REAL ESTATE MARKET REPORT

BALTIC STATES CAPITALS
VILNIUS, RIGA, TALLINN

‘22

OBER HAUS

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Ober-Haus provides all real estate services in Lithuania and the Baltic region. The company opened its first office in Tallinn in 1994. Today, Ober-Haus has 20 representative offices in the major cities of Lithuania, Latvia and Estonia and over 240 employees.

Ober-Haus provides services based on comprehensive knowledge of local markets and more than 20 years of experience in the real estate sector. We build long-term partnerships with our customers and seek that the professional principles would become the market standard. The professionalism of our team and nurturing of a culture of high business standards is our driving force that ensures smooth operations in creating the highest value for our clients.

Ober-Haus 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.

In 2021, Ober-Haus merged with Kiinteistömaailma, Finland's largest brokerage and real estate consulting company.

Kiinteistömaailma seeks to expand operations and grow internationally. Ober-Haus is the main player in the Baltic real estate market and this leader position is the result of the targeted approach taken by the previous owners. Ober-Haus successfully complement the Kiinteistömaailma Group with its high quality knowledge-based real estate brokerage and valuation services.

Set up in 1990 Kiinteistömaailm is the broadest network of Finnish real estate agencies with almost 100 offices. The company offers consultancy and brokerage services in the residential housing and commercial real estate segments. Presently Kiinteistömaailma has more than 600 real estate experts.

OBER-HAUS - ALL REAL ESTATE SERVICES!

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FOREWORD

Having recovered from the first shock caused by the Covid-19 pandemic, the Baltic economies showed rapid growth in 2021. While the Latvian and Lithuanian economies grew by 4.6–4.8%, the Estonian economy jumped by 8.3% in 2021. The recovery in consumer spending, the availability of cheap and affordable finance and the optimism that have emerged have also given additional impetus to the growth of the real estate market, both in the capital cities of the Baltic States as well as in other Lithuanian, Latvian and Estonian regions.

The amount of money spent on housing is an accurate indicator of the situation in the real estate market in 2021. Total cash flow in Estonia and Lithuania increased by 38% and 41% respectively over the year and has exceeded by far the previous record of 2020. This growth has certainly been contributed to not only by the high activity in the housing market but also by the fast-growing housing prices. Apartment sales prices grew by more than 23% in Lithuania's capital, the biggest increase since 2007. Tallinn also recorded a solid 15% growth in apartment prices which enabled the city to retain the position of leader in terms of average prices. While there was less optimism in the Riga housing market, it nevertheless recorded a sufficient price growth in all segments. Statistically, it continues to remain the cheapest capital city in the Baltics.

However, it is the Latvian capital, in particular, which has the biggest growth potential. This may be realised by the investments in the office segment. Although the city offered only one project of modern new offices in 2021, the on-going construction of new office projects are promising. During 2022-2023, ten new office buildings are scheduled to come on stream in Riga, offering total office space of around 137,000 sqm. Such a surge in supply will open up real opportunities for the expansion of both domestic and foreign companies. In addition, new and well-paid jobs will also give the housing segment an extra boost. Lithuanian-owned capital entering the Riga market shows that the city's potential is untapped. We have been seeing this particular synergy for a number of years in Vilnius and Tallinn, where developments of the office segment have been more than impressive and have attracted increasingly more foreign capital companies and residents in these cities. The market in Tallinn and Vilnius will see 80,000-90,000 sqm of new office area come on the market in each of the cities in 2022 alone.

The industrial premises sector in the Baltic countries has also shown growth potential with various production purpose, logistics centre projects and stock-office type projects being implemented not only in areas around the Baltic capitals but also in other big cities and their surroundings (Kaunas, Klaipeda, etc.). The growing consumption and the expanding e-commerce have provided momentum not only for the construction of bigger projects but also for the development of smaller multifunctional projects close to the final user. The demand for warehousing premises can be clearly illustrated by extremely high occupation indicators which ranged from 1.5% to 4.0% at the end of 2021.

In 2021, the commercial property investment market in the Baltics bounced back after the disruptions caused by the pandemic in 2020. For example, in Lithuania commercial property investment totalled €413 million or 19% more compared to 2020. The total volume of investments in 2021 was the second-best annual result in the history of Lithuania. Latvia is singled out in terms of investment volumes: truly impressive transactions were concluded in its capital city in 2021, for example, the acquisition of the ALFA shopping centre, Jauna Teika office complex and Dreilini logistics complex. In 2021, investors were, in principle, interested in acquiring commercial property for different purposes in the Baltic countries: starting from big to small objects in different regions of the countries.

The prospects of the real estate market seemed especially good for 2022 since all the fundamental factors that promote the market remained relevant up to the beginning of 2022. However, the Russian invasion of Ukraine in February 2022, has caused a global geopolitical and economic crisis. The ongoing war threatens, to a greater or lesser extent, economic development globally. And the Baltic countries, due to their geographical position, cannot but be affected by these events.

Evidently, the previous fairly optimistic forecasts for economic growth, development of various economic industries, including the real estate market, will have to be and have already been adjusted for the worse. Nonetheless, generally, both the housing and the commercial real estate market should actually withstand the challenges and hold on to the fundamental factors, that promote development, in 2022. The greatest challenges, without a doubt, will be faced by the construction industry. Soaring construction costs and a shortage of building materials could slow down the development of new projects, especially when it comes to the construction of new buildings and the whole complexity of the planning of the construction process. This, in turn, might affect developers investing in residential and commercial projects, as it will become more complex and costly to implement projects.

The year 2022 will continue as usual in the real estate market, since projects that have already been started will continue, however, it is also likely that we will start to see unwillingness on the part of developers to take on brand new projects. It is therefore possible that the market may face a shortage of commercial or residential property in 2023 and beyond. However, the level of demand for both residential and commercial real estate remains the biggest issue. And with the continuing uncertainty caused by the war, we may see quite divergent trends in different real estate segments in the near future. It will be important for real estate market participants to keep a cool head in the coming year and to seek out potential opportunities.

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Ober-Haus has offices in Vilnius, Kaunas, Klaipėda, Palanga, Šiauliai, Panevėžys and Druskininkai with over 120 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

2022 FORECAST

GDP growth, %	2.7
GDP per capita, €	21,000
Private consumption growth, %	4.7
Average annual inflation, %	10.0 - 11.0
Unemployment rate, %:	7.0
Average monthly net salary, €:	1.090
Average salary growth, %:	8.5 - 10.5

POPULATION [1]	2016	2017	2018	2019	2020	2021
Lithuania	2,847,900	2,808,900	2,794,200	2,794,100	2,795,700	2,795,000
Vilnius	545,300	547,500	552,100	561,800	569,900	560,100
Kaunas	292,700	288,400	286,800	289,400	293,300	297,200
Klaipėda	151,300	148,900	147,900	149,100	149,100	150,600
Šiauliai	101,200	100,600	100,100	101,500	101,900	99,500
Panevėžys	91,100	88,700	87,100	85,900	84,600	8,400

ECONOMICS	2016	2017	2018	2019	2020	2021
Real GDP growth, %	2.4	4.4	4.0	4.3	- 0.8	4.8
GDP per capita, €	13,600	14,900	16,200	17,500	17,500	19,800
Private consumption growth, %	5.1	3.4	3.9	3.3	- 3.4	7.2
Average annual inflation, %	0.7	3.7	2.5	2.2	1.1	4.6
Unemployment rate, %	7.9	7.1	6.1	6.3	8.5	7.1
Average monthly net salary, €	609	665	725	828	916	1.008
Average salary growth, %	8.2	9.2	9.0	14.2	10.6	10.0
Retail sales growth, %	7.0	4.7	6.5	5.4	2.5	16.4
FDI stock per capita, €	5,400	5,800	6,100	6,600	6,800	9,300

SOURCE: GOVERNMENT AND PRIVATE INSTITUTIONS

[1] (AT THE END OF THE YEAR)

POST-PANDEMIC CHALLENGES IN LITHUANIA REPLACED BY THE CHANGED GEOPOLITICAL AND GLOBAL ECONOMIC SITUATION

Having tackled the challenges posed by the pandemic, the Lithuanian economy had shown a particularly rapid recovery in 2021 and it was expected that this trend would continue. However, when Russia invaded Ukraine in February 2022, the geopolitical situation and the prospects for economic development suddenly changed both for Lithuania and the world as a whole. Evidently, as the war continues, all previous economic and other forecasts have been adjusted downwards. The real estate market as a whole, and in particular the construction sector, are facing major challenges, with dramatically increasing construction costs, and material and workforce shortages.

After a 0.8% drop in GDP in Lithuania in 2020, it rebounded by 4.8% in 2021. Before the war in Ukraine, the forecasts in Lithuania predicted an increase in economic growth of at least 3.5%. The latest assessments, however, show much more modest growth. The forecasts for economic growth in the country announced by the Bank of Lithuania in March 2022 showed that growth in GDP 2022 might reach 2.7%. Nevertheless, unfavourable internal and external circumstances (a faster than expected reduction of export volumes to Russia, Belarus and Ukraine, the shortage and rise in prices of imported raw materials, as well as an increase in prices for energy resources and food prices, etc.) might lead to even a small shrinkage in Lithuania's economy in 2022.

Lithuania's major challenge in 2022 has become the severely increasing prices of goods and services internally. In December 2021, the annual inflation (HICP) rate reached 10.7% and average annual inflation (HICP) increased to 4.6%. The most significant impact on the general price increase, has come from the steep price increases for energy and fuel, transport services, food products and beverages. It is likely that inflation will reach its peak in the middle of 2022 and annual inflation might exceed 15%. According to forecasts, the average annual inflation in Lithuania in 2022 will be about 10.0-11.0%. In 2023, it should reduce to 2.5-3.0%.

The minimum wage in Lithuania was increased to €730 per month (€534 after taxes) starting 1 January 2022.

Net wages increased by 9.4% in Lithuania in Q4 2021 (compared to Q4 2020), to €1,059 per month after taxes (€1,193 in Vilnius in Q4 2021). It is expected that salaries will grow around 8.5-10.5% in 2022 and 6.5-7.5% in 2023.

Unemployment decreased to 7.0% in Q4 2021, compared with 9.0% in Q4 2020. Analysts project average unemployment of around 7.0% in 2022.

The consumer confidence indicator started to increase in the first half of 2021, but then again started to decrease in the second half of 2021. In December 2021 it decreased to minus 3 percentage points or to the same level as a year ago. In December 2021, 20% of consumers believed that the country's economic situation would improve in the coming 12 months, with 44% feeling that it would deteriorate.

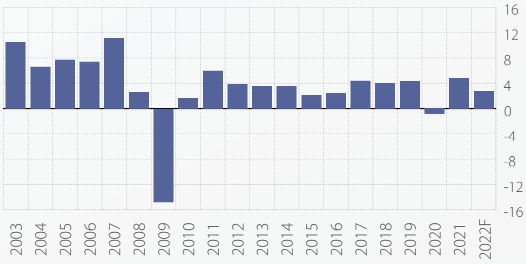
Goods exports jumped by 20.5% and totalled €34.6 billion in 2021 in Lithuania after a 3.4% decrease in 2020.

In December 2021, the annual increase in construction costs was 10.0%. The biggest increase in this period was recorded for non-residential buildings (13.8%). Construction costs of residential buildings increased by 10.2% and costs of civil engineering structures increased by 6.0%

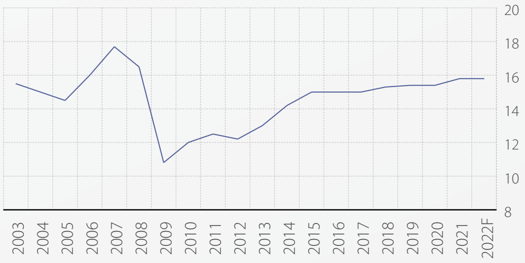
Foreign direct investment in Lithuania is an important factor in the country's economic growth and an additional boost to the real estate market. Invest Lithuania attracted seven new investors into the Global Business Services (GBS) sector in Lithuania in 2021, creating around 1,300 new jobs. At the end of 2021, over 23,000 were employed in the GBS and ICT industry in Lithuania.

At the end of 2021 direct foreign investment totalled €25.9 billion (8.4% increase compared to the end of 2020), which is €9,286 per capita.

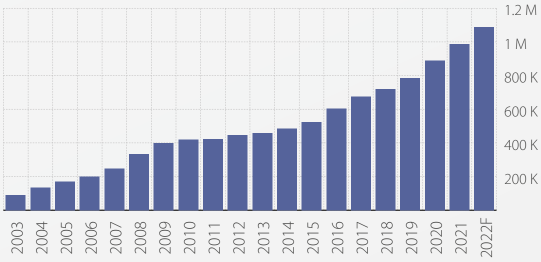
GDP GROWTH, %



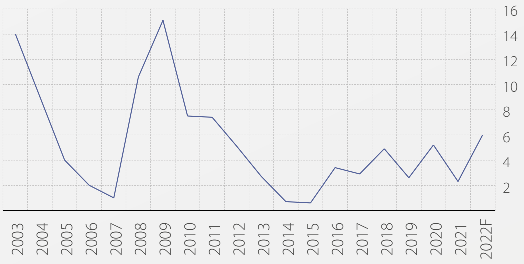
A CLASS OFFICE RENTS, €/SQM



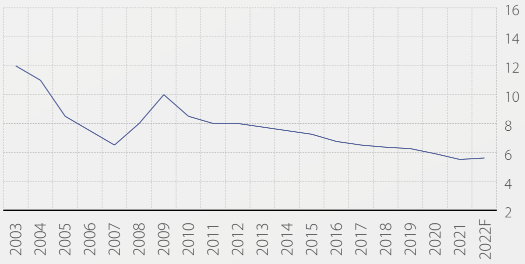
TOTAL MODERN OFFICE STOCK, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2021)

TOTAL OFFICE SPACE	984,700 SQM
TOTAL OFFICE VACANCY RATE	6.7 %
VACANT OFFICE SPACE	66,300 SQM
A CLASS OFFICE VACANCY RATE	2.3 %
B CLASS OFFICE VACANCY RATE	9.8 %
TOP OFFICE RENTS (SQM / month)	€18.00
A CLASS OFFICE RENTS (SQM / month)	€14.50 - €17.00
B CLASS OFFICE RENTS (SQM / month)	€9.00 - €14.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €4.00

GEOPOLITICAL SITUATION PUTS DEMAND IN QUESTION

SUPPLY

Once again there was a sufficient supply of new office space in Vilnius in 2021; this was driven by strong demand and positive expectations of developers. In total, nine new projects (stages) were completed in 2021 bringing 97,700 sqm of office space to the market. The previous record of new offices was in 2020 and in the 2020-2021 period the Vilnius market was supplemented with an additional 200,000 sqm of office space. After completion of these projects, the total area of usable modern office space (A and B class) grew by 11% to 984,700 sqm at the end of 2021 (see all projects on OHMAP). Currently, Vilnius has 1.76 sqm of usable office space per capita.

By floor space, A class accounts for 41% of the total modern office premises in Vilnius, and B class – 59%. Developers continue to follow sustainable development practices and to aim not only for international certification of the environmental assessment of buildings (BREEAM and LEED schemes), but also to implement health and well-being systems (WELL, Fitwel). At the end of 2021, almost 35 completed office buildings in Vilnius (36% of the total modern office space stock) were either already certified or had a preliminary assessment status with one of the internationally recognised systems.

A sufficient amount of office space will be completed in Vilnius in 2022. In view of the progress of current projects under construction it can be concluded that during 2022 eight new office projects with more than 90,000 sqm of usable office space should be completed in the capital. It is expected that sufficient office space will also be completed in 2023-2024, which means that there will continue to be fierce competition between developers in the near future. In an environment of a steadily growing economy and expanding business, the rapidly growing office supply for business guaranteed sufficient rental options and relatively stable rents. Given the geopolitical situation in early 2022 and the enormous challenges facing the global economy, the office segment will depend in part on the level of demand. The successful take-up of a large amount of new office spaces in the past decade was due to the demand generated by new local and international companies in Vilnius and the modern workplace needs of already established companies.

Landlords, serviced office operators and other investors see the potential for development of flexible and cost-effective workspaces, but the development pace of flexible office space (coworking, serviced offices) in 2021 in Vilnius was much slower than in 2019-2020. In 2021, local real estate developer Baltic Asset Management opened its coliving project Chapters, which has more than 1,000 sqm of coworking space in Snipiskes district. The price for a host desk is between €100 and €220 per month for a work space in a private room. In 2022 Workland will open its fifth space in Vilnius by occupying 2,300 sqm space in 3 Bures next to Konstitucijos Avenue.

The most active development period of flexible office space was seen in 2016-2020. In 2021 the total stock and non-stock flexible office space increased by just 2% to 44,000 sqm. This space covers any type of flexible workplaces ranging from traditional serviced offices, coworking spaces, start-up campuses, FinTech hubs etc.

The share of flexible office space located in modern buildings in total modern office stock in Vilnius has dropped during the year - at the end of 2021 it was 1.5% or 0.1 percentage points lower than a year ago. In general, dedicated or hot desk rents in Vilnius in flexible workplace schemes range from €100 to €250 per month (depends on space provider, location, building, fit-out and services) up to €250-€450 for a workplace in a private office. In the face of the pandemic or uncertainty during the war in Ukraine, flexible workspaces have actually demonstrated their essential advantage and attractiveness over the traditional long-term rental model, specifically their flexibility.

DEMAND

2021 was the most active year in the history of modern offices in terms of demand indicators. In 2021, 134,700 sqm of office premises were leased in Vilnius business centres, which is 17% more than in 2020. Like in 2020, a record amount of office space was built in Vilnius in 2021 and companies had a huge choice. The large supply of new office space not only encourages the establishment of new businesses, but also provides wider opportunities for companies that wish to upgrade their office space by relocating to more modern premises. As a result, the office market sees an increase in movement and in the level of take-up each year.

The vacancy rate of modern offices in Vilnius increased from 6.1% to 6.7% in 2021, and total vacant office space increased from 54,400 sqm to 66,300 sqm. Unlike in previous years, 2021 saw a fairly prominent distinction between A class and B class offices. At the end of 2021, the vacancy rate for B class buildings was 9.8%, while the vacancy rate for A class buildings was just 2.3%. The rapidly growing vacancy rate of B class offices can be attributed to a surge in the supply of such offices in 2021, where the share of B class offices accounted for 75% of all office space built during the year.

While all the office space completed in 2019 was fully leased or occupied by their own developers at the end of 2019, in 2020 and 2021 the new supply occupancy rate was 75% and 76% at the end of the year. But it should be noted that in 2020 and 2021 Vilnius market was supplemented with a record supply of office space, which left some vacant space during the year.

As regards office lease transactions in 2021, the largest transaction of the year was the long-term agreement for the lease of an entire office building in Karoliniskes district. Girteka Logistics leased almost the entire finished office building with a total area of almost 14,000 sqm from its developer Galio Group and moved to the Girteka Park named project at the end of 2021. The arrival of Belarusian companies in Lithuania also provided additional impetus to the commercial and residential real estate market in Lithuania's capital. For example, in 2021, the former Belarusian online game developer and publisher Wargaming opened an office in Vilnius renting a 4,000 sqm office in the Quadrum business centre.

The public sector is becoming an important player in the office rental market. The increasing participation of the public sector in the office rental market is a natural process prompted by economic logic. Public sector entities, like those in the private sector, are looking for operational efficiency, which is becoming increasingly more difficult to achieve in old buildings/premises. Renting premises from a private business is a very attractive alternative, and allows entities to quickly settle in new premises that meet today's needs. For example, in 2021, the largest rental transaction involving the public sector was the lease agreement for agencies of the Ministry of National Defence, where almost the entire space (4,300 sqm) of newly built office building Cloud Offices was leased.

In 2022, the overall situation in the capital city's office market will depend exclusively on further business development and business opportunities in an environment of enormous geopolitical and economic change. It is likely that the war in

Ukraine and the consequences of that war may erode business confidence resulting in some cases in delayed development plans. Given that there will be a plentiful supply of new offices in the near future, the vacancy rate may increase to 10% in 2022. However, this increase may be largely due to newly implemented office projects that will come on stream without being fully rented out.

RENTS

Base office rents in Vilnius in 2021 experienced small changes and increased on average by 2-3%. At the end of 2021 rents for B class offices were €9.0–€14.0 per sqm, and €14.5–€17.0 per sqm for A class offices in Vilnius. Top rents could reach €18.00 per sqm on the top floors of exclusive projects or 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 previously) and they now charge extra for parking places (€30-€100 per space).

While base rents for new transactions have increased slightly over the year, other costs for tenants associated with office maintenance have soared. With a sharp rise in inflation to over 10% at the end of 2021, rent indexation became more relevant than ever. It is clear that a large proportion of tenants felt the effects of indexation, particularly if no ceiling (cap) was set in the agreements and landlords did not agree on a compromise with existing tenants. Soaring utility prices, particularly for electricity and heating, became an additional challenge for tenants. Meanwhile, rapidly rising prices for construction work and materials became a challenge for the developers of new projects, as previously planned costs for fitting out offices were no longer sufficient. Therefore, if the landlord did not allow for the increased costs for fitting out, the additional costs had, in most cases, to be borne by tenants.

Rising direct and indirect costs for office tenants and considerable competition among office developers may freeze office base rents in 2022 to a certain extent. However, this will largely depend on the level of demand for offices, which remains an open question due to the geopolitical and economic changes caused by the war in Ukraine. It is possible that in 2022, tenants will have significantly more bargaining power in the office market than in the past few years.

INVESTMENT

In 2021 the commercial property investment market in Lithuania bounced back after the disruptions caused by the pandemic in 2020. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €413 million or 19% more compared to 2020. The total volume of investments in 2021 was lower only than the record set in 2019, i.e. it was the second-best annual result in the history of Lithuania. But if count investments by the number of strategic decisions (deals) in 2021, the investment market was even more active compared with the record year of 2019. In 2021, 54% of the total investments were made in the capital (Vilnius's share was 70-80% in the 2018-2020 period).

Investment distribution by property type shows that for two successive years the industrial property sector has continued to be attractive to investors. The share of investments in the industrial sector increased to 28% of total investments in 2021 (compared to 22% in 2020) in Lithuania. The retail property sector took a 35% share of the investments, with the office sector having the biggest share with 37%. Historically, there was a very balanced distribution by type of property in 2021, where there was no clearly dominant segment. It is obvious that investors were equally interested in all types of commercial property, and that in 2021 this market was not only active in the country's capital, but also in other larger cities (Kaunas, Klaipeda, Panevezys, Marijampole).

As for the geography of investors, local investors were the biggest investors in 2021 and accounted for 39% of all investment in Lithuania. Sweden-based investors accounted for 25% of investments, France – 14%, Estonia – 12% and the rest the remaining 10%.

Investment yields for prime offices in Vilnius decreased by 30-50 bps throughout 2021. At the end of 2021 yields ranged from 5.0% to 6.0% for higher class offices and retail properties to 6.5–7.5% for secondary properties. Yields for warehousing premises ranged from 6.5% to 8.0%.

Slightly increased rents and notably decreased yields raised the value of high-class offices to new heights in Vilnius in 2021. The capital value index for A class offices over the year increased by 9.2%. This means that selling prices of prime properties can be as high as €4,000 per sqm.

In Q2 2021, the Swedish real estate company Eastnine acquired the 6,900 sqm office building Uniq on Gostauto Street from its developer Vastint. The acquired property is fully leased by Danske Bank IT service centre. Details of the current transaction have not been disclosed.

In Q4 2021, the real estate development company YIT Lietuva completed the construction of an office building on Zalgirio Street and sold it to the fund managed by East Capital Real Estate. The anchor tenant of the almost 7,500 sqm office building is Devbridge, a US-based software design and development company. Details of the current transaction have not been disclosed.

At the end of 2021, East Capital managed fund acquired an office building on Saltoniskiu Street. The office building with total above ground area of over 8,000 sqm is leased to Danske Bank. Details of the current transaction have not been disclosed.

At the end of 2021, the Swedish real estate company Eastnine acquired a 12,700 sqm office building, Uptown Park, in Naujamiestis district from its developer Vilbra. The office building is fully leased to Vinted and Bentley Systems and was sold for €40 million.

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 and management. 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 multi-tenant properties.

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

ARTERY

BUSINESS GARDEN VILNIUS

RECENT DEVELOPMENTS

S7 IV (DANSKE BANK GSL) – At the start of 2021, the investment and development company Galio Group completed an A class office campus next to Konstitucijos CBD, on Saltoniskiu Street. The fourth and last office building in this office campus, with total above ground area of 13,000 sqm, has been fully leased to Danske Bank Global Service Lithuania.

LVIVO – In Q1 2021, a fund managed by Lords LB Asset Management completed an A class office project in the Konstitucijos business district, on Lvovo Street. The 8-storey office building with total above ground area of over 15,000 sqm has around 12,600 sqm of usable office space. An underground car park has over 240 parking spaces. The developer is aiming to earn the BREEAM Excellent certificate. Total investments were €40 million. Most of the office space is occupied by Telia Global Services Lithuania. Asking rents for the remaining office premises are from €16.00 per sqm.

OFFICE 100 – In the second half of 2021, the local company Skraidenis completed development of a 5-7-storey B class office building with total above ground area of 9,500 sqm in Naujamiestis district, on Naugarduko Street. The ground floor of the building is suitable for all types of commercial activity and the remaining floors will offer around 6,800 sqm of usable office space. Around 1,500 sqm has been leased to Civinity, a company providing maintenance services for residential, commercial and public buildings and implementing engineering solutions.

BUSINESS GARDEN VILNIUS – In 2021, the international real estate company Vastint completed the first stage of a large-scale office project in Lazdynai district, on Laisves Avenue. In the first stage, two office buildings with total above ground area of over 40,000 sqm were completed, which will provide around 36,000 sqm of usable office space. The first stage has received a LEED Platinum certificate. The total project will consist of four office buildings with total above ground area of 60,000 sqm. At the end of 2020, the state-controlled energy holding company Ignitis Group signed a long-term agreement for the lease of around 11,000 sqm of office space. Other tenants are: Cargogo Logistics, Cowi, BTA Baltic Insurance Company, Amber Grid, Rocket Software and others. At the end of 2021, around 60% of the office space had been leased and asking rents for the remaining office premises are €14.50 per sqm.

CLOUD OFFICES – In Q4 2021, a local development company Olfin completed construction of office building in Snipiskes district, on Kalvariju Street. The 9-storey office building with total above ground area of over 5,000 sqm will offer 4,200 sqm of usable office space on floors 2-9. The ground floor of the building offers smaller sized commercial premises. All office space was leased to agencies of the Ministry of National Defence for roughly €14.8 per sqm (incl. final fit-out, parking).

FREEDOM 36 / GIRTEKA PARK – In the second half of 2021, the investment and development company Galio Group finished the development of a 5-6-storey B class office building with total above ground area of almost 14,000 sqm in Karoliniskes district, on Laisves Avenue. The building was fully leased to logistics company Girteka Logistics and renamed Girteka Park. Total investments reached over €30 million.

NAUJASIS SKANSENAS Z – At the end of 2021, the construction and development company YIT Lietuva finished construction of a B class office building with total above ground area of over 7,300 sqm in Snipiskes district, on Zalgirio Street. The major tenant is the US-headquartered software company Devbridge, which signed a lease agreement for 5,000 sqm. Asking rents for the office premises were €14.00 per sqm.

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

NEW PROJECTS

CORE – The development and management company Baltijos Gildija almost finished development of a large A class office project next to Konstitucijos CBD, on Ukmerges Street. The two 6-7-storey buildings with total above ground area of 35,000 sqm will offer almost 32,000 sqm of usable office space. A total of 750 parking spaces will be provided in the underground car park. Total investments will reach around €60 million and the developer is aiming to earn the BREEAM and Fitwel certificates. The project fully will be completed in Q2 2022. Asking rents for office space are from €15.00 per sqm.

MERAKI – A company managed by the investment fund Baltic Horizon Fund is developing a B class office project in Pasilaiciai district, next to Ukmerges Street. The 7-storey two block office project with total above ground area of almost 16,000 sqm will provide around 14,900 sqm of usable office space. The project will provide around 430 car parking spaces for tenants. The first block will be completed in Q2 2022 and the development of the second block will depend on market needs. The developer is aiming to earn the BREEAM Very Good certificate. Office space is available at rents of €12.00 per sqm.

BUSINESS STADIUM NORTH EAST – Following completion of the first and second office building in the abandoned territory of Zalgiris Stadium, local developer Hanner is developing a third A class business centre in the central part of the city on Rinktines and Seimyniskiu Street. The 8-storey office building with a total above ground area of almost 15,000 sqm and over 13,000 sqm of usable office space should be completed in mid-2022. In Q1 2021, the US-based medical device manufacturer Dexcom signed a lease agreement for 6,000 sqm. Office space is available at rents from €15.50 per sqm.

OFFICE BOUTIQUE – Local investment company Dataworld is finishing the construction of small-scale office project in the city centre, on Dainavos Street. The 5-storey office building with a total above ground area of around 1,500 sqm will be completed in Q2 2022. All of the space has been fully leased to wood production manufacturer Juodeliai Group.

CYBER CITY – In 2020, the cybersecurity solutions company Tesonet started the development of large-scale project in Naujamiestis district in the former territory of the factory Sparta. Tesonet is the main investor and tenant of the project and will develop over 36,000 sqm with office and other commercial space on Svitrigailos Street. The first and major stage of three buildings with total above ground area of 32,000 sqm should be completed at the end of 2022. The fourth building with total area of around 4,000 sqm could be completed in 2023-2024. Total investments in the project will reach over €50 million.

K22 – Local company Eigesa is developing a 6-9-storey B class office building with total above ground area of 4,300 sqm in Naujamiestis district, on Kauno Street. The ground floor of the building is suitable for all types of commercial activity and the remaining floors will offer around 3,600 sqm of usable office space. The project should be completed at the start of 2023. Available space is for rent or sale.

ARTERY – The investment management company Lords LB Asset Management is developing an A class office project in Vilnius CBD, on Konstitucijos Avenue. The building was designed by Studio Libeskind and Archinova and construction started in mid-2019. The main tower will be 20-storey tall, while another part of the project will be a 7-storey podium, connected by a luminous glass-covered galleria. The project will provide over 20,000 sqm of office space in the second half of 2023. Total investments will reach more than €70 million. Around 4,000 sqm office space was leased to payments fintech company kevin., which will move its 300 employees to the top floors.

FLOW – In Q4 2021, the local development and construction company Eika started construction of an A class office project in Vilnius CBD, next to Konstitucijos Avenue. The 15- and 20-storey project with total above ground area of around 15,000 sqm should be completed at the end of 2023. Underground parking is planned on 3 levels. The developer is aiming to earn the BREEAM Outstanding certificate and total investments will reach €45 million.

NEW PROJECTS

SKY OFFICE – At the start of 2022, the construction and development company YIT Lietuva started the construction of an 18-storey office building with total above ground area of around 8,800 sqm in Virsuliskes district, on Spaudos Street. The project should be completed in the second half of 2023 and total investments will reach €21 million. Office space is available at rents from €13.75 per sqm.

S28 – The real estate developer LJB property is developing a 10-storey office building in Naujamiestis district, on Savanoriu Avenue, next to which the company owns another office building. The project with total above ground area of over 15,000 sqm should be completed in the first half of 2023.

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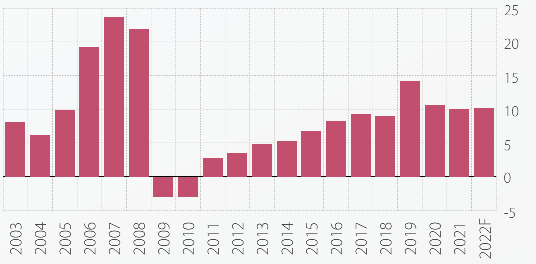
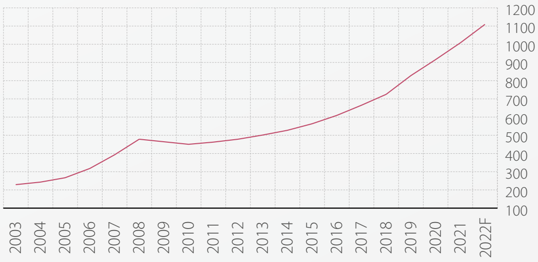
CYBER CITY

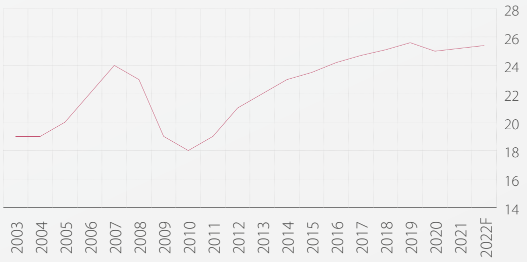
AVERAGE SALARY GROWTH, %



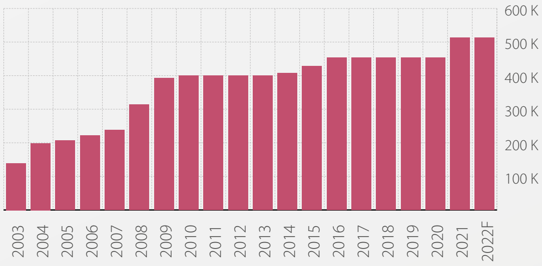
AVERAGE NET SALARY PER MONTH, €



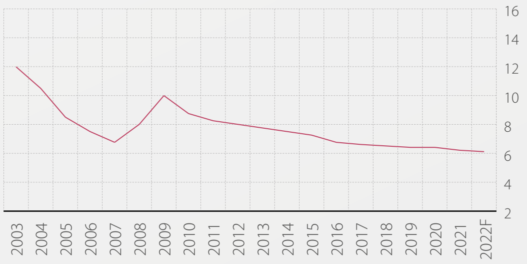
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



VILNIUS SNAPSHOT
(END-2021)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	512,700 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	0.92 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €14.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€15.00 - €40.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€50.00 - €75.00
HIGH STREETS RENTS (SQM / month)	€15.00 - €40.00

AFTER A LONG BREAK – NEW PROJECTS IN THE MARKET

SUPPLY

In 2021, after a gap of more than five years, Vilnius saw the opening of two large shopping centres. In October 2021, Ogmios Group opened the shopping centre Vilnius Outlet, with a total area of more than 70,000 sqm. It is located in the western part of the city and is now positioned as the biggest retail outlet in Northern Europe. This shopping centre has almost 40,000 sqm of usable retail space, accommodating about 150 tenants (shops, restaurants, entertainment areas, etc.). At the end of 2021, Pasilaiciai PC shopping centre was opened in the northern part of the city. This shopping centre has a usable retail area of around 22,000 sqm, of which 90% has been occupied by two tenants: Maxima and Ermitazas. The remaining area is used by around 15 different retailers.

