cases this term may be prolonged for up to 30 days.

LEGAL STRUCTURE 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 contemplating a share transfer involving a company holding target real estate, note that:

- notary fees and state duty on real estate sales are not applicable to the sale of shares in 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;
- on completion of a share transfer, the buyer becomes responsible for the whole company including matters arising 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 involves notary fees and state duty, making it more costly than a share transfer in this respect;
- the scope of due diligence investigation is limited since it concerns only the target asset;
- in the case of non-residential real estate transactions, only lease contracts registered with the Land Register bind the new owner after purchase of the target asset;
- agreements for supply of utilities and other services must be assigned to the new owner or entirely new supply contracts must be concluded;
- an asset transaction may in some cases be treated as a business transfer, in which case all obligations associated with the enterprise may be transferred from seller to buyer.

PORTFOLIO DEALS

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

FORM OF AGREEMENT

Real estate transactions require written form, as well as registration with the Land Register. Notarisation of the purchase agreement is not legally required.

In order to register ownership rights with the Land Register, a corroboration request signed by both the seller and the buyer in the presence of a notary public is necessary.

In addition to the purchase agreement and corroboration request, other relevant documents must be prepared and filed with the Land Register (eg waiver of rights of first refusal by the local municipality).

LANGUAGE REQUIREMENTS

There is no specific requirement under Latvian law to use only the official state language (Latvian) in agreements on real estate. Parties may choose the language of the agreement themselves. However, the original of the purchase agreement to be filed with the Land Register must bear a notarised translation of the purchase agreement into Latvian.

The corroboration request to the Land Register is prepared and signed in Latvian with a notary.

DUE DILIGENCE

Before carrying out a real estate transaction, it is advisable to research the legal and technical status of the target real estate, eg encumbrances (as the Land Register may not contain all actual data), permitted use as set by the local authority, and lease agreements affecting the real estate. For this purpose, information available in the Cadastral Information system as well as other public registers should also be checked. The results of such research may help set the final purchase price that reflects the true value of the target real estate.

RIGHTS OF FIRST REFUSAL

Local authorities have the right 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 can a purchase agreement be registered with the Land Register and ownership transferred to the buyer. In addition, specific regulation covers execution of rights of first refusal to agricultural land, whereby for example the Latvian Land Fund and the lessee of a particular land plot have rights of first refusal. Rights of first refusal are not limited to municipalities exclusively. Under specific circumstances rights of first refusal may exist in relation to property located in a special economic zone, a nature protection zone, a harbour territory, or where the property is a cultural monument of state significance. Rights of first refusal may be also agreed upon between the parties or established by law in other cases. Should the building and the land plot have different owners, the owner of the building situated on the land plot to be sold has a right of first refusal to the land plot, and vice versa. Additionally, co-owners of real estate have rights of first refusal to the ideal part of immovable property being sold

Generally, rights of first refusal are exercised within 2 months after the purchase agreement is delivered to the persons entitled to those rights. Local authorities must decide on exercising their right of first refusal within five to twenty business days (depending on the type of real estate) after receiving the purchase agreement.

A person with a right of first refusal, such as a co-owner of real estate, who is not given the chance to exercise their right, then acquires buy-out rights. These entitle a person denied the possibility to exercise the right of first refusal to acquire the property from the new owner on the same terms.

TYPICAL PURCHASE PRICE ARRANGEMENTS

When arranging the purchase price, the parties usually agree to follow escrow account procedure. According to this procedure, during registration of the title to real estate neither the seller nor the buyer has access to the funds transferred to the escrow account. These funds are released only after registration of the buyer's ownership title with the Land Register and fulfilment of other conditions, if agreed by the parties (e.g. signing a deed of acceptance). In smaller transactions, the parties usually agree to deposit the funds with a sworn notary. As with the escrow procedure, the funds are transferred to the seller's bank account by the sworn notary after registration of the buyer's ownership title with the Land Register. If there is a mutual trust relationship between the parties, the purchase price may be directly transferred by the buyer to the seller after the ownership title registration.

RELATED COSTS

Sharing of costs incurred during real estate purchase is a matter of agreement between the parties. It is common practice that the buyer pays for state and stamp duties, whilst notary and escrow account fees are shared equally between the parties.

Generally, state duty amounts to 2% (with no ceiling) on either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. However, if an apartment property (including non-residential premises in apartment buildings) is purchased by a legal person engaged in commercial activities, state duty is 6%.

In addition, an index of 1.5 is applied to the state duty if registration of title is delayed by over 6 months from the moment a registration application is signed. Stamp duty for title registration is EUR 14.23. The notary fees may vary depending on the structure of the transaction, but if only two parties are involved, these costs are approximately EUR 100.

MERGER CONTROL

Transfer of real estate may require prior approval by the Latvian competition authority (Competition Council). According to the Competition Law, acquisition of assets or acquisition of the right to use such assets is considered a merger if it increases the market share of the buyer of the assets and usage rights in any relevant market.

The intended merger must be notified for approval by the Competition Council if the aggregate turnover in Latvia of the undertakings involved in the transaction exceeds EUR 30 million for the financial year preceding the concentration. However, if the aggregate turnover of each of at least two merger participants does not exceed EUR 1,500,000, then notification is not required.

The Competition Council may review mergers falling below these thresholds within twelve months after implementation if the parties' combined market share exceeds 40% of the relevant market and a significant impediment to effective competition is likely to be created. In case of uncertainty, the parties can file a voluntary notification or obtain a waiver from the Competition Council.

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

In transactions involving assets, note that several mergers among the same parties within a two-year period that result in one party obtaining some or all of – or the right to use – the assets of two or more other undertakings are treated a single merger occurring on the day the last merger takes place.

The filing fee for examining merger notifications in Latvia is EUR 2,000-8,000 depending on the aggregate turnover of the participants.

RESTRICTIONS

RESTRICTIONS ON ACQUISITION OF REAL ESTATE

Restrictions on real estate acquisition in Latvia apply to land plots. Foreigners from non-EU states should be aware of restrictions on acquisition of land in Latvia. Acquisition is restricted to certain areas such as coastal areas and heritage protection zones. Restrictions pertaining to use of real estate should also be checked beforehand.

ACQUISITION OF AGRICULTURAL LAND

Limitations apply to acquisition of agricultural land in Latvia. With no limitations, an EU or Latvian citizen or a citizen of the EEA or Switzerland can possess in total no more than 10 ha of agricultural land without additional restrictions. A natural person who wishes to acquire more than 10 ha of agricultural land must comply with the following:

- is registered as a performer of economic activity in Latvia;
- has no tax debt over EUR 150 in Latvia or their country of domicile;
- confirms in writing that after purchase of the land he or she will commence agricultural work on the land within one or three years depending on whether the particular land in the previous or current year has been a subject of direct payments;

- holds an EU citizen registration certificate and a certificate of Latvian language skills of at least level B2, if the person is a citizen of the EU, the EEA or Switzerland.

Stricter limitations are set for legal entities. Without any additional limitations a legal entity may possess in total no more than 5 ha of agricultural land. If a legal entity wishes to acquire more agricultural land, it must comply with the following:

- it is registered as a taxpayer in Latvia and has no tax debt over EUR 150 in Latvia or its country of domicile;
- all shareholders are either EU, EEA or Swiss citizens or citizens of other countries that have concluded agreements on protection of investments with Latvia;
- it can identify all its true beneficiaries, all of whom must be EU, EEA or Swiss citizens;
- confirms in writing that it will commence agricultural work on the land within one or three years depending on whether the particular land in the previous or current year has been a subject of direct payments;
- the owner of the share capital or owners of at least 50% of the share capital with voting rights and all those entitled to represent the legal person, being citizens of the EU, the EEA or Switzerland, hold an EU citizen's registration certificate and a certificate of Latvian language skills of at least level B2.

None of these restrictions apply to acquisition of agricultural and forest land whose permitted use is set as construction land under the territorial plan of the relevant municipality. Moreover, such land can also be acquired by non-EU citizens and legal entities without restrictions.

The maximum area of agricultural land that can be owned by a single person is 2,000 ha.

Unlike restrictions on acquisition of agricultural land, no similar restrictions (area, language skills etc.) apply to EU citizens and legal entities that wish to acquire land plots in urban areas in Latvia.

ACQUISITION OF A LAND IN URBAN AREAS

Citizens of – and companies registered in – the European Economic Area or Swiss Confederation may acquire land plots in urban areas. They must comply with the requirements imposed on citizens of the EU or companies registered in the EU (companies must likewise be registered as taxpayers in Latvia). However, this only applies to acquisition of land. This means that apartments or buildings may be acquired without further restrictions and limitations unless the land beneath them is included in the deal. In most cases, however, ownership of an apartment also comprises an ideal part of a land plot co-owned by all apartment owners in the building.

Likewise, restrictions apply to foreigners for land in state border areas and special protection zones.

ENCUMBRANCES

Real estate may be encumbered with servitudes, rights of first refusal, lease rights registered with the Land Register, mortgages, protection zones, and other encumbrances. Any encumbrances should be considered prior to acquisition of real estate. Depending on the intended use of the property – eg, construction – legal, technical and environmental due diligence may also have to be performed beforehand.

MORTGAGE

Purchase of real estate is often financed by third party (eg bank) loans, with the lender requiring security in the form of a mortgage.

In order to register a mortgage on real estate, a loan and mortgage agreement must be concluded. An application to register the mortgage with the Land Register must be signed in the presence of a notary public and state duty of 0.1% of the loan value must be paid as a registration fee. The Land Register registers the mortgage within 10 days as 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 of the owners of the building, namely, apartment owners. In comparatively small buildings, maintenance is usually performed 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 the legal relationship between those involved in the management process, such as managers, owners of residential buildings, and others.

The management structure of residential buildings depends on the ownership structure.

LEASE AGREEMENTS

GENERAL

General terms for lease and tenancy agreements are laid down in the Civil Law and the Law on Residential Tenancy. The contents of lease and tenancy agreements are agreed upon by the parties. Lease agreements involving non-residential real estate remain binding on new owners only if registered with the Land Register. If the lease is not registered, the new owner has the option to unilaterally terminate the agreement. Should the new owner exercise the option, the tenant is entitled to compensation from the previous owner for premature termination of the lease agreement.

At the same time, the Law on Residential Tenancy protects the rights and interests of tenants. Residential tenancy agreements are binding on new apartment owners under the Law on Residential Tenancy without registration in the Land Register. Nevertheless, only permanent residents of Latvia and individuals who reside in Latvia based on a temporary residence permit may claim protection under this rule. If the draft law on Residential tenancy is passed, then only registered tenancy agreements will be binding on the new owner. However, due to the legislative process the final wording of the draft law cannot be predicted with much certainty.

DURATION AND EXPIRY OF LEASE AGREEMENT

The term for lease or tenancy agreements is usually set in the agreement. Latvian law allows the lease to be set for either a specified or an unspecified term. As for termination of a commercial lease agreement, Latvian law lays down only general rules. More specific provisions on termination are prescribed under the Law on Residential Tenancy, which aims to protect the interests of tenants. Hence, options for unilateral termination by the owner of a residential tenancy agreement are limited. Unilateral termination is allowed only in cases explicitly stated by law, for example, when the tenant is damaging the apartment or the apartment building, the tenant owes rent or payments for basic services, or if the tenant sub-leases residential space without the owner's consent. Unilateral termination of the tenancy agreement does not entitle the owner to arbitrarily evict the tenant. Unilateral termination of the tenancy agreement is also allowed if capital repairs or demolition of the building are necessary. However, in that case the owner must offer the tenant equivalent residential premises.

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES)

Latvian law sets no specific procedure for payment of deposits or for paying rent in the case of a lease. As regards residential tenancy, there are regulations that govern calculation of rent payments; however, the existence of these regulations does not preclude parties from freely agreeing the amount of rent.

Accessory expenses include payments for maintenance and utilities, such as water, gas, electricity and heating. The tenant usually pays these in addition to rent. In practice, a security deposit 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, by failing to pay the rent. A security deposit that is not used due to breach of the agreement is applied to the rental payment for the last months of the tenancy or returned to the tenant after expiry of the tenancy agreement. Obligations of the tenant may likewise be secured by a bank guarantee.

PPP & INFRASTRUCTURE

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

INVESTMENT FUNDS AND REAL ESTATE

The Latvian Investment Management Companies Law regulates the 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 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 member countries, or elsewhere as set out 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 an investment fund may not be managed by the investment management company itself and so will probably be managed by a professional real estate management company.

PLANNING REQUIREMENTS AND CONSTRUCTION

PLANNING

Municipalities in their territorial planning documents set the permitted use of each land plot located in their territory. The permitted use sets forth the possible ways in which the land plot can be used (i.e. for construction of residential buildings or factories). Territorial planning documentation also specifies the requirements for construction. Certain territories must have a detailed plan produced (this takes 6-12 months) before they can be developed.

CONSTRUCTION

A construction permit is issued right at the beginning of the construction process. In order to obtain a construction permit, the applicant must develop a building design meeting minimum requirements and file it with the local construction board. If construction of the proposed building is feasible, the construction board issues requirements and conditions for design. However, the building permit itself does not serve as a basis for carrying out construction works. Construction itself can start only when all the requirements and conditions in the construction permit are fulfilled and accepted by the Construction Board.

