

DO YOU BELIEVE IN BALTIC RECOVERY?

BALTIC PROPERTY MARKET REPORT
Summer - Autumn 2011



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Dear Reader,

"How feasible is recovery in the Baltic countries? How sustainable are the latest economy drivers?" These are the most frequent questions, recently asked by developers, investors, occupiers as well as banks. We've once tried to compare presentations and speeches made by local economy guru in 2006/07 and 2010/11. One thing which was evident is the difference in the amount of words "but", "it depends on", "if". Caution - seems to be a truth sense uniting everyone here...

The first downturn after fantastic growth was a real shock to most of real estate market players in the Baltic countries. Capital values dropped by 40-50%, amount of transactions – by 10 times, development volumes – down to absolute zero. Pessimist would definitely say that market is dead. Optimist would tell that it is the best time to do transactions. What would be the realist's point of view? **REALISTIC APPROACH IS ESSENTIALLY NEEDED IN THE BALTIC MARKET TODAY.**

Today's Baltic market could be full of opportunities, but be realistic not to become opportunity yourself. We hope, our new market report will give you a chance to make a truth view of the latest developments in Lithuania, Latvia and Estonia as well as encourage giving us a call and asking for a reliable advice.

Regards,
RICARDAS CEPAS
CEO of Newsec Baltics



World Bank, April, 2011: "Countries with the most significant overheating prior to the crisis and largest contractions in 2009, such as Latvia, Estonia and Lithuania, experienced the biggest growth improvements in 2010. <...> Estonia, Lithuania and Latvia are likely to build on the export-led upswing, and growth could improve to about 4 percent by 2012 as domestic demand continues to recover."

Financial times, November 2010: "All three Baltic economies have returned to growth after the deepest recessions in the European Union last year, offering hope to other crisis-hit countries struggling to spark recovery amid fiscal austerity."

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INVESTMENTS

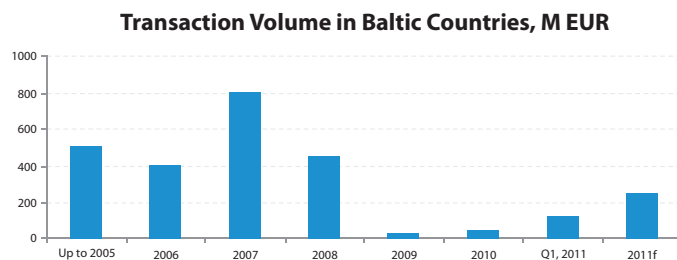
Intimidating silence in 2009-2010 has been swiftly replaced by delightful optimism. Estonia demonstrates the highest transaction activity and enjoys from the largest investor appetite. Mainly secondary assets are on sale in all 3 Baltic countries; however few institutional products are expected to be put on sale in the course of upcoming 9-12 months. Though mainly local private buyers are doing transactions, existing institutional buyers are back on track again.

Recession outcome

- Capital values declined by ~30-40% since the peak in 2007.
- Transaction volume decreased by 10 times (from 500-700M EUR in 2007 and 2008 down to 50M EUR in 2010).
- Average transaction size declined from ~15-20M EUR to 1-5M EUR in 2010.
- Yield levels increased by ~200 bps for prime commercial properties (from 6.5% in 2007 to ~8-8.5% in the beginning of 2011).

Investment volume

While in 2010 just 3 transactions exceeded 10M EUR, the beginning of 2011 has brought the largest transaction since the end of 2008 – Finnish Citycon acquired Estonian Kristiine shopping centre for 105M EUR from Italian developer Pro Kapital. Newsec expects another 100-150M EUR by the end of the year.



Source: Newsec



INVESTMENTS

Demand. Profile of investors

Private local investors are still very active, however their dominance is expected to be replaced by institutional funds already present in the Baltic states (e.g. Baltic Property Trust, East Capital) as well as private international buyers, which are actively searching for direct possibilities or investments via indirect vehicles. Normally private local investors are capable to do transactions up to 10-15M EUR and just few (e.g. Lords LB Baltic Fund) could make larger investments. Institutional investors, claiming to be ready to do transactions in 2011 already, have capacity of making transactions worth approx. 75-150M EUR (per fund).

Supply. Whats on sale?

Mainly secondary assets are on sale – small supermarkets and DIY stores, B grade office properties. Most of prime properties are expected to be kept till 2012/13 as landlords plan to restructure cash flow, which has been lost due to temporary rental discounts. Despite the fact, some professional developers are ready to dispose their newly built assets already in 2011 due to upcoming development possibilities mainly in residential and office sectors.

Yields

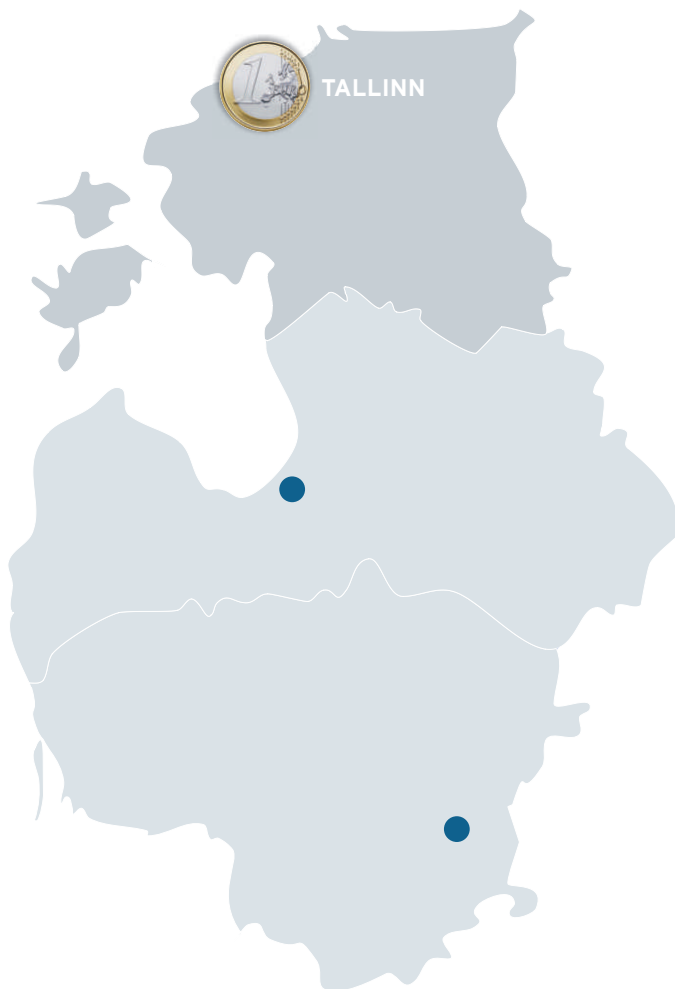
Current yield levels for prime properties range of ~8-8.5% with a tendency to reach 7.75% at the end of the year. Yields for secondary assets stand at the level of 8.5-9.25%. Estonian yield levels are ~25-50 bps lower compared to those in Latvia and Lithuania.



GDP Growth Rate – Change Compared to a Previous Year, %

	2004	2005	2006	2007	2008	2009	2010	2011*	2012*
European Union (27 countries)	2.5	2	3.2	3	0.5	-4.2	1.8	1.7	2
Euro area (17 countries)	2.2	1.7	3.1	2.9	0.4	-4.1	1.8	1.5	1.8
Germany	1.2	0.8	3.4	2.7	1	-4.7	3.6	2.2	2
Estonia	7.2	9.4	10.6	6.9	-5.1	-13.9	3.1	4.4	3.5
Ireland	4.6	6	5.3	5.6	-3.5	-7.6	-1	0.9	1.9
Greece	4.4	2.3	5.2	4.3	1	-2	-4.5	-3	1.1
Spain	3.3	3.6	4	3.6	0.9	-3.7	-0.1	0.7	1.7
France	2.5	1.9	2.2	2.4	0.2	-2.6	1.6	1.6	1.8
Latvia	8.7	10.6	12.2	10	-4.2	-18	-0.3	3.3	4
Lithuania	7.4	7.8	7.8	9.8	2.9	-14.7	1.3	2.8	3.2
Poland	5.3	3.6	6.2	6.8	5.1	1.7	3.8	3.9	4.2
Finland	4.1	2.9	4.4	5.3	0.9	-8.2	3.1	2.9	2.3
Sweden	4.2	3.2	4.3	3.3	-0.6	-5.3	5.5	3.3	2.3
United Kingdom	3	2.2	2.8	2.7	-0.1	-4.9	1.3	2.2	2.5
United States	3.6	3.1	2.7	1.9	0	-2.6	2.9	2.1	2.5
Japan	2.7	1.9	2	2.4	-1.2	-6.3	3.9	1.3	1.7

Source: Eurostat
* – Forecast



ESTONIA

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Baltics are recovering faster than everyone expected, with Estonia taking a clear lead. Impressive improvement of major economy indicators enables to expect boost of property market. Its definitely the right time to make decisions and get into the running train at the right time.