After the opening of these shopping centres, total leasable retail area in shopping centres in Vilnius increased by 13%. At the end of 2021 there were 27 shopping centres in Vilnius (counting those over 5,000 sqm GLA with over 10 tenants) with a total leasable retail area of 512,700 sqm. Shopping area per capita increased to 0.92 sqm during the year.

The total retail space in larger traditional shopping centres in Lithuania at the end of 2021 amounted to just 1.18 million sqm or 0.42 sqm of shopping area per capita and has changed only due to the new openings in Vilnius in 2021. Altogether 43% of the shopping space of traditional shopping centres is in Vilnius. While the retail space in such shopping centres has increased by just 8% in the past five years, Lithuania's population shrank by almost 2% in the same period. Statistically, the retail space per capita indicator has increased by almost 10% in the past five years.

Major retail chains have continued actively investing, not only in opening new supermarkets, but also in renewing / refurbishing existing ones. The German supermarket chain, Lidl, which opened its first stores in Lithuania in 2016, continues to strengthen its position in Lithuania. During 2021, the retail chain opened another six stores and ended the year with 59 stores in total (19 stores in Vilnius and 40 stores in other Lithuanian cities). Other big supermarket chains (Maxima, Rimi, Iki and Norfa) opened 28 new stores in Lithuania in 2021.

The development of another larger project started in the northern part of the city in Q1 2022. Commercial property developer and manager VPH with other investors plans to develop a retail park next to Moletu Road on Dangerucio Street. The retail park of over 16,000 sqm for different tenants is scheduled for completion by mid-2023.

A large project is planned by Akropolis Group. A second Akropolis shopping, entertainment and business centre is planned next to the capital's Vingis Park. The new concept of the project was introduced at the end of 2021; however, the project's final concept has not been approved yet, and there is no indication of when construction will start.

DEMAND

In 2021 total retail trade in Lithuania jumped by 16.4%, after growing by 2.2% in 2020. Evidently, 2021 was considerably better for retailers after the disruptions caused by the pandemic in 2020. The rapid vaccination of the country's population, and the ability of retailers to adapt to the situation, has already generated much more optimism across the entire sector. In the course of the year, the situation was, certainly, continuously changing and brought new challenges both in the shopping centre sector and the points of sale operated by small retailers.

Smaller retailers in particular found the period especially difficult. The rapidly changing pandemic situation in the country, regular need to adapt to changing safety requirements and the limited financial capacity of small businesses made the tenants of small retail premises particularly vulnerable.

A survey on the situation in the main shopping streets (Gedimino Avenue, Pilies Street, Didzioji Street and Vokieciu Street) of the city of Vilnius conducted by Ober-Haus in mid-2020 and mid-2021 shows that the situation was stressful enough. In mid-2021, the vacancy rate in the main shopping streets of Vilnius stood at 11.9%. In mid-2020 the vacancy rate in these streets was 11.0%. The last time similar moods prevailed was at the peak of the global financial crisis in 2010, when 15–20% of the premises in these streets were closed.

While the overall indicators were showing a lack of optimism in the shopping streets of Vilnius, there was nevertheless interest in available retail space. Some businesses saw the long-term prospects of these streets and the market situation has opened up much wider opportunities for them. If it was generally difficult to find suitable premises before the pandemic even by offering historically record rents, in 2021 the choice was greater and the rents more attractive. Therefore, the more daring entrepreneurs were eager to seize the opportunity afforded by the situation and were actively interested in developing their business in such prestigious locations of the city.

The structure of the tenants in the main shopping streets of the capital city has not changed substantially during the year. In mid-2021, most of the premises were occupied by restaurants, cafes, bars and fast food outlets and their share during the year decreased slightly from 38.6% to 37.9%. The share of clothing and footwear retailers accounted for 19.2%, jewellery, accessories, souvenirs and cosmetics – 14.9%, food stores – 3.1%, and the remaining 24.9% were beauty salons, offices, pharmacies, banks, bookstores and other retail or services units.

Before the start of the current pandemic, Vilnius shopping centres enjoyed full occupancy and it was almost impossible for potential tenants to find space (especially at the bigger more successful shopping centres). As in 2020, in 2021 the owners or managers of shopping centres had to liaise with each tenant individually to try and find a mutually acceptable solution. Despite the greater turnover of tenants in shopping centres during the course of the year, successful shopping centres had no serious problems in finding new tenants. For this reason, the overall occupancy in the shopping centres in Vilnius remained extremely high. Nevertheless, it is obvious that shopping centre managers have still not fully recovered and have, in reality, only been trying to return to the pre-pandemic level.

Year-on-year the rapidly increasing sales volumes of internet retailing were boosted by the pandemic and changes in the retail premises sector. According to official statistics, in 2021 retail sales via post and internet in Lithuania had a total turnover of almost €1.2 billion, which is a 46% increase compared to 2020. In December 2021 sales via post and internet in Lithuania reached record heights. The sales volumes of internet retailing in 2021 in Lithuania accounted for 8.1% of total retail sales and all the conditions point to further growth of its share of the market.

RENTS

Given that the pandemic situation in the country was either improving or deteriorating, the expectations of owners of retail premises regarding the issue of rental income remained uncertain in 2021. If some owners offered lower rents to potential tenants, so too other owners were expecting to sign long-term lease contracts with pre-pandemic rents. For example, there were cases where owners of premises signed long-term lease contracts with new tenants at rents that were 25-20% lower than pre-pandemic levels.

Following the noticeable decline in rents for retail premises in 2020, the level of rental prices remained stable in 2021. The recovering economy and growing consumption gave cause for optimism to both the owners and tenants of premises. At the end of 2021, rents for medium-sized retail premises (100–300 sqm) in high streets (such as Gedimino Avenue, Didzioji Street, Vokieciu Street and Pilies Street) were €15.00–€40.00 per sqm. Nevertheless, if compared with the pre-pandemic level, rents are on average 12% lower than those at the end of 2019.

During 2021, the operators of shopping centres managed to adapt to the challenges posed by the pandemic, as rents for new premises with new rental agreements remained stable in this segment as well. Rents for medium-sized (150–300 sqm) units in major shopping centres run from €15.00 to €40.00 per sqm and up to €50.00–€75.00 for small-sized units. Rents for anchor tenants are €9.00–€14.00 per sqm.

It is likely that in 2022, the challenges faced by owners of retail premises due to the impact of the pandemic will no longer be as significant as in the previous two years. The major challenge will now be the tense global geopolitical and economic situation, which may slow down the previously rapid growth in consumption. It should also be noted that under conditions of extremely high inflation, tenants incur rapidly increasing ancillary costs directly related to operating premises. Therefore, in 2022, it is likely that tenants will remain fairly sensitive to any increases in rents.

INVESTMENT

In 2021 the commercial property investment market in Lithuania bounced back after the disruptions caused by the pandemic in 2020. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €413 million or 19% more compared to 2020. The total volume of investments in 2021 was lower only than the record set in 2019, i.e. it was the second-best annual result in the history of Lithuania. But if we count investments by the number of strategic decisions (deals) in 2021, the investment market was even more active compared with the record year of 2019. In 2021, 54% of the total investments were made in the capital (Vilnius's share was 70-80% in the 2018-2020 period).

Investment distribution by property type shows that for two successive years the industrial property sector has continued to be attractive to investors. The share of investments in the industrial sector increased to 28% of total investments in 2021 (compared to 22% in 2020) in Lithuania. The retail property sector accounted for 35% of investments and the biggest share was the office sector with 37%. Historically, there was a very balanced distribution by type of property in 2021, where there was no clearly dominant segment. It is obvious that investors were equally interested in all types of commercial property, and that in 2021 this market was not only active in the country's capital, but also in other larger cities (Kaunas, Klaipeda, Panevezys, Marijampole).

As for the geography of investors, local investors were the biggest investors in 2021 and accounted for 39% of all investment in Lithuania. Sweden-based investors accounted for 25% of investments, France – 14%, Estonia – 12% and the rest the remaining 10%.

Investment yields for prime offices in Vilnius decreased by 30-50 bps throughout 2021. At the end of 2021 yields ranged from 5.0% to 6.0% for higher class offices and retail properties to 6.5–7.5% for secondary properties. Yields for warehousing premises ranged from 6.5% to 8.0%.

The biggest investment deal in the retail property sector in Lithuania in 2021, was the acquisition of two DIY shopping centres. In Q1 2021, the fund operated by French asset management company Corum Asset Management acquired two retail schemes in Vilnius and Klaipeda from Latvian DIY store chain DEPO. These two DIY shopping centres with a total area of 35,000 sqm were developed in 2016-2018 and sold with a sale-leaseback option. Details of the transactions have not been disclosed. Earlier, in 2019, Corum Asset Management also acquired the two DIY shopping centre stores from DEPO and the total transactions of these four properties could reach over €100 million.

In 2021, there were quite a few acquisitions of smaller sized retail properties worth up to €5 million. Investors were particularly interested in supermarkets with a large food chain as a tenant.

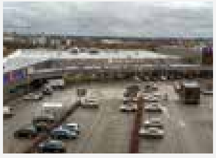
LEGAL NOTES BY SORAINEN

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

VILNIUS OUTLET – In October 2021, Ogmios Group opened a shopping centre in Pilaite district, on V. Pociuno Street next to the new Western Bypass. The 4-storey building with a total area of 70,000 sqm has above ground parking on the first two floors. The shopping centre has almost 40,000 sqm of usable retail space, accommodating about 150 tenants (shops, restaurants, entertainment areas, etc.) and positions itself as the biggest retail outlet in Northern Europe. Total investments have reached over €80 million.



PASILAICIAI PC – At the end of 2021, the local company Dakus opened a shopping centre in Pasilaiciai district, on Pavilnioniu Street next to the new Western Bypass. The 3-storey building with a total area of over 32,000 sqm has above ground parking. The shopping centre has a usable retail area of around 22,000 sqm, 90% of which has been occupied by two tenants, Maxima and Ermitazas. The remaining area is used by around 15 different retailers. Total investments have reached over €35 million.

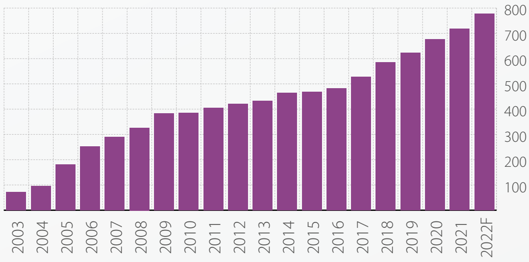
NEW PROJECTS

RETAIL PARK ON MOLETU ROAD – The development of larger-scale project started in the northern part of the city in Q1 2022. Commercial property developer and manager VPH, with other investors, plans to develop a retail park next to Moletu Road on Dangerucio Street. An over 16,000 sqm sized retail park for different tenants is scheduled for completion by mid-2023.

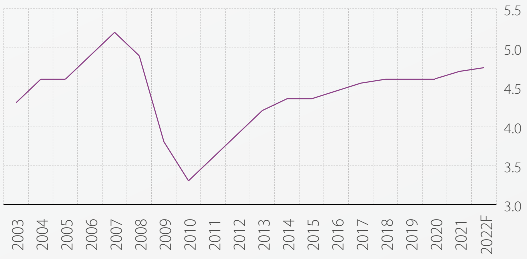
VILNIUS AKROPOLIS VINGIS – A large project is planned by Akropolis Group, which plans to develop a second Akropolis shopping, entertainment and business centre next to Vilnius' Vingis Park. The new concept of the project was introduced at the end of 2021, but the project's final concept has not yet been approved and there is no confirmation on when construction will start.

VILNIUS AKROPOLIS VINGIS

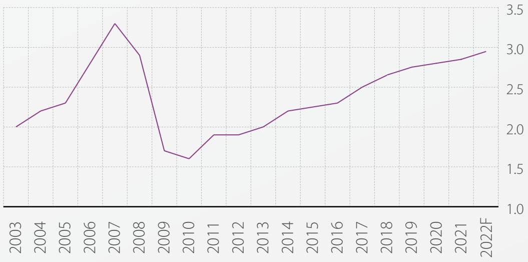
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



VILNIUS SNAPSHOT (END-2021)

TOTAL NEW WAREHOUSE SPACE	717,400 SQM
WAREHOUSE VACANCY RATE	1.5 %
NEW WAREHOUSE RENTS (SQM / month)	€4.00 - €5.30
OLD WAREHOUSE RENTS (SQM / month)	€2.00 - €3.70
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€1.20 - €1.40

STRONG DEMAND FOR LOGISTICS AND INDUSTRIAL PROPERTY

SUPPLY

After rapid expansion of the warehousing property sector in Vilnius region in 2020, development in the sector was more moderate in 2021. Four new projects with a total warehousing area of 42,000 sqm were completed in Vilnius and its surroundings in 2021; this is 30% less than in 2020. These new projects increased the total leasable area of modern warehousing premises by over 6% to 717,400 sqm.

At the end of 2021, 80% of the modern warehouse supply was located within city limits. Most of the new warehouses 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 make up 57% of the current supply. Warehouses with areas from 5,000 to 10,000 sqm account for 27% of the supply, and the remaining 16% are warehouses of less than 5,000 sqm.

Unlike the other Baltic countries, Lithuania's warehousing sector is concentrated in three cities (incl. its surroundings) rather than in just one city/region. The shares in the three cities (incl. its surroundings) at the end of 2021 are as follows: Vilnius (48%), Kaunas (31%) and Klaipeda (21%).

At least six projects with a total warehousing area of around 60,000 sqm are planned for completion in Vilnius and its surroundings in 2022. This includes not only typical warehouses, but also stock-office projects where a major part of the space is planned for production storage.

In 2022, the first larger modern integrated facilities will be opened in Vilnius. These facilities will allow companies to carry out all their operations under one roof: warehousing, distribution, and exhibition of goods and provide a modern workplace for employees. Although planning of the first such projects in Vilnius began a decade ago, the sudden interest of real estate developers and implementation of such projects has only been observed in the last few years. For example, in Estonia's capital Tallinn momentum in this segment was seen much earlier than in Vilnius.

Such projects are particularly attractive to small and medium-sized businesses, for whom storage of products is particularly relevant. Since owners of traditional warehouses prefer to rent larger premises, smaller tenants have to look for other alternatives. New projects which are clearly split by function open up opportunities for businesses wishing to work in a modern environment. It is therefore not surprising that investors are trying to fill this niche and to actively plan further investments not only in the country's capital but in other cities also.

DEMAND

Activity of transport-related, warehousing and storage services again reached record highs in Lithuania in 2021. According to Statistics Lithuania, in 2021, revenues of transport-related and warehousing services amounted to €6.17 billion. After a minor increase in 2020, 2021 saw a significant increase of 31.1%. Taking into account that the economy rebounded in 2021 after the shock due to the pandemic in 2020, this result was expected. The revenues of warehousing and storage companies increased by 16.8% in 2021 and totalled €180 million.

The overall vacancy rate dropped during the year as the new annual supply was almost fully occupied with tenants. The vacancy rate of modern warehouses in Vilnius region at the end of 2021 dropped to 1.5%.

The record high occupancy rate shows that interest in modern warehousing space remained very strong in 2021. The rapid growth of e-commerce also brings a demand for efficient and rapid delivery of goods to end users, which may lead to the more active development of compact, multifunctional projects located closer to consumers. According to Statistics Lithuania, retail sales via mail order houses or via internet in Lithuania grew, on average, by 28% annually in the in 2015–2019 period In 2020, a 52% growth was recorded with continuous growth of 46% in 2021. This means that in 2020-2021 alone sales via mail order houses or via internet more than doubled in Lithuania.

It would seem that sufficient need for modern warehouse space could lead to even more active development, but rapidly rising construction costs remain the biggest challenge for developers. A moderate increase in rents cannot fully offset rising development costs. Nevertheless, the development of this real estate segment in Vilnius region in recent years has been relatively balanced, as businesses looking for modern premises to rent have a variety of options – look for vacant premises in the open market, implement build-to-suit projects or develop such projects on their own.

Looking at the demand for warehousing space in 2022, it is clear that the consequences of the war in Ukraine will affect the performance of both the transport sector and logistics companies. The reduction or cessation of economic relations with Russia and Belarus will further reduce not only the activities of transport companies, but also the occupancy of logistics terminals, which provide both handling and customs clearance procedures. It is clear that, as in 2014 after the annexation of Crimea, businesses will have to reorient their activities westwards.

RENTS

Rents for new warehouses and industrial premises increased by 2%, while older premises increased by 3% in 2021. At the end of 2021, rents for modern new 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 €4.00 to €4.60 per sqm. Renovated premises are being offered at prices from €2.70 to €3.70 per sqm. Average and lower quality premises are offered from €2.00 to €2.50 per sqm. Additional costs for tenants are from €1.20 to €1.40 per sqm on average.

It is likely that the supply of new warehouses planned for 2022 will more than likely be able to meet the current demand for such facilities and the market situation will remain balanced. This should keep warehousing rents essentially stable. However, given the soaring construction prices, only the most recent projects will be implemented if a higher level of rents is ensured to offset rising development costs. The implementation of new projects will continue to depend on prior arrangements with tenants.

INVESTMENT

In 2021 the commercial property investment market in Lithuania bounced back after the disruptions caused by the pandemic in 2020. According to Ober-Haus data, core property (modern office, retail and industrial property worth over €1.5 million) investment totalled €413 million or 19% more compared to 2020. The total volume of investments in 2021 was lower only than the record set in 2019, i.e. it was the second-best annual result in the history of Lithuania. But if count investments by the number of strategic decisions (deals) in 2021, the investment market was even more active compared with the record year of 2019. In 2021, 54% of the total investments were made in the capital (Vilnius's share was 70-80% in 2018-2020 period).

Investment distribution by property type shows that for two successive years the industrial property sector has continued to be attractive to investors. The share of investments in the industrial sector increased to 28% of total investments in 2021 (compared to 22% in 2020) in Lithuania. The retail property sector had a 35% share of the investments and the biggest share was the office sector with 37%. Historically, there was a very balanced distribution by type of property in 2021, where there was no clearly dominant segment. It is obvious that investors were equally interested in all types of commercial property, and that in 2021 this market was not only active in the country's capital, but also in other larger cities (Kaunas, Klaipeda, Panevezys, Marijampole).

As for the geography of investors, local investors were the biggest investors in 2021 and accounted for 39% of all investment in Lithuania. Sweden-based investors accounted for 25% of investments, France – 14%, Estonia – 12% and the rest the remaining 10%.

Investment yields for prime offices in Vilnius decreased by 30-50 bps throughout 2021. At the end of 2021 yields ranged from 5.0% to 6.0% for higher class offices and retail properties to 6.5–7.5% for secondary properties. Yields for warehousing premises ranged from 6.5% to 8.0%.

In the first half of 2021, the Eften Capital managed fund acquired an industrial-commercial complex from Arginta Group. The three building complex with a total area of more than 16,000 sqm is located in the northern part of the city next to Moletu Highway. Details of the current transaction have not been disclosed.

In the first half of 2021, an East Capital managed fund acquired a logistics centre in one of the industrial zones of Vilnius. The almost 13,000 sqm building is located on Jankiskiu Street and is fully leased to four tenants. Details of the current transaction have not been disclosed.

At the end of 2021, an East Capital managed fund acquired a last-mile logistics centre in Pasilaiciai residential district from investment company Grinvest. The newly reconstructed and almost 6,500 sqm building with warehouse, showroom and office space was leased to Pigu, the largest e-commerce company in the Baltics. Details of the current transaction have not been disclosed.

At the end of 2021, a Prosperus Asset Managment managed fund acquired a newly developed industrial property from BIOK Laboratory in the northern part of the city on Ukmerges Street. A 4,800 sqm building was leased to the property seller, one of the largest cosmetics manufacturers in the Baltic region. Details of the current transaction have not been disclosed.

LEGAL NOTES BY SORAINEN

Over the past few years, lease agreements of industrial real estate have become 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.

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

RECENT DEVELOPMENTS

LIEPKALNIS INDUSTRIAL PARK IV – After the completion of three stages in 2017-2019, the commercial property developer Sirin Development completed the fourth stage of an industrial park in the southern part of Vilnius, next to Liepkalnio Street, in Q4 2021. After completion of the fourth stage, with 22,800 sqm of warehousing and 3,400 sqm of office space, currently the whole project comprises a total area of over 88,000 sqm and is one of the largest industrial parks in Lithuania. Asking warehouse rents start at €5.00 per sqm. The developer plans to develop further stages on the same location.

TRANSEKSPEDICIJA IV – After completion of three warehousing buildings close to the northern border of Vilnius city in 2012, 2014 and 2020, local transport-forwarding company Transekspedicija completed a fourth building in the same location next to Ukmerges Highway. The building with 7,400 sqm warehouse premises and 2,000 sqm office premises was completed at the end of 2021. Asking warehouse rents are €4.50-€5.00 per sqm.

AMALVA GROUP / KOMFOVENT – At the end of 2021, Amalva Group, which manages air ventilation systems product manufacturer Komfovent, finished the construction of new warehouse and headquarters office building in Paneriai district, on Lentvario Street. Total area of warehousing/industrial building is around 9,400 sqm, which unites with a previously developed industrial/warehousing complex.

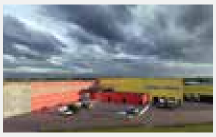
RECENT DEVELOPMENTS

TERMINALO STREET – In Q3 2021, local industrial property developer and production storage services company Arvydo paslaugos finished construction of 2,900 sqm warehouse in the southeastern part of the city next to Minsko Road, on Terminalo Street.

NEW PROJECTS

VILNIUS BUSINESS PARK – In 2018, the real estate development company Darnu Group completed development of the first stage of a modern business park in the northern part of Vilnius next to two main transport arteries, the intersection of Ukmerges Street and the new Western Bypass. Next to the first stage, the company is now finishing the development of a multifunctional stock-office complex with warehouse, retail and office space. At over 23,000 sqm, the complex will be separated into 42 blocks (450–700 sqm in size), which are offered for sale. Construction works should be completed in Q2 2022 with a total investment of €20 million.

MYKOLO LIETUVIO STREET – In Q1 2022, the local development management company Bolds Property Partners finished construction of a stock-office project in the northern part of Vilnius next to the intersection of the major transport arteries Ukmerges Street and the new Western Bypass, on Mykolo Lietuvio Street. The total area of the building is 4,300 sqm, which suits retail, warehousing and office space.



DHL – In Q3 2021, the fund management company Eika Asset Manegement started the construction of a build-to-suit parcel terminal in the territory of Vilnius Airport for logistics company DHL Lietuva. A 4,800 sqm terminal is planned to be completed in Q3 2022 with a total investment of €6.3 million.

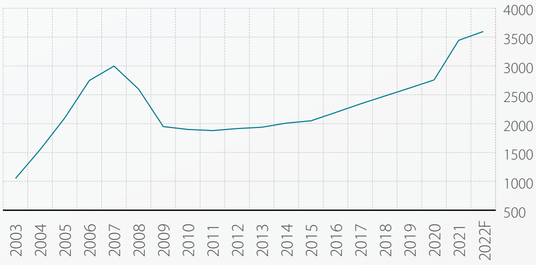
VILPRA– After finishing the first stage of the logistic centre at the end of 2021, engeneering company Vilpa is developing the second stage, which will offer modern warehouse space for the market. The logistics centre is located in the northern part of the city, next to the Old Ukmerges Road, and the total area will reach around 14,000 sqm. The project will be completed in mid-2022. Asking warehouse rents are €5.45 per sqm, office rents €8.00 per sqm.

J55 – Commercial property developer Sirin Development plans to develop up to 100,000 sqm in a commercial project (with a focus on logistics) on a 18.5 ha territory in the western part of the city, on Jocioniu Street. The first warehouse with a total area of 19,500 sqm was completed in Q1 2022 and the second warehouse with a total area of 15,800 sqm could be completed at the start of 2023. Asking warehouse rents starts from €5.00 per sqm.

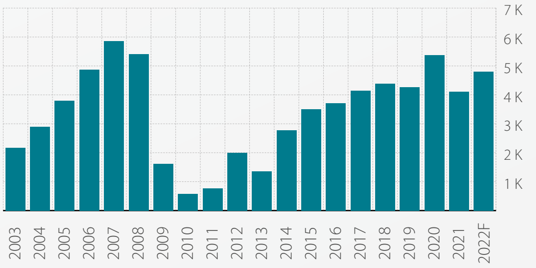
DELAMODE – After completion of build-to-suit warehouse for the logistics company Delamode Baltics in 2020, Baltic Sea Properties, a Norwegian real estate company, is developing an expansion for this client. The additional warehouse with a total area of 4,800 sqm and 28 ramps is close to Vilnius city, next to the Vilnius–Kaunas highway. Construction should be completed in Q3 2022.

E-MARKET CITY – In 2022, a local investment company started the development of the project, which will be focused on the wholesale and ecommerce activity. The project will be located in industrial zone close to Vilnius Airport, next to Eisiskiu Road. The total area of the project will reach 20,000 sqm, which suits warehousing, retail and office space. Project will be developed in stages till 2027. The first stage with 6,400 sqm should be completed at the end of 2022. The complex will be separated into different sized blocks with the rents of €8.00-€8.50 per sqm.

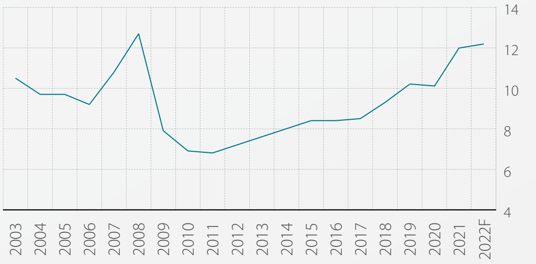
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



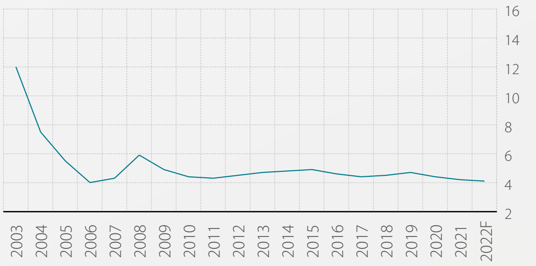
COMPLETED UNITS



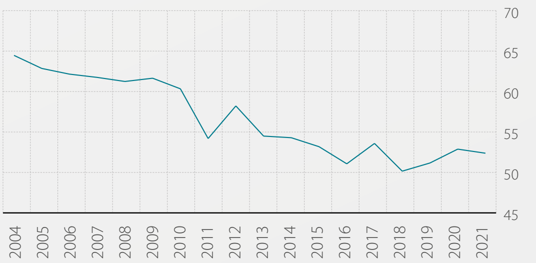
RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



NEW APARTMENT FLOOR AREA, SQM



VILNIUS SNAPSHOT
(END-2021)

ANNUAL APARTMENT PRICE CHANGE	+ 23.3 %
NEW APARTMENTS BUILT	4,113
AVERAGE NEW APARTMENT FLOOR AREA	52.4 SQM
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (SQM/without final fit-out)	€1,500 - €2,400
NEW APARTMENT PRICES IN PRESTIGIOUS DISTRICTS (SQM/without final fit-out)	€2,300 - €4,800
NEW APARTMENT PRICES IN CITY CENTRE AND OLD TOWN (SQM/without final fit-out)	€3,100 - €6,000
FINAL APARTMENT FIT-OUT	€350 - €500
RESIDENTIAL INVESTMENT YIELD (city centre)	4.2 %

A RECORD MONEY FLOW INTO RESIDENTIAL MARKET LEADS TO A HUGE PRICE INCREASE

PRICES

After the residential property market rebounded in the second half of 2020, record breaking figures were recorded in the Lithuanian market in 2021. All the factors for the housing market to heat up were at play in 2021 – rapidly growing household income, low mortgage interest rates, shortage of new housing supply, a desire to protect savings in a high-inflation environment and positive expectations about further price increases.

Thus the country's biggest cities saw the largest increase in apartment sales prices since 2007. According to the Ober-Haus data, in the year, apartment prices in five major cities of Lithuania (Vilnius, Kaunas, Klaipeda, Siauliai, and Panevezys) increased on average by 22.4%. This was a significantly higher increase compared to the previous years with 7.2% growth in 2019 or 4.1% growth in 2020. Depending on the city, apartment prices increased roughly from 19% to 23% in 2021.

Apartment prices in Vilnius increased by 23.3% in 2021 and reached an all-time high, according to the Ober-Haus Lithuanian apartment price index (annual price increase in December 2021 was 23.3% and average annual increase in December 2021 was 14.7%). The average price at the end of 2021 rose to €2,087 per sqm. During 2021, prices for new construction apartments increased by 26.2% and for older apartments they increased by 22.5%. A sharp increase was recorded in the prices of new multi-apartment projects, with the dynamic price situation throughout the year. This was particularly characteristic of brand new projects coming on the market.

Prices for new construction apartments in residential districts at the end of 2021 ranged from €1,500 to €2,400 per sqm without final fit-out. In Lithuania, new apartments are still generally sold as shells, i. e. without any fit-out at all. Apartments sold in a shell state require an average of €350–€500 per sqm to fit out with floors, painting, lights, bathrooms and kitchen (economy and middle class).

By the end of 2021, a standard two-room apartment (45–50 sqm) in a soviet-era concrete block building located in a residential district cost from €70,000 to €88,000. Prices of apartments in old construction brick buildings are 10–20% higher. The lowest price for old construction, unrenovated apartments in typical Vilnius residential districts is €1,200 per sqm.

In the city centre and Old Town, secondary market apartment prices range from €1,900 to €3,100 per sqm for unrenovated and from €2,300 to €5,200 per sqm for renovated apartments. New construction apartments are now offered for €3,100 to €6,000 per sqm without final fit-out. Prices of new apartments in exceptional projects without final fit-out can reach €7,000–€8,000 per sqm.

In prestigious districts (Antakalnis, Snipiskes, Naujamiestis, Zverynas), old construction apartment prices range from €1,600 to €4,100 per sqm. Prices of newly built apartments range from €2,300 to €4,800 per sqm without final fit-out. Prices of new apartments in exceptional projects can reach up to €5,000–€5,500 per sqm.

Like the prices of apartments, prices of houses in Vilnius and its environs also showed a significant increase in 2021. This was particularly true of new construction houses, where prices increased by up to 20% during 2021. The pattern of working from home, which became popular during the pandemic, increased the attractiveness of private homes. People felt the need for larger spaces, which could accommodate more individual spaces.

Detached houses (100–200 sqm with land plots of 500–1,000 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 shells at prices ranging from €130,000 to €190,000. Prices for semi-detached houses (100–125 sqm with land plots of 250–400 sqm) range from €110,000 to €150,000. Full final fit-out generally costs €300–€400 per sqm or more.

The price for a fully finished 100–200 sqm detached house within the city limits (city residential districts) ranges between €180,000 and €450,000, and from €300,000 to €750,000 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. Prices for houses with a large area and in the most prestigious locations of the city can be as high as €1,000,000–€2,000,000.

Due to the Russian invasion of Ukraine in February 2022, the outlook for 2022 is more pessimistic than in it has been at any time in the last decade. The ongoing hostilities in Ukraine raise many questions regarding future economic development not only of Lithuania, but also throughout the world, and the prospects for individual sectors of the economy. The Lithuanian real estate market is no exception; however, the latest available data from the beginning of 2022, do not yet reflect the significant impact of the changing geopolitical situation on the real estate market.

At the end of February and March 2022, various reactions from home buyers to the rapidly changing geopolitical and economic situation was observed, resulting in buyers postponing or reversing their decision to purchase residential property. If the war in Ukraine continues, this may continue to negatively affect the expectations of home buyers and at the same time reduce activity in the housing market. This will be in sharp contrast to the record year of 2021. Another crucial factor will be how real incomes change in an environment of high inflation. However, one of the key drivers of the housing market remains unchanged – borrowing conditions for home purchases remain extremely attractive.

Therefore, in light of this significant change in the overall situation, the previous projections for home prices need to be revised. If an annual growth of at least 10% could have been expected in apartment prices in Vilnius at the beginning of 2022, the current period of uncertainty and the deteriorating mood of market participants could have a negative effect on the market. It is likely that in 2022 we will see a lot of uncertainty and a search for a more solid basis in the real estate market, and a more modest increase in home prices than was forecast before the war.