ACQUISITION OF DISTRESSED ASSETS

Distressed real estate can be acquired on the basis of a voluntary agreement between the parties, during proceedings for compulsory enforcement or during insolvency proceedings concerning the owner of real estate. In any case, acquisition of distressed real estate is more complex, which means that thorough due diligence is necessary as the possibility of problems is much higher. For example, where an owner is in financial difficulties, their real estate may be managed and maintained poorly or the validity of construction documentation might have expired.

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

Acquisition of real estate during insolvency proceedings is also usually done by 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. However, since in most cases real estate is mortgaged, mortgaged real estate can be acquired without an auction if the secured creditor(s) and the insolvency administrator agree.

OBTAINING A TEMPORARY RESIDENCE PERMIT

A temporary residence permit can be obtained for up to five years if a third-country national acquires one real estate object with a value of at least EUR 250,000 in Riga, Jurmala, and surrounding regions, or acquires no more than 2 real estate objects outside those territories with a total value of at least EUR 250,000 (assuming that the total cadastral value is not less than EUR 80,000 or not less than EUR 40,000 for each real estate object if two real estate objects are purchased outside Riga, Jurmala and their surrounding regions). If the cadastral value is lower, then a certified real estate appraiser must confirm that the market value of the real estate(s) is at least EUR 250,000. In order to obtain a temporary residence permit, the third-country national must pay a state fee of 5% of the real estate purchase value.

An application for a temporary residence permit is issued only for transactions involving purchase of real estate functionally related with buildings. Transactions with agricultural or forest land or vacant land plots do not qualify for the grant of a temporary residence permit.

A third-country national with a valid Latvian temporary residence permit may enter and reside in Latvia at any time during the permit's validity period. Moreover, a Latvian temporary residence permit enables a third-country national – without obtaining additional documents or undergoing registration – to travel and reside in other Schengen Area countries for a period not exceeding the term set by national regulations of each such country.

OBER HAUS

EXECUTIVE OFFICER IN ESTONIA

Tarmo Kase
Ober-Haus CEO, Estonia General Manager

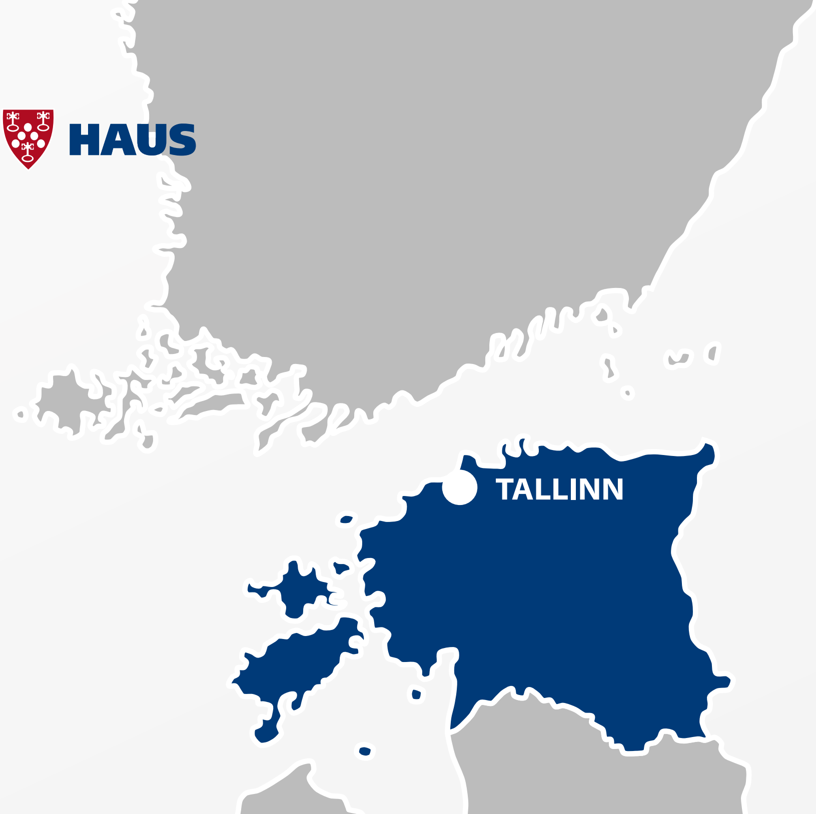
+372 665 9700
+372 501 2629
tarmo.kase@ober-haus.ee
Narva road 53, Tallinn

Ober-Haus was established in 1994 and has now three offices in Estonia located in Tallinn, Tartu and Jõhvi with more than 61 real estate experts working across them. Our professional team provides a wide range of real estate services such as residential and commercial real estate mediation and advisory services, property valuation, real estate consulting, property management and market research and analysis.

ESTONIA

OBER HAUS

COUNTRY OVERVIEW



GEOGRAPHY & SOCIAL

Coordinates:	59 00 N, 26 00 E
Area:	45,200 km^2
Border countries:	Latvia, Russia
Capital:	Tallinn
Ethnic groups:	Estonians 69.0%, Russians 25.5%, Ukrainians 2.0%, Belarusians 1.1%, Finns 0.8%

CURRENCY

Currency:	Euro (EUR)
Since:	January 1, 2011

2019 FORECAST

GDP annual growth, %	3.0
GDP per capita, €	18,200
Private consumption annual growth, %	3.7
Average annual inflation, %	2.9
Unemployment rate, %	5.1
Average monthly net salary, €	1,123
Average salary growth, %	6.3
Retail sales growth, %	1.0
Exports annual growth, %	3.0
Imports annual growth, %	4.0

POPULATION	2013	2014	2015	2016	2017	2018
Estonia	1,318,000	1,314,500	1,315,000	1,315,900	1,315,700	1,319,100
Tallinn	406,000	411,000	414,000	423,500	426,500	430,800
Tartu	99,500	98,500	97,500	94,000	95,700	96,500
Narva	60,000	59,000	58,600	58,200	57,130	56,100

ECONOMICS	2013	2014	2015	2016	2017	2018
GDP growth, %	1.7	2.9	1.5	2.1	4.9	3.9
GDP per capita, €	14,300	15,030	15,400	15,500	17,475	17,840
Private consumption growth, %	3.8	4.8	4.7	4.4	2.6	4.6
Average annual inflation, %	2.8	-0.1	-0.4	0.1	3.4	3.4
Unemployment rate, %	8.6	7.4	6.6	6.9	5.8	5.6
Average monthly net salary, €	757	799	859	924	986	1,056
Average salary growth, %	7.2	5.5	7.5	7.6	6.7	7.1
Retail sales growth, %	6.2	6.5	7.0	5.0	1.5	1.0
Exports annual growth, %	2.6	3.1	-0.6	4.1	3.5	4.3
Imports annual growth, %	3.1	2.1	-1.4	5.3	3.6	6.1
FDI stock per capita, €	12,126	12,916	13,269	13,537	14,604	15,924

SOURCE: ESTONIAN DEPARTMENT OF STATISTICS, MINISTRY OF FINANCE OF ESTONIA

ESTONIAN ECONOMIC GROWTH IS ONE OF THE FASTEST IN THE REGION

The Estonian economy grew by 3.9% in 2018 and is expected to grow by 3% in 2019. One reason for the slowdown in growth will be that fewer people are entering the labour market. Another reason is the problem of competitiveness at companies, which is indicated by a decline in Estonia's market share in the main export markets. The growth in labour costs in Estonia has been among the fastest in Europe, which has hindered the export of Estonian products, as prices for Estonian exports are rising faster than those of competing products. The share held by Estonian exports in the markets of Estonia's main trading partners first started to shrink in 2017, while the economies of those countries were doing exceptionally well and growth was fast.

Labour shortages are causing wages to keep rising in Estonia, which is making production ever more expensive. As the full impact of rising wages is only felt after some years, the deterioration in competitiveness casts a shadow over the years ahead. Rapidly rising wages will force Estonia to abandon low-productivity manufacturing.

Relatively more people are employed in manufacturing in Estonia than in the other two Baltic states, and productivity is lower in manufacturing than in other branches of the economy. This means that there is still quite a lot of low-productivity production in Estonia, and this will be forced to close if labour costs continue to rise in the coming years. Industrial sectors with low productivity have already lost workers, and this trend is likely to continue. The movement of workers to jobs with higher productivity will overall have a beneficial effect on the economy. The economy as a whole would suffer though from a climb in wages if the main movement was purely to jobs with higher wages but where productivity and pay were not aligned.

The minimum wage in Estonia was increased to €540 starting January 1, 2019. The minimum wage has increased by over 25% since the beginning of 2016.

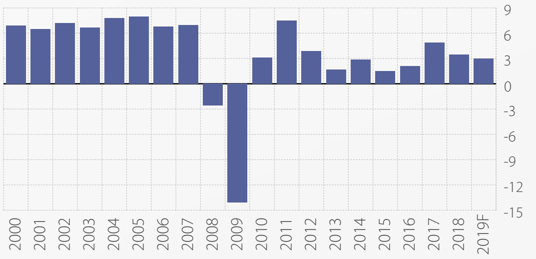
Gross wages increased by 8.9% in Estonia in Q4 2018 (compared to Q4 2017), to €1,384 per month before taxes. The average monthly net salary after-tax wages in Q4 2018 was €1,167. Salary growth in 2019 is expected to be 6.3%.

Despite the slower growth in the economy, tax receipts in Estonia will be higher than usual and so it would be reasonable for the government to plan its spending up to 2021 with a budget surplus. This would allow reserves to be built up during the good times that could be used to stoke the Estonian economy during the downswing of the economic cycle.

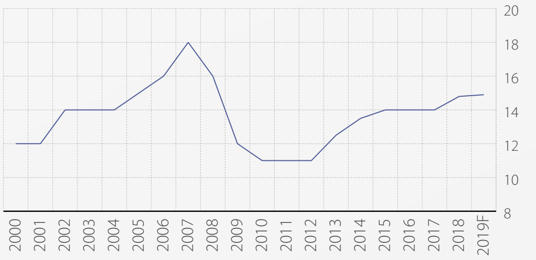
Unemployment was 5.6% in Q4 2018 and it is expected to decrease to 5.1% by the end of 2019.

Inflation is falling in Estonia, mainly because of taxes and energy. Inflation peaked in 2018 and from 2019 it will be close to 2%. Although the peak of the economic growth cycle has been passed, the tightness of the labour supply will keep wage growth fast and will boost prices of services in particular, and also of goods. Equally, the substantial impact on overall inflation seen in earlier years from tax rises will fade and higher energy prices will not affect the cost of the consumer basket as much as previously.

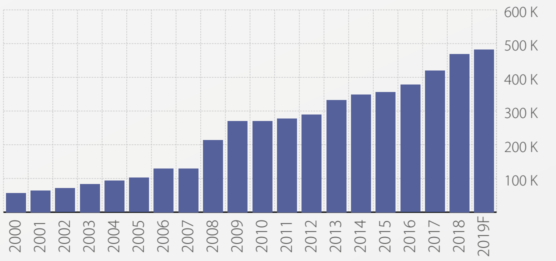
GDP GROWTH, %



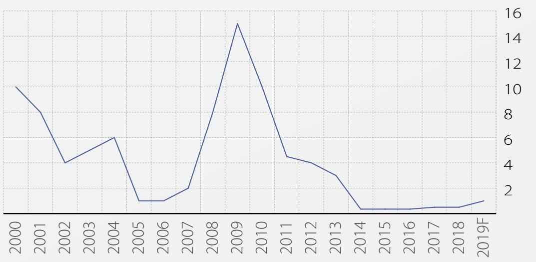
A CLASS OFFICE RENTS, €/SQM



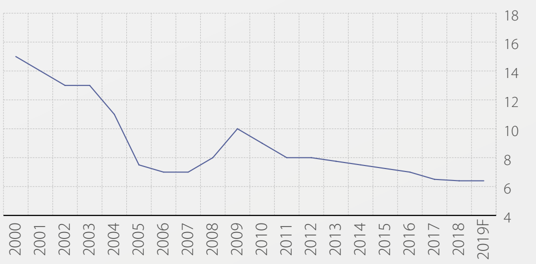
TOTAL A CLASS OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2018)

TOTAL OFFICE SPACE	1,030,000 SQM
A CLASS OFFICE VACANCY RATE	~ 0 %
B CLASS OFFICE VACANCY RATE	5.0 %
TOP OFFICE RENTS (SQM / month)	€18.00 - €20.00
A CLASS OFFICE RENTS (SQM / month)	€13.00 - €16.50
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €11.50
ADDITIONAL OFFICE COSTS (SQM / month)	€2.00 - €4.50

DEMAND AND SUPPLY GROWING

SUPPLY

The most active post-crisis office space developments are taking place in Tallinn due to the demand for higher quality and well-located premises. In total 11 new projects were completed in 2018 bringing almost 80,000 sqm of office space to the market. After completion of these projects, the total area of modern office premises grew by almost 9% to 1,030,000 sqm at the end of 2018.

It is expected that in 2019-2020, at least 10 new office projects should be completed in Tallinn; this will add up to 100,000 sqm of new office space to the market.

The development of office space is concentrated on the outskirts of the city centre, along the roads going out of the city, like Tartu Road, Pärnu Road, Järvevana Road and in Ülemiste City.

The design project of the largest office complex in Estonia has started; a total of 49,000 sqm of A class office and commercial space. The plot is located in the CBD, opposite the Radisson Hotel Olümpia. Construction is planned to start in 2020 and the first phase will be ready in 2022. The planned investments will be around €100 million. Merko is the developer.