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Due to the economic downturn the number of high value real estate transactions decreased significantly in 2010 as compared to the previous years. Positive GDP growth forecasts for year 2011 give hope for the start of the recovery of the real estate market this year.



GENERAL OUTLOOK

The most significant event for Estonian economy was entering Eurozone on the 1st January 2011, which means simplification of settlements with other Eurozone countries and increase in attractiveness of Estonia for foreign investors. Parliamentary elections, which took place in Autumn 2010, did not bring along significant changes in political and economic course of the state.

Situation in Estonian economy started to improve since mid – 2010. According to Eurostat, in IVQ of 2010 Estonia came to second place in EU by GDP growth (+6.6% q-o-q) after Sweden (+7.2%). Estonian GDP change in 2010 made up 3.1%, of 2.6% gave growth in manufacturing industry. GDP volume is currently on the level of 2004-2005.

The greatest concern for Estonian economy is situation at labor market, which is expected to remain complicated in 2011.

INDUSTRIAL PRODUCTION

Positive changes in Estonian industry sector, which started in summer 2010, grew stronger by the end of the year. Value added in the industrial sector increased, supported mainly by growth in metal industry and producing of machinery and equipment.

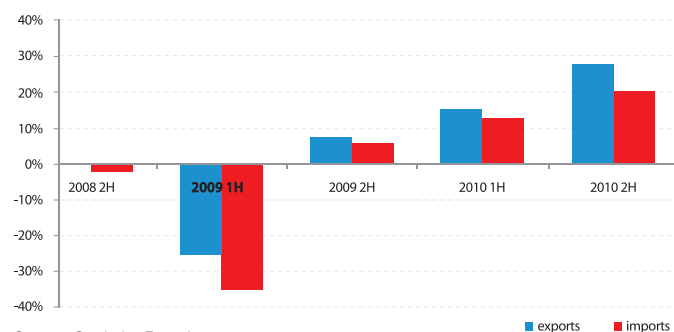
Decrease in manufacturing production sales in domestic market has stopped, but positive change is marginal. Downturn in construction sector still persists, although rate of decrease is descending. Retail trade volume has started climbing up towards the end of 2010.

IMPORTS / EXPORTS

Exports and imports volumes are recovering at ascending rate: as a result of 2010, exports volume increased by 35% and imports by 27%, compared to decrease in 2009 by 24% and 33%, respectively. External trade recovery tempo is good, but its volumes are currently on the level of 2006.

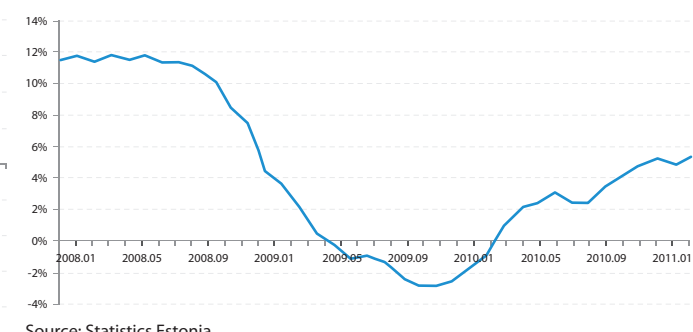
Due to slow recovery in private spending, raw materials for manufacturing production for foreign markets remain continuously a major source of growth in import, which is recovering slower compared to export. Major source of strong export is manufacturing industry.

Exports and Imports, % Change from Previous Period



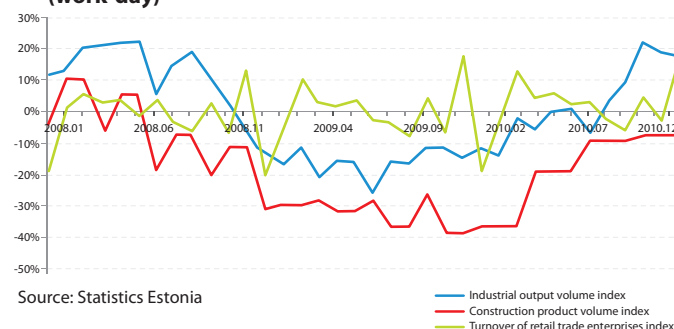
Source: Statistics Estonia

HICP, % Change from Corresponding Period of Previous Year



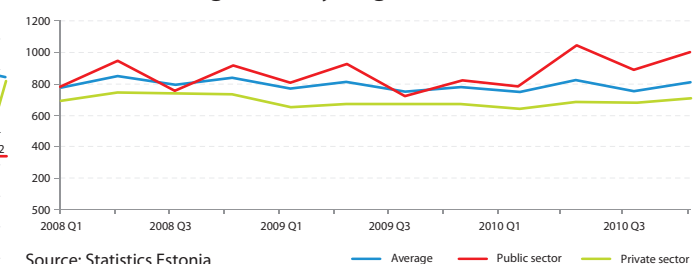
Source: Statistics Estonia

Business Indices, % of Corresponding Period of Previous Year (work-day)



Source: Statistics Estonia

Average Monthly Wages and Salaries, EUR



Source: Statistics Estonia

Continuous positive trend in overall economic development based on strong export growth, but situation on labour market is still tough

CONSUMPTION

Retail trade turnover has started slow recovery since 2H of 2010, being increased in IVQ by almost 10% compared to the same period of 2009. This increase was partly enhanced by fear of overall price growth after adopting Euro in 2011. Decline in average salary has stopped in 2010, although increase compared to the year 2009 made up below 1%. Combined with growing inflation (3% in 2010, 5-6% in the first months of 2011), it does not create grounds for considerable increase in private consumption. Employment situation is still tough, although growth of unemployment has stopped. Still, according to the forecast, troubles at labor market will continue in 2011.

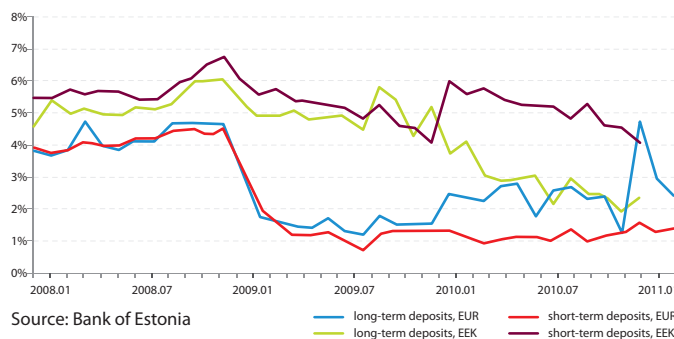
FUTURE OUTLOOK

Remarkable revival in property investment market confirms increased interest towards Estonian market from the side of foreign investors, caused by adopting Euro and overall positive trend in economic development.

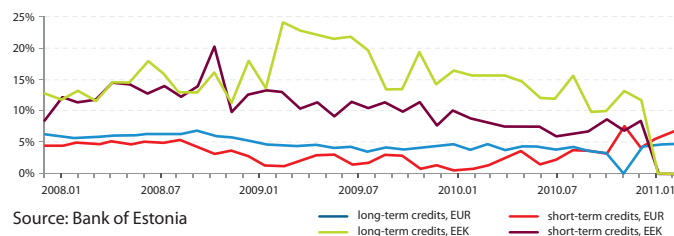
Despite of improved financial situation of Estonian business companies, investment volumes has not yet turned to growth, although positive is starting process of expanding and staff increase.

The main concern for the developers is growth in construction prices, exceeding increase in real estate sales prices and rentals. This situation restrains development activity and may cause deficit in both, residential and commercial real estate segments.