SUPPLY

According to Ober-Haus data, developers built 4,113 apartments for sale (in 50 different projects) in Vilnius in 2021, which is 23% less than the number of apartments constructed in 2020. At the start of 2021, it was expected that developers would complete 4,500-4,700 apartments but the final result was notably smaller than forecast. Additional challenges on the construction site have led to slightly longer construction timelines, pushing the completion of some projects out to 2022. And the number of apartments completed in 2021 is the smallest in the last five years.

Over 2021, developers built new multi-apartment buildings in 16 out of 21 districts of Vilnius city. Most investments were attracted by six districts which accounted for 77% of all apartments: Snipiskes (16.6%), Pilaite (15.1%), Old Town (14.4%), Verkiai

PRIE VILNELES

(13.9%), Naujamiestis (9.1%) and Lazdynai (8.1%). In 2021, solid investments in the central part of the city continued (Old Town and Naujamiestis district), where developers offer higher class residential projects. In the period from 2019 to 2021, at least 900 apartments for sale were completed annually.

Tightening of energy efficiency requirements for buildings increases the market share of higher energy class buildings (apartments) each year. Data collected by Ober-Haus shows that out of all apartments built for sale in the capital city in 2021, 6.0% of multi-apartment buildings were found to be energy performance class A++, 55.2% were energy performance class A+, 33.3% were energy performance class A, and 5.5% of flats – in multi-apartment buildings – were energy class B or lower.

The average size of apartments in multi-apartment buildings in Vilnius has remained stable over the last seven years and has ranged from 51 to 53 sqm. The average area of apartments in multi-apartment buildings constructed in Vilnius in 2021 was 52.4 sqm and, in comparison to 2020, had decreased by 0.5 sqm. It is obvious that developers have optimised (reduced) the formula of space arrangement in projects constructed for sale and have no plans to change it in the nearest future.

In Old Town and Naujamiestis district in 2021 average apartment size was to 57.1 sqm (59.2 sqm – in 2020), in Zverynas, Antakalnis and Snipiskes – to 53.7 sqm (53.8 sqm – in 2020), and the smallest apartments – 50.1 sqm (51.1 – in 2020) – are found in the remaining areas of Vilnius city. Considering the size of newly built apartments and the poor choice of more spacious units in economy and middle-class projects, it is not surprising that in the last five-six years a huge surge of investments in house construction and acquisition was recorded. Individual or semi-detached houses on the outskirts of the city are becoming an alternative for those looking for more spacious and affordable housing.

In total, 39 different companies implemented multi-apartment buildings projects or certain stages of the projects in Vilnius in 2021. As in previous years, most apartments for sale were built by the more experienced and best-known developers. According to Ober-Haus, in 2021, 52% of apartments were built by the major real estate development companies: Homa, Hanner, Omberg, Eika, Darnu Group and Anreka.

Given the current multi-apartment projects and their progress, Ober-Haus forecasts that about 4,800 apartments or 17% more than in 2021 will be built in 2022 in Vilnius. However, given the geopolitical changes and challenges in the construction sector (rapidly rising prices for building materials, their possible shortage or labour shortage), it is possible that the completion of some projects will be postponed to some later period.

Development of new detached and semi-detached houses for sale was sufficient in Vilnius region in 2021. According to Ober-Haus data, around 760 detached and semi-detached houses were built by developers (in projects with over 5–6 units) in and around Vilnius in 2021, which is almost 13% more compared to 2020. The need for more spacious housing also creates good conditions for further development of private houses. The market is dominated by individual construction, where people build houses for their own needs. The development of housing estates is mainly carried out by lesser-known and smaller investors, while larger developers focus on the development of apartment buildings.

In terms of the total area of houses, the average area of private houses for sale in 2021 remained almost unchanged – 102 sqm (101 sqm in 2020). While in the 2015–2019 period the average total area of houses built for sale in Vilnius region was 109 sqm.

DEMAND

In terms of demand for residential property, 2021 was a truly exceptional year in the Lithuanian market. After the first wave of the pandemic in 2020, the country's entire housing market surged to hit an all-time high both in terms of the total number of transactions and the total amount of money being spent on housing purchases.

In 2021, Vilnius saw a 20% increase in apartment sales and a 19% increase in house sales. In 2021, on average, 1,170 apartment sales and over 120 house sales were made each month in Vilnius city. According to official statistics, total turnover in the Vilnius city residential property market reached an all-time high of €1.7 billion in 2021 and increased by 36% compared to 2020. The total number of housing transactions (apartments and houses) in Lithuania increased by 22% in 2021.

The same spike of activity was recorded in Vilnius' primary apartment market (new construction) in 2021. According to Ober-Haus data, almost 7,050 apartments in newly built buildings or buildings under construction were purchased (incl. presales) directly from developers in 2021 in Vilnius. This is 45% more than in 2020 and it is also the biggest activity ever recorded. Looking at the primary apartment market, top results in 2021 were also achieved due to the courage of buyers who were not afraid to negotiate the purchase of apartments in projects under construction. In other words, the market saw that most of the apartments in projects that had not yet been started or were in progress had been sold/reserved, something that had not been seen for a very long time. In 2021, buyers purchased apartments in previously built projects, in projects that were still under construction, and negotiated purchases in projects that were just beginning, with completion scheduled for 2023.

These record purchases have resulted in the number of unsold apartments in projects built or under development shrinking to unprecedented lows. According to Ober-Haus data, the total number of unsold new apartments on the Vilnius primary market decreased by more than 4 times during 2021. At the end of 2021 there were just 280 unsold newly built apartments in finished apartment buildings. And this figure is a historical low. Looking specifically at the newest projects – 95% of all apartments built over 2021 were sold or reserved at the end of the year. The figure is significantly higher than that recorded in 2015-2019, when this figure was 73-84%. At the end of 2021 70% of the apartments, which will be completed in 2022 in Vilnius, were already sold or reserved.

In view of the ongoing war in Ukraine and current and possible consequences for the world economy and the sentiment of home buyers, it is difficult to expect any type of record performance in the Lithuanian residential market in 2022. It is likely that some buyers will decide to postpone their purchase temporarily, which will also have a negative impact on the overall annual performance indicators.

THE MORTGAGE MARKET

Mortgage loan volumes increased substantially and reached new heights in Lithuania in 2021. According to data from the Bank of Lithuania, new mortgage loans worth €1.98 billion were provided in 2021, an increase of 43% over 2020. In the 2019–2021 period, new mortgage loans of €130 million were provided per month on average in Lithuania, which is almost 33% more than in the 2016–2018 period.

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 2021 the total value of outstanding housing loans stood at €10.2 billion, a historic high. As nominal Lithuanian GDP increased 11.8% and the value of total outstanding housing loans increased by 11.6% in 2021, the debt to GDP ratio decreased by 0.1 percentage point to 18.4%. This rate is one of the lowest in the EU (EU-27 average in 2020 – 46.1%).

The annual average interest rate for new mortgage loans in Lithuania was declining in 2021. According to data from the Bank of Lithuania, the average annual interest rate on new mortgage loans in 2021 was 2.15% (this figure was 2.36% in 2020). In December 2021, the average mortgage annual interest rate was 2.03%.

Since the average annual growth of apartment prices (14.7%) in Vilnius in 2021 was faster than the average annual growth of wages (10.1%), the affordability of apartments decreased to the 2019 level. In 2021 an inhabitant of Vilnius could purchase 7.2 sqm in a medium-class apartment for their average (net) annual salary (an 0.3 sqm decrease compared to 2020).

RENTS

High activity was recorded in the housing rental market in Vilnius in 2021. Apartment rents increased by 9.5%, after rising 4.7% in 2020. The rental market was regularly supplemented with a large number of offers from private investors, who were very active in buying apartments for rent in new projects. However, the high level of demand managed to successfully absorb the growing supply and rents continued to increase.

It is also important to note that in recent years, we have recorded a fairly rapid development of the rental segment in Vilnius, where investors invest in housing projects meant for long-term rent. Investors are not only investing in the reconstruction of old buildings, they are also investing in new multi-apartment buildings for long-term rentals. It is important to note that not only co-living projects with small-size units, but also standard-size apartments in typical apartment buildings are being built. Consequently, both in terms of quantity and quality, the rental segment will expand significantly in 2022 and competition between such projects will increase. In 2022 alone, the number of such dwellings in professionally managed projects in Vilnius will increase from 560 to 1,290 or 2.3 times.

For example, the Finnish construction service group YIT and the BTA Baltic insurance company announced in 2021 that they were setting up a joint company to invest in multi-apartment buildings to be built for rent. The company will purchase two almost completed multi-apartment buildings (over 120 apartments) in the project Naujasis Skansenas developed by YIT Lietuva in Snipiskes district. Local real estate developer Baltic Asset Management in 2021-2022 will finish the development of three different coliving projects (Chapters Slucko, Chapters Smolensko, Youston) with almost 550 units in Snipiskes and Naujamiestis districts.

Looking at current global events, the outlook for the professionally managed rental segment remains relatively stable in the near future. Despite the sudden increase in the supply of such housing, the further development of such projects may be hampered by really significant challenges in the construction sector. Soaring construction costs and a shortage of building materials could slow down the development of new projects, especially when it comes to the construction of new buildings. Consequently, much slower development of such projects in the near future and less competition can be expected. Meanwhile, already implemented projects may see an increase in the number of local tenants who may postpone the purchase of their own home and choose the more flexible rental option due to events in Ukraine. Also the significant number of people fleeing from Ukraine or companies moving from Belarus to Lithuania (in general to Vilnius), which will reduce the overall supply of rental housing in the market. For example, in March 2022, the number of apartment rental offers in Vilnius on the most popular real estate listing portal fell by about 40%.

Given the consequences of the war in Ukraine, Ober-Haus expects that overall residential rents in Vilnius will increase faster than the sale prices, i. e. could increase up to 15-20% in 2022.

Rent for a typical two-room, old construction apartment in Vilnius residential districts was €320 to €400 per month at the end of 2021. Rents for the same size new construction apartment are from €400 to €530 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 €400 to €750 per month, and for three-room apartments from €530 to €1,100 per month. Rents for bigger and well-equipped apartments in the Old Town can range up to €1,300-€1,500 per month. Maintenance costs are additional.

Fully equipped houses of 100–200 sqm on the outskirts of Vilnius are usually offered for rent at €750 to €1,500 per month. Prices in prestigious districts (Valakampiai, Antakalnis, Zverynas) and the city centre or Old Town are higher and vary from €1,200 to €3,500 per month. Rents for bigger houses in the best locations could be as high as €4,000-€6,000 per month. Maintenance costs are additional.

As rents increased less compared to the sale prices of apartments in 2021, the overall gross rental yield decreased by 30 basis points in Vilnius. In 2021, the average gross rental yield in Vilnius for two-room apartments was 4.8%. Faster increased sale prices of apartments decreased average gross rental yield in the central part of the city from 4.4% to 4.2% in 2021 also.

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 (e.g. 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.

VILNIAUS DZIAZAS

OBER HAUS

RECENT DEVELOPMENTS

MISIONIERIU SODAI – At the start of 2021, local real estate developer Misionieriu namai completed a prestigious residential project in Old Town, on Subaciaus Street. Over 100 apartments in this project were planned, but there was a possibility to combine the apartments and the total number of apartments will be smaller. As this project is large in scale and has been able to offer buyers a significant number of spacious apartments, exceptional apartment acquisitions were registered. The most expensive apartment in this project was sold for almost €2.8 million and price per square metre reached around €11,000.

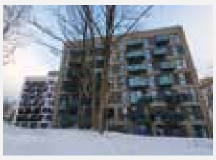
STORYLINE – In Q1 2021, real estate developer Baltic Asset Management completed construction of a residential project in Naujamiestis district, on Algirdo Street, next to Vilnius railway station. The project consists of 69 apartments with sizes ranging from 25 to 66 sqm. All apartments were sold by Q2 2021.

VERKIU SODAS – At the end of 2021, real estate developer Hanner completed the second stage of a residential project in Zirmunai district, on Verkiu Street. Two 9-storey buildings comprise over 160 apartments ranging in size from 28 to 96 sqm. By the end of 2021, almost all of the apartments were sold. Prices of the available apartments range around €2,500 to €3,200 per sqm.

VIRSULISKIU STOGAI – At the end of 2021, the real estate development company Omberg completed the construction of a residential project in Virsuliskes, on Virsuliskiu Street. The project consists of three 11-storey buildings with around 160 apartments, ranging in size from 30 to 70 sqm. All apartments were sold by Q3 2021.

GILUZIO RIVJERA – At the end of 2021, real estate developer Homa completed the development of a residential project in Pilaite district, on Giluzio Street. A low-rise multi-apartment project in total consists of 16 buildings with around 360 apartments. By the end of 2021, almost all apartments has been sold.

LAZDYNELIU VINGIS – In Q2 2021, real estate developer Homa completed another stage of a residential project in Lazdynai district, on Lazdyneliu Street. This stage consists of three buildings with 137 apartments. Homa is planning to finish another four buildings in this project in 2022 with around 160 more apartments.



BAJORU LAJOS – At the end of 2021, real estate development company Omberg finished construction of the second stage of a residential project in Verkiai district. The project consists of 147 apartments ranging in size from 25 to 72 sqm. The company plans to start the third stage of the project in 2022, and even though construction has not started yet, all of the apartments in the project are already reserved.

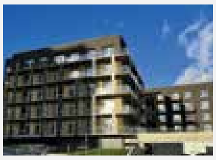
RENESANSO – In the first half of 2021, local real estate development company Hanner completed the development of a residential project in the Old Town, on Sodu Street (next to the city railway and bus station). The A class energy-efficient 3-4-storey buildings offered almost 150 apartments and commercial premises. Apartments of 1-4 rooms range in size from 20 to 130 sqm. By the end of 2021, over 95% of the apartments had been sold.

NAUJOSIOS SANTARISKES – In 2021, local developer A plius linija continued the development of residential project in the northern part of the city next to Moletu Road, on Daujoto and Dangerucio Streets. After completion of the first apartment building in 2020, the company completed another eleven buildings with 165 apartments in 2021. By the end of 2021, about 95% of apartments had been sold. Further development of this project will continue in 2022 and later.

RECENT DEVELOPMENTS

MATAU VILNIU – In Q4 2021, real estate development company YIT Lietuva completed the third stage of this project in the city centre, on Aludariu Street. The two buildings comprise 80 apartments, ranging in size from 42 to 107 sqm. By the end of 2021, all of the apartments had been sold.

VILNIAUS MONMARTRAS – At the end of 2021, local developer Larejas finished a project in Uzupis district, on Polocko Street. Two 4-storey buildings comprise 46 apartments, ranging in size from 16 to 82 sqm. By the end of 2021, more than 90% of apartments had been sold.



VEIKMES PARKO NAMAI – In 2018, real estate development company Veikme started the development of a residential project in Baltupiai district next to Jomanto Park, on Didlaukio Street. In the second half of 2021, the company completed the construction of the last two residential buildings with 70 apartments. In total, there are seven 5- and 8-storey residential buildings with more than 240 apartments. The project is A+ and A++ class energy efficiency with geothermal heating. By the end of 2021, almost all of the apartments were sold.

SNIPISKIU PERSPEKTYVOS – In mid-2021, the real estate development company Lithome completed an A+ class energy efficiency residential building in Snipiskes district, on Satrijos Street. The 6-storey building has 50 apartments ranging in size from 22 to 70 sqm. By the start of 2021, all the apartments had been sold and the company now plans to develop another residential building next to this one.

7 VAKARAI – At the end of 2021, local real estate development company Realco completed the first two buildings in a project in Pasilaiciai district, on Budiniskiu Street. The completed buildings consist of 118 apartments. By the end of 2021, around 90% of apartments had been sold. The prices of the available apartments without fit-out range from €2,000 to €2,350 per sqm.

BUK CIA – In the second half of 2021, local real estate development company Citus completed a project in Lazdynai district, on Bukciu Street. The two A+ class energy efficiency buildings offered over 100 apartments with 5 detached houses between them. As of the end of 2021, all units had been sold.

MEMELHAUS – In Q4 2021, local real estate development company Groupinvest completed a row-house project in the southeastern part of Vilnius, in Kalnenai district, on Juodupio Street. The 36 row houses with a 102 sqm size are on three levels and have land plots of around 150 sqm. As of the end of 2021, almost all of the houses had been sold. Asking prices of the available houses without fit-out are €165,000.

RIVERLAND – In the second half of 2021, local real estate development company Rinvest completed the construction of 41 row houses in Lazdyneliai district, on Lazdyneliu Street. The 105 sqm sized row houses are on three levels. By the end of 2021, almost all of the houses had been sold. Further, the company is developing apartment buildings on the same territory.

OBER HAUS

NEW PROJECTS

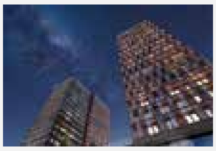
VILNIAUS DZIAZAS – In the second half of 2022, the local real estate development company Unique Properties will start the construction of a residential project in Senamiestis district, on K. Vanagelio Street. The two A++ class energy efficiency 3-4 storey buildings with over 64 apartments are planned for completion in the second half of 2024. Apartments range in size from 28 to 118 sqm, and top-floor apartments will have terraces and the first-floor owners will have yards. The prices of apartments without fit-out are from €3,800 per sqm.

REVINGIS – At the end of 2021, the investment and development company Galio Group started the development of its large-scale project in Vilkpede district, on Gelezinio Vilko Street. The company has planned separate stages of development, comprising 14 residential buildings with almost 600 apartments and a business centre. The first stage, River Space, with almost 150 apartments, will be completed in the second half of 2023. The project is located close to Vingis Park and the Neris River.

OZO GAMA – At the beginning of 2021, real estate development company Hanner started a residential project in the Ozo Park territory, on Kalvariju Street. Four 5-6-storey A+ class energy efficiency buildings will house about 240 units whose sizes range from 23 to 87 sqm. The end of the construction is expected in Q3 2022. As of the end of 2021, almost 70% of units had been sold. Asking prices of the available apartments start at €2,500 per sqm.

GALLERY 4A – At the start of 2021, real estate developer Releven began the construction of an upper-class residential project in the Old Town, on J. Basanaviciaus Street. The project consists of only 11 apartments ranging in size from 60 to 230 sqm. The developer plans to complete construction in the second half of 2022. Asking prices of the best apartments exceed €5,000 per sqm.

SV. STEPONO BALTAS LAPAS – In 2021, local development and construction company Eika started construction on a residential project in Naujamiestis district, on Sv. Stepono Street (next to the city railway and bus station). The 4-storey buildings contain over 130 apartments ranging in size from 29 to 77 sqm. By the end of 2021, almost 90% of the apartments had been sold. Eika plans to complete construction in Q1 2023. Asking prices of the available apartments start at €3,300 per sqm.



SKYLUM – In Q3 2021, real estate development company Omberg started construction on a residential project in Virsuliskes district, on Virsilu Street. The project consists of two buildings and will comprise more than 400 apartments. The first 20-storey building with over 200 apartments will be completed in 2023. As of the end of 2021, around 85% of apartments had been sold. The prices of the available apartments start from €2,500 per sqm.

NEW MOON – In Q1 2021, real estate development company Lithome started a residential project in the Old Town (Paupys district), on Aukstaiciu Street. The 3-storey buildings comprise 26 apartments ranging in size from 23 to 72 sqm. By the end of 2021, about 90% of apartments had been sold. The residential project will be completed in the second half of 2022. The prices of the available apartments are €5,000 per sqm.

SIDARONIU NAMAI – In 2021, a local development company started construction on a residential project in Justiniskes district, on Sidaroniu Street (close to the new Western Bypass). The A+ class energy efficiency 3-storey building comprises 24 apartments ranging in size from 50 to 68 sqm. Also, six 112-114 sqm sized row houses will be developed next to the apartment building. The project should be completed by the end of 2022. The prices of the available apartments start from €2,300 per sqm and the houses are sold for €2,000 per sqm.

LINK TEN – The local real estate development company Citus is developing a residential project in Snipiskes district, on Linkmenu Street. Two 5-6-storey buildings with over 120 apartments will be completed in the second half of 2022. Apartments range in size from 28 to 88 sqm and the top-floor apartments will have 14-66 sqm sized terraces. By the end of 2021, about 80% of the apartments had been sold. The prices of the available apartments without fit-out are from €3,300 per sqm.

NEW PROJECTS

PRIE VILNELES – In Q2 2021, local real estate development company Realco began construction on a residential project in Markuciai district, on Pakrascio Street. The A+ class energy efficiency residential project with around 230 apartments should be completed around the start of 2023. Apartments of 1-4 rooms range in size from 30 to 100 sqm. As of the end of 2021, over 90% of the apartments had been sold.

TRYS KARALIAI – In 2021, developer Diamona started the development of a residential project in Uzupis district, on Polocko Street. The A+ class energy efficiency residential project with 44 apartments consists of three residential blocks. Apartments of 1-4 rooms range in size from 34 to 137 sqm. The first building will be completed in Q4 2022 and completion of the other two buildings is scheduled for the mid-2023. By the end of 2021, around 40% of apartments were booked or sold. Asking prices of the available apartments without fit-out range from €3,300 to €6,000 per sqm.

SMILGOS – In 2021, the construction of the second stage of an economy-class residential project was started in Pasilaiciai district, on Perkunkiemio Street. The B class energy efficiency and 12-storey building will offer over 140 apartments. The project should be completed in the first half of 2023. The prices of the available apartments without fit-out are from €1,500 per sqm. Car parking costs from €5,000 to €6,000 per space.

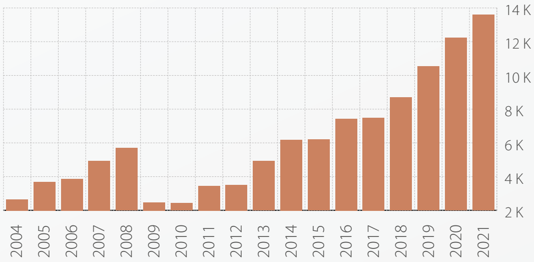
ZVERYNO CITY – In 2021, real estate development and investment company Rewo started the construction of a residential project in Zverynas district, on Paribio Street. The A+ class energy efficiency project consists of seven residential blocks with over 300 apartments. Apartments of 1-4 rooms range in size from 22 to 105 sqm. The first stage will be completed in mid-2023. The prices of the available apartments range from €3,000 to €3,800 per sqm.

RAMU DU – At the start of 2021, the real estate development and managment company Baltic Asset Management started the development of a residential project in Naujininkai district, on Broliu Street. The project consists of two 4-storey residential buildings, which will be completed in Q2 2022. The project with 56 apartments offers 1-3 room apartments ranging from 23 to 55 sqm. By the end of 2021, all of the project's apartments had been sold.

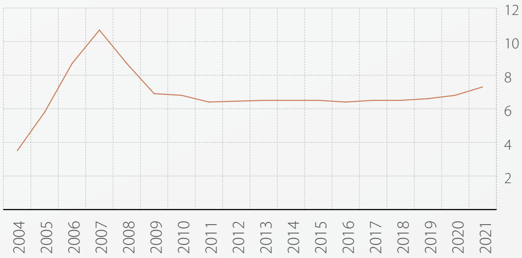
UPELES NAMAI – At the start of 2022, a local real estate developer had finished the construction of an upper-class individual house project in Turniskes district, next to Nemencines Road. The A+ class energy efficiency project consists of 7 individual houses that are 159 sqm in size (including garage) on 450-530 sqm land plots. The prices of the available houses without fit-out are €330,000.

SVEIKI! – At the end of 2021, local real estate development company BuildMe started the development of a row-house project in the southeastern part of Vilnius. The new A++ class energy efficiency 42 row-house project will be located in Kalnenai district, on Lyviu Street. The houses of 59-89 sqm with land plots of 35-240 sqm without fit-out are priced from €130,000. The project should be completed at the end of 2022.

LAND TRANSACTIONS IN VILNIUS CITY



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



VILNIUS SNAPSHOT (END-2021)

TOTAL LAND TRANSACTIONS CHANGE (Vilnius city)	+ 11 %
TOTAL LAND TRANSACTIONS CHANGE (Vilnius district)	+ 44 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€500 - €1,600
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€100 - €300
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€25 - €90

INVESTORS GRABBED DEVELOPMENT LAND

PRICES

Just as 2021 recorded extremely high demand in the housing sector and record growth in prices, land acquisition by real estate developers reached previously unseen heights. The huge interest in plots of land suitable for both residential and commercial development in the capital city pushed prices up, particularly for land plots suitable for residential developments, as this segment seemed to have good potential. With the supply of new apartments shrinking fast in 2021, developers sought to equip themselves with land plots for future projects, and naturally, competed actively in buying them.

The sales prices of land plots in less desirable areas of the city increased by up to 10-15%, while the most attractive plots of land located in the centre of the city or in adjacent areas, increased by up to 20-30% in 2021. Asking prices for plots in the central part of the city or other prestigious districts suitable for residential and commercial development (with detailed plans or construction permit) are now €500–€1,600 per sqm of land, or roughly €400–€1,200 per gross buildable square metre of residential or commercial space.

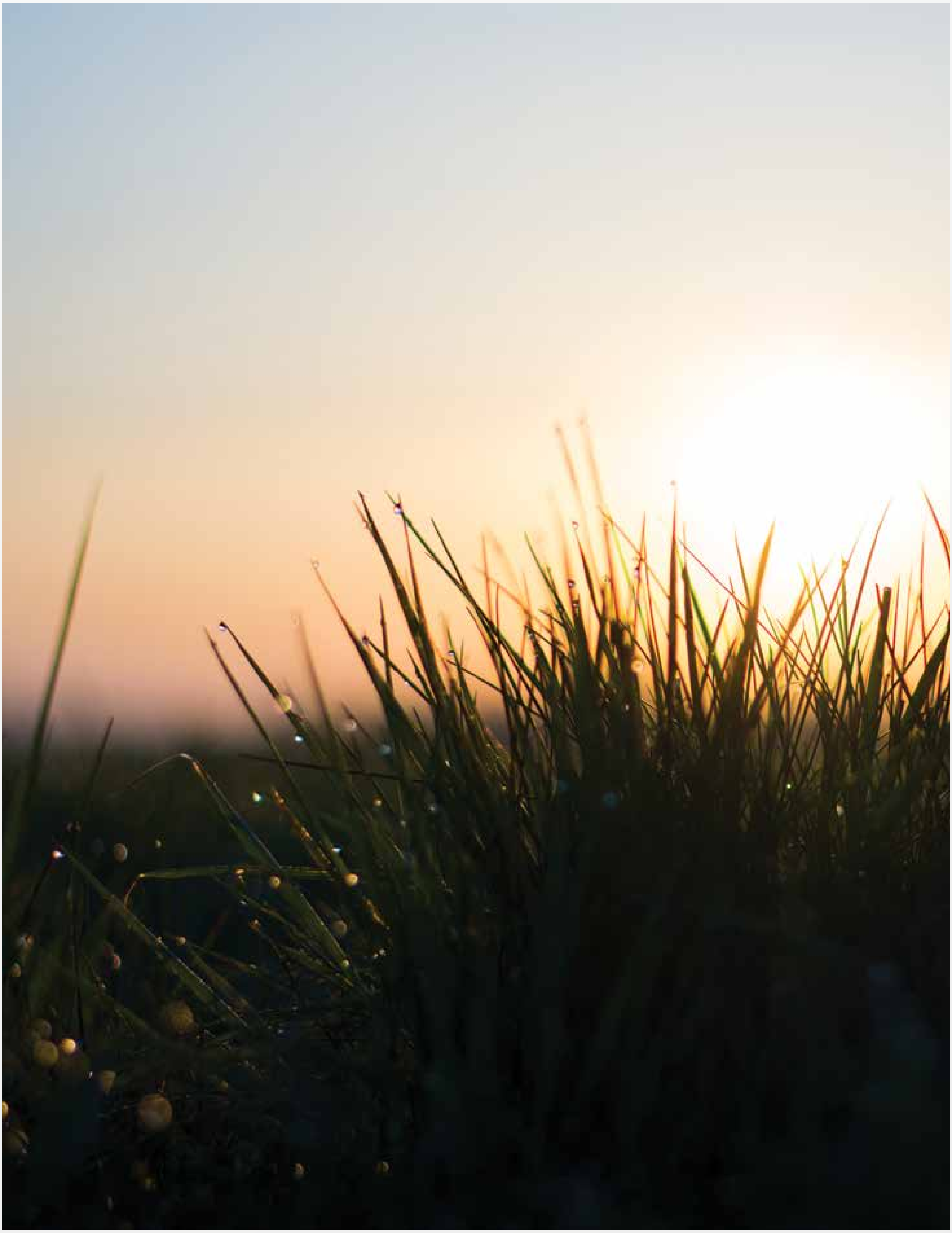
Plots in residential suburbs for multi-apartment developments (with detailed plans or construction permit) range from €100 to €300 per sqm, which works out at roughly €90 to €240 per gross buildable square metre of residential space.

Despite a sufficient supply of land parcels for individual construction on the outskirts of Vilnius city, there was a notable increase in prices. The price of land plots in the most popular and desirable locations in Vilnius surroundings increased by up to 10% in 2021. Land parcels suitable for the construction of individual houses are offered both by private persons and developers who prepare entire packages of land parcels for sale (communications are installed, access roads are built and any other infrastructure is ensured). Purchasers have a wide choice of land plots suitable for individual constructions – from a basic plot to land with full infrastructure. At the end of 2021, prices of plots for private homes with partial or full infrastructure were €25–€40 per sqm in the cheaper suburbs, to as high as €50–€90 per sqm in Visoriai, Riese, Bajorai, Kalnenai, Gulbinai.

Prices for agricultural land depending on location, land productivity and size, in Lithuania range from €1,500-€2,000 per hectare for poor quality and smaller-sized land plots in less desirable locations to €6,000-€8,000 per hectare for highest productivity mid and large-sized land plots.

The Law of the Republic of Lithuania on Infrastructure Development that came into effect at the beginning of 2021 defines four infrastructure tax rates for newly planned buildings in Vilnius: €50 per sqm for buildings built in non-priority zones, €30 per sqm for buildings built in priority zones, €18 per sqm for conversion projects, and €15 per sqm for single-family homes. The municipality will use the funds solely for the development of infrastructure. This law is particularly relevant for developers who plan to build new buildings in non-priority zones where infrastructure is not fully developed. In such zones, the tax burden on developers may represent a significant part of the development costs (e.g. warehousing buildings in the suburbs, etc.).

The taxes collected will go to the Vilnius infrastructure support programme and will be used to build pavements, bicycle paths, public transport infrastructure, streets, and the necessary social infrastructure (e.g. construction of a nursery or school) and will replace in certain cases the priority municipal infrastructure developed at the developer's expense. Previously, real estate developers in Vilnius have independently built infrastructure and had to pay a small social infrastructure fee.



DEMAND

The total number of land transactions in Lithuania jumped by 25% and reached record heights in 2021, according to data of the Central Registry. There was another significant increase in the number of transactions of land parcels in Vilnius region in 2021. Total land transactions increased by 11% in Vilnius city and by 44% in Vilnius district. It should be noted, however, that when acquiring a house or apartment (especially a new construction), people also acquire land with the property, and these land transactions could be part of the overall transaction statistics.

There was notable activity in the acquisition of smaller plots of land for the construction of private houses in 2021. It can also be noted that buyers are not only buying such plots in Vilnius to build houses on, but also as a medium or long-term investment. Increased buyer activity may have been driven not only by good housing market indicators, increasing financial wellbeing or expectations, but also by the need for more spacious or secluded housing during a pandemic or post-pandemic period.

The big investors were very active in purchasing land plots in various locations in the city—starting from the city outskirts to central parts of the city. The demand for higher quality housing, even if it was more expensive, remained high and prompted developers to invest. They were mostly interested in land plots which might allow them to develop medium and higher-class residential projects. During 2021, the ten biggest developers in Vilnius, between them, purchased land plots totalling over 50 hectares, and these will be mainly allocated for the development of residential projects.

In Q2 2021, real estate developer Homa acquired a 15-ha territory in the northern part of Vilnius, in Mazieji Gulbinai district. With this acquisition, the company consolidated a 22 ha territory and plans to develop a residential project with around 2,500 apartments.

In Q2 2021, real estate developer Omberg acquired a plot of almost 10 ha in Pilaite district. Omberg and other investor plans to develop a 35,000 sqm residential project with around 650 apartments.

In 2021, a new entrant in the residential property development market, the Swedish company Bonava, acquired two 3.7 ha land plots in the northern part of Vilnius. The developer plans to develop a residential project with around 700 apartments with an investment of over €50 million.

In the first half of 2021, real estate developer Darnu Group acquired a 4.2 ha parcel of land in the northern part of Vilnius, next to Ukmerges Street. Darnu Group is finishing the development of the first stage of commercial project Vilnius Business Park close to the newly acquired land plot and plans further development of the project on the new site.

In 2021, the Eika Asset Management managed fund from the subsidiary company of Ogmios Group acquired old buildings on a 2.6 ha site in Visoriai district. The company plans to develop a residential project with around 600 apartments.

In the second half of 2021, real estate developer Darnu Group acquired a 8.3 ha site in Lazdynai district, close to exhibition and congress center Litexpo. The company plans to develop a residential project with around 900 apartments.

In 2021, real estate developer Citus acquired a 1.81 ha plot in Zirmunai district, on Kareiviu Street. The developer plans to develop a 35,000 sqm residential and commercial project.

In Q3 2021, real estate developer Darnu Group acquired a 1.7 ha plot in the industrial zone in the western part of the city, on Gariunu Street. Darnu Group plans to develop a 8,000 sqm stock-office project in 2023.