DEMAND

The vacancy of A class spaces is close to zero, and for the B class spaces it is about 5%. Most of the potential customers for A class office spaces are linked to foreign companies and their representative firms, IT, medicine, financial companies. The vacancy rate in lower quality and less desirable locations is rising, and owners are being obliged to invest in their properties in order to retain their tenants or to amend the functionality of their buildings.

The sale and purchase market in office space is more fluid in the centre of the city, as in secondary locations companies prefer to rent. Deals have been done depending on the location, with prices commonly ranging from €1,000 to €2,200 per sqm. In a few projects in the centre of Tallinn, prices have been between €2,200 and €3,500 per sqm.

RENTS

The growing demand for modern offices has raised the A class rents in Tallinn by 5-10% in 2018, but the B class rents did not change.

At the end of 2018 rents are €13.00–€16.50 per sqm for A class offices and €8.00–€11.50 per sqm for B class offices. The rents of single smaller exclusive A class offices are up to €18.00–€20.00 per sqm. In the suburbs, rents for offices in less desirable locations and in older buildings are €5.00–€7.00 per sqm per month. Ober-Haus expects that the rents will remain steady during 2019.

INVESTMENTS

In 2018, investors in general were interested in properties in Tallinn with a good location and solid tenant structure, which guarantees a stable cash flow. In general investors are looking for prime properties with yields of at least 6.5-7.0%.

EfTEN Kinnisvarafond II AS has bought the Marienthal Centre complex in Tallinn's Kristiine district from AS Gildhall. The Marienthal Centre was completed in 2008 and contains more than 13,000 sqm of rented space and 580 parking spaces. It also houses 26 long-term tenants that includes anchor tenants such as Coca-Cola, Fujitsu and Selver. The transaction price was €28.5 million and yield ca 8% (with additional construction permit).

Rondam AS bought a 14-storey office building in Tallinn CBD in Q2 2018. The building was completed in the autumn of 2009, total area 15,000 sqm; the main tenant is Luminor Bank. The seller was Arealis Holding, and the transaction price was more that €30 million.

Eften Real Estate Fund IV bought the Kadriorg Business Centre in Tallinn. Located on the Narva Road, it is a four-building complex built in 2016, with almost 6,600 sqm meters of fully leased commercial space fully. There are 116 parking spaces in the underground parking lot, and the net area is 11,200 sqm. The main tenants are Citadele Bank, Hurtigruten and Vienna Insurance Group.

Capital Mill bought an innovative A class, 5-storey office building with a total 6,000 sqm of office space, located on Järvevana Street in Q1 2018. The building was completed in Q2 2018. The transaction price was €13.8 million with yields of ca 7%.

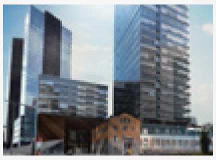
Fausto Capital bought the Eesti Meedia office building in Q2 2018; the building has development potential and is located at Maakri 23a in Tallinn. The 14-storey, 8,000 sqm office building lies in the heart of Tallinn's CBD. Fausto Capital will start design work this year ahead of a transformation of the building into a class A office building. The transaction price was €13.8 million.

In Q3 2018 Capital Mill bought the newly completed office building located on Peterburi Street, in Tallinn. The building has s 14,000 sqm available for lease. The main tenants are Trade House and Ideal Auto. The transaction price was €18.6 million, yield – 7.5%.

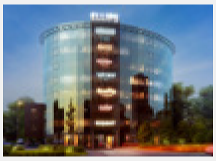
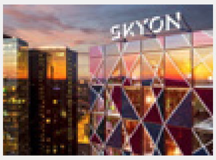
LEGAL NOTES BY SORAINEN

Rents are usually payable monthly in advance. Payment of rent in advance for more than one month is not customary. Tenants generally pay for their utilities based on actual cost, invoiced by the owner after use. Rents are typically indexed to local inflation. Triple net leases are common for commercial properties. The concept of sinking fund is increasingly rare. Usually normal wear and tear of the premises is at landlord's cost. Quite commonly, payment of rent and costs is secured, eg by rent deposit, bank or mother company guarantee. Leases survive transfer of property title. If the new landlord was not aware of the lease and the lease was not registered with the Land Register, the new landlord obtains the right to terminate the lease within three months as of becoming the owner. In recent years, asset deals have become more common than share deals.

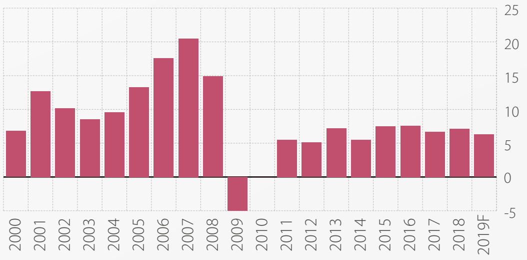
RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**VALUKOJA STREET 8 (ÕPIKU MAJA)** – A 13-storey A class office building, one of the largest in Estonia and the Baltics, was built in Ülemiste City, with a total area of 46,500 sqm, consisting of two parts, both of which include 14,750 sqm of office space. This impressive new office building is named after the internationally recognised academic and founder of the Estonian astronomy school, Ernst Öpik. The building has a B energy rating and meets the requirements for a LEED Gold certificate. Most of the premises have been rented out, at rents of between €12.50 and €15.00 per sqm. The anchor tenants are ABB, Cleveron, Skeleton and AGA. The first stage with 14,750 of GLA was completed in Q4 2016 and the second stage was completed in Q4 2018. Developed by Mainor Ülemiste.	14,750 (II stage)	Q4 2018 (II stage)
	**MAAKRI STREET 19/21** – The so-called Maakri Quarter complex of A class office buildings located in the heart of Tallinn´s CBD, has been completed with a total area of 36,000 sqm, of which 14,000 sqm is office GLA. The complex consists of a 30-storey, a 10-storey and a 4-storey building. In addition, 4 historic buildings in the neighbourhood were restored. A total of 3,000 sqm are planned as a retail and catering area and there will be 167 parking spaces. The main tenants will be OP Bank, Seesam Insurance and Eften Capital. The office rents range from €14.00 to €30.00 per sqm. The project was completed in Q3 2018. The cost of the construction is €30 million. Developed by Taali Grupp.	14,000	Q3 2018
	**JÄRVEVANA 7B** – Hepsor is building an innovative A class, 5-storey office building with a total 6,000 sqm of office space, close to the park and to the recently reconstructed main motorway. The office rents range from €10.50 to €12.50 per sqm. The building was completed in Q2 2018. Developed by Hepsor Kinnisvara.	6,000	Q2 2018
	**KOHTUMAJA (COURT HOUSE)** – A 7-storey office building was built as per tender from State Real Estate Ltd. next to Tartu Road 83 at Lubja Street, located at a logistically convenient location and will house Harju County Court, the northern district Prosecutor's Office and the Centre for Registries and Infosystems. The total area of the building is 25,000 sqm, of which 20,000 sqm is office space; the building was completed in 2018. The final cost of the building was €29 million. Developed by Riigi Kinnisvara.	20,000	2018
	**ALEXANDRE LIWENTAAL BUILDING** – Technopolis Ülemiste the developer of Ülemiste city – a business campus located in the vicinity of the airport and Tallinn city centre – invested €13.6 million in a new 13-storey A class office building in this area. The rentable area is 9,100 sqm and there is parking for about 430 cars. The building will be LEED Gold certified; the building is named after Alexandre Liwentaal for its environmental sustainability. The project was completed in Q2 2018.	9,100	Q2 2018
	**WOHO** – A 14-storey, multifunctional, A class office building located next to Telia's office building near the centre of Tallinn. The total area of the building is 12,600 sqm of which 5,500 sqm is office space; floors 10 to 14 are apartments with spectacular views. The anchor tenant is IT company Pipedrive. The total investment was €11.7 million. Developed by Ekerepol. The building was completed in Q4 2018.	5,500	Q4 2018
	**European IT Agency** – A 4-storey office building with 4,400 sqm of office space was built for the European Agency for the Operational Management of large-scale IT Systems (eu-LISA) in the rapidly developing waterfront area near Tallinn city centre. The building was completed in Q3 2018 and the project cost €8.8 million. The contracting authority is the State Real Estate Company, Riigi Kinnisvara AS.	4,400	Q3 2018

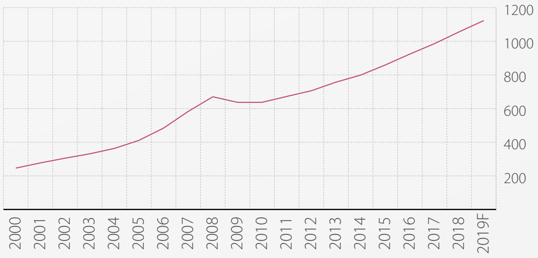
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**TARTU ROAD 80A/80B** – An A class office building with total leasable area of 13,000 sqm, of which 8,000 sqm will be offered as offices, will be built close to one of the largest traffic junctions in the centre of Tallinn and the emerging multifunctional Zelluloosi Quarter, whose anchor tenant will be Eesti Meedia. The building will be completed in the summer of 2019; developed by Fausto Grupp.	8,000	Q3 2019
	**PORTO FRANCO** – Next to the so-called Admiralty pool located in the immediate vicinity of both the harbour of Tallinn and the Old Town, Porto Franco is a business and commercial complex with a seaside promenade, a unique glass roof and an internal street. There will be around 30,000 sqm of office space. The offices will have panoramic views and high ceilings. It is also planned to have various commercial outlets, cafés and restaurants in the centre. In addition, there will be an underground parking facility for 1,250 cars. Rents range from €14.00 to €18.00 per sqm. Total cost of the project is €190 million. The office complex should be completed by 2020. Developed by Porto Franco.	30,000	2020
	**OVAL HOUSE** – An 8-storey A class office building will be constructed in a fast-developing area near the city centre of Tallinn. The ground floor will be given over to parking, the first floor will be given over to retail premises and floors 2 to 8 will be office spaces. The total area of the building is 8,900 sqm, of which 6,100 sqm is office space. The rents range from €11.00 to €12.50 per sqm. The building will be completed in Q2 2019. Developed by Fund Ehitus.	6,100	Q2 2019
	**ELLIPSE HOUSE** – An 8-storey A class office building will be constructed in a fast-developing area near the city centre of Tallinn next to the Oval House project. The ground floor will be given over to parking, the first floor will be given over to retail premises and floors 2 to 8 will be office spaces. The total area of the building is 6,900 sqm, of which 4,800 sqm is office space. The building will be completed in 2019/2020. Developed by Fund Ehitus.	4,800	2019/2020
	**SKYON** – 26-storey Skyon will be erected at Maakri Street, in Tallinn CBD. Skyon's architecture follows the Scandinavian examples, combining the grandeur of the city centre with functionality and practicality. GLA of the building is 8,200 sqm. The total rental space of the largest, 2nd-4th floors is 1,800 sqm and these are more suited to larger companies. Starting from the 5th floor, the building is in the shape of a tower and the standard rental area of a floor starts from 300 sqm. The building will be completed in 2020. Developer is Capital Mill.	8,200	2020
	**VIKTOR PALM BUILDING (SEPAPAJA 1)** – the developer of Ülemiste city located in the vicinity of the airport and Tallinn city centre is investing €25 million in a new 12-storey A class office building in this area. The rentable area of the office space is 10,800 sqm. The new parking garage will be completed at the end of 2019 and the office building will be completed in Q2 2020. Developer is Technopolis Ülemiste AS.	10,800	Q2 2020

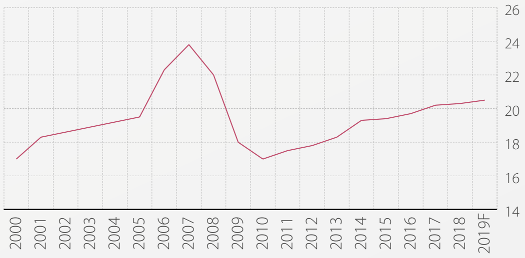
AVERAGE SALARY GROWTH, %



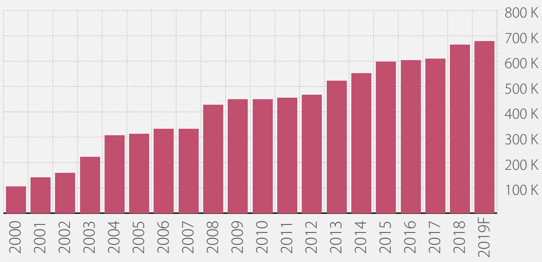
AVERAGE NET SALARY PER MONTH, €



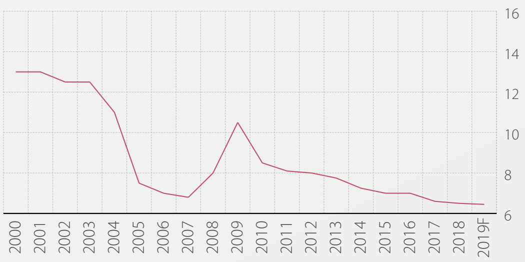
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELD, %



TALLINN SNAPSHOT (END-2018)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	665,300 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.45 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€8.50 - €13.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€13.00 - €20.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€35.00 - €70.00
HIGH STREETS RENTS (SQM / month)	€20.00 - €40.00

MARKET BECOMING SATURATED

SUPPLY

In 2018, one large retail project was opened in Tallinn. In Q4 2018, Pro Kapital, a well-known real estate developer, opened the shopping centre, T1 Mall of Tallinn. It has 55,000 sqm of leasable space.