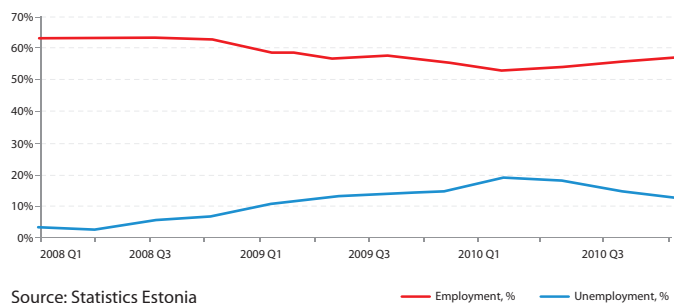
Average Monthly Interest Rates on Deposits in Credits Institutions, %



Average Weighted Interest Rates on Deposits and Credits in Credit Institutions in Foreign Currencies, %



Employment and Unemployment, %



RETAIL MARKET OVERVIEW

Since 2Q of 2010 retail trade volumes have started to recover; still total result of 2010 remained almost equal to 2009. Slight decline in sales of non-food products was compensated by insignificant increase in food retailers' turnover.

Among large international retailers lately entered Estonian market are Bauhaus with DIY in Tähesaju City and MARKS&SPENCER with two shops in ROCCA AL MARE SC and KRISIINE SC in Tallinn. In 2011 RUCKZUCK, a German franchise chain and one of the largest purveyors of flooring and doors retailer, is planning to enter Estonian market.

Although total area of modern shopping premises in Tallinn already exceeds European average, spaces in large shopping centers remain the most demanded.

SHOPPING CENTERS

Share of shopping centres in total retail sales turnover is growing constantly. In Tallinn, demand for spaces in large modern shopping centres clearly exceeds supply and average vacancy rate is close to zero. 18,000 sq m extension of Kristiine Shopping Centre opened in Tallinn in October 2010 successfully.

Mainly small (up to 100 sq m) retail spaces are available in the shopping centres, thus for large international retailer intending to enter Tallinn market, it is hard to find suitable premises in existent malls.

In Tartu average vacancy rate is over 2%, while in Pärnu and Narva most of modern retail spaces are absorbed, and vacancy here is below 1% in average.

HYPERMARKETS / SUPERMARKETS

Almost no vacancy is observed in this segment. Large food retailers (PRISMA, MAXIMA, SELVER) are expanding their chains: lately new Prisma markets were opened in Tartu and Narva, another market is planned to be opened in Tartu in 2012. MAXIMA and SELVER opened several markets outside of Tallinn during 2010. In the end of 2011 Rimi is planning to deliver a new market in Laagri, on Tallinn border. ETK Group has announced the plan of opening huge Maksimarket in Ameerikanurga project.

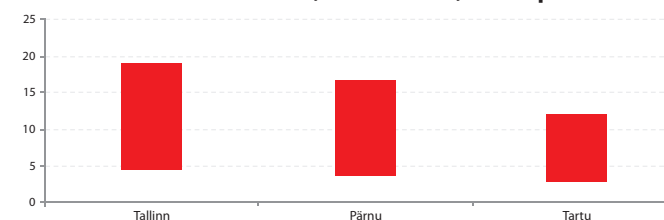
STREET RETAIL

Street retail, which has been losing retailers moving to large shopping centers, is recovering. Vacant premises in this segment sized up to 150-200 sq m are being taken by food and entertainment companies; fashion designer brands occupy Tallinn Old Town.

OUTLOOK

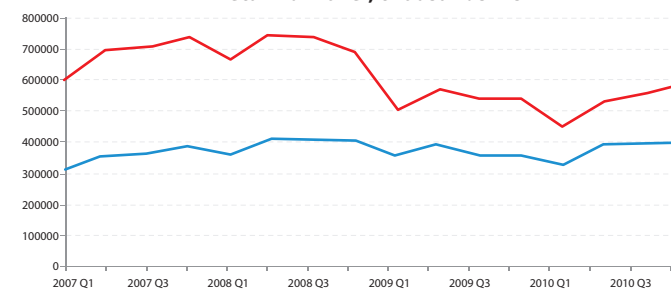
Despite of slowly recovering retail sales and continuously tough employment situation, investors and developers are positive towards Estonian retail sector. Some large transactions in both, SC and food markets segments, are being closed this spring; several more transactions are planned. Smaller-scale (up to 5,000 sq m) extensions are planned by owners of MUSTIKAS and MAGISTRALI Centres in Tallinn; development of Tähesaju City (Lasnamäe) is ongoing. Pro Capital has announced its' intention to invest into development of new shopping centre at Petersburg Road, between City Centre and Lasnamäe. Possibility of Ülemiste Centre extension is accepted by the City, although the owner has not announced this plan.

Rental Rates, Street Retail, EUR/sq m



Source: Newsec

Retail Turnover, thousands EUR



Source: Statistics Estonia

— Retail sales of food, beverages and tobacco, k EUR
— Retail sales of nonfood products, except motor vehicles and fuel, k EUR

Entering the Euro-zone has brought along slight drawback in volumes of retail trade in the beginning of the year, but now they are recovering. Concentration of trade into modern shopping centres is growing, and it is hard for newly entering companies to find free spaces in the malls

Rental Rates and Vacancies in Shopping Centers in Tallinn

	2009 2H	2010 1H	2010 2H	2011 1H	↑↓→
Rental Rates, EUR/sq m/month					
up to 150 sq m	28.8-32.0	25.2-28.8	25.2-31.2	25.2-31.2	→ / ↑
150-350 sq m	9.6-28.8	9.0-25.2	9.6-28.8	9.6-28.8	→ / ↑
> 350 sq m	8.0-10.0	7.2-9.0	7.2-9.6	7.2-9.6	→
anchor tenant	8.0-10.0	7.2-9.0	7.2-9.6	7.2-9.6	→
Vacancy rate, %					
well-performing sh. centers	up to 5%	below 1%	below 1%	below 1%	→
others	up to 6%	up to 6%	up to 6%	up to 6%	↑

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OFFICE MARKET OVERVIEW

In 2010, situation in Estonian business sector has started to demonstrate signs of improvement. According to Statistics Estonia, total profit of Estonian companies increased in 2010 twice compared to 2009, although remained by ¼ below result of 2008 and 40% less compared to “the record year” 2007. Total investments by the business entities continued decrease. Total number of jobs occupied in Estonia decreased by 9% and 4% in 2009 and 2010, respectively. Private sector suffered the most.

No new office buildings were opened in Tallinn during 2010. No new rental office spaces are expected to be delivered in Tallinn before 2012 apart of several smaller-scaled build-to-suite project and office premises on the ground floors of apartment houses.

In Tallinn office segment stabilization process began in 2H of 2010. Landlords stopped offering discounts to new tenants, in several quality office buildings rentals have moved somewhat up. Most demanded are premises up to 50 and over 300 sq m. At the same time landlords offering the whole floors for rent outside city centre wait for tenants for months. In CBD, it is hard to find available spaces over 1,000 sq m.

Average vacancy rates started to decrease in Tallinn in 2H of 2010, being reached 11% in average in spring 2011.

Average vacancy rates in Tartu have decreased to as low as 5%. In Pärnu the market is gradually absorbing vacant office spaces: average vacancy came down from 18% in summer 2010 to ca 13% in spring 2011.

Due to absence of new developments, vacancy at quality spaces in central location shrinks, which is a basis for upwards rentals pressure

A CLASS

Almost 1/4 of Tallinn office stock belongs to A class and is located in the city center. Average vacancy rates in this segment came down from 16% to 13%, although there are several buildings with almost no available office spaces left.

B CLASS

B class office premises make up almost 70% of speculative office stock in Tallinn. Average vacancy rates in this segment are around 10%.

C CLASS

Around 5% of Tallinn office stock belongs to C class, where average vacancy rate is over 20%.

OUTLOOK

Vacancies at quality A and B spaces with good location will decrease further due to absence of new development projects. Rentals decrease has stopped at A and B-grade premises. Due to certain deficit rentals may move upwards, although many companies will remain cost-sensitive, which does not allow expecting considerable increase.

One of successfully developing projects is Ülemiste City, offering modern quality spaces located on the border of City Centre and Lasnamäe. There are just a few single spots for office development left in Tallinn CBD, so in future development will move towards area surrounding passengers port.