In Q3 2021, real estate developer Hanner acquired old buildings on a 1.18 ha plot in Vilkpede district, on Naugarduko Street. The company plans to develop a residential project. At the same time the investment company Galio Group acquired old buildings on a 0.79 ha plot, next to the property acquired by Hanner, and is planning a new development.

In mid-2021, Realco acquired a 0.64 ha plot in the central business district, on Konstitucijos Avenue. In Q4 2021 this plot was sold again to the fund managed by Lords LB Asset Management. It is expected that this investment company will develop an office project.

LEGAL NOTES BY SORAINEN

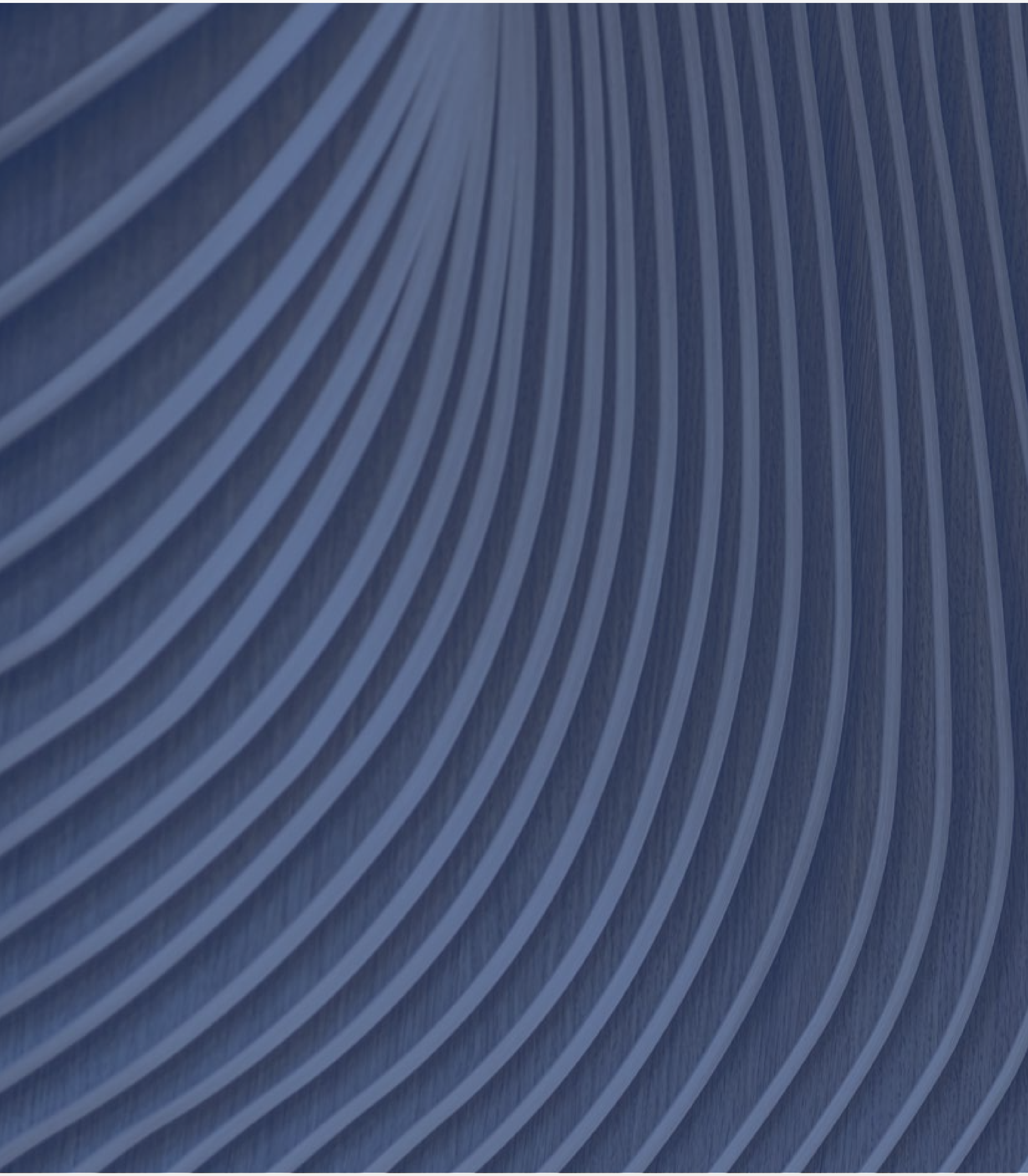
Private land is usually leased for agriculture. Lease of state-owned land under privately-held buildings is very common.

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 0.37% on the value of real estate. However, the fees shall not be less than EUR 33 or exceed EUR 5,000 (plus VAT) for one transaction;
- State duties imposed upon the registration of a transfer of real estate are not material (up to EUR 17.19).

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 0.33-0.41% on the value of transaction (the fee shall not be less than EUR 17 or exceed EUR 5,000 (plus VAT)), 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 4.15). 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 the rent of real estate located in Lithuania is subject to 15% PIT on gross income for the income amounts (not including employment related income) not exceeding EUR 180,492 per calendar year of 2022, and 20% PIT rate is applied on the part exceeding this threshold. 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 rented to individuals and not to legal entities. In such case individuals should obtain a business certificate for rent of residential premises.

SALE

Disposal of real estate in Lithuania can be affected 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 is 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, income from the sale of real estate located in Lithuania is subject to 15% PIT on gross income for the income amounts (not including employment related income) not exceeding EUR 180,492 per calendar year of 2022, and 20% PIT rate is applied on the part exceeding this threshold. 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 rented to individuals and not to legal entities. In such case individuals should obtain a business certificate for rent of residential premises.

EXIT TAX

Starting from 2020 new exit taxation rule is established in Lithuania. When transferring assets (in other form than sale) from a Lithuanian taxpayer (local legal entity, branch or a permanent establishment of a foreign entity) to a foreign taxpayer for a period that is over 12 months and those assets are not used as advanced payment or collateral, exit taxes can apply. Such transfer can be considered as an asset sale at market price, thus subject to 15% CIT.

REAL ESTATE TAX (BUILDINGS/PREMISES)

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.5% to 3% depending on municipalities. In Vilnius, the RET rates established for 2022 are:

- 1% - standard RET rate;
- 0.7% - for cultural, leisure, catering, sport, educational or hotel buildings (with some exceptions);
- 3% - for real estate that is actually used and the construction of which is not completed; for real estate the owners or users of which do not comply with the obligations when supervising the structure as provisioned under the Law on Construction; for real estate which does not comply with the essential requirements provided for in the design of the structure; for real estate on which advertising is installed without complying with the Law on advertising.
- In addition, the increase of the rate by 1% may apply in specific cases (by increasing the rate of 1% or 0.7%), e.g. when the requirements set out in the Rules on Noise prevention in Public Places are not complied with.

Residential and other personal premises owned by individuals are exempt from tax where the total value of EUR 150,000 is not exceeded, whereas the excess value is subject to progressive taxation:

- 0.5% RET rate is applied on taxable value exceeding EUR 150,000 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.

Residential and other personal premises held by families which meet certain criteria are exempt from tax where the total value of EUR 200,000 is not exceeded, while the excess value is subject to progressive taxation:

- 0.5% RET rate is applied on taxable value exceeding EUR 200,000 but not exceeding EUR 390,000;
- 1% RET rate is applied on taxable value exceeding EUR 390,000 but not exceeding EUR 650,000;
- 2% RET rate is applied on taxable value exceeding EUR 650,000.

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 or using the replacement value (costs) method (performed 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 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 2022 are:

- 0.12% - standard tax rate for individuals and companies;
- 0.24% - increased tax rate for the use of land for commercial facilities (certain conditions apply);
- 0.24% - increased tax rate for the land plots that do not ensure sustainable pedestrian mobility in their environment;
- 4% - increased tax rate for the land that is not used and for the land with buildings recognized as unauthorised construction. As well, for the land on which advertising is provided in breach of prohibitions and requirements established by the Law on Advertising of the Republic of Lithuania
-

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. In Vilnius, the land lease tax varies from 0.4% to 4%.

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 for a private limited company where shareholders' personal securities accounts are transferred to a professional firm entitled to manage personal accounts for financial instruments (eg a financial brokerage firm).

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 0.33-0.41% of the transaction value and is capped at EUR 5,000.

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 logistics sector.

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 on 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 can involve checks on e.g. ownership titles, the target and engineering infrastructure servicing the target, encumbrances, permitted use, third party rights, public restrictions, lease agreements, agreements for the 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 0.37% of the real estate transaction value, capped at EUR 5,000 for transactions that involve one real estate object and at EUR 12,000 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. State duty for registration or deregistration of title to each real estate object amounts to EUR 17.19 (increased fees apply for accelerated registration).

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 0.33-0.41% of the transaction value and is capped at

5,000 EUR. For transactions that involve transfer of shares of two or more companies, the notarial fee (when applicable) is capped at EUR 12,000.

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).

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.

It should be mentioned that the Law on Special Conditions on Land Use establishes that the execution of economic and/or other activities, or the use of the site without the establishment of sanitary protection zones specified by law may result in administrative fines. If sanitary protection zones are required for the performed activities, such persons are obliged to establish the required sanitary protection zones and register them in the Real Estate Register by 31 December 2022. Carrying out activities without establishing and registering the required sanitary protection zone is to be prohibited from January 2025.

SORAINEN

LEGAL NOTES

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, gas and 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 the expenses incurred by the owner for maintaining the leased premises. A guarantee, deposit or other similar security ensuring the 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 Register of Contracts and Property Seizure Acts. Mortgage registration with the Register of Contracts and Property Seizure Acts is an administrative process (rather than a judicial one, as used to be the case) which is usually done by a notary. As a result of the amendments, the requirement to execute the mortgage in a standard form has been removed.

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 the territorial planning regulations, the right to build in urbanised areas or areas under urbanisation may be exercised without preparing a detailed plan if construction complies with special laws (e.g. laws related to national defence) or the master plan. As a result, construction on a land plot may be carried out according to a master plan. However, under current legislation, the preparation of a detailed plan is mandatory when development of a territory is planned within urbanised areas or within areas that are being urbanised. This may occur in cases where the existing and/or designed engineering and/or social infrastructure of the municipality is insufficient and needs to be planned. Considering the aforementioned, it is likely that a detailed plan would have to be prepared in most cases, i.e. in case of the absence of a detailed plan, construction would not be permitted to be carried out under the 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 the completion of construction. A certificate of energy efficiency should be obtained for a building 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 the 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 250 m2). A certificate of class A+ energy efficiency is required for newly constructed buildings where the construction permit was obtained after 1 January 2018. Under current legislation, buildings shall meet the energy efficiency requirements for class A++.

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.

Moreover, developers intending to carry out construction or reconstruction are required (i) to pay the infrastructure development fee (calculated as EUR X per 1 sq.m) or (ii) to contribute to the development of the planned public infrastructure, i.e. to install infrastructure (roads, networks etc.). The infrastructure development fee must be paid when applying for a construction permit.

INSOLVENCY

If a company is unable to cover its liabilities in a timely manner and the liabilities of the company exceed the value of its assets, then bankruptcy or restructuring proceedings may ensue.

RESTRUCTURING

Restructuring proceedings may be carried out if (i) a company may realistically be able to overcome its temporary financial problems; (ii) when a company is carrying out activities that will enable it to fulfil its obligations in the future; (iii) a company is not being liquidated due to bankruptcy. Company restructuring may not exceed five (4+1) years in duration. 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. The initiation of restructuring proceedings requires no approval by creditors, who become involved 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. Insolvency administrators are selected at random, using a special e-system.

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Ober-Haus has 6 offices in Latvia which are located in Rīga, Liepāja, Ventspils, Jelgava, Valmiera, Daugavpils and three representative branches in Ogre, Sigulda and Tukums. In all, over 45 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

2022 FORECAST

GDP annual growth, %	4.2
GDP per capita, €	15,400
Average annual inflation, %	6.1
Unemployment rate, %	7.5
Average monthly net salary, €	985
Average salary growth, %	7.5

POPULATION	2016	2017	2018	2019	2020	2021
Latvia	1,968,900	1,950,000	1,934,000	1,920,000	1,907,700	1,893,200
Riga	639,600	641,500	638,000	632,000	627,500	614,618
Daugavpils	85,900	86,100	83,300	82,600	82,000	80,627
Liepaja	70,600	69,400	69,200	68,900	68,500	67,964

ECONOMICS	2016	2017	2018	2019	2020	2021
GDP growth, %	2.1	4.6	4.8	2.3	-3.6	4.8
GDP per capita, €	12,800	13,900	15,300	14,900	14,400	14,700
Private consumption growth, %	3.5	3.1	4.3	3.7	3.3	—
Average annual inflation, %	0.1	2.9	2.5	2.8	2.4	3.2
Unemployment rate, %	9.6	8.7	7.4	6.2	8.2	7.8
Average monthly net salary, €	631	676	742	800	844	916
Average salary growth, %	4.6	7.1	9.8	7.7	6.2	8.9
Retail sales growth, %	4.0	4.9	4.0	2.3	1.5	—
FDI stock per capita, €	6,900	7,400	7,300	8,300	—	—

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

THE LATVIAN ECONOMY IS RECOVERING, ALBEIT AT A SLOWER PACE THAN EXPECTED

Economic recovery in Latvia continues as factors limiting growth are expected to dissipate over the course of 2022. However, the country faces headwinds amidst the global COVID-19 pandemic and likely hawkish evolution of EU monetary policy in the coming years. That said, an abrupt withdrawal of the monetary policy support is unlikely. Diminishing uncertainty can be expected to release pandemic savings and accelerate private consumption, although government support during the pandemic has increased the national deficit. In 2021, this spending is 2.5 times higher when compared to 2020.

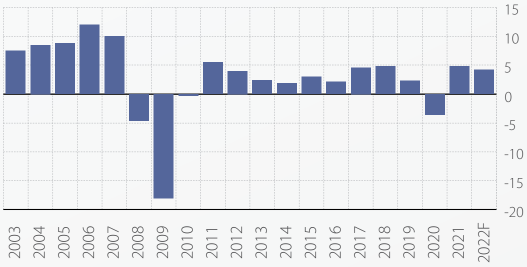
GDP growth in 2021 reached 4.8% in contrast to a decline of 3.6% in 2020. GDP growth of 4.2% is estimated for 2022. The cost of building materials and equipment have risen to a larger extent than estimated, dampening the investment activity. Restrictions on the provision of services put a continued downward pressure on exports and the labour market continues to be tight, partly due to the necessity for vaccination certificates.

In December 2021, business confidence indicators slightly improved in the retail trade and services sector, in industry they remained stable, but in construction business environment the indicators continued to worsen. Recovery in segments related to tourism and hospitality, as well as those where face-to-face contact is essential, are expected to lag in recovery, however signs of pent-up demand are evident.

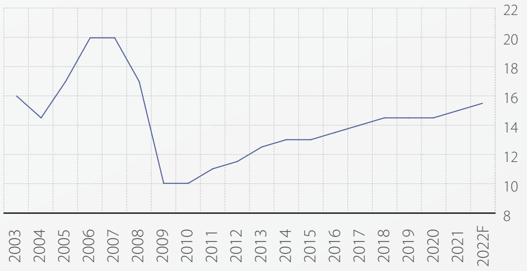
Average net wages stood at €916 at the end of 2021. They are expected to increase by 7.5% over the course of 2022 and 6.8% in 2023—partly due to the planned reform of the public administration remuneration system. The unemployment rate was 7.8% in 2021 with an expected mild decrease to 7.5% in 2022. The decreasing availability of labour, strengthens the pressure on wages. Labour shortages are expected to worsen.

Average annual inflation reached 3.2% in 2021, with 7.9% of annual inflation in December 2021. During 2022 inflation is estimated at 6.1% in light of increasing energy prices, alongside global supply chain issues, increased production costs and rising food prices. Underlying inflation is expected to increase due to rising wages, however the aforementioned factors are estimated to be transitory, leading to a moderation of inflation by 2023 to an estimated 2.9%.

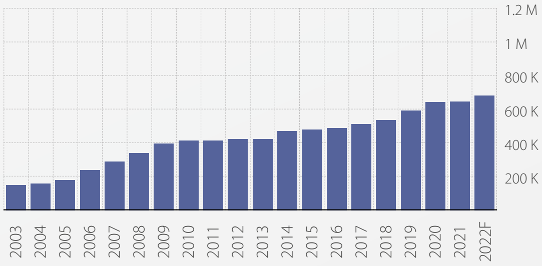
GDP GROWTH, %



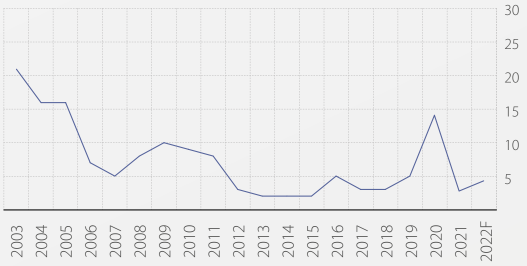
A CLASS OFFICE RENTS, €/SQM



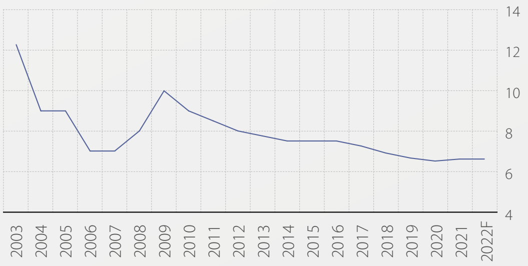
TOTAL MODERN OFFICE STOCK, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



RIGA SNAPSHOT (END-2021)

TOTAL OFFICE SPACE	644,800 SQM
TOTAL OFFICE VACANCY RATE	13.7 %
A CLASS OFFICE VACANCY RATE	12.9 %
B CLASS OFFICE VACANCY RATE	13.9 %
TOP OFFICE RENTS (SQM / month)	€18.00
A CLASS OFFICE RENTS (SQM / month)	€13.00 - €17.00
B CLASS OFFICE RENTS (SQM / month)	€7.50 - €14.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.00 - €4.50

THE OFFICE MARKET BEFORE THE CHANGES

SUPPLY

The effects of COVID-19 have increased construction costs significantly, which froze or delayed the completion and handover of several office centres. Developers continue to wait, and in 2021 there was only one office project, supplying the market with new office space—a fully renovated building christened The Icon. At the end of 2021, modern office space stood at a total of 644,800 sqm. Currently, Riga has 1.05 sqm of usable office space per capita. By floor space, A class constitutes 22% of the total modern office premises in Riga, and B class, the remainder.

Developers are interested in making office building developments more modern, more creative, more accessible, and providing innovative solutions. Businesses are asking for a green, clean, and creative work environment. The office market segment will change dramatically in the coming years. During 2022-2023, ten new office buildings are scheduled to come to market, offering total office space around 137,000 sqm. With the growing office supply, companies will have an opportunity to choose the most suitable premises, which will create more competition, and possibly an incentive for more international companies to enter Riga.

DEMAND

The vacancy rate of modern offices (A and B class) in Riga dropped from 15.1% to 13.7% in 2021. At the end of 2021, the vacancy rate for B class buildings was 13.9%, while for A class buildings it was 12.9%.

Along with easing restrictions and a return to work, the office market in 2021 was quite active as compared to 2020. Businesses have partially resumed office work, or are working in hybrid mode, with workers splitting their time between home and office.

RENTS

There were no major changes in the rental market in 2021. At the end of 2021, rents for A class offices ranged from €13.00 to €17.00 per sqm and from €7.50 to €14.00 per sqm for B class offices. Several exclusive office buildings are still asking top rents of more than €17.00 per sqm.

Additional total costs in A class buildings range from €2.00 to €4.50 per sqm per month and in B class buildings from €2.00 to €4.00 per sqm per month. Parking space rents range from €30 to €60 per space, up to €80 per space in city centre underground parking, for tenants or lease. Due to the high air pollution in Riga, the Riga municipal government is considering the possibility of changes in accessibility of parking facilities in the centre of Riga, which could also affect the cost of parking.

Ober-Haus forecasts that if the total vacancy rate increases during 2021, office rents will remain at the same level or even experience a slight drop. Still, as the gas, electricity and management prices increase, additional costs for tenants will also increase.

INVESTMENT

2021 saw the largest office transaction in the history of the Latvia property market. EfTEN Real Estate Fund 4 purchased for €131 million the office complex Jaunā Teika from Hanner Group for €131 million, which is EfTEN's largest holding to date. The business centre Jaunā Teika consists of four office buildings, three of which—Ausma, Teodors and Henrihs—were in built in 2016, and Valters was built in 2009. The office building has a leasable area of 59,000 sqm and 1,100 parking spaces.

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.

GUSTAVS

RECENT DEVELOPMENTS

THE ICON – The Baltic RE Group completed renovation of this office building in the historic centre of Riga, at 25 Raina Bulvaris. The building has a total area of 3,000 sqm and is fully leased to the international company Printful. This was the only addition to the office space market in Riga during 2021.

NEW PROJECTS

VERDE – The greenest, modern offices in Riga, in the vibrant Skanste district is planned to open its first building in June 2022. The two buildings will provide a total area of 45,000 sqm. Verde is designed according to science-based office wellness studies. Relaxing terraces, greenery, state-of-the-art air ventilation systems, intelligent lighting, wise layout design, various amenities and other innovative solutions are scientifically proven to boost well-being & productivity. Developed by Capitalica Asset Management.

PRESES NAMS – The real estate developer Lords LB Special Fund V has invested around €77 million to commence the first construction stage of a modern business district, that sits opposite Riga's historical centre. The new development will house an A class office building with 26,000 sqm of office space, a multifunctional centre with shopping and catering areas, green terraces, as well as the first roof-top football pitch in the Baltics. The former press house skyrise will be renovated to become a four-star Holiday Inn hotel. To make the area friendly for the people who live and work there as well as city guests, the project embraces the metacity conceptual framework. The new business district will become an educational, cultural, financial artery of future Riga, boasting sustainable and environmentally friendly solutions. The site was designed by the architectural firm ARHIS ARHITEKTI, and the first construction stage is set to to be completed during 2023.

BUSINESS GARDEN RIGA – Developed by Vastint Latvia, the Business Garden Riga, is three five-storey office buildings with a leasable area of 27,000 sqm, with the second phase framework set to begin. It is planned to start the second stage of construction in the near future, and in September of 2021 partners were selected via tender for the construction. After the completion of the second stage, the office complex will have office buildings with more than 40,000 sqm of leasable area and a range of amenities available in the extension. In addition to office space, it is planned to significantly expand the range of services available in the building—offering cafes, lounge areas, a conference centre, co-working spaces and a sports club. For the convenience of employees, the infrastructure of the mobility point will be improved, as well as extensive underground and surface parking lots, to provide more than 800 parking spaces.

NOVIRA PLAZA RIGA – Novira Plaza is an office building at the very heart of Riga on Marijas Street near the train station, and offers everything an urban personality needs. It is planned to build a 30,000 sqm seven-storey building by Q3 2023, of which about 20,000 sqm will be offered to tenants of office space, and about 3,500 sqm of retail space will be leased on the first floor.

ELEMENTAL SKANSTE – The developer Kapitel is building a modern office complex in Skanste district. The first stage of construction of the Elemental Skanste office complex includes two 10-storey office buildings – North and South buildings – with an area of more than 20,000 sqm of rentable office space. The project has been awarded the BREEAM 'Excellent' rating certification for the building design process. In the following stages, it is planned to build three more office buildings with a total leasable office area of almost 21,000 sqm, as well as a multistorey car park in the middle of the complex.

HALLO – The project is located in the very centre of Riga. VILIA WORK HALLO will be a completely renovated, modern office building. The original building dates back to the beginning of 20th century as an art deco project that provided telephone exchange services. In the spring of 2022, the building will reopen in its new form and will offer tenants modern workplaces and suitable conditions for the new normal office work format. The leasable area of the building is 1,800 sqm.

NEW PROJECTS

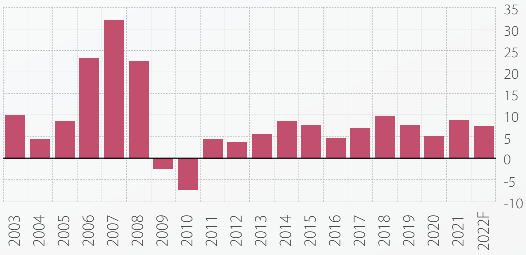
MIHAILA TĀLA 1 – A new A class office building at Mihaila Tāla Street will be the first of the office buildings completed in the New Hanseatic Territory. The architects and engineers of the Pillar Group have paid attention to ensure that the office building is not only modern, but also complies with the principles of a sustainable building reflecting the ecological standards of the BREEAM certificate. The main part of the building has six floors, and is planned to have 12 floors in the tower. The building with the total area of 16,700 sqm and 12,700 sqm of leasable area will be completed in 2022.

ZEISS OFFICES – This new A class office building will be built on the site of the former Karl Zeiss optics factory, renovating the historic building and adding new and modern architectural elements. The project combines the historical aura with this modern construction solution using the latest technology. One of the main advantages of the building is its strategic location at the corner of Mūkusalas Street (Mūkusalas biznesa centre) and Dēļu Street, overlooking the Daugava and the towers of the Old Town. In addition, a new multi-storey car park will be added to the business centre. The total commercial area of this building will be 5,600 sqm. The building will be completed during 2023.

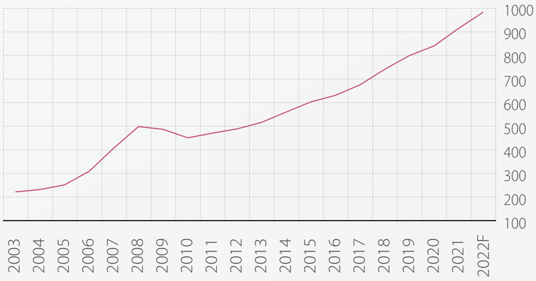
GUSTAVS – The real estate developer Galio Group has signed an agreement with the construction company Merks for the construction of the first building of the new business centre Gustavs, wth a total area of 23,500 sqm, including a two level underground parking lot. It will be the first of three buildings in this business centre, located at Gustava Zemgala Street, and is the first Galio Group project to be implemented in Riga. One of the first tenants of the centre is the SEB Group's service centre in Riga, and an agreement has been signed to lease 11,000 sqm on the transfer of the SEB existing office to the newly built Gustavs business centre. The building will be completed in 2023-2024.

PRESES NAMS

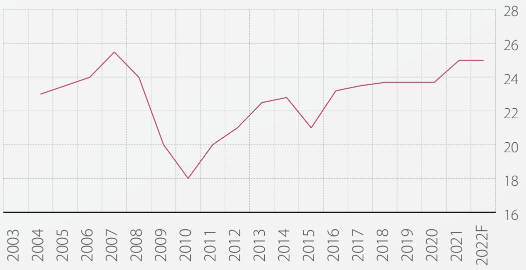
AVERAGE SALARY GROWTH, %



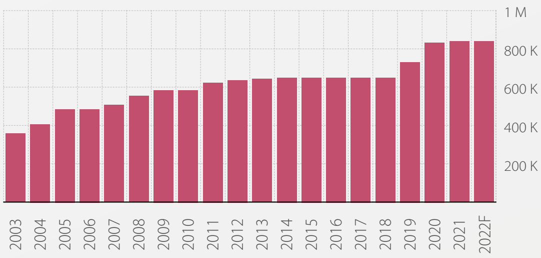
AVERAGE NET SALARY PER MONTH, €



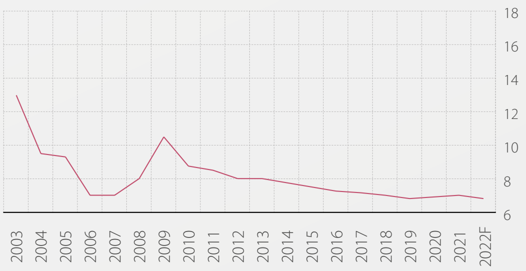
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELDS, %



RIGA SNAPSHOT
(END-2021)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	837,900 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.36 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€7.00 - €10.00
RETAIL RENTS FOR MEDIUM SIZED UNITS (SQM / month)	€10.00 - €20.00
RETAIL RENTS FOR SMALL SIZED UNITS (SQM / month)	€10.00 - €30.00
HIGH STREETS RENTS (SQM / month)	€15.00 - €40.00

LA BIG LEAP HAS TAKEN PLACE DUE TO THE EXPANSION OF GROCERY STORE CHAINS IN LATVIA DURING 2021

SUPPLY

The data available to Ober-Haus show that during 2021, the total leasable area of shopping centres in Riga has increased to 837,900 sqm (including only those with a total area more than 5,000 sqm and with at least ten tenants). In the second half of 2021, the Domina shopping centre completed their expansion, and opened the doors to a new 7,000 sqm entertainment area set to have a cinema with three auditoriums, a trampoline and game centre, an electric bumper car track, laser tag, a dining area and more.

One of the biggest events in the retail property segment in Latvia in 2021, was the launch by European grocery retailer LIDL of supermarkets in Riga, Ogre, Daugavpils, Jekabpils, Jelgava, Liepaja, Rezekne, Valmiera, Tukums, and Ventspils. At the end of 2021 there were 17 stores totalling around 40,000 sqm. LIDL will open their 18th store in Riga, on Stirnu Street at the start of 2022.

One of the largest grocery store chains in Latvia, Rimi, has also expanded in 2021. They opened three new stores, increasing their total count to 134 stores in Latvia. As a response to the pandemic and the current grocery-shopping situation, it continues to expand its services with Rimi Drive, In-Store pick-up, and home delivery. In comparison, the grocery retailer Maxima did not open any new stores in Latvia during 2021—currently it has 173 stores. However, both of these retail chains continue to actively invest in home delivery services and self-service areas, where customers can pay for goods with minimal human contact.

In 2021, another new grocery chain Mere entered Latvia, which positions itself as a low-price retailer. Mere has opened two stores in Riga, one in Ogre, in Tukums, and in Liepaja. Mere has more than 2,000 stores in Germany, Poland, Lithuania, Serbia, Romania, Russia, Kazakhstan, and Belarus.

Latvia's own local retail chain Citro, also a member of the Latvian Association of Companies, has 78 stores in Latvia and continues to expand.

In 2021, online shopping continued to develop rapidly, and increasingly more shopping centres will have to adapt in order to manage the flow of shopping centre visitors. As a result, there is continued investment in entertainment areas and leisure opportunities.

The Via Jurmala Outlet Village has succeeded in realising its plans in 2021, gradually and in spite of the pandemic, the first round of the project has been fully launched and more than 30 stores have opened their doors.

DEMAND

The year 2021 has been more active in the retail space rental market than in the previous year. Various pandemic containment measures were continued but fewer compared to 2020.

Shopping centres have seen a reduction in vacant space to 7.0% in 2021 from 7.5% in 2020 because of reduced Covid-19 containment measures, allowing the retail market to slowly increase its activity.

RENTS

Despite a small improvement observed in the retail space segment in 2021, there has been no effect on rents and they remained unchanged compared to 2020.

Rents for small retail premises in Riga ranged from €10.00 to €30.00 per sqm per month, and in the higher traffic locations and the Old Town retail streets, ranged from €15.00 to €40.00 per sqm per month, or even higher.

INVESTMENT

The largest real estate transaction in the retail space segment in Latvia in 2021 was the sale of the ALFA shopping centre. This centre was purchased by the Akropolis Group, which manages the shopping and entertainment centres Akropolis in Riga, and Akropolis in Vilnius, Klaipeda, and Siauliai. ALFA is the first shopping centre managed by Akropolis Group that the company has not developed itself, and Riga is the first city in which the company operates two entertainment and shopping centres.

At the end of 2021, the Finnish company Stockmann sold its shopping centres in Riga and Tallinn to the Estonian Viru Keemia Grupp for €87 million. Going forward, Stockmann will act as tenants in these centres.

In 2021, the Finnish investment company Titanium has started to implement its investment plans in the Baltic States, and in December 2021 they acquired the Ozols shopping centre. Titanium has set as its primary goal the acquisition of high-quality commercial property with good lease agreements, and as a second priority, has set up cooperation with state and municipal institutions to provide public social services.

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 fit-out stage, 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.

VIA JURMALA DESIGNER OUTLET VILLAGE

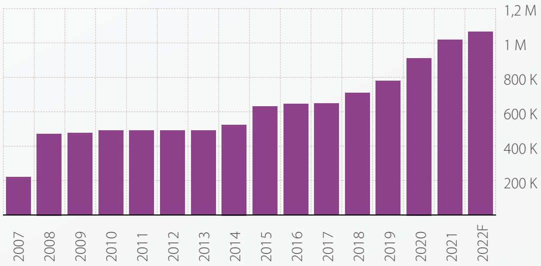
RECENT DEVELOPMENTS

VIA JURMALA DESIGNER OUTLET VILLAGE – The project developer Outletico will continue their second stage of this project Via Jurmala Outlet Village in Piņķi next to Riga on the way to Jurmala. The second stage is planned to be completed in 2022 reaching in total, 21,000 sqm of leasable area.

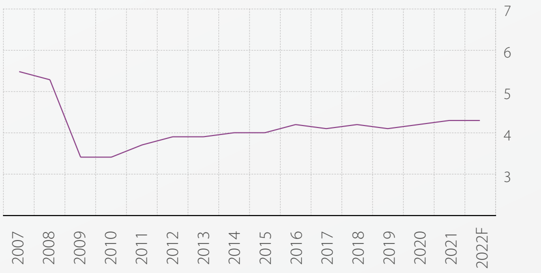
NEW PROJECTS

LIDL – LIDL is planning to build another store in Riga at Duntes Street 25, however, work is currently being done on the remediation of polluted groundwater.