At the end of 2018, there were 42 traditional shopping centres (including those with over 5,000 sqm of GLA and over 10 tenants) with a total leasable area of 665,300 sqm. Tallinn currently has 1.45 sqm of shopping centre per capita.

At the end of 2018 Selver opened a supermarket in Põhja–Tallinn district and Rimi opened a supermarket in Lasnamäe district. All the biggest retailers – Coop, Selver, Maxima, Rimi and Prisma have continued the development of their supermarket-type schemes in populated areas.

Construction of the Porto Franco shopping centre complex and extension of the Ülemiste and Kristiine centres continued in 2018. A construction permit is being sought for an entertainment and shopping centre called Tallink City. But there is still no indication of when these construction works will start.

In addition, existing centres like Tallinna Kaubamaja Group, Rocca al Mare and Lasnamäe Centrum are planning expansions.

However, such high volumes of retail space are considered unsustainable and it is thought likely that some projects may be postponed to a later date.

The international grocery chain, Lidl, which has bought plots in Tallinn and elsewhere in Estonia, is coming to the market in Tallinn in 2020.

A recent trend among shopping centres is the addition of entertainment outlets on the premises (cinemas, restaurants, gyms).

An already well-developed retail property market in Tallinn, with a high ratio of existing retail space per capita, is the main reason behind delays in the development of new projects. In reality, rapid growth can only be achieved by higher purchasing power levels and an increasing population.

DEMAND

Private consumption continued to grow in 2018. The annual growth rate was 4.6% and the effect of this growth on the economy was substantial. The main reason behind this was the growth of real income (salaries). Wholesale volumes have been increasing since 2010.

In 2018, the shopping centre sector continued to display the same trends as in previous years. Due to high demand there were almost no vacant premises in the largest shopping centres in Tallinn, with a vacancy rate near zero at the end of 2018. The reason behind this is strong sales stemming from increased incomes.

For shopping centres, the main goal is to be different than the competition with different concepts, especially when it comes to the entertainment part. The main risk is that the rapid growth of retail space or the amount of space per consumer is growing faster than incomes and purchasing power, meaning that sales per unit of space will decrease. In addition, internet shopping has significantly affected consumption habits and there is a growing trend to buy convenience goods from shops nearer home rather than in a large centre.

RENTS

In 2018 no significant rents changes were recorded in the shopping centre sector overall. However, in shopping centres located at less desirable locations, pressure to reduce prices has been noted.

At the end of 2018 rents for medium-sized premises (150-300 sqm) in shopping centres ranged from €13.00 to €20.00 per sqm, smaller units – €35.00-€70.00 per sqm. Rents for anchor tenants run from €8.50 to €13.00 per sqm.

There were no significant changes in high street rents during 2018. On streets next to popular pedestrian zones the rents for retail premises were from €20.00 to €40.00 per sqm.

INVESTMENTS

In 2017, there was growing interest in investing in retail spaces in Tallinn, mainly due to the increasing volume of wholesale and favourable interest levels. However, investment has been limited by the lack of properties for sale. Investors are increasingly interested in middle and larger sized shopping centres with a stable cash flow and which are located in a desirable area where they can expect yields of at least 6.5%.

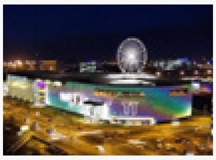
Swedish real estate investor, CA Fastigheter AB, signed an agreement with Baltic Horizon Fund to sell Postimaja Shopping Centre in Q1 2018. Postimaja is a modern shopping centre located in the heart of Tallinn, on Narva Road. The total current leasable area of Postimaja is over 9,100 sqm. The anchor tenants are Rimi, H&M, New Yorker, Omniva and MyFitness. The total purchase price paid upon completion of the transaction is approximately €34.4 million (plus VAT). The expected acquisition yield from existing cash flow is approximately 6.0% and the expected acquisition yield from the total purchase price is approximately 5.4%.

In Q2 2018 Lumi Capital acquired a commercial building located in Lasnamäe, in Kärberi street, in Tallinn. The anchor lessees are Selver, MyFitness, Pepco. The main strengths of the building are its good location in the centre of Kärberi district and well-functioning anchor lessees. The transaction price was €9.7 million and yield ca 7%.

LEGAL NOTES BY SORAINEN

Turnover-based rent is widely used. Rents are typically indexed to local inflation, although indexation is not always enforced. Marketing fees are typically charged, but even in the case of investment grade properties there is no standard approach as to the set-up and use of marketing funds.

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**T1 MALL OF TALLINN** – This shopping centre located at Peterburi Road is the newest and one of the largest shopping centre projects in Tallinn. The centre is located next to one of the most important and largest intersections in the vicinity of Sikupilli and Ülemiste shopping centres. The total area of the building is 130,000 sqm of which 55,000 sqm is retail space. The main tenant is Selver Hypermarket, with a total area of about 6,000 sqm. Total investment in this development was about €90 million (developer Pro Kapital borrowed €65 million from the international funding platform TSSP). The centre was completed in Q4 2018.	55,000	Q4 2018
	**KRISTIINE SHOPPING CENTRE** – In Q2 2018 Finnish operator Citycon completed renovation works in the Kristiine shopping centre. The major newcomer is O'Learys entertainment centre. Also centre's exterior and interior was updated. The total leasable area of the centre is now 45,500 sqm.	renovation	Q2 2018
	**PETERBURI ROAD 98 RIMI** – Located in a suburb near Tallinn Ring Road, the Lasnamäe district, and the Tallinn-Narva highway was completed at the end of 2018. The closed net area of the building is 3,900 sqm, of which 3,000 sqm are rented to Rimi and the rest to smaller tenants. The Peterburi Road Rimi is the 8th hypermarket in Tallinn and already 15th in the whole of Estonia. The developer of the commercial building is Capital Mill.	3,000	Q4 2018
	**KOLDE SELVER** – in Q4 2018 one of the largest retail chains in Estonia, Selver, opened a 3,500 sqm hypermarket next to the motorway connecting the two districts of Kesklinn and Põhja – Tallinn. Developed by Tallinna Kaubamaja Grupp.	3,500	Q4 2018

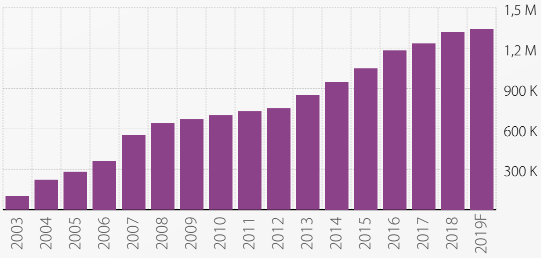
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**PORTO FRANCO** – The complex will have a seaside promenade and a unique glass roof and will be located near Tallinn Harbour, through which more than 10 million people pass every year. There will be about 35,000 sqm of retail space. The complex will have fashion shops, gourmet food, cafés, restaurant areas and a large hypermarket. There will also be an underground parking facility for 1,250 cars. The anchor tenant will be Prisma. The whole project will cost €190 million and is expected to open in 2020. Developed by Porto Franco.	35,000	2020
	**ÜLEMISTE CENTRE** – Located in the vicinity of the new T1 shopping mall, the centre will add an extra 13,000 sqm, with the main objective being the provision of entertainment. New tenants will include Apollo Cinema, People Fitness Centre, three restaurants and cafés, and several new stores. On completion of the expansion Ülemiste Centre will become Estonia's largest and most modern shopping and entertainment centre with 73,000 sqm of leasable retail area. The extension will be completed in Q2 2019 and total investments will reach €35 million. Developed by Linstow International.	+13,000	Q2 2019
	**PÄRNU ROAD 186** – located near the city centre and Järve shopping centre. This is a new commercial building with six storeys for offices and retail and a two-storey car park for 300 cars. Gross area 23,900 sqm, of which 3,500 sqm will be offered as offices and 12,000 sqm as retail. The main anchor tenant will be Ehituse ABC. The building will be completed in 2020. The developer of the commercial building is Silikaat Group.	12,000	2020

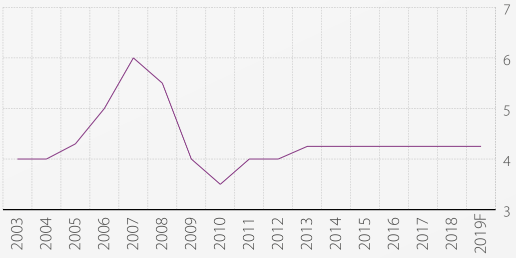
T1 MALL OF TALLINN

OBER HAUS

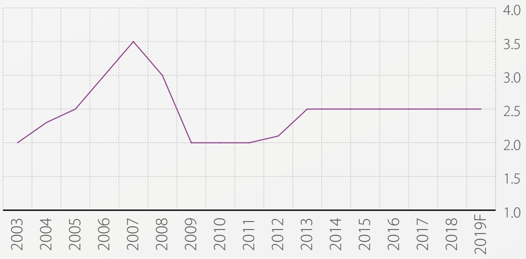
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



LEGAL NOTES BY SORAINEN

Most industrial properties are owner-occupied. Good-quality tenants are in short supply, as are sufficiently universal properties to create an investment market. Sale-leaseback arrangements are sometimes used.

TALLINN SNAPSHOT (END-2018)

TOTAL NEW WAREHOUSE SPACE	1,320,000 SQM
WAREHOUSE VACANCY RATE	4 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €5.00
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.00
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.00 - €1.20

DEMAND FOR STOCK-OFFICE TYPE OF PROPERTIES IS INCREASING

SUPPLY

Six new warehouse projects, with a total warehousing area of 86,300 sqm, were completed in Tallinn and its surroundings in 2018. Most of these projects were developed for own use. These projects increased the total leasable area of modern warehousing premises in Tallinn and Harju County to 1,320,000 sqm.

As these new developments took place exclusively for own needs, the warehousing sector has been fairly balanced in recent years when compared to the office and retail sectors.

So-called stock-office type premises, 300–700 sqm in size, in logistically attractive locations in the suburbs continued to be popular, because they allow businesses to combine their warehouse, office and retail needs.

In total seven new projects were completed in 2018 bringing 28,000 sqm of stock-office space to the market.

In 2019, at least two new projects with a total warehousing area of over 23,000 sqm should be implemented in Tallinn and the vicinity.

DEMAND

In 2018, customers showed growing interest in spaces located near Tallinn in Rae parish next to Tartu Road and the Tallinn Ring Road. So-called stock-office type spaces available at various locations in Tallinn were also popular.

In Estonia, the development of storage and production facilities is closely related to external demand and exports. As the economy grew and exports increased, the vacancy rate of warehousing premises in Tallinn region decreased to 4% in 2018.

Finding a tenant for B class spaces in secondary locations is still problematic, despite attractive prices. Owners of older storage and manufacturing spaces are increasingly obliged to invest in their properties in order to retain clients. Taking into account today's rental levels, it can be said that building new storage and manufacturing spaces without a definite tenant is not viable in view of disparate client requirements. In 2019 most projects will be developed mainly for own use.

RENTS

During 2018 rents for warehousing premises were stable in the Tallinn region. At the end of 2018, rents for new modern warehouses at the most attractive locations ranged from €4.50 to €5.00 per sqm. Near or outside the city limits, rents range from €3.50 to €4.50 per sqm. Renovated premises are being offered at prices from €2.50 to €3.00 per sqm. Average and poor-quality premises range from €1.50 to €2.00 per sqm. Additional costs for tenants are from €1.00 to €1.20 per sqm on average.

Rents in A class stock-office type smaller premises of up to 300 sqm in size vary between €5.5 and €11.0 per sqm depending on the proportion of office and warehouse space.

The country's economic growth and improving company performance indicators are predicted to underpin the vitality of the industrial sector. Ober-Haus forecasts an increase of 3% in warehousing rents in 2019.

INVESTMENTS

Over the past several years, local investors have been actively looking for suitable properties to purchase but the continuing expectations of owners to achieve high sale prices have served to constrain the market during 2018. In the current market situation, investors are expecting a yield of at least 7.5% from storage and production facilities in and near Tallinn.

In Q2 2018 Capital Mill bought the new 12,000-sqm production/warehouse building in Tallinn on Peterburi Road, which was completed in 2018. The anchor tenant is Eolane. The transaction price was €11.3 million.

Tartex Trading bought a modern 7,000-sgm production/warehouse in Pärnu on Kodara Street 7, which was completed in 2005. The seller was United Real Estate Fund MASF. Details of the current transaction have not been disclosed.