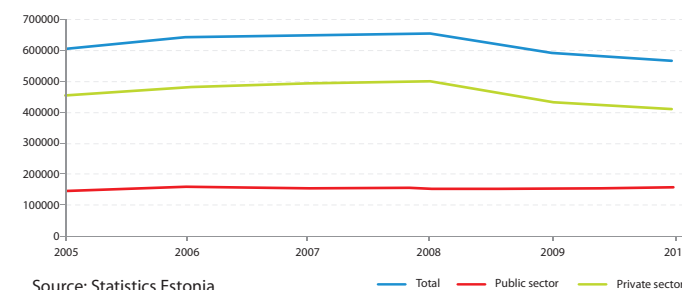


Rental Rates in Tallinn, EUR/sq m/month

	2009 2H	2010 1H	2010 2H	2011 1H	↑↓→
A Class	8.0-9.0	5.0-14.0	5.0-12.8	5.0-12.8	↑
B Class	5.0-14.0	3.0-11.0	3.0-11.5	3.0-11.5	→
C Class	6.0-10.0	4.0-9.0	4.0-9.0	4.0-9.0	→
Vacancy Rates in Tallinn, %					
A Class	12%	16%	14,5%	13%	↓
B Class	13%	11%	12%	12%	↓
C Class	10%	18%	20%	20%	→

Source: Newsec

Average Monthly Wages and Salaries, EUR



Source: Statistics Estonia

WAREHOUSE MARKET OVERVIEW

Considerable downturn in warehouse segment began in Estonia in 2H of 2009. First revival signs appeared only towards the end of 2010 based on started positive development in overall economic situation lead by export growth. In 2010 volume of goods transported turned to growth, whereas cargo traffic by railway and via ports increased in 2010 by approximately 20% compared to 2009.

Among the most demanded premises are continuously those situated in Harju County close to Tallinn, in vicinity of the largest ports, along Tartu and Petersburg Roads. Outside of Tallinn surrounding, there is demand in the area close to the Port of Sillamäe and the Port of Paldiski.

If in 2010 the most demanded premises were sized below 1,000 sq m, then in the beginning of 2011 tenants' preferences moved to the larger spaces segment (1,000-3,000 sq m). There is unsatisfied demand in the segment of heavy industry manufacturing premises.

Vacancy rates, increased up to 20% by the end of 2009, remained mostly unchanged, although are expected to gradually decrease due to lack of new quality spaces.

By the end of 2010 downturn in warehouse and industrial rentals at premises with top quality and location has stopped, replaced by stabilization in the beginning of 2011.

A AND B CLASS (MODERN WAREHOUSE FACILITIES)

Major part of quality facilities is located in vicinity of Tallinn, being concentrated in the industrial parks. Many of them are built-to suit properties. Rental rates make up currently 2.8-4.9 EUR per sq m per month.

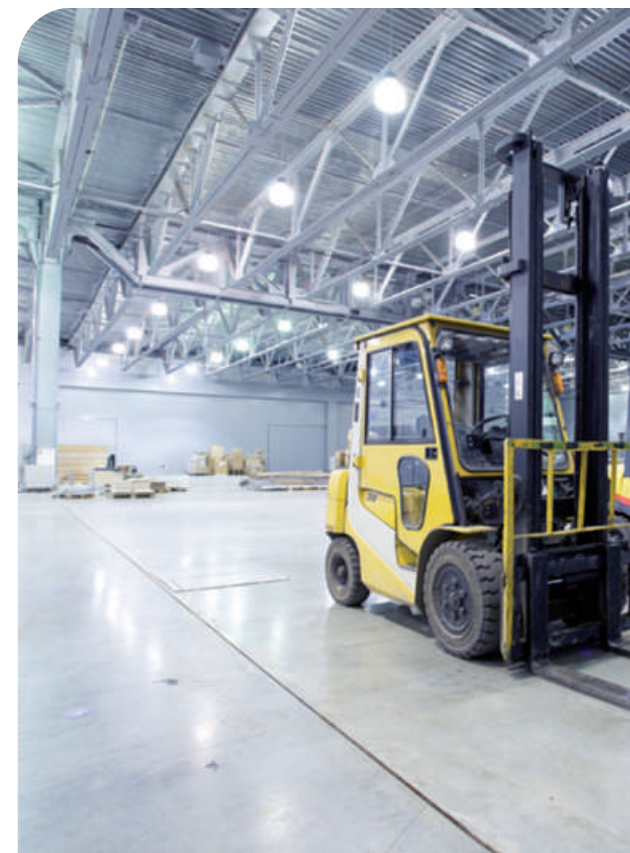
C CLASS

C class warehouses are those built mostly during Soviet times and are un-renovated (or renovated ca. 10 years ago). Vacancy in this sub-segment is higher compared to the quality spaces and current rental level is 1.3-3.25 EUR per sq m per month.

OUTLOOK

Vacancies on quality spaces are expected to decrease during 2011 and rentals level to go up, supported by forecasted growth in industrial production and transportation volumes as well as increase in interest of the Nordic (especially Finnish) investors towards Estonia.

Developers are awaiting to see further market trends and rentals increase, as today's level is not sufficient to make development activity attractive. Expected new construction volume in this segment in 2011 is ca. 100,000 sq m.

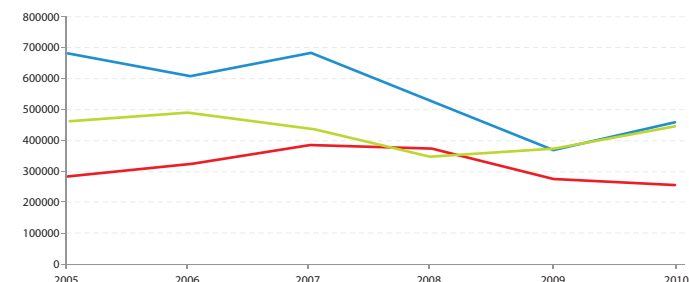


Demand is starting to grow and move to the segment of larger spaces. This trend will persist; deficit of specific industrial premises appears

Rental Rates, EUR/sq m/month					
	2009 2H	2010 1H	2010 2H	2011 1H	↑↓→
Tallinn and Harju county (new/renovated)	3.0-5.8	2.5-4.5	2.8-4.9	2.8-4.9	→
Tallinn and Harju county (other)	1.3-3.0	1.3-3.0	1.3-3.25	1.3-3.25	→
Other cities	3.0-5.8	2.5-4.5	2.5-4.5	2.5-4.5	→
Vacancy Rates, %					
Tallinn and Harju county (new/renovated)	up to 20%	up to 20%	up to 20%	15-18%	↓
Tallinn and Harju county (other)	up to 20%	up to 20%	up to 23%	up to 20%	→
Other cities	up to 20%	up to 20%	up to 20%	up to 20%	→

Source: Newsec

Goods Transported in Estonia



Source: Statistics Estonia

— Rail: Goods transported - total, k t
— Roads: Goods transported - total, k t
— Ports: cargo loaded / unloaded at Estonian ports, k t

RESIDENTIAL MARKET OVERVIEW, Q1 2011

Residential market is recovering, although it is clear, that the "boom" level will remain unachievable at least in medium term. In the major cities, number of transactions, increased in 2010, remains un-changed in the beginning of 2011. The price level is stable and there are no fundamental reasons for considerable growth.

SUPPLY

Year 2010 was the lowest in terms of newly constructed apartments delivery: 30 apartment houses with 841 apartments in total were committed in Estonia, of which 12 houses (610 apartments) are located in Tallinn and 8 houses with 117 apartments – in Tartu.

Number of apartments for sale is gradually growing in Tallinn: as of end of March 2010 there were 6,950 apartments for sale (ca. 1,100 units more than a year ago), including 1,270 apartments in the houses built after 2004. At the same time, according to our estimations, average sales period has shortened in Tallinn to just over 2 months (compared to 3 months a year ago). Trends in apartment markets of Tartu and Narva are similar; no significant change occurred in Pärnu, as the market of this resort town is affected rather by seasonality.