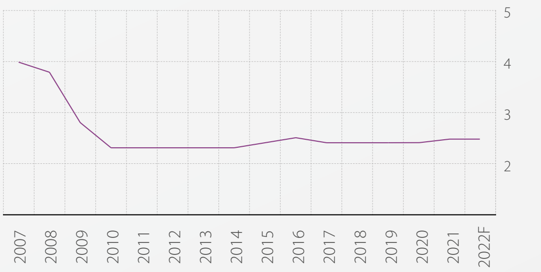
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



RIGA SNAPSHOT (END-2021)

TOTAL NEW WAREHOUSE SPACE	1,017,400 SQM
WAREHOUSE VACANCY RATE	3.8 %
NEW WAREHOUSE RENTS (SQM / month)	€3.50 - €5.50
OLD WAREHOUSE RENTS (SQM / month)	€1.50 - €3.60
ADDITIONAL WAREHOUSE COSTS (SQM / month)	€0.60 - €2.00

RIGA WILL HAVE ONE OF THE MOST MODERN AND ENERGY-EFFECIENT LOGISTICS CENTRES IN THE BALTICS RIGA HAS THE BIGGEST LOGISTICS CENTRE IN THE BALTICS

SUPPLY

During the pandemic, despite challenges, the commercial market is evolving positively and large-scale logistics projects are being implemented. Two new projects have been completed in 2021, with a total area of 107,000 sqm. The projects are located in the city of Riga, and in the greater district of Riga. They have been developed by commercial property development companies UPB, Pillar Capital and Piche. Recent projects increased the total leasable area of modern warehousing premises in Riga and the surrounding areas by 11.8% to 1,017,400 sqm.

In 2022 and 2023 another two new projects are expected to be completed, with the total area exceeding 45,600 sqm.

DEMAND

In 2021, as in 2020, the industrial segment was highly active. This is particularly noticeable following the amalgamation of counties, which increased the amount of industrial territory available in the regions near Riga and will offer more opportunities for development.

The total demand for industrial facilities has grown. The largest demand is for premises near to Riga, with excellent infrastructure, and usable area from 1,000 to 2,000 sqm.

The amount of vacant usable industrial space decreased to 3.8% from 4.0% in 2021 due to an increase in demand.

RENTS

Rents in Riga have slightly increased through 2021 due to relatively high demand. Also there was an increase in associated costs. At the end of 2021, rent for new warehouses in Riga city and its surroundings ranged from €3.50 to €5.50 per sqm, and rent for older warehouses, from low quality to fully renovated, range from €1.50 to €3.60 per sqm. Additional costs for tenants are from €0.60 - €2.00 per sqm on average.

In 2022 the additional or associated costs are expected to stay at the higher level as these costs rise due to the significant increase in gas and electricity prices.

Small and older warehouses, and for factories and service facilities up to 500 sqm, the selling price range average is €350 to €500 per sqm. Sales prices for hangars built in the 1980s-90s, starting at 500 sqm, on average range from €50 to €220 per sqm. The price €50 per sqm is for the low quality objects in the areas surrounding Riga. Sales prices for the new warehouse premises are from €450 to €900 per sqm.

INVESTMENT

SG Capital Partners Fund I has purchased a 90,000 sqm logistics complex in Riga in the Dreiliņi district, buying shares from Beinits and Balt Cargo Solutions. The complex is fully leased to well-known local and international tenants, including Depo, Latvijas Balzams, Via 3L, Tamro, TOP and others. This is one of the biggest investments in the logistics property sector in Latvia.

LEGAL NOTES BY SORAINEN

Industrial leases are rather simple and for such leases 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. Industrial projects are usually built for the specific needs of the owner or the intended end-user of the premises.

RECENT DEVELOPMENTS

A6 LOGISTICS PARK – Investing more than €20 million, the real estate developer Pillar Capital has commissioned one of the largest and most modern logistics centres in Riga—the A6 Logistics Park on Maskavas Street in Riga. Construction work began in July 2020, and a single logistics park has been established, providing more than 30,000 sqm of new warehouse space. The total planned warehouse space territory exceeds 50,000 sqm.

GREEN PARK – Latvia's most energy-efficient warehouse, production and office complex Green Park was completed in 2021. Green Park has 50,000 sqm of warehouse space and 7,000 sqm of office space.

GREEN PARK

STOKOFISS U30

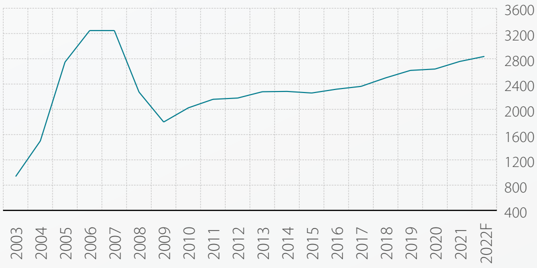
NEW PROJECTS

JYSK – A logistics centre is being built in Dreiliņi. The projects is intended to store, sort and assemble goods in order to provide supplies to the Jysk stores in the Baltics. On December 2021, JYSK, a retailer of household goods, and VGP, an industrial project developer, laid a capsule in one of the most modern and energy-efficient logistics centres in the Baltics. The building's construction work is scheduled to be completed by the end of 2022. According to JYSK and VGP, the 42,000 sqm logistics centre will be one of the most modern and sustainable in the Baltic States.

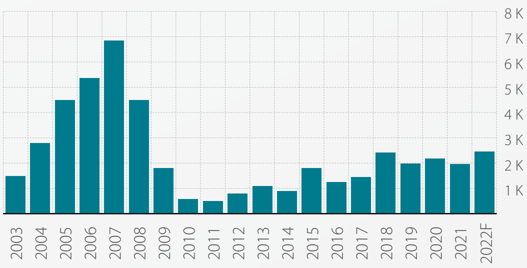
STOKOFISS U30 – Estonian real estate developer Hepsor has started the construction of the first phase of a new business complex—StokOfiss U30 in Dreiliņi district—where small and medium-sized enterprises will have access to both offices and spacious premises for shops and warehouses. The area of the first phase of this business complex is approximately 3,650 sqm. There will be ten separate rental rooms on two floors, each measuring 323-487 sqm, and suitable for a warehouse, shops or offices. Utilising the latest technical solutions, it will be possible to adapt each of them according to the needs of tenants, including the possibility to combine several rooms into one. All ten rooms are currently reserved. The premises will be available to tenants in August 2022.

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

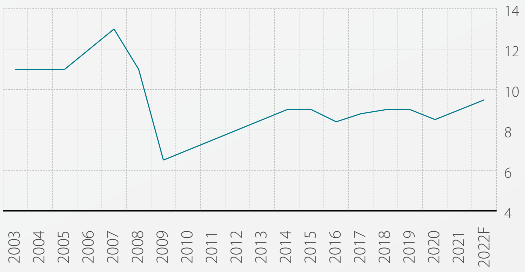
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



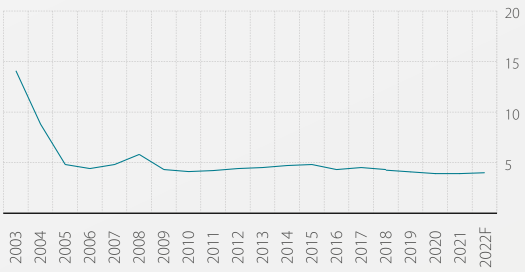
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



RIGA SNAPSHOT
(END-2021)

ANNUAL APARTMENT PRICE CHANGE	+11.0 %
NEW APARTMENTS BUILT	1,973
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€1,500 - €2,400
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€1,800 - €4,700
PRICES FOR EXCLUSIVE APARTMENTS IN CITY CENTRE & OLD TOWN (€/SQM)	€5,000 - €7,000
RESIDENTIAL INVESTMENT YIELD (city centre)	3.9 %

PRICES INCREASES IN ALL RESIDENTIAL SEGMENTS

PRICES

In 2021, the housing sector in Latvia, despite the fact, that the Covid-19 pandemic had not yet receded, showed growth practically in all segments. The main drivers of the market—availability, financing and positive attitudes towards the market—remain high. As the demand for housing increased, so did their prices. Demand increased not only for new projects, but also in the secondary market.

Apartment prices in Riga increased by 11% on average in 2021. Prices of soviet-era apartments on average rose by up to 15% during the year to slightly above €1,000 per sqm, which is the sharpest annual rise in a decade. At the end of 2021, prices ranged from €700 to €1,500 per sqm in this segment.

Prices of old construction apartments in the central part of the city increased at least by 5% in 2021.

The cost of new apartments in the Riga city centre and in the Old Town ranged from €1,800 to €4,700 per sqm at the end of 2021, and the prices of apartments in luxury projects and locations can top €7,000 per sqm.

New apartments in the residential districts of Riga were selling for €1,500 to €2,400 per sqm at the end of 2021. New apartments are usually sold with final fitout, excluding the kitchen.

Prices for housing and building plots in the regions and major cities of Latvia rose sharply over the course of 2021, with particular emphasis on counties surrounding Riga. In some areas private detached house price increased up to 20%.

SUPPLY

According to Ober-Haus data, in 2021 1,973 apartments were constructed in Riga which is a 10% drop from 2020. The completed projects were located in various locations in Riga.

Ober-Haus expects around 2,400-2,500 new apartments will be completed in Riga during 2022.

The year 2021 was full of challenges for developers of new projects. It was affected by the rising construction costs and the instability caused by the pandemic. Demand for new and modern housing continued to grow, and often, most new project apartments were all sold during project construction. The largest developers in Riga are: YIT LATVIA, BONAVA LATVIA, HEPSOR, HAUSERS LATVIA, MERKS KAAMOS, and AS MURJĀŅU 70.

The most popular projects are those built as a district quarter with several houses, beautiful courtyards, outdoor seating areas and children's playgrounds, They have thoughtful layouts, balconies or terraces, with convenient parking lots and good infrastructure. Such projects have been built for several years in a row.

The largest project, soon to be completed, is the Dreiling House with 1,500 apartments located in the Pļavnieki and Mežciems districts (right bank of the Daugava). Here, even in Pļavnieki, the project Trebū Home, by developer AFI Europa, is developing, with 1,500 apartments. The Ezerjugla residential complex with 500 apartments will be built in the Jugla district (right bank of Daugava). It will be commissioned in the autumn of 2022.

DEMAND

The number of apartment sales in Riga in 2021 compared to 2020 has increased. The significant increase was not only due to increased demand, but also the previous sharp decline in demand during 2020, caused by the pandemic. In 2021 Riga saw a 20% increase in apartment sales, and on average 861 apartments were sold in Riga each month.

At the end of 2021 in Riga, 1,800 apartments were available in new projects completed in 2021 or left over from older projects commissioned in previous years.

In 2021, there was a higher demand in the new apartment segment than in previous years. One of the factors was that credit institutions were willing to offer relatively lower rates for the purchase of apartments in new projects as opposed to other segments, and larger banks competed intensely with each other to attract customers, allowing customers to obtain very favourable mortgage terms. Mortgage interest rates fell on an annual basis, by 0.2-0.3%.

RENT

After the decrease in apartment rents in 2020, 2021 saw a steady increase in rental prices. It must be said that perhaps not in all sectors, but in general, rents increased and now they are back to the level of 2019.

Cheaper rental offers were no longer available in 2021 as previously in 2020, when the owners were ready to rent at greatly reduced prices for fear of the unpredictable future.

The highest rental prices are in the Old Town, the quiet centre and in Mežaparks. Two-room apartments in such locations and quality new projects or renovated buildings are available for €400 to €800 per month. A three-room apartment rents at €600 to €1,500 per month, and four or five-room apartments from €1,000 to €2,500.

Demand for rental apartments in the suburbs and for small city centre apartments with rents up to €350 per month is still in high with no significant, observable price adjustment. Rental prices remained stable during 2021.

Rents for period building apartments in residential areas range from €200 to €350 per month for one room apartments, €250 to €400 per month for two-room apartments, and for three-room

EZERJUGLA

apartments, €350 to €550 per month. For new-build apartments in the same areas, the price would be at least 25% higher.

In 2021 the demand increased for low or medium standard two- to four-room apartments in the price range €250 to €500. Unlike in 2020, when students were not looking for rental apartments, in 2021 full-time studies resumed, and consequently, the demand for this type of apartment increased.

On May 1, 2021, the new law on Lease of Dwelling Premises came into force, which will further regulate the legal relations between the landlord and tenant of a dwelling. The legislation defines their general rights, duties and responsibilities, the grounds for termination of legal relations, and the basic terms of the lease agreement. The purpose of the new law, as stated in Article 2, is to promote the availability of housing by ensuring a fair balance between the interests of the landlord and the tenant. This is already having a positive effect on the rental market and will encourage its future growth.

The share of legal entities in the rental housing market is expected to increase. Due to the disorganised legislation thus far, investors were not ready to invest in the rental sector, and often the landlords were private individuals who took on a higher risk to rent out their own apartments. The interest of local and international investors to build new rental houses, as well as to renovate and adapt existing buildings is growing.

There are also various positions at the national level responsible for setting up support mechanisms, and support funds to promote the construction of rental housing and to attract additional new investors. There is a growing interest in purchasing existing rental apartment portfolios

LEGAL NOTES BY SORAINEN

Residential leases are regulated by Latvian law more strictly than commercial leases. In 2021 a new law on residential tenancy was adopted. This law stipulates that the lease term cannot be indefinite and that the amount of deposit cannot exceed two months' rent, although the amount of rent may be freely agreed upon. The law on residential tenancy prescribes that residential leases are binding on new owners only when registered with the Land Register. This law also promotes more effective mechanisms for the eviction of bad tenants and for the resolution of disputes related to residential leases.


FJORDI

RECENT DEVELOPMENTS

DREILINGA MĀJAS – In Dreiliņi, on Robežu Street, this project has been developed by Bonava. The area of Dreiliņi is located in the eastern part of Riga and borders with the areas of Pļavnieki, Purvciems, Mežciems and Jugla, as well as the administrative territory of the municipality of Stopiņi. Dreiliņi is considered to be a very promising neighbourhood with a peaceful rhythm of life. It is a large-scale residential village with modern, with well-thought out apartments available to a wide range of people at very affordable prices. In 2021, 3 buildings with a total of 122 apartments were completed. Apartment size ranges from 40 to 93 sqm costing €1,400 to €2,100 per sqm for a fully finished apartment. Two more buildings will be completed in Q4 2022.

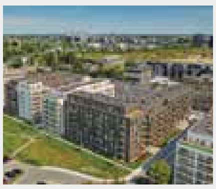
GREEN CITY 3 – Located in Purvciems, on Stirnu Street, the project developer is YIT Latvija. The main value of Green City is the convenience. YIT have been thorough in their search for the best—ergonomic apartment layouts, creating a vision for common areas, decorating the outdoor spaces and also providing creative solutions for traffic management. This year, 3 of the four residential complexes have been put into service. There are 97 apartments in each of the 8-storey buildings, and apartment sizes range from 40 to 102 sqm. Prices start at €1,530 per sqm. Construction of the third building was completed in Q3 2021.

PAGALMS 2 – One of the trump cards of this new project is its location on Turaidas Street in Teika. The project has been developed by Bonava. The area has long been regarded as highly respectable and popular, which can be concluded from the high demand for real estate there. In total, the project has three 5-storey buildings with 63 apartments in each. Construction began in 2019 and the development was commissioned in Q1 2021. Apartment sizes range from 40 to 66 sqm, and prices start at €1,700 per sqm.

FJORDI – In Riga city centre, on Ganibu dambis Street. A fjord—a landscape full of natural beauty usually found in the north—has now settled in the centre of Riga. This is an opportunity to create and enjoy your own life in a modern home ideally located between the Daugava, the expanse of historic meadows and the quiet centre. In 2021 one building was completed with 90 apartments with balconies, ranging from 41 to 90 sqm. Prices start at €2,100 per sqm. The second building was completed in Q4 2021.

KRASTA KVARTALS – This project in the Krasta district, on Maskavas Street, is being developed by Bonava Latvia. It is an ambitious project, located near the historic Krīdenera Dam. The Krasta district, as part of the new Moscow Fortress, began developing during the construction of the Island Bridge (Salu tilts) in the 1970s, but it became the most lived-in neighbourhood in Riga after Latvia regained its independence, with intensive construction of commercial, office and residential buildings in the area. In 2021 Q2 and Q4, two buildings were completed, with 96 apartments in each, ranging in size from 31 sqm to 81 sqm. Prices start at €2,000 per sqm.

MERKS MEŽPILSĒTA – This project has been developed by Merks and is located on Hipokrata Street in Mežciems. It will nestled between the Dreiliņupīte river, (which will be restored to health), and the forest—ideal for leisurely walks. Merks Mežpilsēta will be a project for young families, offering compact apartments with thoughtful and comfortable layouts at affordable prices. All buildings will be fully-equipped with elevators that include the basement. There are three buildings with a total of 117 apartments, ranging in size from 33 to 74 sqm and prices start from €2,000 per sqm for a fully finished apartment. Construction will be completed in Q3 2022.



VIESTURDĀRZS – The project is being developed by Merks in a quiet centre on Rūpniecības Street. It is a new project in which a perfectly balanced green environment, proximity to the centre, charm, modernity and the comfort of the surrounding area are perfectly balanced. All this will be available to the people who will live here are at the centre of this development. It is characterised by modern comfort, a pleasant and tidy environment, and high energy efficiency, as well as a view into the future. It is currently the second building under construction, with 167 apartments, and is expected to be completed Q3 2022. Apartment sizes range from 36 to 273 sqm, prices start at €2,100 per sqm.

RECENT DEVELOPMENTS

MOHO PARK – This development is located in Mežaparks in an excellent location between the forest and the city. The project has been developed by Kaamos. All apartments will have balconies and terraces with gorgeous views. There are two buildings, with a total of 154 apartments, ranging in size from 36 to 170 sqm, with prices from €2,300 to €3,000 per sqm for a fully finished apartment. Construction of the first building is planned to be completed in Q4 2022, and the second, in Q2 2023.

EZERJUGLA – This block of buildings enjoys the heartbeat of the city and the area's leisurely daytime flow in Jugla district. Located on MurjĀŅu Street, Ezerjugla has eight four-storey buildings in a well-maintained, safe area. There are two and three-room apartments, most with spacious balconies. In total, 500 apartments are planned, ranging in size from 44 to 102 sqm with prices from €1,850 to €2,200 per sqm for a fully finished apartment. Within the framework of the project, it is also planned to build 535 surface and underground parking spaces. The intention is to finish all the buildings in 2022.

DEGLAVA GLEZNOTĀJU REZIDENCE – Class A energy efficiency, modern and well-thought-out buildings with a great viewpoint and a wide green area on Deglava Street in Pļavnieki district. The project has been developed by Deglava Painters Rezidence. Their inspiration is based on colourful vibes from six great painters that changed the world's perspective on art. Six painters—six beautiful, unique buildings. Construction of two buildings Monet and Van Gogh, together 152 apartments, ranging in size from 28 to 86 sqm with prices aproximately €1,900 per sqm for a fully finished apartment will be completed in Q3 2022.

SAFRĀNS – The project is located in Purvciems, on the quiet and peaceful Žagatu Street. The project developer is YIT Latvija. There will be one 9-storey building with apartments ranging from 31 to 88 sqm. The apartments will be with full finish, at an average price of €1,950 per sqm. The building is under construction and will be finished in the beginning of 2022.

SILVAS NAMI – This project has been developed by YIT and is located in Purvciems, at the quietest end of the lively Dzelzavas Street. This fresh, air-filled part of Purvciems has been chosen for the construction of Silva houses with the idea of offering peace and quiet, away from the noise of the city, but close enough to the centre and its neighbourhoods. There are a total of 67 apartments, ranging in size from 41 to 72 sqm with prices from €1,750 to €2,100 per sqm for a fully finished apartment. The development is planned to be completed in Q3 2022.

VERTIKĀLES – A project developed by Bonava and located on Dumbraja Street in Imanta. This neibourhood is a green, quiet and peaceful. It is connected historically with the life and development of manors, as evidenced by the preserved green surroundings of manor parks and the reflections of ancient buildings. Everything will be thought of for these homes to enable residents to enjoy a quality, sustainable lifestyle every day. There will be two buildings, 7 and 13 storeys high, with a total of 134 apartments, ranging in size from 56 to 80 sqm with estimated prices ranging from €2,100 - €2,500 per sqm for a fully finished apartment. Construction will be completed in Q4 2022.

LINDENHOLMA – The project has been developed by Vastint and is located in Mārupe, on Daibes Street. Lindenholma is a new part of the city that continues to grow, offering a comfortable living, working and leisure environment with a well-developed infrastructure not only for residents and office workers, but also for the residents and guests of the surrounding area. There will be six buildings. In the first round there will be 197 apartments, ranging in size from 48 to 122 sqm with prices starting at €2,100 per sqm for a fully finished apartment.

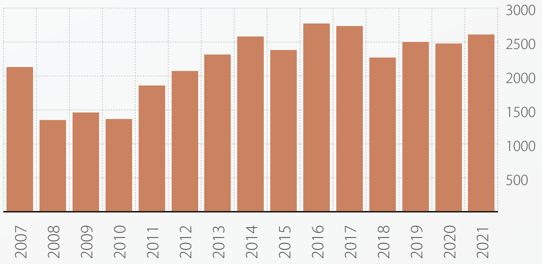
BLUE MARINE – The project has been developed by Pro Kapital Latvia at Agenskalns Bay, on Trijādības Street. The Blue Marine apartment building will be located in a unique position on the bay itself, where the sun's rays will play on the reflection from the water. The well-thought out building, with an environmentally friendly layout, underground parking, a bicycle and pram shed, along with a quiet green territory, will be a home for harmony lovers. There is one seven-storey building, and 101 luxurious, fully-furnished apartments, ranging in size from 29 to 134 sqm, at €3,200 per sqm. Construction will be completed in 2023.

RECENT DEVELOPMENTS

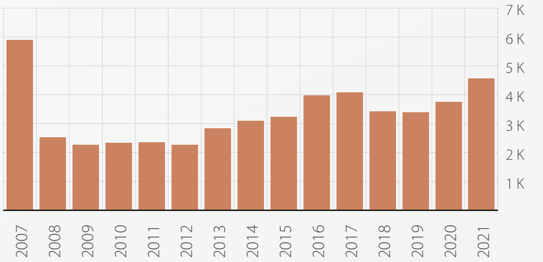
HOFFMANN REZIDENCE – The Hoffmann Rezidence construction is expected to be completed in Q3 2021. The development of the project involves the reconstruction of this eclectic building, built at the beginning of the 20th century. Hoffmann Rezidence is a 5-storey building, divided into 50 cosy apartments, 8 lofts and 7 exclusive penthouse apartments, with 6 private garages on the ground floor. The renovation is being managed by Vilia Investments. About half of the apartments have a beautiful view of the Daugava and the Old Town panorama. Prices start at €2,500 per sqm.

MOHO PARK

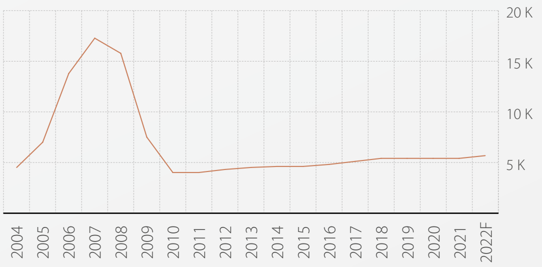
LAND TRANSACTIONS IN RIGA DISTRICT



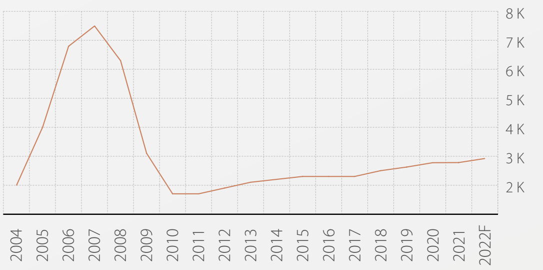
LAND TRANSACTIONS IN RIGA CITY



LAND PRICES IN RIGA CITY, €/100 SQM



LAND PRICES IN RIGA DISTRICT, €/100 SQM



RIGA SNAPSHOT (END-2021)

TOTAL LAND TRANSACTIONS CHANGE (RIGA CITY)	+ 5 %
TOTAL LAND TRANSACTIONS CHANGE (RIGA DISTRICT)	+ 5 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL & COMMERCIAL DEVELOPMENT (SQM)	€400 - €1,100
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€50 - €400
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€20 - €80

LAND MARKET PRICES IN RIGA ARE EXPERIENCING AN INCREASE IN 2021

PRICES

Compared to 2020, prices for land for private house construction rose in 2021, with the biggest demand in the Riga districts. Buyers are ready to buy a standard plot of land for up to €50,000-€60,000. High demand is also in the nearest cities—Ikšķile, Ogre, Sigulda, Jelgava—and buyers are ready to buy a standard plot of land for up to €30,000- €40,000.

Demand has further increased relatively far from Riga around the cities of Talsi, Tukums, Jelgava, Valmiera, Cesis, Koknese, Aizkraukle, and Inčukalns. This is due to the fact that people are leaving Riga apartments and are looking for plots of land located in territories with good infrastructure.

The effect is that more and more people work from home and are ready to consider land offers far away from Riga. The supply is very small and for this reason, the interest has grown for agricultural plots of 1-3 ha which are being bought to build private houses on.

Prices for plots for residential development (apartment buildings) are generally in the range of €50–€400 per sqm in Riga neighbourhoods, and for mixed commercial and residential development can range from €400, even up to €1,100 per sqm in central Riga areas for exclusive plots of land.

For commercial land, near highways and close to Riga, prices range from €15 to €30 per sqm, with commercial land in Riga neighbourhoods costing €20–€100 per sqm. Price depends on the composition of the land (location, encumbrance, size etc.).

DEMAND

The volume of transactions for individual residential land plots increased by around 12% compared to 2020, reaching over 10,400 deals in 2021.

There was high demand for 1,200–2,000 sqm residential land plots, with prices from €12,000-€25,000.

The next highest demand was for 1-2 ha plots. This size of land plot is of interest to those who were planning greenhouses and gardens and also those people interested in building houses with auxiliary buildings.

INVESTMENT

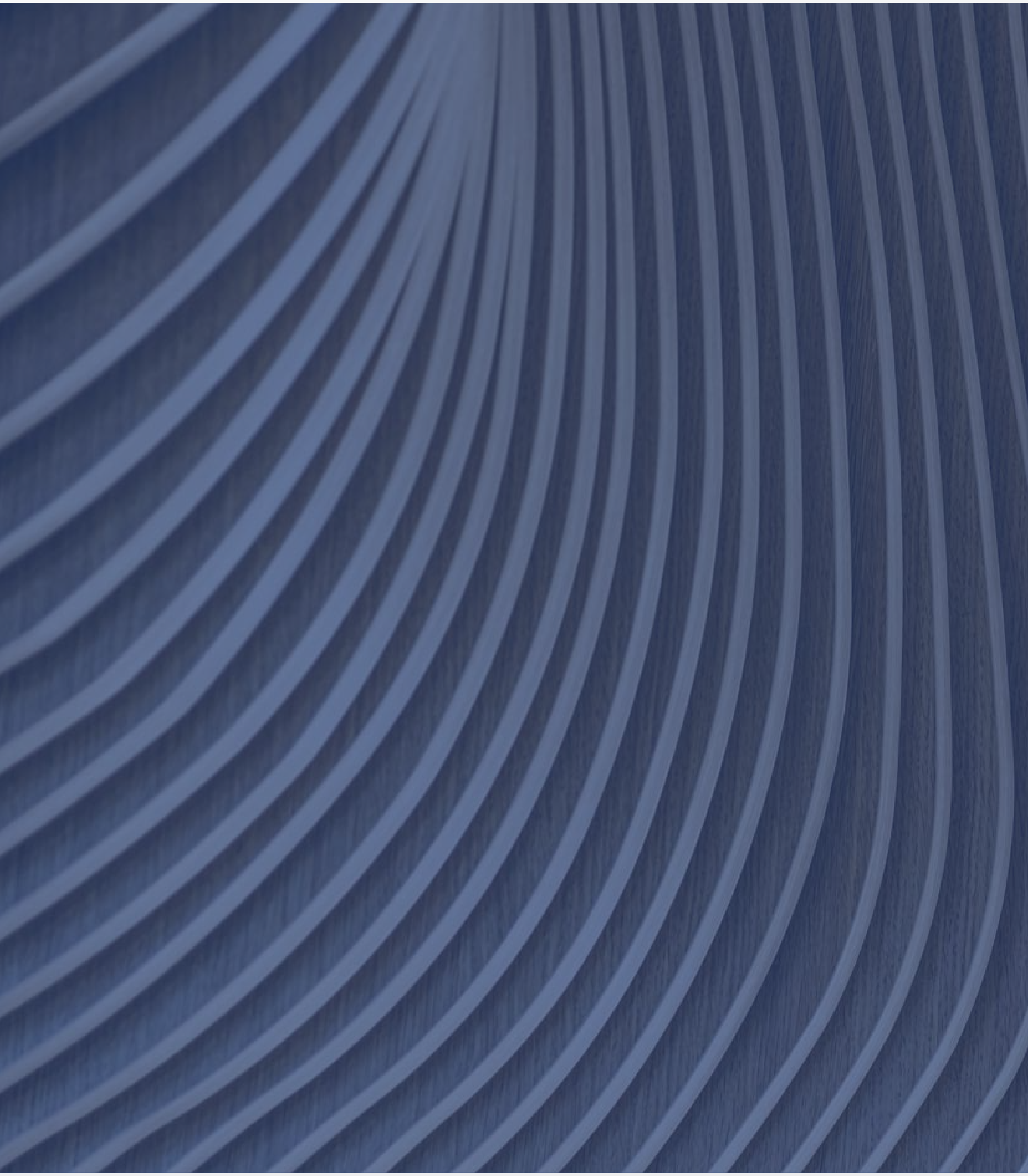
Lithuanian developer SBA Urban has purchased 7.3 ha of land on the left side of the river Daugava, and has ambitious development plans. In the coming years, the investor plans to develop a multifunctional project, office, residential, retail, recreational, science and education areas of up to 120,000 sqm. As a result, this area will become the largest development district in Riga.

One of the most significant land transactions in Riga city centre was the acquisition of a land plot with a total area of 3,000 sqm near Riga's central train station (at the corner of Elizabetes Street and Satekles Street), by Linstow Baltic in Q3 2021 for an undisclosed amount.

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 land, especially 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 by a natural person, a 1.5% stamp duty is levied on the property value. In case of acquisition of a property by a legal person, a 2% stamp duty is charged on the value of the 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:

- 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 1.5% 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 a 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 78,100), 31% (annual income above EUR 78,100). A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filed. 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% (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.

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 alienated 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 purposes1, 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 are 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 78,100), 31% (annual income above EUR 78,100).

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 an obligation 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; individuals, whom the low- income status is granted etc.). Certain municipalities can apply specific rules to enable a taxpayer to pay 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.

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.

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.

Currently in discussion there is a draft bill regarding recalculation of RE cadastral value for tax purposes as of 2025. According to provisions introduced to the public, it is planned that there will be an increase (approx. 3 times) in cadastral values of RE due to improved valuation principles. Changes in the law should be introduced by 30 June 2023.

[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 although the number of deals was at approximately the same level as in previous years, the total value of deals increased in 2021. This shows that the real estate market remained active despite the economic ramifications of the global Covid-19 pandemic. The lack of significant change on the real estate market could be also due to the moratorium on insolvency claims, which continued until September 2021. Although currently creditors have regained the right to apply for debtors' insolvency proceedings, it is not expected that the real estate prices will fall in the near future.

During 2021, investments were mostly in non-residential, commercial properties. The majority of large-scale real estate investments in 2021 were made in retailsites. However, investments in residential properties also experienced significant growth. These investments were mostly made by local investors, while investments by foreigners from non-EU states continued to decrease. Investors in non-residential and commercial properties came most frequently from Scandinavian countries, as well as, in case of the energy sector, from the Baltics. In addition, due to rather unclear regulation on the acquisition of agricultural land, practical difficulties continue to arise with investments in the agricultural (and consequently the forestry) sector.

TITLE TO REAL ESTATE, LAND REGISTER

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 the land reform in the 1990s and due to formation of long-term lease relations, a land plot and a building on it may belong to different owners. In order to end these long-term leases with regards to apartment buildings, the parliament passed the Law on Compulsory Termination of Shared Property in Privatized Apartment Buildings, which grants the apartment owners the right to redeem the land attached to the building for its cadastral value, thus ending the long-term lease relation. 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 construct 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 the 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. The Land Register keeps only those records whose basis is an agreement, will or court judgement, or for which the law otherwise specifically requires registration. Other records, such as encumbrances arising from the law, are kept by the State Land Service. Please, however, keep in mind that Land Register data and State Land Service data in respect of the same real estate may still 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, but it (conclusion of the purchase agreement and consequently change of title) cannot be compulsorily enforced.

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. Registration of title will also not be possible if the municipality (and/or other authority with a right of first refusal, if any) has not waived its rights of first refusal. 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.

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 since 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;
- financial assistance rules apply;
- deferred tax issues have to be taken into account.

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;
- 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 (e.g. waiver of rights of first refusal by the local municipality and other authority with a right of first refusal, if any; consent from a spouse, if the seller is a natural person).