STOCK101

OBER HAUS

RECENT DEVELOPMENTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**VGP PARK NEHATU** – A logistics park with A class facilities in the vicinity of Muuga Harbour on the outskirts of Tallinn in a logistically favourable location has been developed in several stages. There are premises of different size on offer with options to install any necessary equipment (overhead crane, overhead travelling crane). A warehouse with a total area of 10,900 sqm was completed in 2017 and a building of 11,700 sqm was completed in 2018. Asking warehouse rents are €4.20-€4.50 per sqm.	11,700 (II stage)	2018 (II stage)
	**KÕRTSI STREET 7/9** – Custom-built storage facilities are being constructed next to Tartu Road in Rae parish near Tallinn. Rentable spaces range from 600 sqm, to be outfitted according to customers' requirements, for either office or leisure use. The building is being constructed according to modern European standards, ensuring high energy efficiency and significant savings on running costs when compared to older buildings of the same class. This modern building is heated by gas, includes a sprinkler system, drive-in ramps, a smoke removal system and electronic loading bays. The rents for storage areas are €4.50 per sqm plus additional costs. The first building of 7,500 sqm was completed in Q4 2017 and the second stage of 20,000 sqm in Q4 2018.	20,000 (II stage)	Q4 2018 (II stage)
	**ESTONIAN WIRE** – A 12,500 sqm production and warehouse building, commissioned by Eesti Traat, a manufacturer of various metal products, was built in Loo, a small town in the vicinity of Tallinn. In addition to the building, 23,000 sqm of hard-cover warehousing areas with utility networks were built. The building was completed in Q4 2018.	23,000	Q4 2018
	**OMNIVA** – Omniva, a national mail and logistics enterprise, has opened the largest modern logistics centre in the Baltics near Jüri. Total investment was around €10 million and there are 300 jobs. The French–Italian company Fives, which supplied and installed the world-class sorting line, also offers sorting technology to the world's largest logistics companies such as DHL, TNT, and FedEx. Omniva is planning to open their network of automated package machines across the Baltics. The 13,000-sqm building, was completed in Q4 2018.	13,000	Q4 2018
	**PETERBURI ROAD 47/49B** – Two multifunctional buildings with 14,000 sqm of leasable space (including 4,400 sqm office space, 9,000 sqm of warehouse space and some service spaces), and 12,000 sqm (including 3,000 sqm office space, 9,000 sqm of warehouse space and some service spaces), was built near Tallinn city centre in the direction of Peterburi Road. Rents for warehouses range between €5.25 and €6.00 per sqm and rents for office premises are €9.50-€10.00 per sqm. Tenants have been found for most spaces. The buildings were completed in Q3 2018 and the developer is Capital Mill.	9,000 + 9,000	Q3 2018
	**SMARTEN LOGISTICS** – The well-known logistics company built a logistics centre in stages in Rae parish, near the Tallinn–Tartu Road and Tallinn Ring road, in Rukki Technical Park. The third stage with 12,500 sqm of warehousing space was completed in Q3 2018.	12,500 (III stage)	Q3 2018 (III stage)

INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+372 665 9700**

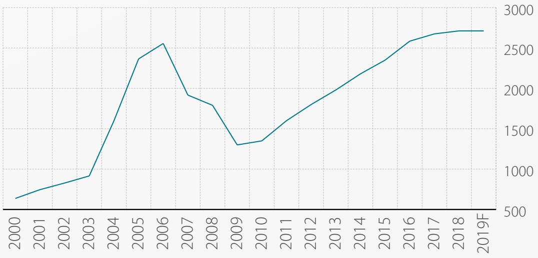
NEW PROJECTS

	DESCRIPTION	SIZE (GLA, sqm)	COMPLETION
	**SÄRA ROAD 11** – So-called stock office type premises will be built in in the vicinity of Tallinn in Mõigu industry park. The building being developed has a total 4,000 sqm of multifunctional office premises that allow office reception and warehouse premises to be combined under one roof. The rents are €5.90 per sqm plus additional costs of €1.60 per sqm. The 4,000-sqm building will be completed in Q3 2019.	4,000	Q3 2019
	**STOCK101** – A two storey stock-office-concept commercial building located near Tallinn city centre at Peterburi Road. Rental spaces include showrooms, offices and storage rooms — all under one roof with unit sizes from 280 to 325 sqm. The units can be easily linked to offer rental spaces of different size and shape from 280 up to 2,000 sqm. The building of 2,000 sqm will be completed in Q3 2019. Rents for warehouses €6.80 per sqm and for office premises €8.80 per sqm. Developed by Favorte.	2,000	Q3 2019
	**PÄHKLIMÄE ROAD 1** – built-to-suit-storage facilities are being constructed next to Tartu Road in Rae parish near the new Omniva logistic centre. Rentable spaces range from 1,500 sqm. This modern building is heated by gas, includes air-conditioner, climate control, compulsory ventilation, industrial power supply, meeting room. The rents for storage areas are €4.00-€4.50 per sqm plus additional costs of €1.40 per sqm. The 13,000 sqm building will be completed in 2019.	13,000	2019
	**EUGESTA LOGISTIC CENTRE** – The well-known distribution company is building a logistics centre in Rae parish, near the Tallinn–Tartu Road and Tallinn Ring road, in Rukki Technical Park. The logistic centre of 10,000 sqm will be completed in Q3 2019.	10,000	Q3 2019

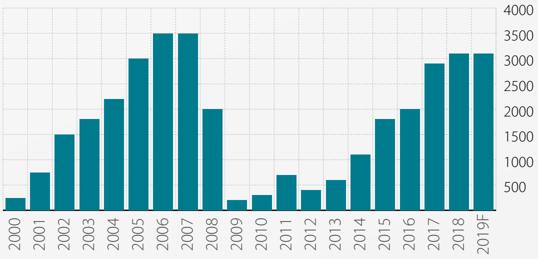
PÄHKLIMÄE ROAD 1

RESIDENTIAL MARKET RESIDENTIAL MARKET RESIDENTIAL MARKET RESIDENTIAL MARKET RESIDENTIAL MARKET RESIDENTIAL MARKET RESIDENTIAL MARKET RESIDENTIAL MARKET RESIDENTIAL MARKET

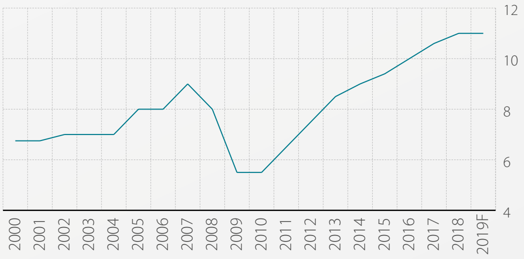
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



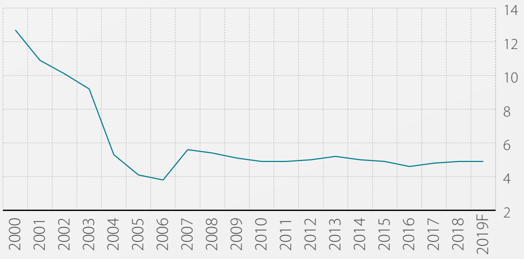
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2018)

ANNUAL APARTMENT PRICE CHANGE	+ 3.5 %
NEW APARTMENTS BUILT	3,100
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€1,100 - €1,850
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,700 - €2,500
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€2,300 - €5,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.9 %

BALANCED APARTMENT MARKET

PRICES

The average sqm price for an apartment in Tallinn increased by 3.5% in 2018 reaching €1,843 per sqm in December 2018.

Reasons behind the increased prices for apartments include: low interest rates, rising income levels, and the purchase of apartments for investment purposes. Another of the reasons behind such purchases is also energy efficiency (lower heating costs). Altogether 40% of the deals took place without a bank loan and overall 10-20% of the apartments were bought as investments.

New apartments cost €2,300-€5,000 per sqm in the city centre and €1,700–€2,500 per sqm in the residential districts.

Prices for apartments vary mainly according to location. Most transactions were in the city centre and involved apartments in good condition in modern or fully renovated buildings, with prices from €2,200 to €2,900 per sqm.

In buildings with the best views or special architectural features, prices can exceed €3,000 per sqm. Well-renovated flats in the Old Town cost from €2,800 to €4,500 per sqm.

In residential districts, most of the sales were for cheaper one or two-room Soviet-era apartments in need of renovation. These flats cost from €1,100 to €1,500 per sqm. Apartments in excellent condition situated in popular locations in residential districts cost €1,350 to €1,850 per sqm. Apartments in less sought-after locations are much less marketable, even if they are in good condition. In popular suburban locations like Pirita, Nõmme and Kakumäe, prices for modern apartments range from €1,800 to €3,000 per sqm.

RENTS

In 2018, rents for apartments in Tallinn increased by around 5% on average. Compared to sales prices, rental increases were lower due to the increased supply of new apartments on the market.

At the end of 2018, the average asking price was €10.00–€11.00 per sqm for rental apartments in the suburbs of Tallinn and €11.00-€12.00 per sqm in the city centre for old construction apartments.

The price of a new rental apartment in the city centre is €11.50–€20.00 per sgm, in the suburbs €10.00–€17.00 per sqm.

The price of a parking place may be included in the rental price of an apartment.

In the centre of the city, demand is highest for one or two-room furnished apartments, which rent for €450 to €550 per month, preferably with parking. Tenants pay their own utilities on top of the rent.

The most active rental market in Tallinn is in the city centre, as well as in Lasnamäe and Mustamäe districts. Usually the average rent term is 1 year. Contracts for longer than 3 years are not usually available.

There are no restrictions on the lease of apartments. Residential rents are usually fixed and not indexed; therefore, the term of a lease is relatively short. Costs for electricity, heating, etc are customarily excluded from the rent and have to be paid by the tenant. The renovation fund is usually also paid by the tenant, although according to the law it should be paid by the landlord.

Smaller furnished apartments of 15-25 sqm are the most sought after with a price range of €200–€300 per month. Smaller apartments tend to earn higher rental returns.

The gross rental yield of apartments in Tallinn in 2018 was around 5.0-6.0% depending on the location and the property. Owners generally negotiate rental agreements of short duration (up to one year) and check tenant backgrounds very carefully.

The demand for new apartments is high, as most of Tallinn's apartments were built between 1960 and 1990 and these apartments have high utility costs, especially heating. The growing rental market in Tallinn is driven by domestic migration, as due to unemployment elsewhere in Estonia, people converge on Tallinn. The population in Tallinn has grown by 50,000 during the last 10 years.

Smaller apartments are low risk investments that retain demand and the price level in terms of rental prices. There is constant demand for cheap, small and functional rental premises in Tallinn similar to many large cities, which is supported by constant growth in the population in Tallinn and neighbouring areas.

The majority of rental customers are students, young people, employees from other parts of Estonia and foreigners. Business customers account for around 20%. The popularity of rental apartments has grown, especially among young people.

The reason is greater mobility of people and movement of jobs, and in this regard, unwillingness to assume long-term financial commitments.

Lumi Capital and LHV pension funds started investing in rental apartment buildings in Tallinn. The first project will feature two apartment buildings in the Manufaktuuri quarter of Põhja – Tallinn, a popular residential district. There are plans for 127 one-, two- and three- bedroom apartments with a car park and a large courtyard. The project will be completed during 2019. The longer investment strategy of Lumi Capital and LHV is to build 500 rental apartments in different residential areas in Tallinn.

The Estonian private sector has not previously owned such a large rental apartment portfolio with buildings specially developed for rent. It is a good opportunity to provide residents with professional management and a wider range of additional services at a reasonable price.

One of the most important advantages for residents is that they can rent an apartment for as long as they need and the situation where residents must move out due to changing plans of owners will not arise (for example, sale of the property).

In Central Europe, and in neighbouring countries the concept of rental properties owned and managed by larger institutional owners is successful, for Estonia this is the first large development.

SUPPLY

In 2018, 3,100 new apartments were completed in Tallinn, compared to 2,900 new apartments in 2017. It is expected that developers will finish construction of 3,000-3,300 apartments in Tallinn in 2019. The residential development is also growing near Tallinn city.

At the start of 2019, there were apartments for sale in around 140 newly developed projects in Tallinn and in another 60 projects in the immediate vicinity of the city.

The largest apartment development project developed by Merko in Tallinn in the New Veerenni Quarter with a capacity of 1,600 apartments was started in 2018. It is planned to finish the first stage with 137 apartments by the end of 2019. At the same time, most projects are small and the development of larger projects takes place in stages. Clients primarily value smaller development projects located in or near the city centre. Kalamaja district which is located both near the sea and the city centre is a very popular district. The development of apartments is mainly undertaken by larger developers such as Merko, Endover, Fund, Metro Capital, Bonava and YIT.

DEMAND

In 2018, the number of apartment deals in Tallinn decreased by 1%, but the total volume rose by almost 7%.

In 2018, on average 250 new apartments were sold each month, which is 32% of all apartment transactions in Tallinn. Demand and supply are balanced; most apartments were booked and sold during the course of construction. However, apartments in some projects have been for sale for 3-5 years and developers have been obliged to lower prices to attract buyers. During the second half of 2018, the demand for larger and more expensive apartments has decreased, especially for properties with prices in excess of 250,000 EUR.

PRIVATE RESIDENCES

In 2018, the average price of private houses in Tallinn and Harjumaa rose 7%, the number of transactions decreased by 6% and the transaction volume increased by 1%.

The most desirable are new or up to five-years-old 130-180-sqm houses with modern technical solutions and economic heating systems. Prices range between €190,000 and €250,000. The increase in the price of such houses, depending on their exact location, has been 5-10% in 2018.

Most of the deals take place in Tallinn and up to 25 km from Tallinn, especially in Viimsi, Rae, Saue, Harku parish; the highest average price was in Rae and Viimsi parish.

An increase in price can be noted based on location, especially in the highly priced and well-established private residential boroughs of Tallinn (Nõmme, Kakumäe and Pirita) and in the parishes bordering Tallinn.