Demand is stable, Euro implementation did not cause remarkable fluctuations in this segment

DEMAND

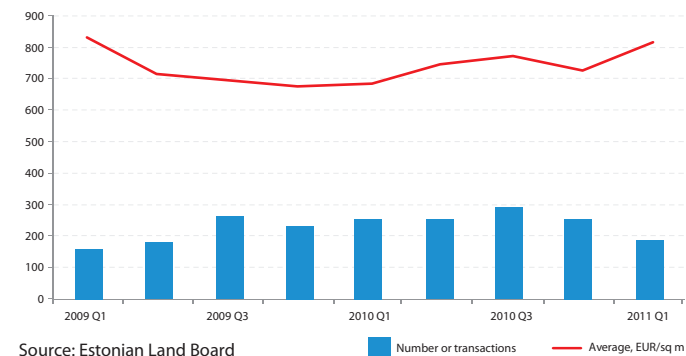
Demand at apartments market in the main cities of Estonia is recovering, Euro implementation in January 2011 did not bring along any significant changes in market activity and prices. As a result of 2010, number of transactions increased compared to 2009 by over 20% in Tallinn and Tartu, by 30% in Narva and by 50% in Pärnu. Average sqm price has decreased by 3% in Tallinn, over 5% in Narva and by 9% in Pärnu, remaining un-changed only in Tartu.

In Q1 2011, market activity slightly declined in all largest cities apart of Pärnu, if compared to the same period of 2010. Average sqm price in the largest cities has increased by 1-2%, except for Tallinn, where small decline has occurred.

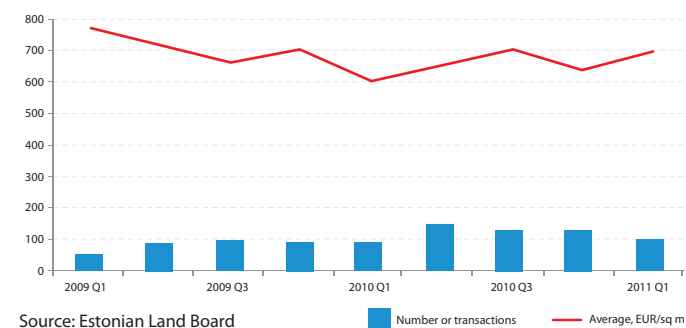
OUTLOOK

In 2011, major development activity in the residential sector will take place in Tallinn; number of new apartments to be delivered will be in the range of 1,000 units. On the background on continuously growing construction prices, there is an upside pressure on the selling price from the side of developers. On the other hand, labor market situation combined with high inflation does not allow expecting considerable price increase in 2011. This situation will restrain development activity and may cause deficit of new apartments.

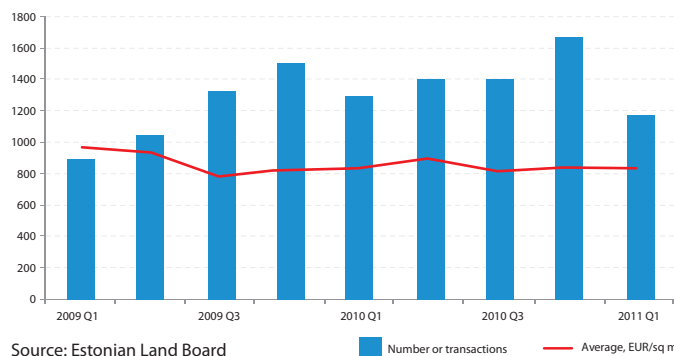
Residential Market in Tartu



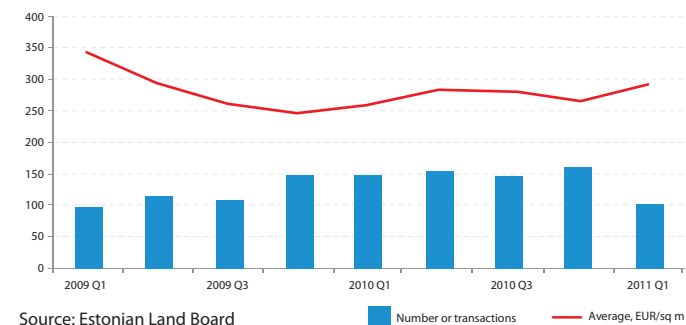
Residential Market in Pärnu



Residential Market in Tallinn



Residential Market in Narva



1. RECENT DEVELOPMENTS

Real estate transactions

Due to the economic downturn the number of high value real estate transactions decreased significantly in 2010 as compared to the previous years.

Court practice

Due to the economic downturn there were number of court cases where the effect of the economic downturn to lease contracts and sale agreements was discussed. In several Supreme Court decisions it was stressed that the possibility to demand the amendment of contract terms should be applicable only under exceptional circumstances to avoid the legal uncertainty in commerce.

Public-private partnership (ppp) opportunities

During last year several ministries and municipalities investigated possibilities for implementing PPP projects. Some intended PPP projects in transport infrastructure are still in the initial preparation and feasibility check phase but the PPP project for renovating the schools and kindergartens in Tallinn City was started in 2011.

2. OWNERSHIP

Are there any legal restrictions on ownership of real estate (interests in entities which own real estate) by particular persons?

Generally, foreigners have a right to acquire real estate similarly to Estonian residents. However, there are two main exceptions when acquisition of real estate by foreigners is restricted:

1) acquisition of real estate in border regions of Estonia. Citizens or legal persons of other countries than Estonia, the Member States of the EU and the EEA need a permission of the Government to acquire such real estate. The permission is issued only due to the reasons significant to the state.

2) Acquisition of land plots, which include at least 10 hectares of agricultural or forest land. Such land plots can be acquired only by:

a) Estonian citizens;

b) citizens of the Member States of the EU or EEA residing in Estonia for at least three current years and having acted for at least three current financial years as registered self-employed persons in the field of production of agricultural products or forest management;

c) legal persons registered with the Estonian Commercial Register who have acted in the field of production of agricultural products or forest management for at least three current financial years. The same conditions are applicable in respect of foreign companies seated in any other Member State of the EU or the EEA and having their branches registered with the Estonian Commercial Register;

d) any person not matching these criteria, only with permission of the county governor.

Any other land plots can be acquired without restrictions.

There are no restrictions imposed on foreigners (irrespective of their origin) to acquire interests in Estonia-based entities which own real estate.

Can a legal owner lose the title to real estate due to restitution claims?

Although the restitution process is about to come to an end by now, there are still a few pending claims for restitution of the real estate nationalised under the laws of the former Soviet Union. However, according to Estonian laws, real estate already acquired by a bona fide third party cannot be restituted to its former owner or a descendant. The state is obliged to compensate the former owner or his/her descendants for such real estate.

3. SALE AND PURCHASE OF REAL ESTATE

Are pre-acquisition agreements commonly used in your jurisdiction? Describe their legal effect and enforceability.

According to Estonian law the pre-acquisition agreements have to be notarized in order to be enforceable and in complicated transactions notarized pre-acquisition agreements or notarized contracts under the law of obligations (that do not include real rights agreement and can therefore be conditional) are commonly used. Additionally in some cases pre-acquisition agreements are concluded without notarization but these agreements are not enforceable.

Describe formal requirements for real estate sale and purchase.

The notarization requirement applies to a sales agreement as well as a real right contract on transfer of ownership of real estate. Usually, these two agreements are included in one document, which furthermore contains the application for the Land Register to register the change of ownership. In order to complete the sale and purchase of real estate, the transfer of ownership must also be registered with the Land Register of Estonia.

Does any third person (governmental authority, etc.) have a pre-emptive right to acquire real estate subject to sale?

The most significant pre-emptive right under Estonian law is the one belonging to co-owners. With one exception, this pre-emptive right is applied to any sale of a legal share of real estate held in co-ownership. The only exception is the apartment ownership where, in case of sale of an apartment, owners of other apartments located in the same building have no pre-emptive right.

In addition to the co-owners' pre-emptive right, several laws provide for further pre-emptive rights. According to the Heritage Conservation Act, the state and a local government entity have the right of pre-emption for real estate under heritage protection. The Nature Conservation Act stipulates the right of pre-emption for the state in respect of certain natural conservation areas as well as land plots located in coastal building exclusion zone, and restricts the use of real estate in these areas. According to the Principles of Ownership Reform Act, tenants who live in a restituted building have a joint right of pre-emption to that building.

Describe the moment of acquisition of ownership to real estate.

The title to real estate is acquired upon the respective entry in the Land Register.