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 copy 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 in the presence of 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, e.g. encumbrances (as the Land Register may not contain all current data), permitted use as set by the local authority, lease agreements affecting the real estate, etc. 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 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 undivided share 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. However, 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, acquires a buy-out right against the new owner. This right entitles 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 to the seller 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 may 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 before or 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 1.5% (with the duty ceiling being EUR 50,000) 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 2%.

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 document that grants a right to register the title (e.g. a purchase agreement) is signed. Stamp duty for title registration is EUR 15.00. The notary fees may vary depending on the structure of the transaction, but if only two parties are involved, these costs amount to approximately EUR 100.

MERGER CONTROL

Transfer of real estate may require prior approval by the Latvian competition authority (the 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 as 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 the acquisition of land in Latvia. Acquisition is restricted more heavily in certain specific areas such as coastal areas and heritage protection zones. Restrictions pertaining to use of real estate should also be checked beforehand.

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ACQUISITION OF AGRICULTURAL LAND

Limitations apply to acquisition of agricultural land in Latvia. An EU or Latvian citizen or a citizen of the EEA, Switzerland or an OECD country 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, if the person is a citizen of the EU, the EEA or Switzerland;
- holds a certificate of Latvian language skills to at least B2 level, if the person is a citizen of the EU, the EEA, Switzerland or an OECD country.

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, Swiss or OECD country 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, Swiss or OECD country 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 registration certificate;
- he 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, Switzerland, an OECD country, or a state with which Latvia has entered into international agreements regarding the promotion and protection of investments (ratified by 31 December 1996), hold a certificate of Latvian language skills to at least B2 level.

Although the European Court of Justice ruled in 2020 that these last two requirements for legal persons (that their shareholders/representatives must hold an EU citizen registration certificate and/or a certificate of Latvian language skills) are discriminatory and not in line with Articles 9, 10 and 14 of Directive 2006/123/EC on services in the internal market, the parliament has not yet amended the law accordingly.

None of these restrictions apply to the acquisition of agricultural land in rural areas 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; however, a formal permit still must be obtained from a local municipality.

The maximum area of agricultural land that can be owned by a single person (natural or legal) is 2,000 ha and the maximum area of agricultural land that can be owned by a group of related persons (natural or legal) is 4,000 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 (also by non-EU citizens and legal entities) 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 the acquisition of real estate. Depending on the intended use of the property (e.g. 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 (e.g. bank) loans, with the lender requiring security from the borrower in the form of a mortgage.

In order to register a mortgage on real estate, a loan and mortgage agreement must be concluded. For registration of a mortgage, it is also necessary to submit the consent from the spouse, if applicable. 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. Stamp duty for mortgage registration is EUR 15.00. 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. Other contents of lease and tenancy agreements are freely 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.

The same condition applies to residential tenancy agreements, which also remain binding on new owners only if registered with the Land Register. At the same time, the new law on residential tenancy aims to protect the rights and interests of residential tenants and allows registration of the lease with the Land Register. Nevertheless, there is no procedure how residential tenants can enforce lease registration. In addition, only permanent residents of Latvia and individuals who reside in Latvia based on a temporary residence permit may claim protection under this law.

DURATION AND EXPIRY OF LEASE AGREEMENT

The term for lease or tenancy agreements is usually set in the agreement. Latvian law allows a lease to be set for either a specified or unspecified term. Lease of residential premises can be set only for a specified 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 residential tenants. Hence, options for unilateral termination by the owner of a residential tenancy agreement are limited, as unilateral termination is allowed only in cases explicitly stated by law and by obtaining a final court ruling: for example, if the tenant is damaging the apartment or the apartment building, the tenant owes rent or payments for basic services, or if the tenant has sub-leased 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 this case the owner must reimburse the tenant for relocation expenses and investments made in the residential premises in accordance with the contract, as well as indemnify them for losses, if any.

If a residential tenancy agreement is made in a form of a notarial deed or is registered with the Land Register, then simplified court procedure can be used for recovery of related tenant's debts and/or for eviction of tenants.

LEASE PAYMENT AND ACCESSORY EXPENSES (UTILITIES)

Latvian law sets no specific procedure for payment of security deposits or for payment of rent under lease relations. 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. The law on residential tenancy limits the total security deposit to the sum of two months' 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 in an amount of one to three months' rent is often required by the owner. The owner uses the security deposit for instances when 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 Law on Alternative Investment Funds and Their Managers regulates alternative investment funds (AIF) investing in real estate. Both foreign and domestic investments may be administered through an AIF. AIF units may be subject to public or private offering. In practice, only closed-end AIFs invest in real estate.

Real estate acquired by an AIF must be registered under the name of the alternative investment fund manager (AIFM) (if the AIF is established as an aggregation of property) or in the name of the AIF itself (if the AIF is established as a joint stock company or as a partnership). Real estate can be sold or encumbered only with permission of the custodian bank if the AIF is managed by a licenced AIFM. However, if the AIF is managed by a registered AIFM, then permission is needed only if required under the establishment document or AIF rules. Assets of an AIF may be invested in real estate according to the rules set out in the establishment document and AIF rules.

Real estate owned by an AIF can be managed by the AIFM, provided the AIFM is authorised by the Bank of Latvia (Latvijas Banka) to provide this ancillary service. If it is not, the real estate 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 usually takes 8-12 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 design and construction 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 finding various issues with the target real estate 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 or surrounding regions, or acquires no more than two 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 or 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 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.

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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

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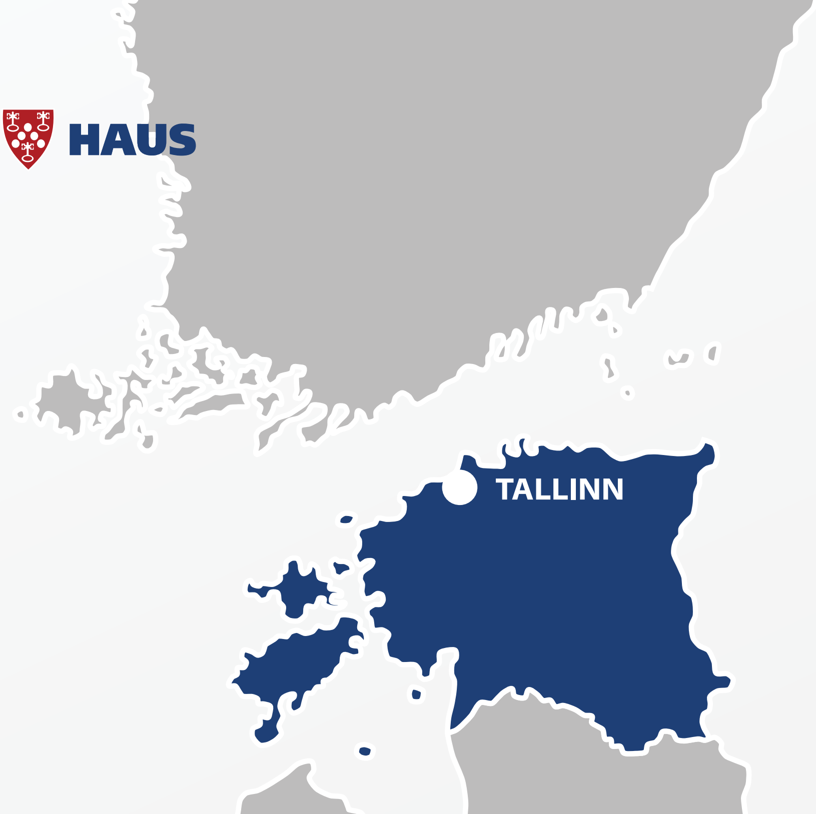
COUNTRY OVERVIEW



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

2022 FORECAST

GDP annual growth, %	3.0
GDP per capita, €	23,900
Private consumption annual growth, %	4.0
Average annual inflation, %	7.0
Unemployment rate, %	5.5
Average monthly net salary, €	1,355
Average salary growth, %	8.2
Retail sales growth, %	5.0
Exports annual growth, %	10.8
Imports annual growth, %	6.0

POPULATION	2016	2017	2018	2019	2020	2021
Estonia	1,315,900	1,315,700	1,319,100	1,324,800	1,329,000	1,330,000
Tallinn	423,500	426,500	433,000	435,000	437,000	438,500
Tartu	94,000	95,700	96,500	97,000	95,100	94,800
Narva	58,200	57,130	56,100	55,250	55,200	54,000

ECONOMICS	2016	2017	2018	2019	2020	2021
GDP growth, %	2.1	4.9	3.9	5.0	-2.9	8.3
GDP per capita, €	16,600	18,100	19,600	21,000	20,200	22,800
Private consumption growth, %	4.4	2.6	4.6	3.3	-2.5	7.3
Average annual inflation, %	0.1	3.4	3.4	2.3	2.0	5.0
Unemployment rate, %	6.9	5.8	5.6	4.4	7.3	6.2
Average monthly net salary, €	924	986	1,098	1,162	1,189	1,255
Average salary growth, %	7.6	6.7	7.1	5.9	2.3	7.8
Retail sales growth, %	6.0	7.5	6.6	6.9	0.9	14.3
Exports annual growth, %	4.1	3.5	4.3	6.6	-7.0	24.4
Imports annual growth, %	5.3	3.6	6.1	4.4	-2.1	26.6
FDI stock per capita, €	13,537	14,604	16,586	18,931	21,154	23,145

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

THE HIGH INFLATION SHOULD ABATE IN THE SECOND HALF OF 2022

The Estonian economy increased by 8.3% in 2021 and is expected to grow by 3.0% during 2022. The recovery from the crisis in Estonia has been one of the fastest in Europe, but the rapid growth seen so far, is easing. Growth is being hindered by global supply problems, but the biggest hindrance to further development in most sectors is the shortage of available labour.

Inflation averaged below 5.0% in 2021, but in 2022 it will approach 7.0%. The rapid rise in consumer prices is only temporary and is expected to slow in the second half of 2022. The price of the consumer basket is being pushed up by increases in energy and fuels costs, and the causes of this largely outside Estonia. The passing on of energy costs to the end prices of other goods and services will fuel inflation in the coming months. High inflation will peak in the first half of next year, after which the short-term impacts on various prices should fade.

Eesti Pank carefully monitors how fast real estate prices are rising and the loan burdens of borrowers. Reduced opportunities for consumption and the savings withdrawn from the second pension pillar have increased the amount of money available to spend. Demand for products and services is strong. Interest in real estate also remains high among the public. There is not enough new real estate coming to the market to meet the current strong demand, and this is maintaining the rise in real estate prices. If real estate prices continue to rise very fast and debt levels start to rise at a notably faster rate, Eesti Pank is ready to apply the brakes by tightening the requirements for issuing housing loans.

Bringing the state budget out of deficit would help to rein in high inflation. The sectors that have suffered most from the restrictions, notably tourism, leisure, accommodation and food service, have not yet fully recovered, but the majority of the branches of the economy are doing well, even very well. The rapid growth in state spending and the stimulation of demand, are driving inflation even higher, at a time when it is already high. As wages are rising fast in Estonia, the state will undoubtedly come under pressure to raise wages in the public sector. However the government has planned to increase its fixed spending on top of this, with the biggest increases coming from a rise in pensions and an increase in the income tax exemption for pensions. If there are no changes on the revenue side, increasing spending will make it harder to bring the state budget into balance in the coming years.

The minimum wage in Estonia was increased to €584 starting 1 January 2021. It had not changed at all during of 2021.

Average gross wages in Estonia increased by 7.8% in Q3 2021 (compared to Q3 2020), to €1,553 per month before taxes. The change was one of the biggest in recent years. Salary growth in 2022 is expected to be 8.2%.

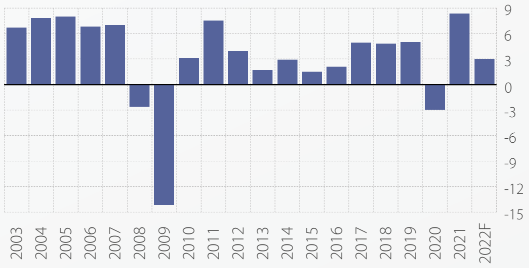
Unemployment was at 6.2% at the end of 2021 and is expected to decrease to 5.5% by the end of 2022.

In 2021 inflation was 4.6% and is expected to reach 6.9% in 2022 falling to 3.0% in 2023.

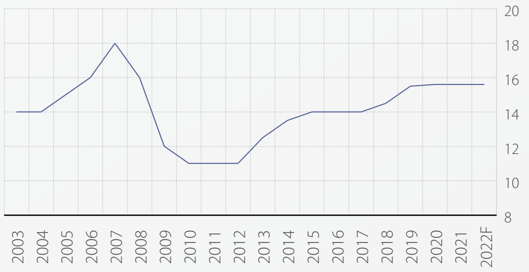
OBER HAUS

OFFICE MARKET

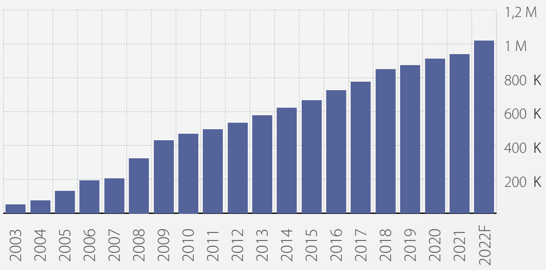
GDP GROWTH, %



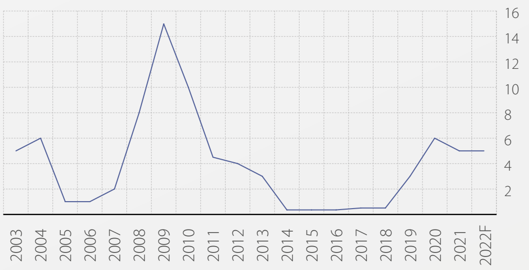
A CLASS OFFICE RENTS, €/SQM



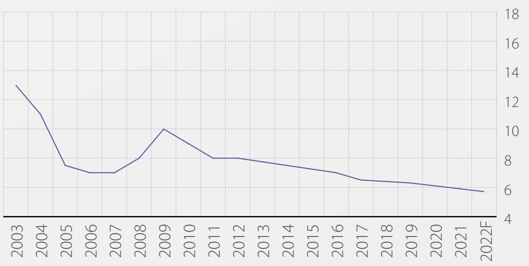
TOTAL MODERN OFFICE SPACE, SQM



A CLASS OFFICE VACANCY RATE, %



A CLASS OFFICE INVESTMENT YIELD, %



TALLINN SNAPSHOT
(END-2021)

TOTAL OFFICE SPACE	1,051,600 SQM
A CLASS OFFICE VACANCY RATE	5 %
B CLASS OFFICE VACANCY RATE	8 %
TOP OFFICE RENTS (SQM / month)	€18.00 - €20.00
A CLASS OFFICE RENTS (SQM / month)	€13.00 - €17.50
B CLASS OFFICE RENTS (SQM / month)	€8.00 - €12.00
ADDITIONAL OFFICE COSTS (SQM / month)	€2.50 - €4.50

DEMAND IS RECOVERING

SUPPLY

Four new larger office projects and a few spaces in mixed-use buildings were completed in 2021, bringing almost 27,600 sqm of office space to the market. This was 19% less than in 2020. After completion of these projects, the total area of modern office premises grew by 2.7% to 1,051,600 sqm at the end of 2021. Completion of several projects was delayed or suspended, due to high construction prices and labour shortages.

During 2022, seven larger office buildings with a total of 80,000 sqm of leasable space should be completed in Tallinn. It is expected that during the period 2023-2024, at least 10 new office projects should be completed; this will add up to 100,000 sqm of new office space coming to the market.

One of the largest office complexes in Estonia with 28,000 sqm of A class office space, should be completed in 2024. The total area of the complex is 77,000 sqm, including apartments, parking, and retail space and will be developed by Merko. The plot is in the Central Business District (CBD), opposite the Radisson Hotel Olümpia. The planned investments are about €100 million.

In addition, in the Hipodroomi Quarter, the main buildings of Swedbank and Elisa will be completed in 2024, providing a total of approx. 40,000 sqm of office space.

The development of office space is concentrated on the outskirts of the city centre, along the roads exiting the city, like Tammsaare Road and roads in Ülemiste City, the most popular area for the information technology sector.

DEMAND

At the end of 2021 the vacancy rate of A class offices was around 5%, and B class - 8%. Most of the potential clients for A class office spaces are linked to foreign companies and their representative firms, including IT, medical, and financial companies. Since Q2 2021, with the recovery of economic growth, the vacancy rate of A class office space began to decrease.

The sale and purchase market in office space is more fluid in the centre of the city, since in secondary locations companies prefer to rent. Deals are dependent on the location, with prices commonly ranging from €1,000 to €2,300 per sqm. In a few projects in the centre of Tallinn, prices have been between €2,500 and €3,900 per sqm.

RENTS

Although demand began to recover in 2021, A class rents did not change during the year. At the end of 2021 rents were €13.00–€17.50 per sqm for A class offices and €8.00–€12.00 per sqm for B class. The asking rents of single, smaller, exclusive A class offices are up to €18.00–€20.00 per sqm, on the upper floors of high-rise buildings. In the CBD, rents can be higher. 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 stay stable during 2022, but incidental costs will increase.

INVESTMENTS

In Q4 2021 Hits Investments OÜ (USS Real Estate) bought the office building of G4S, located on Paldiski Road, from the Baltic Horizon group. The approx. 8,300 sqm office building was built in 2013. The sale price was €15.35 million.

EfTEN Kinnisvarafond AS sold an office building in Tallinn on Kadaka Road. The new owner is US Real Estate OÜ, a company that belongs to Urmas Sõõrumaa. The building's new anchor tenant is Forus Grupp, which provides security and real estate maintenance services and also belongs to Sõõrumaa. The total area of the office building on the property is 9,200 sqm and the sale price was €8.25 million.

In Q1 2021 Entrepreneurs Tarmo Laanetu and Fredrik Gyllenhammar, who built Veerenni Confido Tervisemaja, the largest private medical centre in Estonia, sold the centre. The major owner of the investment company that acquired Veerenni Confido Tervisemaja is Boris Skvortsov, an entrepreneur through Summus Capital, who has invested in many companies in the Baltic States in addition to investing in real estate. The GLA of buildings is 10,600 sqm. The price of the transaction has not been disclosed.

LEGAL NOTES BY SORAINEN

Rent is usually payable monthly, in advance. Payment of rent more than one month in advance is not customary.

Rent is typically indexed to local inflation. Sometimes an index floor and cap is used to limit the risk of excessive changes.

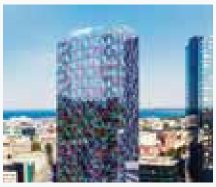
Triple net leases are common for commercial properties but not universally used, and there are often variations and disagreements over, for example, which costs are related to property maintenance, which are CapEx and which are landlords' internal costs. There have also been some offerings on the market with fixed utility costs. The concept of a sinking fund (amortisation) is rare.

Generally, normal wear and tear is allowed and is at the risk of the landlord. The parties can also agree that the tenant will arrange for the repair or incur the costs of any normal wear and tear.

Quite commonly, payment of rent and costs is secured, e.g. by rent deposit, less often by bank or parent company guarantee.

Leases survive the transfer of property titles. However, unless the lease is registered with the Land Register, the new landlord obtains the right to terminate the agreement upon becoming the owner, by terminating the lease within three months of becoming the owner, provided the new owner shows that they themselves have a pressing need to use the premises - so the intention to re-let at a higher rent is not sufficient grounds. If the leased property is transferred to a new owner during the course of bankruptcy or enforcement proceedings, the new owner has the right to terminate the residential lease agreement or the lease agreement for business premises, without the necessity to prove an urgent need to use the leased premises. In case of other types of transferral of rights and obligations arising from the leased property, the lessor still has to prove the existence of an urgent need to use the leased premises if they wish to cancel the lease contract. In recent years, asset deals have become more common than share deals.

RECENT DEVELOPMENTS



SKYON – Skyon is a 26-storey office building completed on Maakri Street, in Tallinn's CBD. Its architecture follows Scandinavian examples, combining the grandeur of the city centre with functionality and practicality. The GLA of the building is 8,400 sqm. The anchor tenants are Coop Bank, Arco Vara, and BaltCap. 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 tower shaped and the standard rental area of a floor starts from 300 sqm. Whole floor rental prices start from €15.00 per sqm. The building was completed in Q3 2021. At the end of 2021, the building was fully occupied. Developed by Capital Mill.

R6 – A 7-storey A class business building was completed in the city centre of Tallinn in the Rotermanni Quarter next to the port and the Old Town. Retail, restaurant and café spaces with direct access from outside, have been designed on the ground floor, while the other floors have office areas. In addition, the R6 commercial building will have a connecting gallery to the Rotermanni 8 building. An underground car park with 2 floors has been incorporated and these are accessible by car through existing Rotermanni properties. The total area of these buildings is 11,600 sqm, of which 5,200 sqm is office space. The rents are from €15.00 per sqm, with estimated utilities of €2.50 per sqm. The whole project cost €15.8 million and was completed in Q2 2021. Developed by Rotermann City.

AVALA QUARTER Avala Quarter is a unique business park in the city centre of Tallinn in the immediate vicinity of all the major connecting roads. The airport and the bus station are only a few minutes away by car. In Q2 2021, the first stage, an A class office building named Electra on Veskiposti Street, was completed: The network operator Elektrilevi is anchor tenant of nearly 6,000 sqm. The second stage building, named Polaris, will be completed in 2022 and a third office building called Sirius is being planned. The project will meet the LEED Gold standard. Rents range from €15.00 to €16.00 per sqm and office spaces are from 250–10,000 sqm. Additional costs are €2.00 per sqm. The developer is Kaamos.

GRÜNE –– The building is located near the Haabersti–Mustamäe road and will have all the facilities for people using bicycles to get to work – both indoors and outdoors parking for bikes, as well as changing rooms and showers. Rooms in the A+ energy class Grüne building are heated and cooled using geothermal energy. Smart sensors regulate the distribution and storage of thermal energy through the ceilings. The GLA of the building is 4,000 sqm and the rents start at €12.90 per sqm. The building was completed at the end of 2021. Developed by Hepsor.

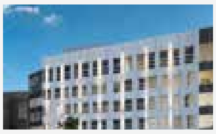
NEW PROJECTS

BÜROO 113 – Hepsor is building the first high-rise to continue the green thinking concept on Pärnu Road close to the heart of Tallinn. The A class 13-storey office block will have a total of 3,900 sqm of rental space. In addition to offices, there are commercial premises, a restaurant and ample parking. The sunny roof terrace on the fifth floor will be open to all users of the building. This will be the first high-rise in Tallinn to be heated in winter and cooled in summer using geothermal energy. Rents start from €15.50 per sqm, and the building will be completed in Q2 2022. The developer is Hepsor.

PORTO FRANCO – Next to the Admiralty Pool located in the immediate vicinity of both Tallinn's harbour 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 25,000 sqm of office space. The offices will have panoramic views and high ceilings. It is also planned to have various outlet stores, cafés, and restaurants in the centre. In addition, there will be an underground parking facility for 1,250 cars. Rents range from €15.00 to €18.00 per sqm. Total cost of the project is €190 million. The office complex should be completed by 2022. The completion of the project has been delayed for various reasons. Developer is Porto Franco.

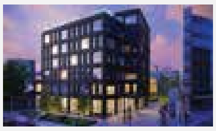
ALMA TOMING – Ülemiste City is investing €30 million in a new 11-storey A class office building of 22,400 sqm, next to the planned Rail Baltic terminal, on Sepise Street. The building has been pre-awarded a LEED gold certificate and will be completed in Q4 2022. The anchor tenants will be Fujitsu and Skeleton. At the end of 2021, most of the space was already reserved. Additional costs of €1.90-2.10 per sqm. Developer is Technopolis Ülemiste and Mainor Ülemiste.

NEW PROJECTS



MÄEALUSE 2/4 – Astlanda Ehitus has commenced construction of an 8-storey building, which will become the largest office building in Tehnopol. The new building, on Mäealuse Street, will feature 12,000 sqm of office space and parking spaces for 600 cars. The building meets the latest technological requirements and is rated as class A. The tenants of the building, which will be completed in 2022, will mainly be technology companies. Developed by Astlanda.

EHITAJATE 104 – This will be an 8-storey A class office building with a total leasable area of 6,200 sqm on Ehitajate Street. Each floor has an area of approx. 840 sqm, which can be converted into several smaller offices. Rents range from €11.00 to €12.00 per sqm, with the top floor €15.00 per sqm. At the end of 2021, more than 50% of the premises were already reserved. The building will be completed in Q2 2022. Developer is EKE.



KAWE CITY – The commercial real estate group Kawe will build an A class office building in the heart of Tallin next to the Kawe Plaza. It will be completed in 2022. Kawe Plaza is undergoing renovations at the same time. The total area of these buildings is 10,800 sqm, of which 8,000 sqm is GLA. The rents are €14.00–€16.00 per sqm. At the end of 2021, most of the space was reserved. The whole project will cost €13.5 million.

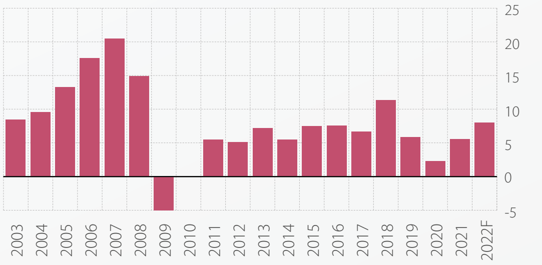
A.H. TAMMSAARE ROAD 56 – US Real Estate will soon start the development of an exciting Park in the Tondi Business Quarter next to the Kristiine City's living environment. The development will bring 28,000 sqm of office and retail space to the area. The first office building with 6,500 sqm GLA on A.H. Tammsaare Road, will be completed at the beginning of 2023. The following stages, on the streets Tammsaare and Tondi, will be completed by 2025.

ROSENI MAJA – A 6-storey A class office building will be constructed in the city centre of Tallinn in the Rotermanni quarter Quarter next to the port and the Old Town. Retail, restaurant and café spaces with direct access from outside have been designed for the ground floor, while the other floors have office areas. The total area of these buildings is 15,000 sqm, of which 8,900 sqm is GLA. The rents are €15.50–€16.50 per sqm. The whole project will cost €20 million and will be completed in 2023. Developer is NG Investeeringud.

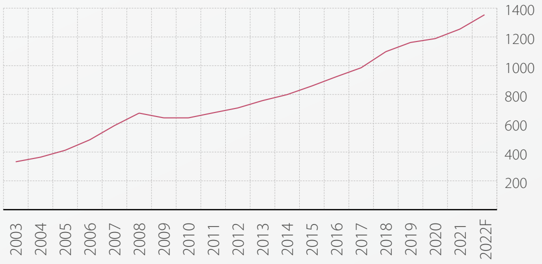
TULE MAJA – The outstanding TULE MAJA is located on Peterburi Road, in the part closest to the city centre, and hence the logistical hub for both national and international traffic. Fast tram connection is available to Tallinn Airport, Tallinn Bus Station, and to the city centre, giving a much needed advantage during rush hour traffic. There's also Ülemiste train station, and the future terminal of Rail Baltica, nearby. The A class 10-storey office building will have a total of 16,000 sqm of rental space and 600 parking places. The building will be completed in 2023. Developed by Combicon.

ARTER QUARTER – Kapitel's total investment in the development of this quarter rising at the intersection of Liivalaia and Juhkentali Streets in the centre of Tallinn is approximately €100 million. The construction at Liivalaia, will be one of Estonia's largest and most demanding projects of all time. The quarter, with a total gross area of 77,000 sqm and a rental area of 38,000 sqm, consists of three buildings and a carpark. A 9-storey building with 3,000 sqm of rental apartments will be completed at the start of 2024, a 15-storey commercial building with a rental area of 9,000 sqm by mid-2024 and a 28-storey commercial building with a rental area of 19,000 sqm in the second half of 2024. The construction began in Q2 2021. Developer, Kapitel/Merko.

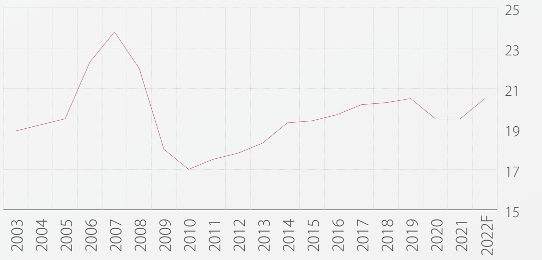
AVERAGE SALARY GROWTH, %



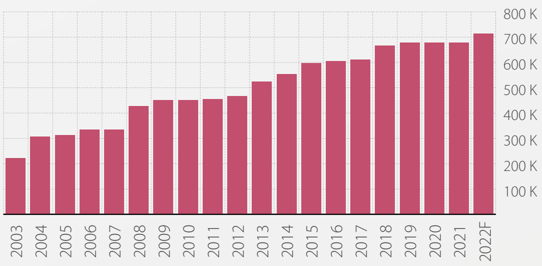
AVERAGE NET SALARY PER MONTH, €



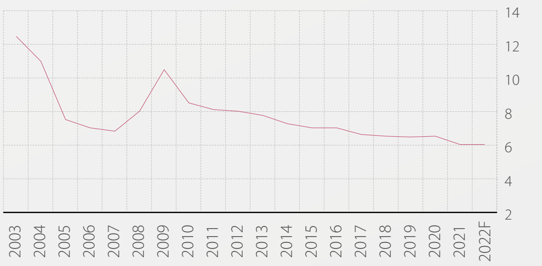
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



RETAIL INVESTMENT YIELD, %



TALLINN SNAPSHOT (END-2021)

TOTAL LEASABLE SPACE IN SHOPPING CENTRES	678,300 SQM
TOTAL SHOPPING CENTRE SPACE PER CAPITA	1.52 SQM
RETAIL RENTS FOR ANCHOR TENANTS (SQM / month)	€9.00 - €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 - €35.00

THE FOCUS IS ON LOCAL SUPERMARKETS

SUPPLY

In 2021, as in 2020, no large shopping centres were opened in Tallinn. At the end of 2021, 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 678,300 sqm. Tallinn currently has 1.52 sqm of shopping centre per capita.

All major retailers - Coop, Selver, Maxima, Rimi and Prisma - want to expand. The most active are Selver and Prisma. In addition, existing traditional shopping centres like the Tallinna Kaubamaja Group and Rocca-al-Mare are also planning expansions.

In 2022, Selver will open three stores in Tallinn and the vicinity (Tabasalu, Priisle, Kumna), and in Prisma, plans another three stores (Maardu, Harku, Saue). In Q2 2021 Rimi closed the Tondi store in Tallinn but will open a new store in Saue in Q2 2022.

The German supermarket chain Lidl plans to open its first stores in Q1 2022. By the end of 2021, five stores had been completed in Tallinn (at Tähesaju 4, Rannamõisa 12A, Karjavälja 12, Raadiku 11, and Sõpruse 153). In addition, shops have been completed in Pärnu, Narva and Tartu.

The first Nike and Adidas Originals representative stores in the Baltics were opened in Viru Centre in Q4 2021.

There was an oversupply in the Tallinn shopping centre market in 2021, which is illustrated by the large vacancy rate and bankruptcy of the T1 shopping centre. It is now planned to change the functions and plan for the second and third floors. The trade/services sector has been severely affected by restrictions on movement and the absence of tourists.

The existing retail space per capita in Tallinn is one of the largest in Europe and no new major projects are expected in the coming years.

DEMAND

Household consumption started to recover rapidly in 2021 after the 2020 slump. Growth was 7.6% in 2021 and household consumption is expected to grow by 9.8% in 2022.

Companies operating larger, traditional shopping centres, significantly increased their revenues in 2021 compared to 2020. This was due to the significant drop in 2020 and the rapid growth in consumption in 2021, supported by the release of pension funds, and a reduction in Covid-related restrictions.

At the end of 2021, the vacancy rate in Tallinn's largest and most popular shopping centres was close to zero. However, the vacancy rate in the T1 shopping centre was at around 50%.

The main purpose of shopping centres is to differentiate themselves from competitors through different concepts, especially in terms of entertainment and service. The main risk, is that high energy prices will reduce consumer purchasing power and increase costs for retail chains, leading to a decline in unit sales. In addition, e-shopping has had a significant impact on consumption patterns, and it is increasingly noticeable how consumer goods are purchased from shops closer to home and not a larger centre.

Stockmann sold its building in Tallinn as part of a renovation plan. It will continue to operate as a tenant of the sold-out properties and will also operate online. The company said it would retain ownership of its Lindex fashion chain, noting that the proceeds would go to pay off its debts.

RENTS

While in 2020 the closures and restrictions put pressure on the retail sector and some landlords were forced to make big discounts for existing tenants, in 2021 the situation stabilised along with the growth in consumption.

In shopping centres at the end of 2021, rents for medium-sized premises (150-300 sqm) ranged from €13.00 to €20.00 per sqm, and for smaller units – €35.00-€70.00 per sqm. Rents for anchor tenants run from €9.00 to €13.00 per sqm.

In 2021, the pressure on main street rental prices was also due to restrictions in movement and the decrease in tourists. Rents for retail space on the streets along popular pedestrian areas ranged from €20.00 to €35.00 per sqm and did not change throughout the year.

INVESTMENTS

Compared to 2020, the interest in investing in retail space increased in 2021 due to the recovery of economic growth.

Compared to 2020, the interest in investing in retail space increased in 2021 due to the recovery of economic growth.

The sale of the T1 shopping centre surprisingly attracted more local investors – Astri, Kapitel, Novira, and the MM Grup.