THE MORTGAGE MARKET

Loans are offered in euros and have maturities up to 30 years. The average mortgage interest rate for new borrowers at the end of 2018 was 2.45% (depending on the customer's financial standing). During the year average interest rates were between 2.30-2.60%. Clients can borrow up to 85% of a property's value with a standard contract structure and up to 90%, if they qualify for the housing guarantee programme.

The volumes of new mortgage loans and the total mortgage loan portfolio in Estonia have reached new heights. According to data from the Bank of Estonia, at the end of 2018 the total value of outstanding residential loans stood at €7.2 billion, the highest point historically. Currently in Estonia, the value of household loans is around 28% of GDP. This rate is one of the lowest compared to other EU countries (EU-28 average in 2016 – 47.1%).

Estonians increasingly take out mortgage loans, and loan volumes continued to grow in 2018. According to data from the Bank of Estonia, new mortgage loans worth €1.3 billion were provided in Estonia in 2018, an increase of almost 9% compared to 2017. In 2017–2018, new mortgage loans for an average of over €104 million were provided per month, which is 21% more than in 2016.

LEGAL NOTES BY SORAINEN

Residential leases are generally not subject to rent control. Some residential properties are owned by local government with subsidised rent. This will expand somewhat due to a new government programme funding construction of such buildings by municipalities. Eviction of tenants due to non-payment or even on expiry of the lease can be difficult. Possession of property is protected and even if termination is valid, summarily evicting tenants if they do not leave voluntarily is prohibited. In that case, a claim must be filed with the court for recovery of the premises from illegal possession and eviction is possible only by a bailiff based on a court decision.

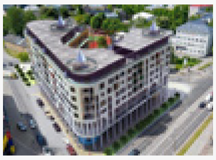
RECENT DEVELOPMENTS

	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**JOA STREET 9** – A residential complex with 30 apartments was built near Tallinn's most popular park, adjacent to the sea and the Presidential Palace. Each apartment will have a terrace or balcony with views of the park. Apartment prices range from €2,500 to €3,200 per sqm and storage space is included in the apartment price; parking spaces are available for €17,000. The building was completed in 2018. At the end of 2018 around 45% of the apartments had been sold or reserved. The selling agent is Ober-Haus.	€2,500 - €3,200	2018
	**VEGA RESIDENTS** – The renovation project of a former dormitory next to Tähesaju City business park in Tallinn's largest suburb, on Mustakivi Street. The 12-storey building has 297 apartments, prices range from €1,350 to €2,800 per sqm. Storage space and an outdoor parking space are available for €1,900. In addition, there is a playground, some apartments have balconies and terraces that offer views to the city and the sea. The building was completed in Q2 2018. At the end of 2018 around 220 apartments had been sold or reserved. Developed by Endover.	€1,350 - €2,800	Q2 2018

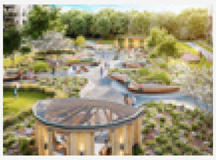
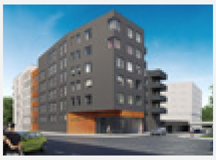
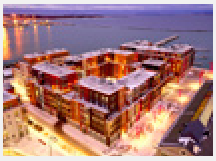
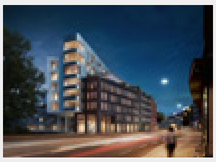
NOBLESSNER HOME PORT

OBER HAUS

NEW PROJECTS

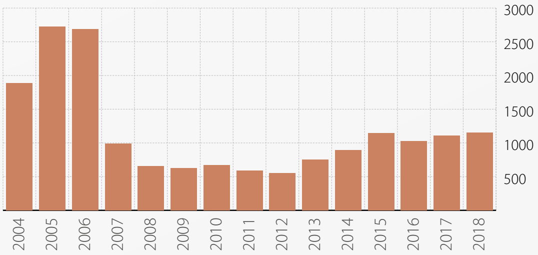
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**KADRIORU PLAZA** – This development project is a multifunctional development consisting both of commercial and residential areas making it the largest and the best-located complex in the centre of Tallinn. Located at the junction of Vilmsi and Gonsiori Streets and in close proximity to the Narva and Tartu roads, the Kadrioru Plaza commercial real estate centre is located within easy reach of every part of the city and primarily of the city centre itself. It has 4 floors of commercial space with 6,200 sqm leasable space and 5 floors of residential space with 97 apartments. Apartments on the top floors offer views to the city centre and the sea. There are 2 underground parking floors with 133 parking spaces and storage rooms for residents. Prices for the apartments range from €2,300 to €3,500 per sqm. The price of a parking space in the underground parking is €15,000; the price of a storage room is €3,000. This project will be completed in the middle of 2019 and is being developed by Bariot Group. Ober-Haus is the selling agent.	€2,300 - €3,500	MID-2019
	**NEW VEERENNI** – The New Veerenni Quarter is the largest single residential development area. The buildings are located at Veerenni subdistrict of Tallinn city centre. Over the next ten years, the project comprising ca 50 new residential buildings with more than 1,600 apartments will be contructed. The residential buildings will be energy class B. There will be an underground car park and intra-quarter roads will be constructed. Courtyards in the quarter will be landscaped and play and recreation areas established. The first phase of construction, which is due to be completed by the end of 2019, comprises 12 buildings with 137 apartments and 8 commercial premises. The sizes of the apartments remain between 35-118 sqm, and the price of a sqm remains between €2,150-3,250. Developed by Merko.	€2,150 - €3,250	Q4 2019
	**TOOM – KUNINGA TN 15** – A project consisting of 8-storey energy efficient residential buildings with B energy class located between the popular Uus–Maailma district and Tallinn city centre. The high – and low green zone between the street and the buildings creates a pleasant park-like atmosphere upon entering the area. There will be 109 apartments with balconies, terraces, high ceilings, storage room and underground parking. The prices range from €2,500 to €4,300 per sqm. This project is developed by Metro Capital and will be completed in 2020/2021.	€2,500 - €4,300	2020/2021
	**MÜNDRIKU RESIDENTS** – A residential project, consisting of 7 houses with underground parking facilities. The homes will be built near the sea between Jahu and Väike–Patarei Street in Kalamaja district, which is becoming an increasingly popular neighbourhood. In between the houses there will be leisure areas, a playground and private courtyards. The whole project with 94 apartments will be completed in 2019. Prices range from €2,850 to €4,000 per sqm; the price of a parking space is €15,000. Developed by YIT.	€2,850 - €4,000	2019
	**UUS-MUSTAMÄE** – Bonava will create a new neighbourhood with parks and green areas in Tallinn region of Mustamäe with 750 apartments. It will be one of the biggest and most modern housing projects in Mustamäe. The selling prices of apartments range from €2,050 to €2,600 per sqm and the prices of parking spaces range from €3,000 to €6,000. Total investment in the project is €60 million and the first stage of 99 apartments will be completed in 2020. At the end of 2018 almost 50% of the apartments from the first stage had been sold or reserved.	€2,050 - €2,600	2020

NEW PROJECTS

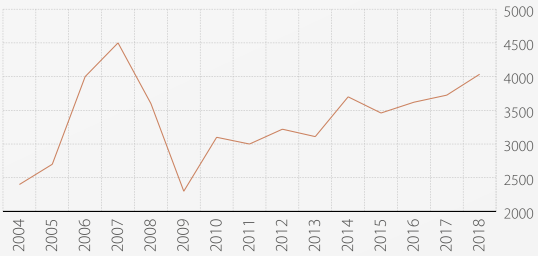
	DESCRIPTION	PRICE (per sqm)	COMPLETION
	**AURORA NOVA** – A residential project built near Lake Harku in the suburbs of Tallinn. Rocca al Mare Shopping Centre and Tallinn Zoo are in the vicinity. In total, 3 apartment buildings comprising 170 residential units will be built. The price range for apartments is €1,450-€3,100 per sqm including parking spaces and storage rooms. The whole project will be completed in 2019. Developed by Endover.	€1,450 - €3,100	2019
	**ARTE** – ARTE Gallery House is in one of Tallinn's most popular and quickly growing districts – opposite Telliskivi Creative City. In total there are 82 apartments with balconies, storage rooms and underground parking. The selling prices range from €2,350 to €2,900 per sqm and the parking spaces in the underground garage are priced at €12,500 each. This project will be completed in Q1 2019. At the end of 2018 around 65 apartments had been sold or reserved. Developed by Perton.	€2,350 - €2,900	Q1 2019
	**UUS-HOLLAND (NEW HOLLAND)** – Located between Tallinn Old Town and Kadriorg, the Uus-Holland residential district is a perfect combination of the convenience of a central location, modern architecture and a private living environment. Four apartment buildings with a total of 250 residential units will be constructed on the plot at Tuukri Street 1B. The sizes of the apartments are 27–147 sqm, with a price per sqm of €1,900-€3,950; the parking spaces in the underground garage are priced at €18,000 each. Two apartment buildings will be completed in 2019. At the end of 2018 around 62 apartments had been sold or reserved. Developed by Skinest Arendus.	€1,900 - €3,950 (I stage)	2019 (I stage)
	**NOBLESSNER HOME PORT** – An exclusive, centrally-located, seafront multifunctional project where all motorised traffic in the estate is underground. A marina, beach promenades, playgrounds, and light traffic routes will be built. There will be a total of 187 apartments and commercial premises. The price range for apartments is €1,700-€4,800 per sqm, and €16,000-€20,000 for a parking space in the underground car park. The complex will be completed in 2019. The developers are Merko and BLRT Grupp.	€1,700 - €4,800	2019
	**JÄRVETIPU PRIVATE HOUSES** – The largest development project of private houses in Tallinn is Järvetipu, located in Haabersti between Rannamõisa road and Harku lake. The project will be constructed in two stages. The total number of houses in the first stage is 28, the price range for houses is €340,000–€470,000 (147–203 sqm). Developed by BlueSky Project.	€340,000 - €470,000	2019 (I stage)
	**DAS HAUS** – An 8-storey building complex with 131 apartments and 25 offices is currently under construction next to one of the most desirable locations in Tallinn city centre. Apartments on the top floors offer views of the Old Town and the sea. The price range of apartments is €2,000–€5,500 per sqm, of offices is €2,300–€4,000. The most expensive, exclusive apartment costs €1.5 million. The price of a parking space in the basement is €21,000; the price of a storage room is €4,200. At the end of 2018 almost 50% of the apartments had been sold or reserved. The complex is being developed by Novira Capital and will be completed in 2019/2020.	€2,000 - €5,500	2019/2020

INTERESTED? For more information on these or other properties, contact Ober-Haus on: **+372 665 9700**

LAND TRANSACTIONS IN TALLINN CITY & DISTRICT



LAND PRICES FOR PRIVATE HOMES IN TALLINN SUBURBS, €/100 SQM



LEGAL NOTES BY SORAINEN

Generally, no restrictions exist on foreign natural or legal persons purchasing land. However, restrictions exist for agricultural and forestry land. All companies must meet certain qualifications or obtain a special permit to purchase over 10 ha of agricultural or forestry land. Non-EEA and non-OECD country citizens as well as legal persons must obtain a permit to acquire agricultural and forestry land. Further restrictions apply to non-EEA citizens for acquiring land in certain border regions or smaller islands.

Construction requires a permit issued by the local municipality. Construction must generally comply with local spatial planning, in particular detailed plans. In areas of dense population a detailed plan is usually required. Local municipalities often require developers to undertake to construct infrastructure as a condition for adopting a detailed plan. Some municipalities also require payments to social funds. When buying land for construction, the existing detailed plan must be thoroughly investigated to ensure its applicability.

TALLINN SNAPSHOT (END-2018)

ANNUAL LAND PRICE CHANGE (TALLINN AND HARJUMAA)	+ 9 %
TOTAL LAND TRANSACTIONS CHANGE (TALLINN AND HARJUMAA)	+ 2 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (SQM)	€300 - €1,000
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€50 - €300
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€50 - €100

SMALL, BUT STABLE GROWTH

In 2018, the number of transactions involving residential land in Tallinn and Harju County increased by 2%. The average price per sqm increased by almost 9%.

In the most popular residential areas in Tallinn the average price of land was €100 per sqm and, near the city, €30-€40 per sqm.

The increase in prices was biggest in Rae, Saku, Kiili, Harku and Saue Parish, which are located in the immediate vicinity of the city of Tallinn and are increasingly popular.

The prices of 1,000–1,500 sqm plots are €90,000–€170,000 in popular locations in Tallinn (Kristiine Pirita, Haabersti and Nõmme), €50,000–€90,000 near the city, and €20,000–€40,000 in other locations.

There is still little interest in residential lots without utility networks or with insufficient infrastructure, even at lower prices.

One of the biggest land deals in 2018 was Lidl´s purchase in Lasnamäe district in Tähesaju City. The land plot of almost 14,000 sqm is located in the Tallinn´s largest suburb in a very promising development area for retail development. The total purchase price was around €3.0 million.

OBER HAUS

ESTONIAN REAL ESTATE TAXES AND LEGAL NOTES

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 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 generally subject to VAT (unless the property is a building land or a new or significantly improved construction works).

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

- The state fee is 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;
- 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.).

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 building land, 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. Estonian has also implemented a domestic VAT reverse charge mechanism on certain sales of property between VAT liable companies.

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 required and the process should be managed carefully.