Does the seller have a statutory disclosure or warranty obligation?

Generally, a seller is required to disclose any relevant aspect of the target. Otherwise, the seller will be liable for any defects that may not be discovered by a usual inspection.

Seller's warranties v. buyer's due diligence: what is the most

common balance?

Due diligence investigation by a buyer is not required by law. Usually, the buyer's awareness of the condition of the real estate is based on a regular inspection of the real estate and on the seller's warranties. The seller is liable for the defects the buyer could not reasonably be aware of. If the buyer has carried out due diligence investigation, then the extent of the circumstances he should be aware of is materially wider.

What is the effect of transfer of real estate on contractual and other rights, obligations and warranties? Do these pass over along with the title to real estate?

In case of transfer of real estate, all real rights and obligations in respect of the real estate pass over to the acquirer. Also rights and obligations under the lease agreements pass over along with the title. Any other contractual rights and obligations may be assigned to the acquirer of real estate upon agreement.

Contractor's or designer's warranties/guarantees in respect of a newly constructed building remain valid upon transfer of real estate.

4. LEASE OF COMMERCIAL REAL ESTATE**Describe formal requirements for execution of a lease (form, registration, etc.).**

There are no mandatory formal requirements for execution of real estate lease. A tenant may demand from the landlord making an entry on the lease in the Land Register. Such entry in the Land Register secures the tenant's rights in case of transfer of the real estate by excluding the new landlord's right to terminate the lease due to the change of ownership.

Are there any statutory restrictions on a lease term?

No. However, if a lease agreement has been concluded for a term exceeding 30 years, then after the first 30 years, either party may terminate the agreement without indicating a reason, by giving to the other party a three-month prior notice.

Does a tenant have a statutory right to extend or renew its lease?

No. However, in case of residential lease, a tenant may claim extension of the lease term for up to 3 additional years, if terminating of the agreement would bring along serious results for the tenant or his/her family.

Rent and its adjustment: are there any statutory restrictions on an amount of rent? What is the general market practice?

There are no statutory restrictions on an amount of rent. An agreement on periodical increase of rent is valid only if the lease term is at least 3 years, the rent is increased not more often than once a year and the limits or principles of calculation of increase are set forth in detail. General market practice is that in case of business premises, rent is increased annually according to the consumer price index.

Alienation: what are the rights of the tenant and landlord with respect to assignment, sub-lease or placing a charge over a lease?

A tenant may assign the lease only upon the landlord's consent. Also sub-letting is allowed only on the landlord's consent, but the landlord may not withhold its consent without a material reason.

There are no restrictions on encumbering a lease with a pledge or a similar right.

What is the common form of eviction?

First, the landlord should file a claim to the court demanding the premises out of the tenant's possession back to the landlord. A court resolution in effect can be enforced by a bailiff on the landlord's request. In frames of the execution proceedings, the bailiff first gives to the tenant a term of up to three months to voluntarily comply with the court resolution and leave the premises. After this term has passed without success, then the bailiff will evict the tenant, if necessary, with the help of the police.

Describe any restrictions on the transfer of title to or creation of a lien on real estate subject to lease.

There are no such restrictions. It should be noted that in case of transfer of the title to real estate subject to lease, the lease will remain in force.

How does the transfer of real estate affect the tenant's rights and obligations?

The tenant's rights and obligations remain in force in case of transfer of real estate. A new landlord may terminate the lease agreement, by giving a three-month prior notice, within three months as of the date of acquiring real estate, unless the lease agreement is registered with the Land Register. A residential or commercial lease agreement can be terminated only if the new landlord strongly needs these premises for its own needs.

How can significant market change (e.g. economic downturn) affect the lease?

According to Estonian Law of Obligations Act either party may, with good reason, cancel a lease contract. A reason is good if, upon the occurrence thereof, a party who wishes to cancel cannot be presumed to continue performing the contract taking into account all the circumstances and considering the interests of both parties.

Additionally the Law of Obligations Act stipulates that if the circumstances under which a contract is entered into change after the entry into the contract and this results in a material change in the balance of the obligations of the parties due to which the costs of one party for the performance of an obligation increase significantly or the value of that which is to be received from the other party under the contract decreases significantly, the injured party may demand amendment of the contract from the other party in order to restore the original balance of the obligations.

Based on the aforesaid clauses, economic downturn has been used as a cause for cancelling lease contracts and demanding amendment of lease contracts. The court practice in these matters has not been uniform and some courts in certain cases have accepted economic downturn as a cause for cancelling or amending a lease contract and some courts have decided that economic downturn cannot be a cause for cancelling or amending a lease contract. The decisions of the supreme court have provided guidance that as a general rule economic downturn is a risk that a party to the lease contract has to bear and therefore cannot be a cause for cancelling or amending a lease contract but in certain extreme circumstances that are clearly distinguishable from the usual economic cycles economic downturn can be considered as cause for cancelling or amending a lease contract.

5. CONSTRUCTION

Describe common stages of construction (development) process, including permits involved.

- *Enacting of a detailed plan.* In densely populated areas (such as towns), any developing and construction works are subject to a detailed plan enacted by the rural municipality entity. A detailed plan sets forth specific requirements for construction works, such as intensity of construction, maximum allowed height of buildings, etc.

- *Environmental impact assessment* will need to be performed when the planned constructions falls within the list of particular activities established by the laws.

- *Designing works.* The design of a building is prepared in accordance with the designing conditions issued by the rural municipality entity. If the rural municipality entity has enacted a detailed plan, then the designing conditions are issued in accordance with such detailed plan. In certain cases, expertise of the design documentation is required.

- *Obtaining of a construction permit.* The construction permit is issued in respect of a specific land plot and not to a certain natural or legal person. The validity period of a construction permit is not limited, but a construction permit becomes invalid if the construction works are not commenced within 2 years as of the date of issuance.

- *Carrying out of the construction works.* As a rule, supervision of the owner should be carried out by a competent person during the construction works. The process of construction works should be covered with a record of construction works, reports on covered works, minutes of working meetings, as-built drawings and certificates of building materials.

- *Applying for authorisation for operation.* After completion of the construction works, but before the commencement of operation of the newly erected or reconstructed building, the owner must apply for authorisation for use. The respective certificate is issued by the rural municipality entity if the construction works have been carried out duly in accordance with the design documentation.

6. REGISTRATION

Is all real estate required to be registered?

Yes.

What rights (if any) to real estate are subject to registration? What are the consequences of failure to register them?

All real rights to real estate are subject to registration, including ownership right, servitudes, real encumbrances, mortgages, building rights and real pre-emption rights. The real rights are created and cease to exist only upon registration of them with the Land Register.

What time and costs are involved in registration of real estate (rights thereto)?

Notary's fees (including deposit fees if a notary's account is used) and state fees need to be paid. The amount of the fees depends on the value of the real estate (or rights thereto). For example, if the value of the real estate is EUR 10 million, then the costs are ca EUR 17,200.

Registering the title of the new owner to real estate may take up to a month as of the submission of a notarized application to the Land Register. If the former real estate is divided into separate real estates, then the registration of the new real estate may take up to three months.

How reliable is the registration system?

The registration system is reliable, and a bona fide third party can rely on the correctness of the data of the Land Register.

Is the register publicly accessible?

Yes.

7. REAL ESTATE TAXATION

Describe state and local taxes levied generally on real estate investors and developers.

CORPORATE INCOME TAX

Taxation of Estonia-based entities

Estonian corporate income tax system is rather unique since only profit distributions are taxed. Retained (re-invested) earnings are not subject to corporate income tax until they are distributed. This means that Estonian corporate income tax system shifts the point of corporate taxation from the moment of earning the profits to the moment of their distribution. Corporate income tax is charged on direct profit distributions such as dividends and implicit distributions (i.e., fringe benefits, gifts and donations, as well as expenditures and payments not related to the business activities of the company).

Estonia has no thin capitalization rules for tax purposes.

Taxation of foreign entities

Foreign entities having no permanent establishment have limited tax liabilities in Estonia.

Capital gains of a foreign entity from the sale of real estate located in Estonia and also rental payments to non-residents for the use of immovable property located in Estonia and movable property subject to registration in Estonia are subject to Estonian withholding income tax at rate 21%.