In Q4 2021 Stockmann's department stores in Tallinn and Riga were bought by the Estonian Viru Keemia Grupp (VKG). The total purchase price was approximately €87 million. The sale was part of Stockmann's corporate restructuring programme. The company will use the proceeds from these real estate transactions to reduce their secured liabilities. The net leasable area of the Tallinn department store property is almost 23,000 sqm.

In Q4 2021 East Capital Real Estate sold the Mustamäe Keskus shopping centre in Tallinn. The property had been held by the East Capital Baltic Property Fund II since 2016. The 21,000 sqm centre has been, and still is, a local pioneer in terms of a modern concept with a focus on leisure, entertainment and services rather than the traditional shopping experience. The buyer was Brcks SPV5, a company of Latvian origin. The purchase of

Mustamäe Keskus is not the first investment into commercial real estate for Brcks SPV5. The company also owns the Priisle business park and the K2 LoftOffice in Mustamäe, which was acquired for €21 million last year.

A Luxembourg company called Lintgen Adjacent Investments S.à r.l. bought the bankrupt T1 Mall of Tallinn at the third auction in 2021. Lintgen paid €55 million to snap up the shopping centre, which is still open to the public, but is largely devoid of tenants. Given the planned Rail Baltica terminal nearby in Ülemiste, the location was one of its selling points. Retail will be concentrated on the two lower floors, a new entrance will be built towards the railway line and Ülemiste Centre, and movement between the 1st and 2nd floors will be improved. The third floor will have new functions – offices, sports and hobby activities, health and public services. No changes are planned for the fourth floor. An initial auction of the property earlier in the year had a starting price of €85 million and, when it failed to attract any bids a second auction with a €65 million reserve price was organised. While this attracted four registered participants, it also saw no bids. The shopping centre location, on Peterburi 2, is within walking distance of one large mall, the Ülemiste Keskus, and one smaller one at Sikupilli, meaning it struggled to compete and never managed to fill all its units with commercial tenants.

LEGAL NOTES BY SORAINEN

In most aspects retail-based premises are let out on terms similar to office spaces. One major exception is that for retail, turnover-based rent is widely used. In retail, many landlords have made rent concessions due to the restrictions caused by COVID-19; this was also a precondition for receiving state support.

Even in case of investment-grade properties, there is no standard approach as to the set-up and use of marketing funds.

RECENT DEVELOPMENTS

MAXIMA TONDIRABA XX – In the suburbs of Tallinn, and a larger district of the city, on Tondiraba Street, a local shopping centre with a total area of 3,000 sqm was opened in Q4 2021. This is the 82nd store of the Maxima retail chain in Estonia. Investment was €3.5 million. Developed by Maxima Eesti.

PRISMA TISKRE – Capital Mill developed a shopping centre with a gas station on Liiva Street in Tiskre village (near Tallinn). The total area of the complex is 4,800 sqm and it was opened in Q3 2021. Prisma with 3,600 sqm GLA is the anchor tenant. The total investment was €4.5 million.

PRISMA LINNAMÄE – In the suburbs of Tallinn, on Linnamäe Street, in a larger district of the city, a local shopping centre with a rental space of 4,700 sqm was opened in Q3 2021. The anchor tenant is Prisma with 4,000 sqm of GLA. The total area of the development is 6,000 sqm and the investment totals €7.7 million. Developed by Eventus Kinnisvara and Restate.

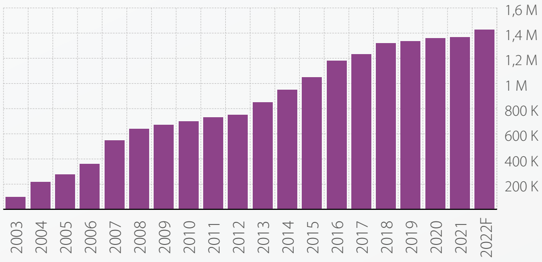
NEW PROJECTS

PORTO FRANCO – This complex will have a seaside promenade, a unique glass roof and will be located near Tallinn Harbour, which previously benefited from a footfall of ten million 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 tenants will be Prisma. The whole project will cost €190 million and is expected to open in 2022. The first house in the complex housing the Citybox Hotel, was completed in 2020. The completion of the remainder of the project has been delayed for various reasons. Developer, Porto Franco.

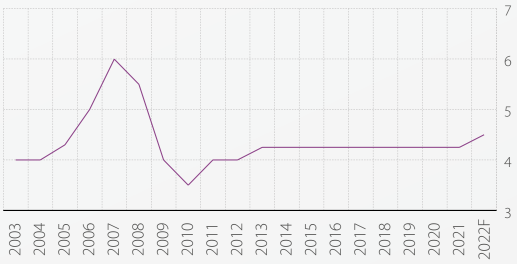
IKEA – IKEA Estonia launched its online store as well as its first bricks-and-mortar location, (with a limited showroom and pickup point), in the Lasnamäe district of Tallinn in Q3 2019. They also purchased a 20-hectare plot of land on the Tallinn Ring Road in the vicinity of the Maxima logistics centre in Kurna village, about 12 kilometres from Tallinn. IKEA will open its doors here in Q4 2022. The surface area of the two-story outlet store is almost 30,000 sqm. The store will also house a restaurant, a Swedish food market and a bistro. In Q4 2021, IKEA also opened a 1,000 sqm order point in Tartu. Clients can place their order either onsite or online, similar to the order point in Tallinn.

SELVER KUMNA – In Q4 2022 supermarket chain Selver will open a 6,000 sqm hypermarket next to the IKEA store developed in Kumna, in the Rae municipality. Once open, the Selver chain will have 75 stores and nearly 120,000 sqm of sales space. The hypermarket in Kumna is set to become a part of a complex along with the IKEA store aside the Tallinn Ring Road. Developer is Tallinn Retail Park (VPH).

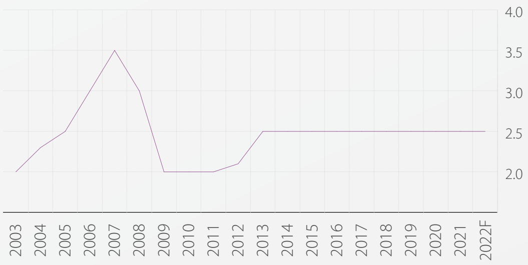
TOTAL MODERN WAREHOUSE SPACE, SQM



NEW WAREHOUSE RENTS, €/SQM



OLD WAREHOUSE RENTS, €/SQM



TALLINN SNAPSHOT (END-2021)

TOTAL NEW WAREHOUSE SPACE	1,367,600 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

STOCK-OFFICE TYPE PROJECTS ON DEMAND

SUPPLY

A total of one traditional warehouse, with a total storage area of 9,000 sqm, was completed in Tallinn and the surrounding area in 2021. This project was developed for own use and increased the total area of modern warehouses premises in Tallinn and Harju County to 1,367,600 sqm.

In 2021, unit premises, 250–600 sqm in size, in logistically attractive locations in the suburbs continued to be popular, because they allowed businesses to combine their warehouse, office and retail needs. As a result, stock-office development projects have also begun to move to the vicinity of Tallinn.

Six new stock-office projects were completed in 2021 bringing almost 26,000 sqm of space to the market and a further four projects with 30,000 sqm will be completed by 2022. In addition, 30,000 sqm of typical warehouses will be completed in 2022.

Additionally, Katoen Natie Eesti AS and OÜ Astlanda Ehitus agreed a contract for the stage 4 construction works of the KTN Tallinn Logistics Centre.

The Covid pandemic has, and is changing the business models of many companies, and the demand for logistics space and solutions has increased due to the growth in e-commerce.

During 2021, developers and investors became increasingly active in the logistics property sector, as it offers higher profitability in the logistics and light industry sector and promotes faster asset value growth.

DEMAND

In 2021, clients showed growing interest in spaces located near Tallinn, in Rae district next to the Tartu and Ringtee roads. Stock-office projects, available at various locations in Tallinn, were also popular, especially in the Lasnamäe, Haabersti, Mustamäe districts.

Smaller wholesalers and small logistics companies currently require a warehouse space of 1,000-3,000 sqm. Larger premises are needed for production spaces.

The highest demand is for stock-office spaces, which include a warehouse, production space, and a representative office for the supply of goods or services. Usually 65-85% of the building area is a warehouse or showroom, with 20-30% as office space, and some companies needing a separate showroom.

In the case of stock-offices, smaller units of 200 to 500 sqm are most in demand. The location is particularly important; high-density roads inside and outside the city are preferred.

In Estonia, the development of storage and production facilities is closely related to external demand and exports. The vacancy rate of warehousing premises in the Tallinn region was at 4% by the end of 2021.

RENTS

During 2021 rents for warehousing premises were stable in the Tallinn region. At the end of 2021, rents for new modern warehouses in 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 average from €1.00 to €1.20 per sqm.

Rents for smaller A class stock-office premises of up to 300 sqm, vary from €5.50 to €11.0 per sqm depending on the proportion of office space versus warehouse.

The country's economic growth, which will return after the end of the pandemic, is expected to strongly support the vitality of the industrial sector. Ober-Haus forecasts that warehouse space rents, in the rapidly developing stock-office segment, will grow up to 5% in 2022 as the e-commerce and logistics sectors rapidly develop.

Ober-Haus predicts that rents for traditional warehouses will not change during 2022, but incidental costs will increase.

INVESTMENTS

Investors have been actively looking for suitable properties to buy, but the owners' continued expectation to achieve high sales prices has limited the market. Compared to 2020, the market in 2021 was more active.

In the current market situation, investors expect a return of at least 7% on warehousing and production facilities in and around Tallinn.

Logistics centres remain one of the most attractive commercial real estate sectors in Europe. In the context of the pandemic, the movement of goods has not stopped, the volume of e-commerce in the Baltic region continues to grow, so investment in logistics currently offers a significant advantage.

In Q2 2021 East Capital acquired a 33,000 sqm Via 3L logistics complex located in Rae district, Estonia. The seller was Loginvest (part of Jungent Group and Via 3L logistic services), and the Jungent Group holding company will remain as a long-term tenant. This transaction is the third investment for East Capital. The logistics park was built in two stages with the latest part finalised in 2014. The price of this transaction is confidential.

In Q3 2021 the fund managed by Capitalica Asset Management, acquired 11,600 sqm of logistics complex and 2.4 hectares of land in the Jura suburb, Tallinn. This location is the largest and most developed logistics and warehousing area in the capital of Estonia. The building complex is 100% leased. The main tenants are logistics companies: AMV Logistics, Via Express, and the Ferroline Grupp. The complex consists of two buildings: one was built last year, and the other was renovated last year. A solar power plant is installed on one of the roofs. The attractiveness of the location is projected to increase over time, as, according to the plan of Rail Baltica, the major railway section will cross this district.

In Q4 2021 East Capital Baltic Property Fund II sold two buildings with a gross leasable area of 40,000 sqm, part of the J13 Logistics Park located in Tänassilma on the outskirts of Tallinn. East Capital Baltic Property Fund II has been the owner and manager of the complex since 2012. The buyer was OÜ Neoinvesteeringud, an Estonian holding company engaged in real estate investments. The price of the transaction is confidential.

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 and are becoming more popular.

RECENT DEVELOPMENTS

HKSCAN – The largest Estonian food company, HKScan Estonia, built a logistics centre in stages in Rae district. The new logistics centre, located in the vicinity of the Tallinn Ring Road, will replace the existing assembly centres in Rakvere and Riga. The 9,000 sqm logistics centre was completed in Q3 2021 and can be expanded as needed.

TÄHETORNI TEHNOPARK – Tähetorni Technology Park in the suburbs of Tallinn on Härgmäe Street (next to Paldiski Road), is rapidly expanding. In June 2019, the first stock-office building with 6,300 sqm was completed and another with 4,400 sqm was completed in Q1 2020. In Q4 2020, the construction of the next building with 5,400 sqm began and was completed in Q4 2021. The rents are €6.60 per sqm plus additional costs. Around 60,000 sqm of commercial premises are planned for this technology park. Developed by Favorte.

TÄHESAJU TEE 11 – A stock-office type, multifunctional commercial building, was built next to the imminent Lidl store in the Tähesaju City business area of Tallinn's largest district. The building, is 5,800 sqm and was completed in Q2 2021. The rents are around €10.00 per sqm plus additional costs circa €1.50 per sqm. At the end of 2021, the vacancy rate was zero. Developed by Hammerhead.

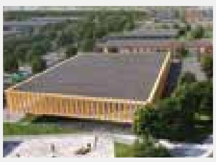
PAKENDIKESKUS – Pakendikeskus built a logistics, stock-office centre located on Suur-Sõjamäe Street, Soodevahe village, in Rae district. In addition to the central warehouse of Pakendikeskus AS, the complex will include premises for a store and offices, with five stock-office units for rent, whose clients can be offered the possibility of storing their goods in the central warehouse. The cost of the works was close to €5.3 million and the 10,850 sqm building was completed in Q2 2021.

RINGTEE TECHNOLOGY PARK – The park is located in Rae district, by the Tallinn Ring Road which has the highest traffic density in Estonia. There are several well-known enterprises in the neighbourhood: Hansaplant, Uponor, Maxima Logistics and IKEA. The plots for sale range from 4,100 to 8,400 sqm. According to the detailed plan, it is possible to erect as many as twelve buildings up to a height of 12 metres. By the end of 2021, all plots had been sold. The project will be completed in seven years. The developer is Hammerhead.

NEW PROJECTS

MCF DATA – Neighbouring Tallinn, the largest data centre in the Baltics will located in Saue district. It will be completed in three stages, with a total cost of over €100 million. The site will be built to conform to the ISKE standard of 3-stage baseline security for Estonian information systems. This will ensure a high level of security for both physical and electronic barriers. The centre will be 14,000-35,000 sqm in size. The developer is MCF Group, Estonia. The first stage of the data centre includes 14,500 sqm of office space in the three-floored building, and was completed in Q2 2021.

MAKITA CENTRE – Japanese tool manufacturer Makita is building a central warehouse, maintenance, and training centre of up to 25,000 sqm in the Gate Tallinn business park near Tallinn. The sale of equipment to Estonia, Latvia, Lithuania, Norway, and Sweden will be coordinated from the representative office to be located in Laagri. The investment will reach €24 million. The centre will be completed in 2022.



RIMI LOGISTIC CENTRE – By 2024, Rimi Eesti will move all its operations to a large new office in Laagris Gate, Tallinn, where there will be a modern logistics centre with 18,000 sqm, an expanded central kitchen and an office suitable for new ways of working under one roof. Today, planning has already begun, active design will begin in early 2022. Construction is scheduled to begin in Q4 2022. The developer is Lumi Capital.

NEW PROJECTS

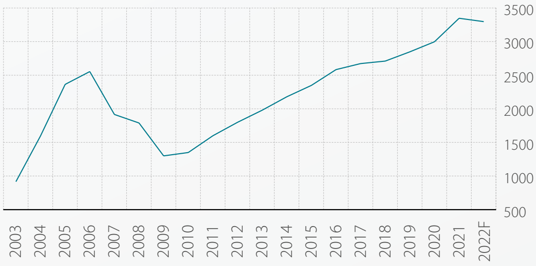
SALUSTE 3 – A modern commercial building close to Tallinn city. It will have over 23,000 sqm of commercial space, which is intended mainly for warehousing and production purposes. Rental premises range from 300 to 4,200 sqm with the possibility to combine units. The construction of infrastructure was completed in autumn 2020. Project completion is expected at the beginning of 2022. The rents for office premises are €6.50 per sqm and for warehouses €4.20 per sqm. Developed by Favorte.

IRU ÄRKESKUS – This is a new 2-storey stock-office type building on the Vana-Narva Road near Tallinn. This three-in-one solution enables the company to bring all its business under one roof and thereby save on logistics, communication, staff, and ancillary costs. Multifunctional units start at about 350 sqm, but there are also commercial spaces up to 980 sqm. About 9,500 sqm of commercial space can be formed by joining the units. Rents are €5.50–€6.50 per sqm. At the end of 2021, circa 50% of the space was reserved. The building will be completed in Q4 2022. Developer, Favorte.

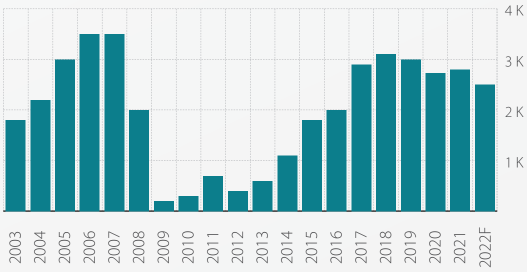
EAST CAPITAL LOGISTICS PARK – The management company East Capital Real Estate, better known for investing in completed objects, has diversified into real estate development, acquiring a 30-hectare plot in Rae district near Tallinn. The planned logistics park will be located at the intersection of Tallinn beltway and Tartu Highway, in the vicinity of the IKEA centre due to be built in the coming years. East Capital decided to invest in real estate development as there are fewer and fewer attractive and viable management opportunities in the logistics sector.

IRU ÄRKESKUS

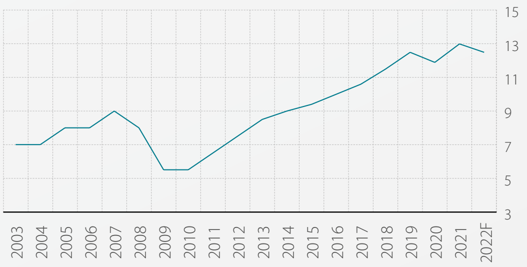
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



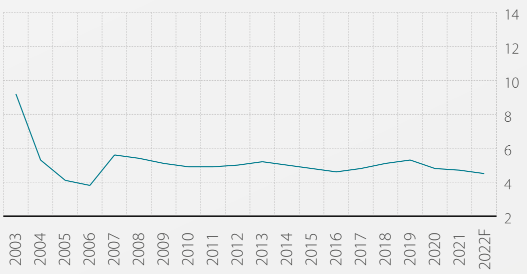
COMPLETED APARTMENTS



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM



CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %



TALLINN SNAPSHOT (END-2021)

ANNUAL APARTMENT PRICE CHANGE	+ 15.0 %
NEW APARTMENTS BUILT	2,727
OLD CONSTRUCTION APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM)	€1,500 - €2,400
NEW APARTMENT PRICES IN RESIDENTIAL DISTRICTS (€/SQM - with final fit-out)	€2,200 - €4,000
NEW APARTMENT PRICES IN CITY CENTRE & OLD TOWN (€/SQM - with final fit-out)	€3,000 - €6,000
RESIDENTIAL INVESTMENT YIELD (city centre)	4.7 %

SUPPLY DECREASES, PRICES INCREASE

PRICES

The average sqm price for an apartment in Tallinn increased 15.0% in 2021, reaching €2,433 per sqm by December 2021. It was a significant jump in prices compared with the 4.9% annual increase of 2020. Reasons behind the increased prices for apartments include overall growth in demand, lower interest rates, rising incomes, high inflation expectations predictions and the purchase of apartments for investment purposes.

In Q4 2021, the average price of new apartments in Tallinn reached €3,122 per sqm and the average price of apartments in the secondary market increased to €2,303 per sqm.

At the end of 2021, the number of apartments being offered in Tallinn was by 35% lower compared to the previous year.

Altogether 48% of the purchases took place without a bank loan and around 10% of the apartments were bought as investments in Tallinn.

By the end of 2021, the average price of a new two-room, 50 sqm apartment in Tallinn was €143,000 (€3,027 per sqm). The average cost of a 2-bedroom apartment in the secondary market in Tallinn was €104,000 (€2,217 per sqm).

New apartments with final fit-out cost €3,000-€6,000 per sqm in the city centre and €2,200–€4,000 per sqm in the more residential areas.

Prices of apartments vary mainly according to the location. Most transactions were in the city centre and involved apartments in good condition, in modern or fully renovated buildings, with prices from €3,000 to €3,500 per sqm.

In buildings with the best views or special architectural features, prices can exceed €4,000 per sqm. Well-renovated flats in the Old Town cost from €3,300 to €4,500 per sqm.

In residential areas, most of the sales were for cheaper one or two-room Soviet-era apartments in need of renovation and cost from €1,500 to €1,900 per sqm. Apartments in excellent condition situated in popular locations in residential areas cost from €1,800 to €2,400 per sqm. Those situated in less sought-after locations are much less marketable, even if they are in good condition. In popular suburban locations like Pirita, Nõmme or Kakumäe, prices for modern apartments range from €2,600 to €3,200 per sqm.

RENTS

In 2021, rents for apartments in Tallinn increased by 5-10% and the number of offers decreased by about 30%.

At the end of 2021, the asking rent was €9.00–€14.00 per sqm for rental apartments in the suburbs of Tallinn and €12.00-€15.00 per sqm in the city centre for apartments in period buildings.

The rent of a new rental apartment in the city centre is €15.00–€20.00 per sqm, and in the suburbs €11.00–€16.00 per sqm. Average micro apartment rents can exceed €30 per sqm. The price of a parking place might 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 €650 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 the Lasnamäe and Mustamäe districts. The average rental term is usually 1 year. Contracts for longer than 3 years are usually not available.

There are no restrictions on leasing 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 need to be paid by the tenant. The renovation fund is usually also paid by the tenant, although legally, it should be paid by the landlord.

Due to decreased rents and increased purchase prices, the gross rental yield of apartments in Tallinn in 2021 decreased to an average 5%. Owners generally negotiate rental agreements of short duration (up to one year) and thoroughly check tenant backgrounds.

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 for heating. The growing rental market in Tallinn is driven by domestic migration, owing to unemployment elsewhere in Estonia, and people converging on Tallinn. The population in Tallinn has grown by 50,000 over the last 10 years.

Smaller apartments are low risk investments that retain demand and reliable rental prices. There is a constant demand for small, cheap, functional rental premises in Tallinn as with many large cities, which is supported by the constant growth in the population of Tallinn and its neighbouring areas.

Most tenants are students, young people, employees from other parts of Estonia and internationals. Over the last few years, the market has been heavily influenced by migrant workers, especially from the Ukraine. The driver here, the increased mobility of people and movement of jobs, creating an unwillingness to assume long-term financial commitments.

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 owners' plans changing does not arise (e.g., the sale of the property).

The emerging buy-to-rent market offers investors a lower return in the short term than, for example, commercial real estate, but it is a more sustainable business model in the current uncertain time and in the long run.

The private sector in Estonia has not previously owned such a large rental apartment portfolio of properties specifically 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.

In 2019 Lumi Capital and LHV Pension Funds started investing in rental apartment buildings in Tallinn. The first project, with 127 apartments, was in the Manufaktuuri Quarter in Põhja, Tallinn. In Q2 2020, a new project with 164 apartments, was started in Mustamäe which was completed in Q4 2021. The new apartment buildings together with the completed buildings in Manufaktuuri, make up almost 300 apartments, which is more than half of the LHV Pension Fund's planned portfolio of 500 rental apartments in Tallinn.

EfTEN Capital also entered the rental market, and established a new fund that will invest in rental apartment buildings in Estonia, Latvia, and Lithuania. It aims to become the largest residential property fund in the Baltics, by attracting (in the inaugural stage), €60 million of equity investments. The first investment by the fund was a residential building with 112 apartments and 93 parking lots at the Kadaka Metsapark development in Tallinn, which was completed in Q4 2021. EfTEN is planning so-called bulk purchases during the upcoming low tide in the construction market, which means that the fund will purchase entire residential buildings, not separate units.

The largest portfolio of rental houses in the Baltics, with a total of 479 new apartments under development has been sold. One hundred of them will be built in Estonia on Päevalille Street in Õismäe. The project will be completed in 2023. The insurance company BTA entered the Estonian commercial real estate market with this transaction, and the business plan will be implemented by the local investment manager Lumi Capital. The construction company YIT will also remain a shareholder.

SUPPLY

In 2021, 2,797 new apartments were completed in Tallinn, compared to 2,727 in 2020. It is expected that developers will complete construction of 2,500 apartments during 2022. Residential development is also growing near the centre of Tallinn, particularly in the Lasnamäe, Mustamäe and Haabersti districts.

At the start of 2022, there were apartments for sale in around 70 newly developed projects in Tallinn and in another 30 projects in the immediate vicinity of the city.

In 2018, the largest apartment development project in Tallinn was started in the New Veerenni Quarter. Developed by Merko, with a capacity of 1,600 apartments, the first stage was completed in 2019/2020.

The second biggest project developed by Merko in Tallinn is Lahekalda, which began in 2019. The first phase of construction, with 144 apartments was completed at the end 2020. The total volume of the project will be more than 1,000 apartments.

Most projects, however, 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 near the sea and the city centre, is an extremely popular area, and the prices of apartments are €3,500-€7,500 per sqm.

The development of apartments is mainly undertaken by larger developers such as Merko, Endover, Fund Ehitus, Liven, Hepsor, Metro Capital, Bonava and YIT.

DEMAND

In 2021, the number of apartment deals in Tallinn increased 22%, and the total financial volume increased by 35%.

During 2021, an average of 175 new apartments sold each month, which is 19% of all apartment transactions in Tallinn.

In 2021, the demand for new apartments exceeded the supply and most of the apartments were reserved and sold before the building was completed.

Almost 40 apartments were sold during 2021 with purchase prices exceeding €500,000. The most expensive apartment was sold for almost €1.1 million.

PRIVATE RESIDENCES

In 2021, the housing market developed significantly. The average price of the purchases of private houses in Tallinn and the surrounding area increased 33%, the number of transactions increased by 27% and the transaction volume increased by 69%. This is the strongest growth in the housing market in 15 years. The most expensive house was sold for €1.8 million.

In Q4 2021, the number of houses offered in Tallinn and Harju County decreased by about 26% compared to Q4 2020, and the purchase prices increased by around 30%.

The largest price increase was in Tallinn and in the vicinity of the city for houses within the cheaper and middle price bracket.

The most desirable, in surrounding area of Tallinn, are new or up to five-year-old, 120-160 sqm houses with modern technical solutions and economic heating systems. Prices range between €190,000 and €270,000. The increase in the value of such houses, depending on their exact location, was 5% in 2020.

Most of the deals take place in Tallinn and up to a 25 km radius outside Tallinn, especially in Rae and Viimsi. The highest average price was in these districts. Increasing prices 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 districts bordering Tallinn. During the last year, the popularity of Rae and Saku districts has increased.

THE MORTGAGE MARKET

Competition in the real-estate financial market has increased. Several domestic banks have grown strongly and increased their market share. This stood out most in the long-term corporate loan market. The share of domestic banks in the household housing loan market also increased to a lesser extent, but large internationally-owned banks still predominate. The growth of new housing loans in Estonia in 2021 was 39%.

The average size of a housing loan has increased by 8%, reaching €119,000 in Tallinn with an average borrowing period of 23.9 years.

The average interest rate on housing loans fell to a record low at the end of 2021. The average interest rate on new housing loans with a mortgage was 1.96% in December 2021, having been 2.2% the previous year.

The lower interest rate means that the loan repayments of households are smaller. However, the current average interest rate consists mainly of the risk margin of the banks, and it should be remembered that interest rates may rise in future.

LEGAL NOTES BY ***SORAINEN***

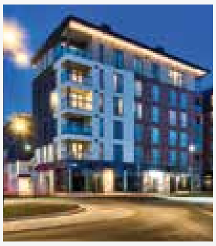
Rents are usually payable monthly, in advance. Tenants generally pay for their own utilities based on the invoices directly to the service providers after use. Generally, normal wear and tear is allowed and is at the risk of the landlord. Quite commonly, payment of rent is secured, e.g. by rent deposit of one month's rent. Residential leases are not subject to rent control. Some residential properties owned by the local government enjoy subsidised rent, but there are few of them and they are allocated on a needs basis. Evicting delinquent tenants can be problematic. Possession of property is protected and even if termination is valid, it is prohibited to summarily evict tenants if they do not leave voluntarily. In that case, a claim must be filed with the court for the recovery of the premises from illegal possession, and eviction is possible only by a bailiff based on a court decision. This process can take a couple of years, although in most cases matters can be resolved within a more reasonable timeframe.

At the beginning of 2021, some changes in the regulation of the lease agreement came into force. It is allowed for the landlord and the tenant to agree on the contractual penalties in case of a non-monetary breach under the residential lease agreement. In such cases, the total contractual penalty may be up to 10% of the monthly payable amount by the tenant per breach. The maximum amount for a contractual penalty in one month is up to 20% of the monthly amount payable by the tenant. It is also possible for the landlord and tenant to agree that the tenant has the obligation to bear the costs of the building's reconstruction and maintenance works. In addition, it is possible to agree for the tenant to arrange the repair or to incur the costs of any normal wear and tear after the termination of the lease agreement. The bases for increasing the payable amount of rent were also specified in the regulation which entered into force at the beginning of 2021.

NOBLESSNER HOME PORT

RECENT DEVELOPMENTS

LAHEKALDA – Lahekalda is a new, rapidly developing residential district where over the next 10 years contemporary buildings with more than 1,000 comfortable apartments will be constructed. Situated on the nearly 70 hectare, naturally beautiful Maarjamäe limestone bank, these apartment buildings will rise to just the right height above sea level to provide amazing views to the sea and the city centre towers. The first phase of construction, which was completed by the end of 2020, comprised 3 buildings with 144 apartments. The sizes of the apartments ranged from 31 to 93 sqm, and the price per sqm remains between €3,100 and €3,900. In the second stage, two 5-storey houses with 96 apartments, were completed at the close of 2021.



NEW VEERENNI – The New Veerenni Quarter is Tallinn's largest single residential development area. The buildings are in the Veerenni subdistrict. Over the next ten years, around 50 residential buildings with more than 1,400 apartments will be built. The residential buildings will have a B energy rating. There will be an underground car park and intra-quarter roads will be constructed. Courtyards in the quarter will be landscaped to include play and recreation areas. The first stage, with 137 apartments, was completed by the end of 2019. The second stage with 90 apartments, was completed in 2020 and the third stage with 59 apartments was completed in 2021. The fourth stage of the Uus-Veerenni development project will be completed in late 2022 comprising three apartment buildings containing 84 apartments. Prices of apartments range from €2,900 to €4,000 per sqm, parking space price is €17,000–€22,000, storerooms cost €5,000/€8,000. Developed by Merko.

KADAKA METSAPARK – A residential project, consisting of four houses with 280 apartments. The smaller apartments will be cosy nests under 30 sqm, while the larger ones will be four-room family apartments with up to 72 sqm. Prices range from €2,150 to €3,700 per sqm with a parking space included. The first three buildings were completed in 2020 and the fourth building was completed in 2021. Developed by Hepsor.

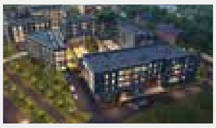
TISKREOJA – Over the next four years, this project, comprising around 400 new apartments will be constructed. Due to the newly finished Haabersti intersection, the residents of Tiskreoja will have a good connection with every part of the city. Prices range from €1,800 to €2,600 per sqm; the price of a parking space is €1,900. Construction of the first residences was completed by autumn 2020 and the second phase in 2021. Developed by Invego.

ALASI 5 – 42 apartments were completed near the sea in the rapidly developing North Tallinn district of Kopli. The sizes of the apartments ranged between 35 and 95 sqm. Prices range from €2,250 to €3,150 per sqm. All apartments are sold. Developed by Liven.

PRIISLE 2 – At the beginning of 2021, a 9-storey residential building with 71 apartments was completed at Priisle tee in the Lasnamäe district of Tallinn. The sizes of the apartments ranged between 34 and 152 sqm. Prices range from €1,800 to €2,800 per sqm. At least one parking space and a storage room will be added to each apartment price. Storage rooms cost €2,500–€4,500, parking on the building's 1st and 2nd floors is €4,950. Developed by Fund Ehitus.

PIKALIIVA – In the fourth phase of the Pikaliiva development, two 4-storey residential buildings with a total of 50 apartments were completed next to Lake Harku, surrounded by greenery. The sizes of the apartments ranged between 34 and 84 sqm. Prices range from €2,100 to €2,550 per sqm. Parking and storage are included in the price. All apartments are sold. Developed by Merko.

TORN – In Q1 2021, a 20-storey residential building with 171 apartments was completed in the Kristiine district near Tallinn city centre. The sizes of the apartments ranged between 37 and 619 sqm. Prices range from €1,950 to €5,000 per sqm, with parking costs of €9,900, and storerooms €6,900/€9,900. At the end of 2021 almost all apartments were sold. Developed by Endover.



KÜTI KVARTAL – In Q1 2021, 60 apartments were completed near the Old Town, and close to the sea in Kalamaja. The sizes of the apartments ranged between 30 and 100 sqm. Prices range from €3,100 to €4,500 per sqm. Parking and storage are included in the price. Developed by YIT.

NEW PROJECTS

KIIKRI RESIDENCES – These residences are in arguably the most beautiful area of Tallinn, right next to Kadriorg Park and Tallinn Bay. In the final stage, 86 apartments and 4 commercial premises will be built. On the upper floors there will be exclusive penthouse-type homes with spacious terraces. Every apartment owner can have their apartment designed according to their preference from start to finish. The interior finish can be chosen from four different packages. In 2020, the earlier stage of the project, received the award for the best housing development in the Baltics. The price per sqm remains between €3,700 and €6,000. This project is developed by Metro Capital and will be completed during 2022.

KALARANNA QUARTER – Located near the Old Town, and close to the sea, Kalaranna Quarter is undoubtedly one of the most unique areas in Tallinn. The Kalaranna Street development will have eight buildings with 240 apartments, commercial premises, and underground parking. Apertment prices range from €3,000 to €6,200 per sqm. The most expensive, exclusive apartment costs up to €680,000. The purchase price of an underground parking space is €20,000; the price of a storage room is €6,900. The completion of the project is currently scheduled for Q2 2022. The developer is Pro Kapital.