RENT

VALUE ADDED TAX (VAT):

As a general rule, rent of real estate is VAT exempt. Parties may opt to add VAT on rent, provided that the Estonian Tax Authorities are respectively notified in advance and in such case the notification is valid for at least 24 months. 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 20% corporate tax upon distribution of profits (calculated as 20/80 on the net amount of profit distribution). As of 2018, corporate income tax rate of 14% (14/86 on the net amount) is applied to regularly distributed profit. In case the recipient of the dividend is an individual, additional 7% withholding tax applies. The year 2018 was the first calendar year that was taken into account for the calculation of the average taxable distributed profit of the three preceding years. 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 20% income tax on the gross rental income by way of withholding, in case the rental payment is done by a company. WHT also applies when a company pays rent to resident and non-resident individuals.

PERSONAL INCOME TAX (PIT):

Estonian resident individuals pay 20% income tax on gross rental income. The taxpayer is allowed to deduct 20% of rental income received from a dwelling for covering the expenses related to the property, so the effective tax rate on rental income is 16%. These expenses do not have to be documented. Estonian non-resident individuals are allowed to use the same deduction by way of self-assessment to reduce the tax payable.

Resident individuals registered as sole proprietors are allowed to deduct expenses directly related to the rental income and thus pay 20% income tax on the net income. Such expenses must be properly documented and most often relate to loan interests, costs of repair works and commission fees. However, sole proprietors must also pay social tax in addition to the income tax on the net rental income.

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

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

SALE

VALUE ADDED TAX (VAT):

Transfer of real estate is generally exempt from VAT, but certain exceptions are in place. Transfer of a new or significantly renovated apartment or building or a building land, 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. There is also a domestic VAT reverse charge mechanism implemented on certain property sales. Transfer of shares in a real estate company is also generally exempt from VAT. However, transfer of shares in a real estate company is subject to VAT in case the real estate owned by the company is a new or significantly renovated apartment or building or a building land.

CORPORATE INCOME TAX (CIT):

Capital gains received by resident companies upon sale of real estate or shares in real estate companies remain untaxed until distributed as profits. Non-resident companies pay 20% income tax on the capital gain from the sale of real estate or shares in real estate companies by way of self-assessment. A company is deemed to be a real estate company if at the time of sale or at any period during the 2 years preceding the sale more than 50% of the assets directly or indirectly consist of Estonian real estate. 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.

SPECIAL RULES FOR DOMESTI INVESTMENT FUNDS

According to the Estonian Income Tax Act domestic contractual investment funds are taxpayers in respect of their Estonian real estate related income and gains (including gains derived from Estonian real estate companies in which the fund held more than 10% shareholding). Income tax is charged on gains derived from the transfer of property and the income which is received from the hire or lease of property that is located in Estonia. In addition, interest which is received in connection with holding in another Estonian real estate contractual investment fund or pool of assets is subject to 20% income tax.

PERSONAL INCOME TAX (PIT):

As a general rule, private individuals are liable to pay 20% income tax on the capital gain upon sale of real estate. Exemption is provided for sale of property, which was used by the taxpayer as his or her place of residence. Whereas, only one such property can be sold tax exempt in every 2 years. If an immovable, structure or apartment was used simultaneously with its use as place of residence also for other purposes, then the tax exemption is applied according to the proportion of the area of the rooms used as residence and the area of the rooms used for other purposes.

REAL ESTATE TAX (BUILDINGS/PREMISES)

There is no real estate tax in Estonia.

LAND TAX

As a general rule, land tax is applicable on the taxable value of land in Estonia.

The tax rate varies between 0.1% and 2.5% of the taxable value of land annually, which depends on the location of land 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.

Private individual homeowners are entitled to exemption from land tax on land under their home. More specifically, land plots in cities and towns with the size of up to 1 500 m2 and in other areas land plots with the size of up to 2 ha per person are exempted from land tax provided that person's home is registered to that address in the Population Register.

INTRODUCTION

Estonia employs a constitutive property registration system where registration itself confers title. This makes verifying title simple and transactions secure. At the same time notarisation and documentation requirements can make other aspects of transactions cumbersome and time-consuming.

TITLE TO REAL ESTATE, LAND REGISTER

Ownership of real estate is registered with 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 to be correct and valid vis-à-vis third persons acting in good faith.

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

Title to real estate is considered transferred on registration of ownership with the Land Register, not on signing the agreement. The notary who certified the transaction will file a notarised registration application with the Land Register together with the transaction documents. This is done electronically, usually on the same day. In the case of a simple transaction, ownership is often registered within one week from filing an application with the Land Register. In the case of a complex transaction, the Land Register has up to one month to process the application. Entries in the Land Register are made in order of submission and therefore parties to a transaction often agree to act as though the ownership has already been transferred as of filing the application with the Land Register to register the change.

ACQUISITION OF REAL ESTATE

GENERAL

Most commercial properties 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 in the property holding company (share transaction). Both options are used, although recently sale of shares has become less used.

An asset transfer may constitute transfer of an enterprise in which case it will be similar to a share deal since the obligations of the seller will transfer to the buyer along with the asset. This may also mean that the transaction is subject to merger clearance.

Real estate consists of land and things permanently attached to land, such as buildings and standing timber. In general, transfer of a building separately from the underlying land is not permissible, except if building title is established and so transferred. Building title provides its owner a transferable and inheritable right for a specified term up to 99 years to erect and/or own a construction permanently attached to a land plot. In that case, the building forms an essential part of the building title, not of land. Building title can be transferred separately from the land plot.

Typical structure of a real estate transaction::

- letter of intent / heads of terms (not mandatory);
- due diligence review (not mandatory);
- transaction negotiations;
- signing the transfer agreement (sale agreement);
- fulfilling conditions precedent (not mandatory);
- closing the transfer agreement (real right agreement);
- registration of title in the Land Register;
- post-closing issues;
- warranty/limitations period.

LETTER OF INTENT AND HEADS OF TERMS

In practice, letters of intent (LOIs) and heads of terms (HOTs) are used to regulate the process of negotiating a contemplated real estate transaction. However, in Estonia all transactions related to a binding obligation to buy or sell real estate (including preliminary agreements, LOIs and HOTs, if binding) require notarisation in order to be legally binding. Without notarisation, a buyer cannot require the seller to conclude a sale agreement and transfer ownership, or to pay contractual penalties for failing to transfer. Failure to comply with the format set by law makes a transaction void unless the law or the objective of the formal requirements states otherwise.

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

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

ASSET TRANSFER

Asset transactions must be notarised and therefore must often be concluded in Estonian.

Asset transactions require registration with the Land Register, which can be done in a week, but sometimes take four weeks or longer.

Due diligence can be limited to researching the property and related obligations, as asset transfer does not require research into the legal or financial background of a company to the same extent as would a share transaction. Nevertheless, as an asset transaction may be deemed a transfer of enterprise resulting in obligations related to the enterprise being transferred to the buyer automatically, the obligations of the seller with respect to the assets cannot be ignored.

Existing lease agreements remain valid after the transaction.

If an asset transaction is considered a transfer of enterprise, then all obligations associated with the enterprise will be transferred from the seller to the 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 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. If the shares are not registered with the Register of Securities, the share transfer must be notarised. Increasingly stringent Know Your Client and Anti-Money Laundering rules have forced banks to limit opening bank accounts to foreign investors, which can sometimes make using the Register of Securities and the benefits it incurs impossible.

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

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

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 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 is sometimes 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 a solid tenant/guarantor with a 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 the 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, but may be separated to facilitate separate closing or to facilitate an English language sale agreement. The real right agreement must be in Estonian as it is filed with the Land Register.

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 the 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. It is possible to conclude them also in English. However, only a few notaries are comfortable with attesting English language agreements.

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, area and boundaries, 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. It is also part of the legal duty of care of a management board member of a company.

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. Certain rights of pre-emption must be entered in the Land Register to be valid. Other rights of pre-emption that are based on law may be valid regardless of the Land Register entries. For example, a co-owner of real estate has a pre-emptive right on sale to third persons of a legal share in real estate. Further, the state or local government has a pre-emption right mandated by law 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.

The pre-emption right should not be confused with rights of first refusal, which must be resolved before a transaction takes place. Pre-emption rights may be exercised within two months after receiving notification of a sale agreement. On exercising the right, it is deemed that an agreement on the same terms as the original transfer agreement has been concluded between the seller and the beneficiary. To avoid breaching the agreement with the beneficiary and being liable for losses, the seller must cancel the agreement with the original buyer. For larger transactions this often means that either the seller obtains a waiver from the beneficiary or closing is postponed until after the two-month period has passed. If the beneficiary is a state entity and the right derives from law, then usually the issue is ignored as the risk of the state exercising the right is minimal. It is not possible to obtain a waiver from the state or municipality for mandatory pre-emption rights.

As to pre-emption rights, preliminary notation plays an essential role. A preliminary notation is a notation which may be entered in the Land Register to secure a claim for acquisition or deletion of a real right, for change of content or ranking of a right, including a future or conditional claim. If a preliminary notation regarding a pre-emption right encumbering an immovable is registered with the Land Register, then disposal of the pre-emption right is void to the extent that this prejudices or restricts a claim secured by preliminary notation.

TYPICAL PURCHASE PRICE ARRANGEMENTS

Most real estate transactions include both equity and debt financing components. 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 sale agreement is signed, but this is rare in larger transactions. Typically, the purchase price is transferred to an escrow account maintained by a notary 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 the case of debt financing, the financing bank will transfer the funds directly to the seller within a couple of days as agreed in the sale agreement.

RELATED COSTS

Asset transactions incur notary fees 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 the 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 for reviewing the sale and security agreements.

TAXES

Sale of real estate is generally exempt from value added tax. This is not the case if the property includes a new or newly renovated building or if the real estate is a new parcel created in detailed planning. Also, except for residential properties, value added tax can be added voluntarily by the seller. This is done to allow recovery of input value added tax.

The owner of real estate is liable to pay land tax for the property for the full year. Land tax is 0.1 to 2.5 % of the land value each year. The tax rate is established by the local municipality. In practice the land value assessment is usually significantly out of date and thus properties are significantly undervalued for tax purposes.

CONCENTRATION CONTROL

Transfer of real estate (both asset and share transfers) with cash flow may be subject to concentration control, i.e. merger clearance, by the competition authorities if:

- turnover in Estonia of participants to the concentration (target undertaking and buyer) exceeds EUR 6,000,000; and
- turnover in Estonia of at least two participants to the concentration exceeds EUR 2,000,000 each.

The turnover considered in deciding if concentration control applies is the turnover of sales in or to Estonia in the last financial year. If the buyer has no business in Estonia (on first purchase), merger clearance 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.

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

- citizens of Estonia or another country which is a contracting party to the EEA Agreement or a contracting member state of the Organisation for Economic Cooperation and Development (OECD),
- a legal person from an OECD contracting state if engaged for three years immediately preceding the year of acquiring the immovable in producing agricultural products or in forest management.

Other persons may own such land but on limited grounds and on approval by the local government.

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 and with permission from the Estonian Government.

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

It is important to be aware of restrictions on use for certain types of real estate. 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 entered in the Estonian Land Register may encumber real estate: servitudes, usufruct, personal right of use, real 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. Establishing and amending an encumbrance by transaction requires a notarised agreement. Removal of an encumbrance is also possible using a digital signature.

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 on that ground.

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 sale agreement. However, in order to be valid, the mortgage agreement must be sufficiently specific as to the claims secured.

If a mortgage already encumbers the real estate before sale and the proceeds from the sale are to be used for repaying the debt secured by the mortgage, it is typically agreed that the existing mortgage is released immediately on signing the relevant sale or real right agreement against an unconditional obligation to pay, or release from the notary's escrow of the amount equalling the debt to the creditor. Theoretically this leaves open a risk that another application is filed with the Land Register in time to spoil the transaction, but with the part of the purchase price covering release of the mortgage already paid.

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

Landlords and tenants of commercial property are generally free 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 original term of the lease. Generally lease agreements allow renewal once or a limited number of times.

Break options, giving the tenant the right to break the lease early, are sometimes agreed on, but are relatively rare.

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. Tenants are usually required to pay a pro-rata share of utilities for common space. Requiring the tenant to also pay a pro-rata share of rent for common space is rare.

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

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

If a tenant abandons the premises, then the landlord may claim losses equal to 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. The landlord is required to mitigate losses by actively seeking a new tenant and therefore the courts would often limit the period for which the full rent could be claimed.

LANDLORD'S LIEN

In addition to whatever security may have been agreed in the lease agreement, by law the landlord has a lien over a tenant's movable property located in the leased premises. The landlord even has the right to intercept and prevent removal of such movables from the premises if the tenant is in the process of abandoning the premises or is otherwise removing the movables without securing the landlord's claim. The landlord may waive this right in the lease agreement.

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 has taken more interest in PPP as an alternative to immediate direct investment, especially in projects concerning new highways and prisons.

CONCESSIONS

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

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

SALE-LEASEBACKS

Sale-leaseback agreements have been used in Estonia for structuring PPPs. 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.

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 within 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 public 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 to exit real estate investment or receive 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 and mandatory for city areas and some more dense population 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. The interested party must apply to the local government to initiate detailed plan proceedings. Detailed plan proceedings involve public hearings and discussions. When the environmental impact is significant and construction may cause changes to the environment, a procedure of strategic environmental assessment should be carried out. The whole process of approving a detailed plan may take from nine months to three years depending on the area and on the complexity of the project.