Royalties paid to non-residents are generally subject to 10% withholding tax under domestic law, but reduced rates may be available under double tax treaties. Certain royalty payments to associated EU and Swiss companies that meet certain conditions are exempt from withholding tax.

There is no withholding tax on dividend distributions to any non-resident corporate or individual shareholders.

There is no withholding tax on arm's length interest payments to non-residents. 21% withholding tax thus applies to the part of interest that significantly exceeds the arm's-length amount.

Income tax is not, as a general rule, imposed on gains received by non-resident persons from the sale or exchange of shares of Estonian companies. There is an exception that relates to sale of shares of real estate companies. These are companies where at the time of transfer or during certain period within two years immediately preceding the transfer, more than 50 per cent was directly or indirectly made up of immovable or structures as

movables, which are located in Estonia. Income tax is imposed if at least 10% of the shares of such companies are transferred.

Dividends

As described above Estonian corporate income tax system shifts the point of corporate taxation from the moment of earning the profits to the moment of their distribution. The profit distributions made by Estonian resident companies are subject to corporate income tax as described above irrespective of the residence of the recipient or whether the recipient is a legal person or individual.

The rate of such corporate income tax is 21% (21/79 on the net amount of the taxable sum).

There is no additional withholding tax on dividend distributions to any non-resident corporate or individual shareholders.

Certain forms of profit distribution are not subject to corporate income tax, including dividend distributions out of certain dividends received and profits derived through foreign permanent establishments.

PERSONAL INCOME TAX

Residents pay income tax on their worldwide income. Taxable income includes, in particular, income from employment (salaries, wages, bonuses and other remuneration); business income; interest, royalties, rental income; capital gains; pensions and scholarships (except scholarships financed from state budget or paid on the basis of law).

Non-residents have limited tax liability in Estonia. Only the Estonian-source income specified in Estonian domestic law and tax treaties is taxed in Estonia.

Taxable period is a calendar year. Residents should file a personal income tax return by 31 March following the year of which income arises.

Sale and lease of real estate

Generally, capital gains from the sale of real estate are subject to a 21% personal income tax.

Full exemption from personal income tax is applied on income of either tax resident or non-tax resident of Estonia on sale of a real

estate used for residency purpose. Some further tax exemptions, as well as certain deductions from taxable income (for example housing loan interest, training expenses etc.) are provided by domestic law.

Rental income received either by a tax resident or non-tax resident of Lithuania from the use of immovable property located in Estonia and movable property subject to registration in Estonia is subject to income tax at rate 21%.

Sale of shares

Capital gains generated by a tax resident of Estonia from the sale of shares is generally subject to taxation at rate 21%.

Capital gains of a non-tax resident from the sale of shares are generally not subject to taxation in Estonia except capital gains derived from the sale of shares in a real estate companies. These are companies where at the time of transfer or during certain period within two years immediately preceding the transfer, more than 50 per cent was directly or indirectly made up of immovable or structures as movables, which are located in Estonia. Income tax is imposed if at least 10% of the shares of such companies are transferred. In such case capital gain from the sale of real estate company is taxed at rate 21%.

VALUE ADDED TAX (VAT)

Estonian VAT legislation is based on the Council Directive 2006/112/EC (recast of the Sixth Directive of the Council of the European Communities (77/388/ECC)). VAT is levied on the supply of goods and services at the standard VAT rate of 20%. The reduced rate of 9% applies to books, periodicals, certain listed medicines etc. The VAT rate on the export of goods and certain services is 0%. Some supplies are VAT- exempt, such as insurance, banking, financial services.

Transactions with immovable property are generally exempt from VAT but there exist certain significant exceptions. Sale of new buildings and significantly renovated buildings and building land (land plot) without buildings is subject to VAT at the standard rate. The building is deemed to be significantly renovated if the costs related to the improvements exceed at least 10 per cent of the acquisition value of the construction works or the part thereof before the making of the improvements.

However taxpayers can opt to tax real estate transactions with VAT but this does generally not apply to transactions with residential property (exempt in case the residential property is transferred prior to the commencement of use).

VAT can be fully deducted upon the acquisition of immovable property if the buyer is registered as VAT liable person in Estonia and uses the assets exclusively for making taxable supplies subject to VAT. Adjustment of the deducted input VAT must be made during a 10- year period if the assets is sold (without opting for taxation of the transaction) or is no longer used for taxable supplies subject to VAT. The adjustment also applies to the input VAT incurred for the improvement of the asset. The adjustment is not required if the immovable property is sold with opting VAT to sales supply.

NOTARY FEE

A notary fee charged for certification of a real estate sale and purchase agreement depends on the transaction and the value of property. The parties to the real estate sale and purchase agreement are free to agree whether the notary fee is to be covered by both of them or by a particular party.

STATE FEE

It is applied when registering the title to real estate and real estate acquisition agreements with the Land Register. It mainly depends on the transaction and the value of property. This fee cannot exceed the established cap of EUR 2,556.46 irrespective of the transaction value.

LAND TAX

Land tax is calculated on the assessed value of land at rates between 0.1 and 2.5 depending on municipality. The tax is paid by the owners of land or by the users of land specified by Land Taxation Act. The tax is paid generally in two instalments by 31 March and 1 October.

OTHER TAXES

Estonia has no real estate, separate capital, net wealth or local income taxes.

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LATVIA

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2011 proves to be a year of improving sentiments and increasing optimism. The market is going to face a number of big relocation transactions as well as first post-crisis bigger investment transactions. Hopefully banks and market players have drawn the lesson from the past, so market development might be slow but healthy.



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For the last few years Latvian real estate market has not undergone any considerable changes. The market is still comparatively slow and inactive. In the light of financial problems of majority of market players, Latvian real estate market trend is directed towards establishment of bank subsidiaries, involved in repurchasing of properties of insolvent clients. Properties are repurchased at auctions.



GENERAL OUTLOOK

Trends in the economy have changed more radically than predicted in the beginning of the year, thus making the outlook for 2011 more optimistic. GDP in 2010 has been decreased 0.3%, compared to 2009, but in the fourth quarter of 2010, compared to the fourth quarter of 2009, increased by 3.6%.

The focus on attraction of tourists has brought its results to the hospitality businesses and this trend should continue in 2011 too.

Positive tendency in FDI inflow is observed, however it is still below pre-crisis level.

Pensions could be further cut by 10% later this year. In general, pensioners constitute more than 20% (or ~500,000 people), while social tax is paid by one-third of Latvian residents, according to the Welfare Ministry's data. Approximately one-third of taxpayers receive their wages from state budget.

Standard & Poor's Ratings Services (S&P) improved Latvia's ratings outlook to positive. S&P affirmed its BB+ long-term and B short-term ratings. The ratings outlook was improved on declining dependence of the economy from external financing and strong commitment to fiscal consolidation.

INDUSTRIAL PRODUCTION

Industry sector is gradually recovering. However, the situation in various branches of manufacturing industry differs. While some of them are recovering from the crisis, in others turnover is stagnating or falling both in the domestic and the foreign markets.

In 2010 processing industry, wholesale, retail, transport and communications showed an increase. However construction and financial services decreased last year.

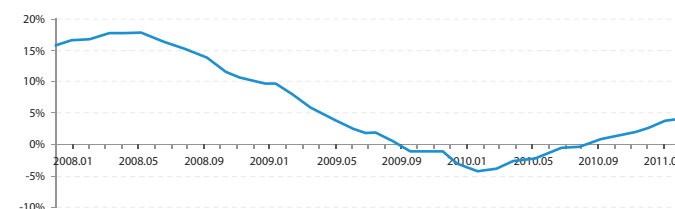
More positive economic outlook than expected, but still long way to go for stabilization of positive trends

IMPORTS / EXPORTS

The weakness in the exports structure is the large share of intermediate goods exported. These are long-term risks hidden behind the impressive growth. For example, the significant growth of Latvia's export volumes is secured by re-export of transport vehicles.