NOBLESSNER HOME PORT – An exclusive, centrally located, seafront multifunctional project in the Noblessner Quarter, comprising of five residential buildings with 161 apartments and 14 commercial premises. Noblessner, a city district with a dignified history, has been designed to provide a contemporary living environment, where the residential buildings are surrounded by integrated urban space including squares, park areas, a seaside promenade and high quality recreational facilities. The first stage includes two residential buildings with 60 apartments and 6 commercial premises next to the Noblessner Marina on Vesilennuki Street. These will be completed at the beginning of 2023. The buildings will have sea views, large balconies, and energy rating B. The size of the apartments ranges between 33–377 sqm and the prices start from €3,500 per sqm. The developers are Merko and BLRT Grupp.

ODRA – Right in the centre of Tallinn, on the corner of Lastekodu and Odra Streets, a new house consisting of three parts with more than a 100 apartments and seven commercial spaces will be built. The building, located in a logistically perfect place, will house one to five-room apartments. The city centre, the Kadriorg Park, as well as plenty of cafés and restaurants, and the Central Market (with plans for a new lease of life in the next few years), are all located within a pleasant walking distance. The project will be completed in Q3 2022. Developed by Merko.

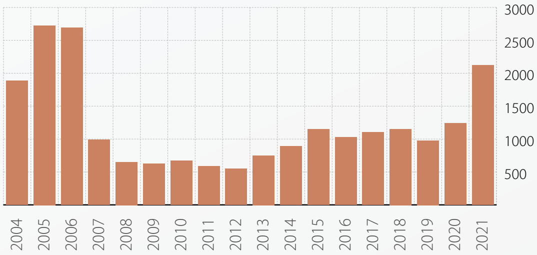
VECTOR, PÄRNU ROAD 137 – A tower house with one 16-storey and one 12-storey tower will accommodate 200 apartments and 320 parking spaces. There will also be a 1,500 sqm roof garden on the roof of the parking house. The buildings are designed to meet the requirements of the LEED gold certificate and the gross area of the complex is 38,000 sqm. Prices for apartments range from €2,800 to €4,750 per sqm. The project will be completed at the end of 2023. The developer is Triple Net Capital OÜ.

VOLTA KVARTAL – The Volta industrial site, which covers 11 hectares on the sea-facing side of the suburb of Kalamaja, is set to gain a new lease on life thanks to property developer Endover. The plan is to reshape it as a modern and environmentally friendly residential and business quarter combining old and new architecture. In total 755 apartments, along with commercial premises will be built. The quarter is due for completion in 2025, construction will start in 2022. Prices of apartments range from €3,800 to €7,900 per sqm, parking costs €19,900, and storerooms €4,900/€7,900. The most expensive, exclusive apartment will cost up to €750,000. Developed by Endover.

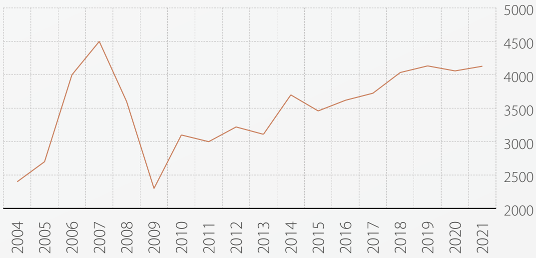
NÕMMEMÄE KODUD – Mäepealse Street is surrounded by the greenery of Nõmme and the park. A total of 138 apartments with one to four rooms sized 29-76 sqm will be completed in three buildings. Each apartment will have a balcony and the upper floors will offer sweeping views of the city's panorama and surrounding forests. There will be parking in the underground car park. The sale of Nõmmemäe homes will start in 2022 and the new homes will be completed in 2023. Prices have not yet been published. Developer is Bonava.

MANUFAKTUURI STR 5/7 – This project is located in the Sitsi subdistrict of Northern Tallinn, in the area of the former Baltic cotton factory (Sitsi factory), and the future Manufactory Quarter. The Manufactory Quarter will become the new centre of Northern Tallinn. An estimated 500 apartments will be built. The total volume of residential and commercial premises to be developed is 70,000 sqm, with an investment of €100 million. The construction and sales will begin in the Q1 2022 and project will be completed in 2025. The developer is Hepsor/Tolaram.

LAND TRANSACTIONS IN TALLINN CITY & DISTRICT



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



TALLINN SNAPSHOT (END-2021)

ANNUAL LAND PRICE CHANGE (TALLINN AND HARJUMAA)	+ 1.7 %
TOTAL LAND TRANSACTIONS CHANGE (TALLINN AND HARJUMAA)	+ 71 %
LAND PRICES IN CITY CENTRE FOR RESIDENTIAL DEVELOPMENT (SQM)	€600 - €2,000
LAND PRICES IN RESIDENTIAL DISTRICTS FOR RESIDENTIAL DEVELOPMENT (SQM)	€250 - €700
LAND PRICES IN CITY SUBURBS FOR PRIVATE HOMES (SQM)	€90 - €160

THE LAND MARKET BECAME VERY ACTIVE

In 2021, the number of transactions on residential land in Tallinn and Harju County increased 71%, but the average price per sqm increased by only 1.7%. In the most valued areas of Tallinn, such as the Pirita and Haabersti districts, the price increase was over 30%.

In the most popular residential areas in Tallinn the average price of land was €100-€150 per sqm, and near the city, €40-€60 per sqm.

The price increase was also higher than average in Viimsi, Rae, Saku, Kiili, Harku and Saue districts, located in the immediate vicinity of the city of Tallinn and increasingly popular.

The prices for 1,000–1,500 sqm plots are €100,000–€190,000 in popular locations in Tallinn (Kristiine Pirita, Haabersti and Nõmme), €50,000–€100,000 near the city, and €20,000–€40,000 in other locations.

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

In Q1 2021 Arco Vara signed an agreement for land acquisition beside Lake Harku, on the Paldiski Road in Tallinn. More than 30,000 sqm of residential and commercial space is planned for development. The size of the plot is 69,500 sqm. The expected development period is 6 years with the start of construction planned for 2023.

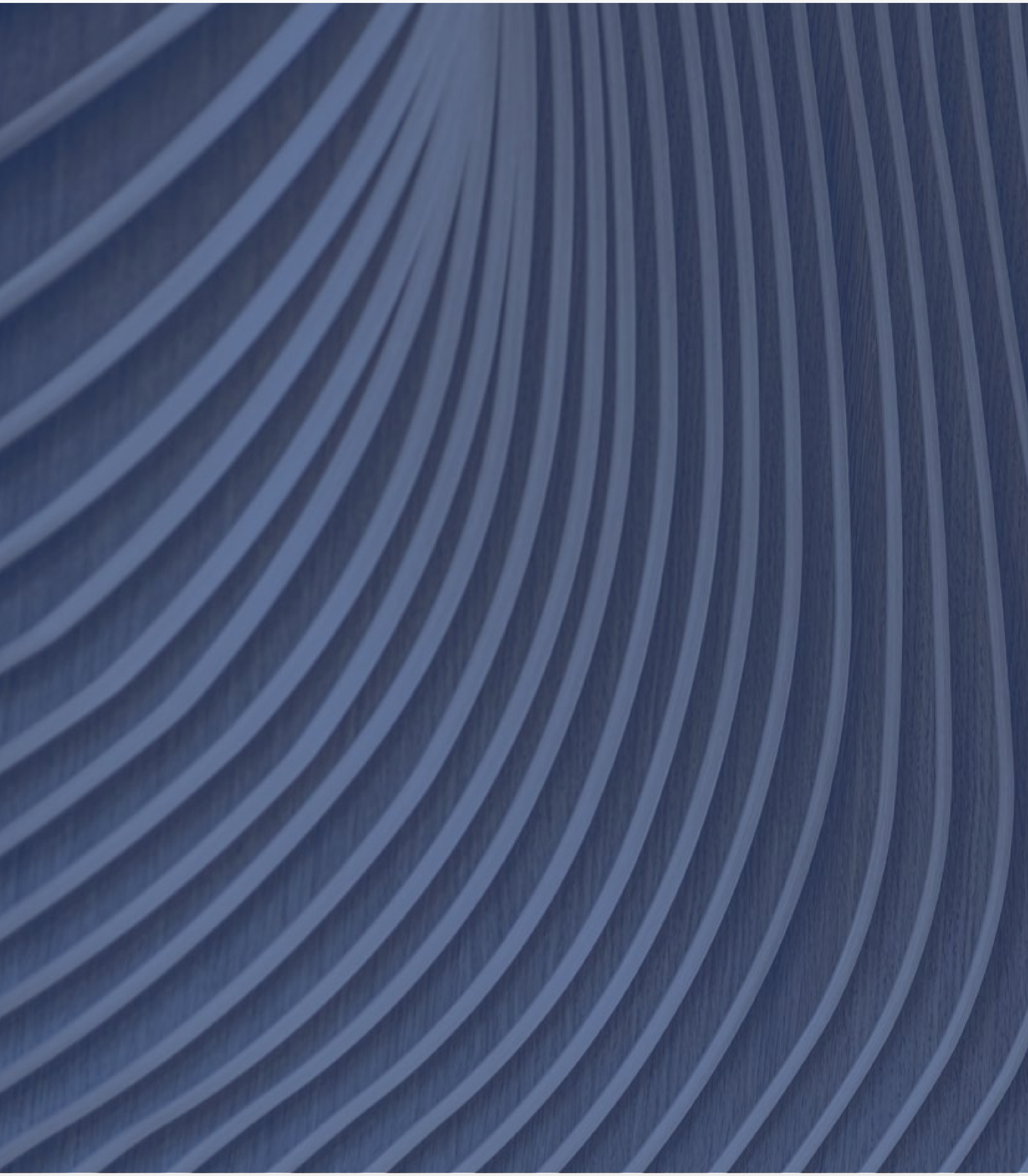
East Capital Real Estate purchased 30 hectares of land outside of Tallinn for a new logistics project. The land, located in the corner of the Tallinn Ring Road and the Tartu highway, is a high-value location for logistics, distribution, and light industry companies in the Estonian capital.

LEGAL NOTES BY **SORAINEN**

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

Construction requires a construction permit issued by a local municipality. Construction must generally comply with local spatial planning – in particular, with a comprehensive plan and in certain cases with a detailed plan. In densely populated areas a detail plan is usually required. Local municipalities often require developers to undertake to construct infrastructure as a condition for adopting a detail plan. Some municipalities also require payments to social funds. When buying land for construction, the existing detailed plan must be thoroughly assessed to ensure its applicability.

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 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. Rent of residential property is always VAT exempt, optional taxation 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 2019, 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):

Generally, 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. If a company pays rent to resident and non-resident individuals, 20% income tax should also be withheld.

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, no source documents are needed. Therefore, the effective tax rate for individuals on rental income is 16%. 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, 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 could be 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 company 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 company 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 DOMESTIC 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 located in Estonia. In addition, interest 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):

Generally, 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 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 in which registration itself confers the title. This makes verifying titles simple and transactions secure. At the same time, the requirements for notarisation and documentation can make other aspects of the transactions cumbersome and time-consuming.

TITLE TO REAL ESTATE, LAND REGISTER

Ownership of real estate is registered in the Land Register. This is a national register that 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 anyone may access registered information. The register is maintained and can be accessed electronically.

Titles to real estate are considered to be transferred on registration of ownership with the Land Register, not on signing the agreement. The notary who certifies the transaction will file a notarised registration application, together with the transaction documents, in the Land Register. This is done electronically - usually on the same day. In the case of a simple transaction, ownership is often registered within one week of filing an application with the Land Register, along with the signed and notarised agreement. 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 the order of arrival of applications and so parties to a transaction often agree to act as though the ownership has already transferred once they have submitted an application to register a change to the Land Register.

ACQUISITION OF REAL ESTATE

GENERAL

Most commercial properties held for investment purposes in Estonia 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 the sale of shares has become rarer.

An asset transfer may constitute a transfer of enterprise, in which case it will be similar to a share deal since the seller's obligations 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 it, such as buildings and standing timber. In general, it is not permissible to transfer a building separately from the underlying land, except if a building title is established and then transferred. A building title provides its owner with the transferable and inheritable right to erect and/or own a construction permanently attached to a land plot that they do not own for a specified term of up to 99 years. In that case, the building forms an essential part of the building title, not of the land. Building titles can be transferred separately from the land plot.

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 contemplated real estate transactions. 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 sales 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. A breach of the exclusivity obligation entitles the aggrieved party to compensation by way of damages, including the 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 covering the intended negotiation period plus some additional time.

ASSET TRANSFER

Asset transactions must be notarised and therefore often have to 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 transfers do not require research into the legal or financial background of a company to the same extent as share transactions. 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.

An asset transaction may be considered a transfer of enterprise, in which case 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 an 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 disposition for the transfer of a share must be notarised. In addition to the notarial form of the share transaction of the private limited companies, as of 1 August 2020, if the shares are not registered with the Register of Securities, such share transactions may be concluded in a simple written form if certain conditions are met. In order to conclude such a share transaction in a simple written form, the share capital of a private limited company has to be at least EUR 10,000 and fully paid in; and this possibility has to be prescribed in the articles of association of the private limited company. All the shareholders of the private limited company have to be in favour of waiving the requirement for notarisation of the share transaction documents in the private limited company's articles of association.

Increasingly stringent Know Your Client and Anti-Money Laundering rules have forced banks to limit opening bank accounts for foreign investors, which can sometimes make use of the Register of Securities and the benefits it incurs impossible.

Generally, buyers require sellers to represent and warrant that the seller's claims about the property holding company at the time of the 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 due to this.

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

Anyone considering a portfolio deal should bear in mind the following:

- Portfolios may include flawed or unwanted properties. Here, due diligence is of the 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, for example, 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 (e.g. guarantee, surety).
- Closing date under the asset purchase agreement should coincide with the lease commencement date irrespective of the actual date of the title transfer (in order to avoid book-keeping issues and to reconciliate the costs, etc).

FORM OF AGREEMENTS

Transfer of a title to real estate requires a sales agreement (setting the terms and conditions of sale) and a real right agreement (agreement to transfer a title). These are usually contained in one document, but maybe separated to facilitate separate closing.

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

LANGUAGE REQUIREMENTS

The sales agreement and real right agreement are drafted and verified by a notary in Estonian. Legally, the agreement can also be in English, although in practice only a few notaries are comfortable with attesting to English-language agreements.

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, for example, titles, 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 management board members of companies.

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. Furthermore, 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, and on real estate located in certain nature protection zones, and on heritage protection sites located on real estate.

Pre-emption rights 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 of receiving notification of a sales agreement. On exercising this right, the practical outcome is that an agreement on the same terms as the original transfer agreement is deemed to have been concluded between the seller and the beneficiary. To avoid breaching the agreement with the beneficiary and liability 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 that closing is postponed until after the two-month period has passed. If the beneficiary is a state entity and the right derives from the 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 either the state or the municipality for mandatory pre-emption rights.

As to pre-emption rights, preliminary notation plays an essential role. A preliminary notation is a notation that may be entered in the Land Register to secure a claim for the acquisition or deletion of a real right, or for the 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 the disposal of the pre-emption right is void to the extent that it prejudices or restricts a claim secured by the 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 account or to the seller's account before the real estate sales 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 the sales agreement is concluded. The notary releases the purchase price to the seller after the agreement is made and filed with the Land Register. In case of debt financing, the financing bank will transfer the funds directly to the seller within a couple of days, as agreed in the sales agreement.

RELATED COSTS

Asset transactions incur notary fees and state duties. However, as the percentage fee decreases with the size of the transaction, for 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 be incurred, depending on services used: brokerage fees; valuation of real estate (usually carried out by real estate firms); bank fees; fees for financial, tax, legal, environmental, technical and commercial due diligence; and reviewing the sales and security agreements.

TAXES

The 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 as the result of a process of 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. The land tax is 0.1% to 2.5% of the land value per 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 an asset and share transfers) with a cash flow may be subject to concentration control, i.e. merger clearance, by the competition authorities if:

- turnover in Estonia of the participants in the concentration (target undertaking and buyer) exceeds EUR 6,000,000; and
- turnover in Estonia of at least two participants in 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 previous financial year. If the buyer has no business in Estonia (on making the 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, as well some islands, the seacoast and state border areas.

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

- citizens of Estonia or another country which is a contracting party to the EEA Agreement or a member state of the Organisation for Economic Cooperation and Development (OECD Contracting State),
- a legal person from 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 only on approval of the local government.

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

PUBLIC RESTRICTIONS ON USE OF REAL ESTATE

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

ENCUMBRANCES

The following rights, which are 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 a 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. In order to finance the purchase or for other purposes, a mortgage may be established on real estate by a notarised agreement as security for a bank. The mortgage agreement can be concluded at the same time and in the same document as the sales agreement. However, in order to be valid, the mortgage agreement must be sufficiently specific as to the claims secured.

If a mortgage is encumbering the real estate before the 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, the amount equalling the debt to the creditor. Theoretically, this does leave open the risk that another application could be submitted to the Land Register in time to spoil the transaction, but with the part of the purchase price covering the release of the mortgage already paid.

PROPERTY MANAGEMENT

Maintenance and management of a residential building is an obligation for the owners of the building, that is, apartment owners. With small buildings, this is usually carried out by the owners themselves. With 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 mandatory regulation.

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

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

Break options, 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 being a tenant's market. Tenants are usually required to pay the 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%–5% 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 the 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 the losses by actively seeking a new tenant and so in such a situation the courts often limit the period for which the full rent can 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 the 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 having secured 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 related to new highways and prisons.

CONCESSIONS

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

In practice in Estonia 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 no sooner than within six months of 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% of whose assets are 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. Depending on the performance of the investment portfolio, fund management fees may be structured as success fees.

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 densely populated 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. An interested party must apply to the local government to initiate detailed plan procedures: these involve public hearings and discussions. When the environmental impact is significant and the construction may cause changes to the environment, a 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 the complexity of the project.

CONSTRUCTION

Under the Building Code, construction means the erection, construction, installation and demolition of a building and any other operations in relation to the construction work that leads to the 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 (for example, it is not possible to erect residential buildings on commercial land and vice versa). If no detailed plan is in place or required, construction work must be performed in line with design specifications issued by the local government normally this occurs within 30 days of the submission of the application. The principles of open proceedings (public hearings and discussions) do not usually 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 required to erect buildings with a ground projection area bigger than 60 m2 and higher than 5 metres, or to expand an existing building by more than 33% of its originally planned volume. Construction without a valid building permit is not allowed. A building permit becomes invalid (lapses) if construction work does not begin within five years of the issuing of a building permit. Once construction work has commenced, the building permit is valid for up to seven years from its issuing.

After completion of construction work, 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 work is finished, the construction company may give a guarantee for construction defects. 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 the construction work where the other contracting party is a consumer, it is presumed that any construction defect that becomes evident within two years 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 defects lies on the construction companies.

In the case of a sales agreement where the object is the whole of an immovable property or part of it; apartment ownership; 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 of the day of delivery of the building to the consumer existed already at the time of the 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 in 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 are lacking certain permits. Such errors have no legal effect. Only the 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, these sales are subject to the customary regulation described above.

During enforcement proceedings, the asset is sold by the bailiff, usually at a 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 very important. The seller is typically insolvent or close to insolvency, which in effect means that the buyer will usually have no recourse upon default.

If the asset is sold in enforcement proceedings, then all rights ranking below the right of the creditor who has initiated the proceedings will be deleted from the Land Register. Exceptions to this rule are servitudes that serve the public interest (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. As of 14 January 2021, if the leased property is transferred to a new owner in the course of bankruptcy or enforcement proceedings, the new owner has the right to terminate the residential lease agreement or lease agreement for business premises without the necessity to prove an urgent need to use the leased premises, which makes the process of terminating such lease agreements and evicting the tenant easier compared to the process under the previous regulation.

OBER HAUS

Legal Adviser

Deka Immobilien

Full-scale advice on the acquisition of Quadrum business centre in Vilnius from Norwegian-owned real estate developer Schage Real Estate. This is the largest investment transaction in the Baltic office real estate market to date.

EUR 156 million

Seller's Legal Adviser

Stockmann

Advice on the sale of department store properties, with a net leased area of 23,000 m2 in Tallinn, and 16,000 m2 in Riga, to the investment arm of Viru Keemia Grupp.

One of the largest real estate transactions involving both Estonia and Latvia in 2021.

Buyer's Legal Adviser

Linstow

Advice on the acquisition of a property to be developed and leased out to SEB Latvia as a brand-new business centre.

Buyer's Legal Adviser

Real Estate

Full-scale advice on the acquisition of the 30,000 m2 Ozols shopping centre in Riga from a real estate company, KS Holding.

Advice on the acquisition of the shopping mall Viimsi Market in Viimsi, Harju county.

Legal Adviser

Technopolis

Advice on signing a lease agreement for more than 15,000 m2 of office space with Western Union Processing Lithuania (WU).

The largest office lease transaction in the Vilnius market in 2020.

Seller's Legal Adviser

Lords LB Baltic Fund III

Advice on the sale of the shopping centre Rietumu centrs, as well as Bergi logistics, both in Latvia.

The sale of Bergi logistics centre is the largest logistics sector transaction in Latvia since 2018.

Buyer's Legal Adviser

REInvest Asset Management and its fund DEREIF SICAV FIS

Advice on acquiring the SEB Bank headquarters building in Vilnius.

This was one of largest real estate transactions in the Baltic states in 2020.

Buyer's Legal Adviser

Isnaudas Forest Holding

Advice on a transaction involving the sale to SCA Mežs Latvija of five companies owning forest and agricultural land.

EUR 44.5 million

Legal Adviser

FinEst Bay Area Development

Advice on a construction project and on the preparation of a national designated spatial plan for the Tallinn-Helsinki tunnel, the high-speed railway connection between Helsinki Vantaa Airport and Tallinn Airport.

Estimated cost: EUR 16 billion

Legal Adviser

RB Rail

Advice on FIDIC contract arrangements, contracts, templates and consultations during procurement related to Rail Baltica cross-border railway infrastructure.

Project value: EUR 5.6 billion

Legal Adviser

Orkela

Advice on the project to convert the former Šv. Jokūbo hospital in Vilnius city centre. The complex, which covers an area of 16,000 m2, will house a hotel with a conference centre, restaurants, cafes, shops and administrative buildings.

Legal Adviser

YIT

Advice on receiving a building permit from Riga City Construction Board to carry out the first construction – a high-rise residential building in Riga.

Legal Adviser

Ignitis Renewables

Advice on entering into the largest deal for development and acquisition in Central Europe in 2020.

The total capacity of these projects will reach 170 MW.

Buyer's Legal Adviser

Darnu group

Advice on acquiring 8.3 ha of land for the construction of residential buildings with commercial premises.

One of the largest acquisition transactions of real estate for development purposes in Lithuania in recent years.

Legal Adviser

TIIC consortium KEKAVA ABT

Advice on a landmark PPP project in the Baltics, the Kekava Bypass.

PPP project value: over EUR 250 million

Legal Adviser

Nelja Energia

Sale of 100% shareholding to Enefit Green, a subsidiary of the state-owned energy producer Eesti Energia. Most of the assets consisted of wind parks in Estonia, Latvia and Lithuania, and other real estate.

EUR 488 million

Contact our team for full-scale legal and tax advice

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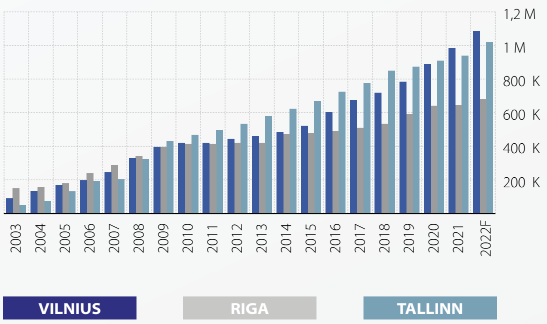
OBER HAUS

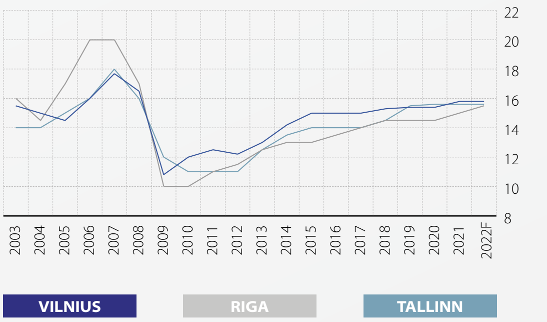
DATA CHARTS

OFFICE

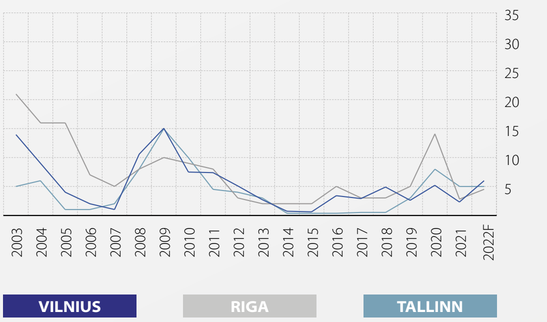
TOTAL MODERN OFFICE STOCK, SQM



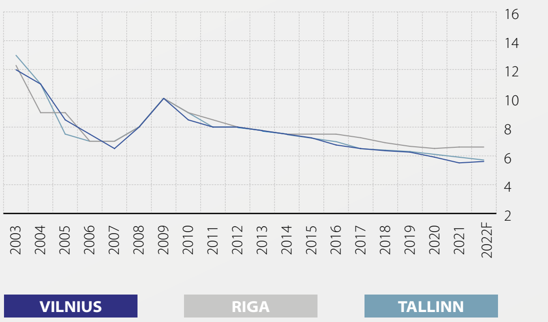
A CLASS OFFICE RENTS, €/SQM



A CLASS OFFICE VACANCY RATE, %

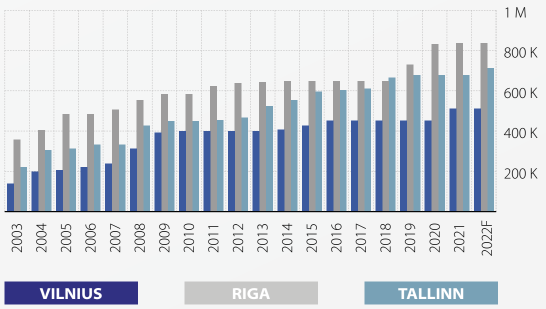


A CLASS OFFICE INVESTMENT YIELDS, %

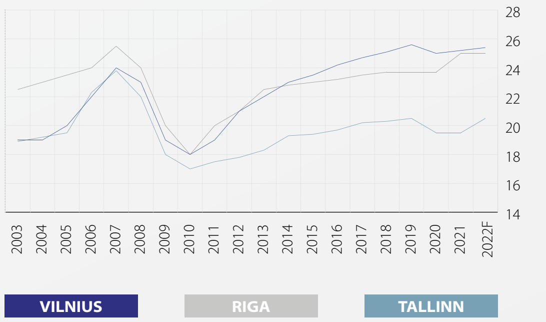


RETAIL

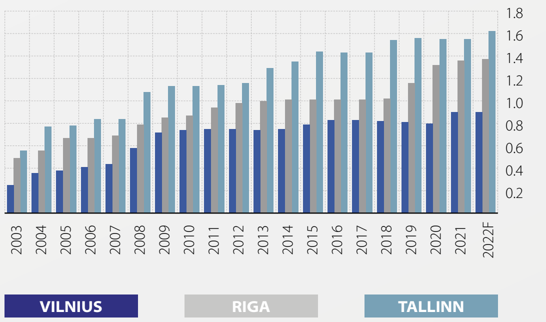
TOTAL LEASABLE SPACE IN SHOPPING CENTRES, SQM



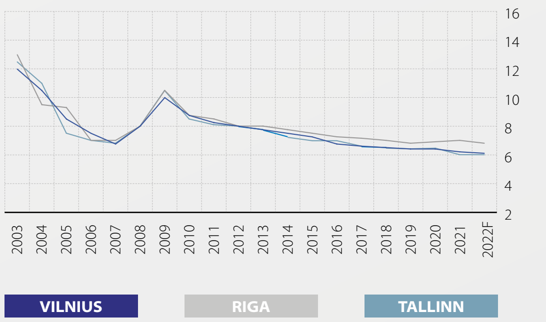
AVERAGE SHOPPING CENTRE RENTS, €/SQM



TOTAL SHOPPING CENTRE SPACE PER CAPITA, SQM

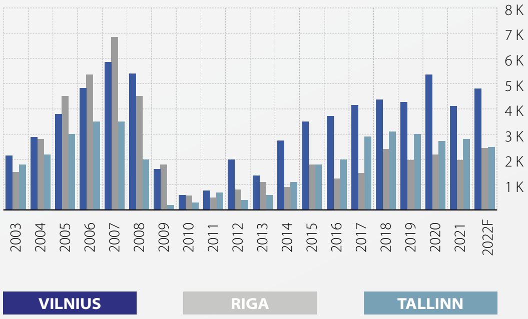


RETAIL INVESTMENT YIELDS, %

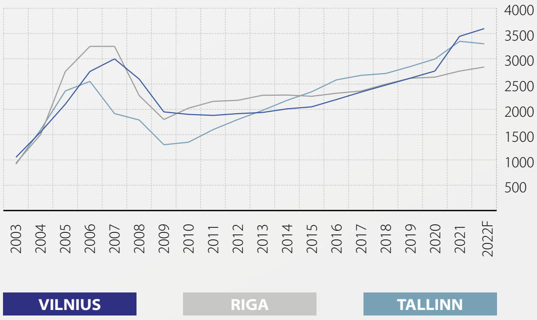


RESIDENTIAL

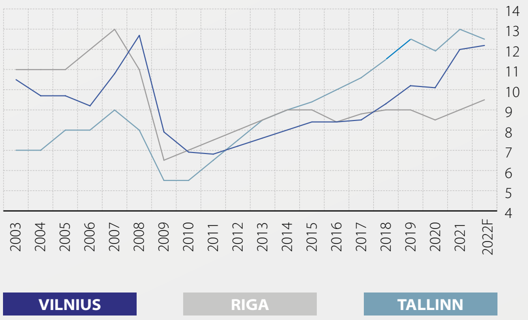
COMPLETED APARTMENTS



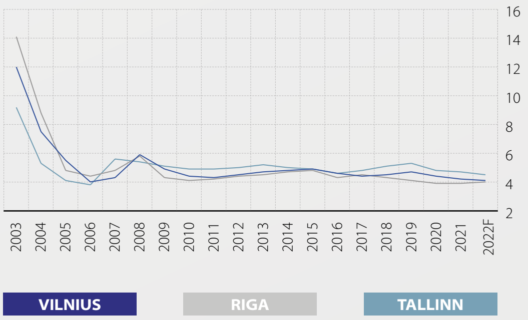
RESIDENTIAL PRICES IN CITY CENTRE, €/SQM



RESIDENTIAL RENTS IN CITY CENTRE, €/SQM

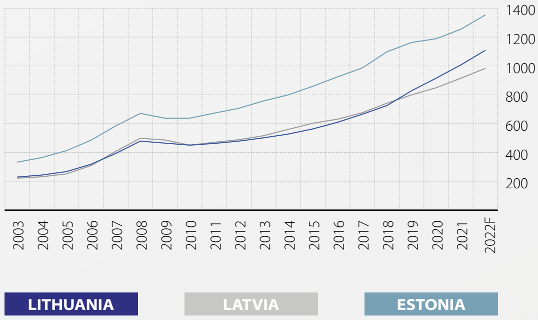


CITY CENTRE RESIDENTIAL INVESTMENT YIELD, %

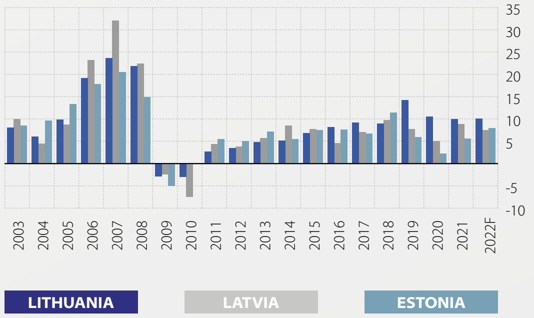


ECONOMICS

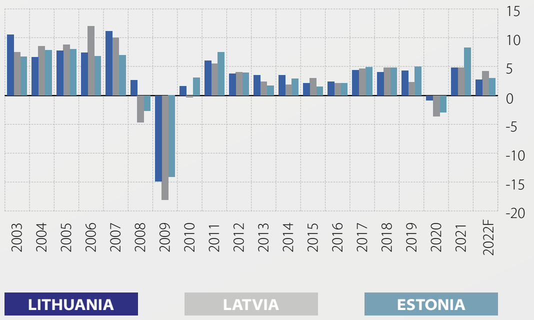
AVERAGE NET SALARY PER MONTH, €



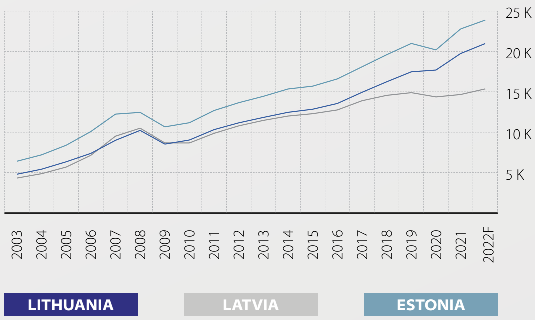
AVERAGE SALARY GROWTH, %



GDP GROWTH, %



GDP PER CAPITA, €



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