CONSTRUCTION

Under the Construction Act, construction means erecting, constructing, installing and demolishing a building and any other operations in relation to the building that lead to creation of that building or to a change in the physical properties of the building. Construction work also means shifting soil or paving layers to a degree that has a significant and permanent impact on the surrounding environment and is functionally related to construction work.

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 required, construction works must be performed in line with design specifications issued by the local government. Design specifications are issued within 30 days from submission of the application and usually the principles of open proceedings (public hearings and discussions) do not apply.

The local government issues building permits based on building design if this complies with the detailed plan or design specifications. Generally, a building permit is needed to erect buildings with a ground projection area bigger than 60 m2 or to expand existing buildings by more than 33 percent of the originally planned volume. Construction without a valid building permit is not allowed. A building permit becomes invalid if construction works do not begin within five years of issue of the building permit. When construction work has commenced, the building permit is valid for up to seven 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 may issue a guarantee for construction faults. However, this is not mandatory under Estonian law. It is therefore essential for the client to carefully review and negotiate construction agreements prepared by the contractor. Regarding construction works where the other contracting party is a consumer, the presumption is that any construction fault that becomes evident within two years as of the day of delivery of the work to the consumer existed at the time of delivery of the work. The liability for such construction faults lies on construction companies.

In the case of a sale agreement where the object is all or part of an immovable property, apartment ownership or a restricted real right, part of which is a building, or membership of a building association, and which has been entered into by a seller engaged in economic and professional activities and a buyer who is a consumer, the presumption is that any non-conformity with the terms and conditions of the agreement which becomes evident within two years as of the day of delivery of the building to the consumer existed already at the time of delivery of the building. Agreements which derogate from this subsection to the detriment of the consumer are void.

Information regarding construction-related permits and buildings is registered with the Building Register. The information stored in the Building Register has informational and statistical significance. The Building Register is often incomplete and can falsely indicate that there are no buildings on a particular land plot or that buildings lack certain permits. Such errors have no legal effect. Only actual applications, design specifications, notices, building permits, use and occupancy permits and enforcement orders that may have been registered have legal significance.

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 are usually conducted through an online portal created for this purpose.

A distressed asset is usually sold "as is", which makes thorough due diligence vital. The seller is typically insolvent or close to insolvency, which in effect means that upon default the buyer will usually have no recourse.

If an asset is sold in enforcement proceedings, then all rights ranking below the right of the creditor who 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).

A common problem for a purchaser of distressed assets is that the distressed seller has signed lease agreements(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.

We can help you with

Any larger real estate investment deals

Sale-leaseback and forward purchase transactions

Structuring real estate investments, including tax structuring

Situations where local real estate player is looking to expand outside our region

Cross-border real estate transactions

Commercial real estate management and leasing

Acquisition of agricultural and forestry land

Design and construction contracts, disputes

Energy efficiency regulations

Construction warranties and guarantees

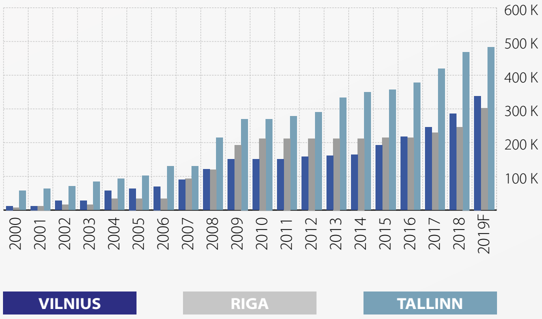
SORAINEN

OBER HAUS

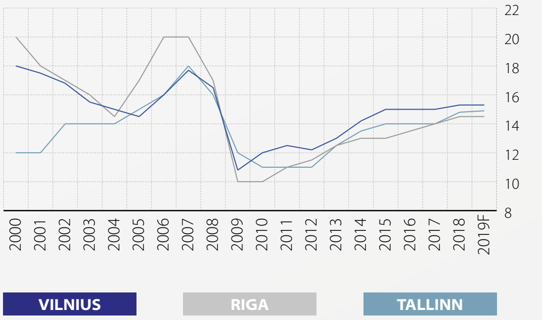
DATA CHARTS

OFFICE

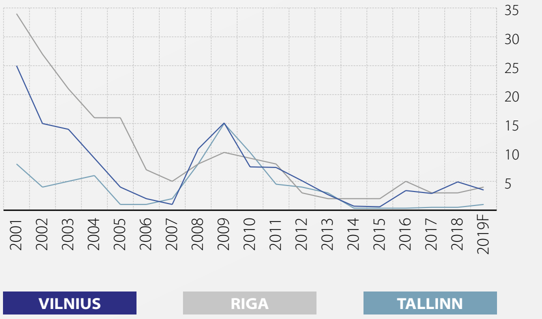
TOTAL A CLASS OFFICE SPACE, SQM



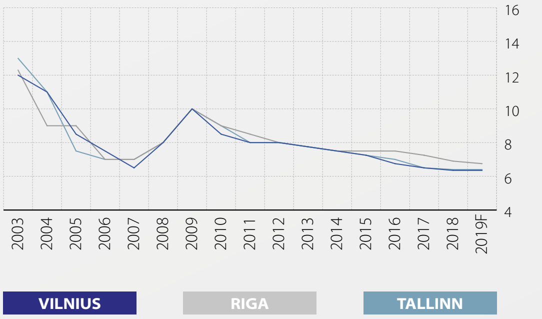
A CLASS OFFICE RENTS, €/SQM



A CLASS OFFICE VACANCY RATE, %

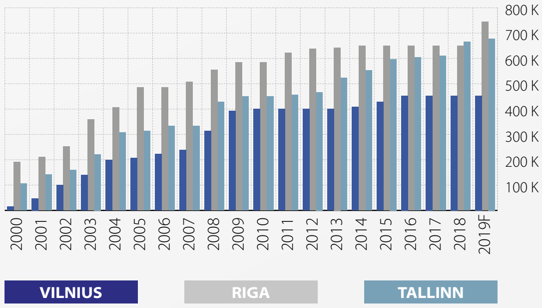


A CLASS OFFICE INVESTMENT YIELDS, %

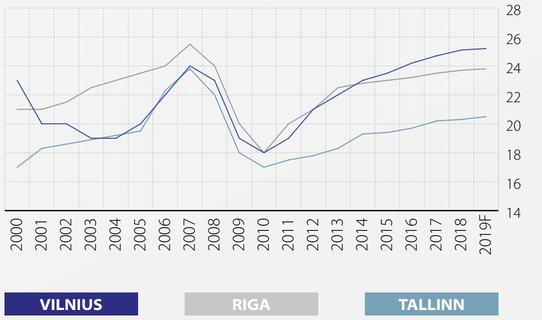


RETAIL

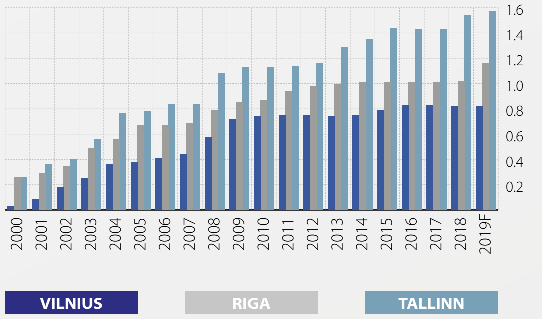
TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



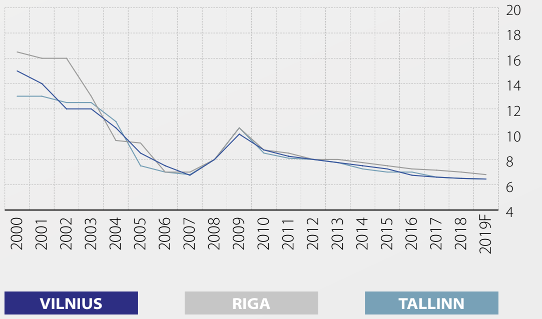
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL SHOPPING CENTRE SPACE PER CAPITA, SQM

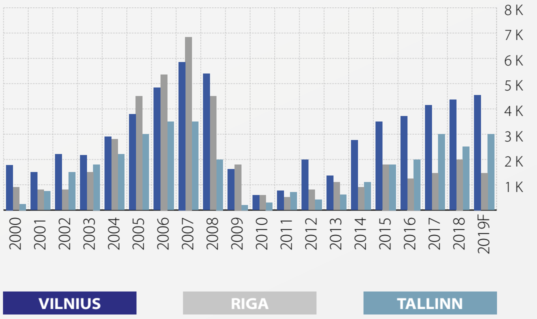


RETAIL INVESTMENT YIELDS, %

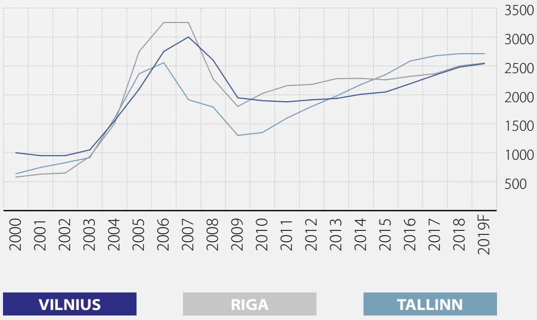


RESIDENTIAL

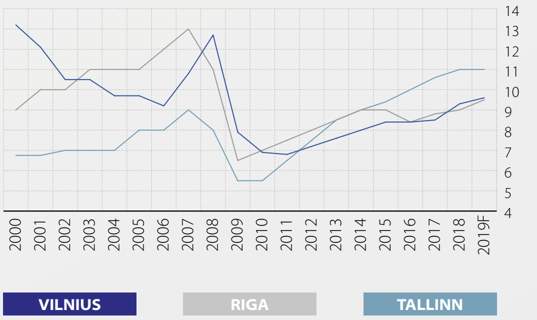
COMPLETED APARTMENTS



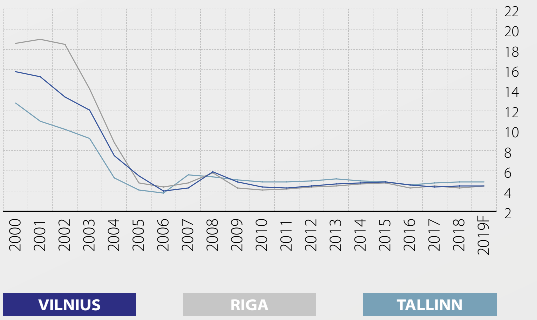
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM

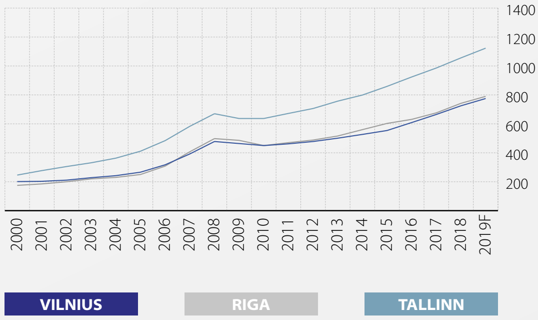


CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

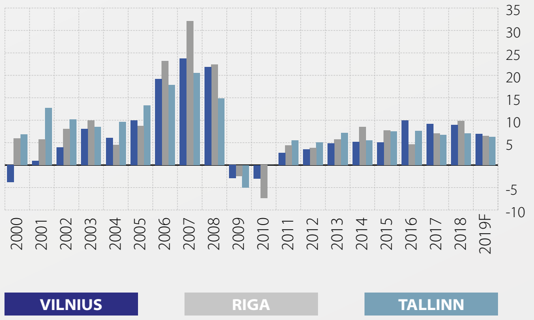


ECONOMICS

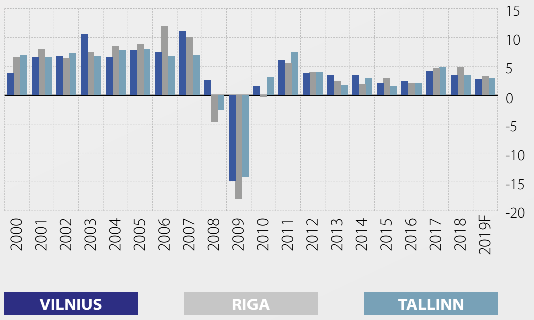
AVERAGE NET SALARY PER MONTH, €



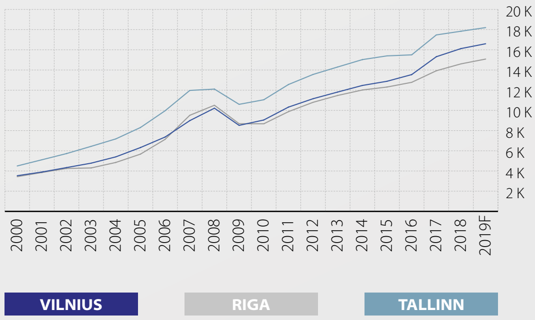
AVERAGE SALARY GROWTH, %



GDP GROWTH, %



GDP PER CAPITA, €



OBER-HAUS OFFICES

ESTONIA:

Narva road 53
10152 Tallinn
Estonia
Tel.: +372 665 9700
estonia@ober-haus.com

LATVIA:

Gustava Zemgala st. 76
1039 Riga
Latvia
Tel.: +371 6 728 4544
latvia@ober-haus.lv

LITHUANIA:

Geležinio Vilko st. 18A
08104 Vilnius
Lithuania
Tel.: +370 5 210 97 00
lithuania@ober-haus.com

pwc OBER HAUS SORAINEN