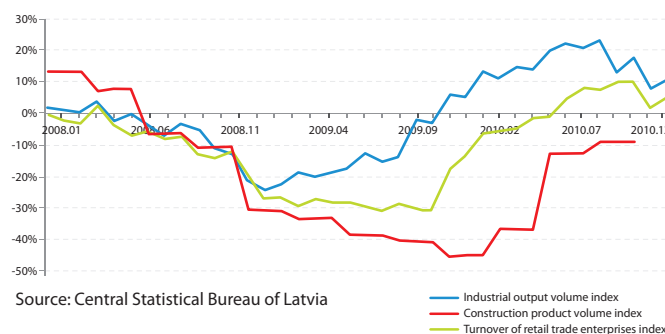
The main driving forces of exports are wood and wood products, metals and metal products, agricultural and food products. The Latvian businesses are increasing their export volumes to Russia and other CIS countries – mainly agricultural and food products. Main imports goods are mineral fuels, mineral oils and electrical machinery and equipment.

HICP, % Change from Corresponding Period of Previous Year



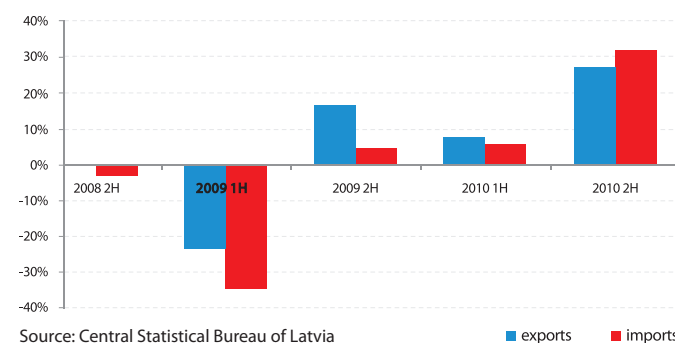
Source: Central Statistical Bureau of Latvia

Business Indices, % of Corresponding Period of Previous Year (work-day)



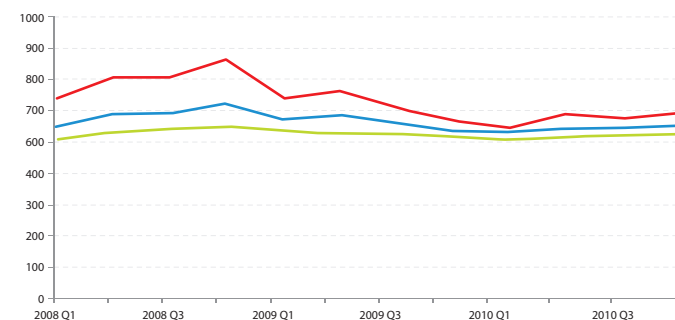
Source: Central Statistical Bureau of Latvia

Exports and Imports, % Change from Previous Period



Source: Central Statistical Bureau of Latvia

Average Monthly Wages and Salaries, EUR



Source: Central Statistical Bureau of Latvia

CONSUMPTION

Latvia registered the highest proportion of job seekers among Baltic States in 2010. At the same time, consolidation of the state budget is bringing along changes in taxes, rise in tariffs and other costs. Inflation was already increased in January 2011 and, according to the forecast, more to come in July.

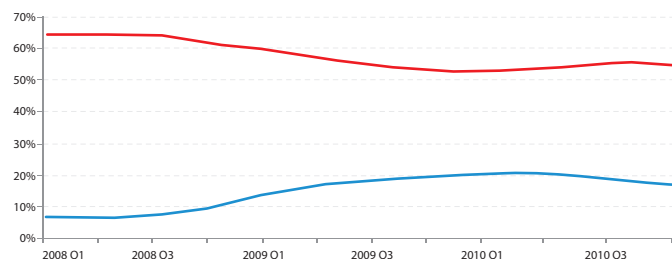
In 2010 the share of households, for which housing maintenance expenditure arise financial difficulties, has increased considerably. The share of households, for which such payments is a heavy burden, has grown from 35% in 2009 to 41% in 2010.

Total number of households, which during the last 12 months had arrears for public utilities, according to the EU-SILC 2010 survey data, reach 188 thousand, and it is 28% more than a year before.

FUTURE OUTLOOK

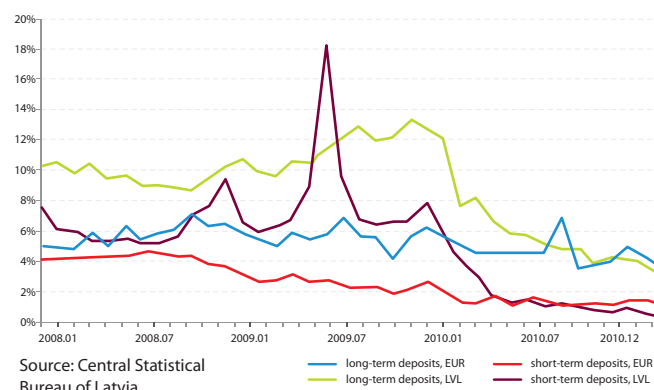
- Increase in inflation is expected due to further increase in taxes and tariffs.
- Taxes in Latvia could be reduced in 2013 – the tax burden is expected to be moved from labour to consumption and property.
- Banks expect a further deterioration in the quality of their loan portfolio, which makes them very cautious in taking on new risks.
- Share of shadow economy is unlikely to be reduced in the near future.
- Infrastructure investments dominate construction sector.
- “Traditional” investors are still cautious about Latvia, preferring more stable markets. With the economy in the neighbouring Russia already recovering, investors from that country could become more active in Latvia.

Employment and Unemployment, %



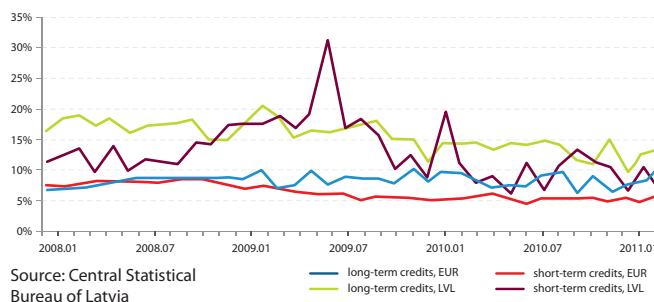
Source: Central Statistical Bureau of Latvia

Average Monthly Interest Rates on Deposits in Credits Institutions



Source: Central Statistical Bureau of Latvia

Average Monthly Interest Rates on Deposits in Credits Institutions



Source: Central Statistical Bureau of Latvia



RETAIL MARKET OVERVIEW

In the 2H of 2010 turnover of retail trade enterprises increased by 12% compared to 1H of 2010: 7% for food and 17% for non-food products. In September-December of 2010 turnover of non-food products were larger than for food products, but in January 2011 situation has changed again.

The recovery of Latvian retail trade accelerated in recent months, but it is too early to speak about sustainable upward trend. Latvia's economic recovery is fragile, and the fiscal tightening, increasing public utility tariffs and taxes will not stimulate consumers to spend more.

Retail market has changed considerably during the last two years. Many international retailers have moved from street retail to shopping centers, decreasing vacancy level there. At the same time, unknown brands, second-hand shops and Turkish fast food are dominating street retail. According to unofficial information, second-hand shops are becoming increasingly popular in Riga.

New shopping center GALLERIA RIGA was opened in September 2010 in the center of Riga with around 220 shops on 7 floors. Investments into the project were around 100MEUR.

Some anchor and semi-anchor tenants re-launched the expansion, however very carefully choosing the new spot developments. New MAXIMA and RIMI supermarkets are under development, PRISMA has declared new locations, JYSK has opened stores in shopping centers and hypermarkets.

SHOPPING CENTERS

In Riga vacancy rates in shopping centers with convenient access roads and good concept are 2-5%, while in others can be up to 25%. In other cities vacancy rates vary up to 50%.

Due to increasing Latvenergo tariffs, several shopping centers are currently considering opportunities to start buying electricity from the Estonian company Enefit.

HYPERMARKETS / SUPERMARKETS

Vacancy in this segment is very small, but depends on the location. New hypermarket DAMME was opened in March 2011 in Imanta district of Riga. Main tenants are RIMI and JYSK. Total area – 15,000 sqm. Investments were around 20M EUR.

Homburg Group started construction of the new 5,000 sq m hypermarket in Zolitude. Anchor tenant will be MAXIMA; preliminary investments are expected to be around 7MEUR.

PRISMA is planning to open its 3rd hypermarket in 2011 in Imanta and 4th supermarket in Plavnieki in 2012.

STREET RETAIL

This segment suffered the most as large share of their revenue goes from impulsive buying.

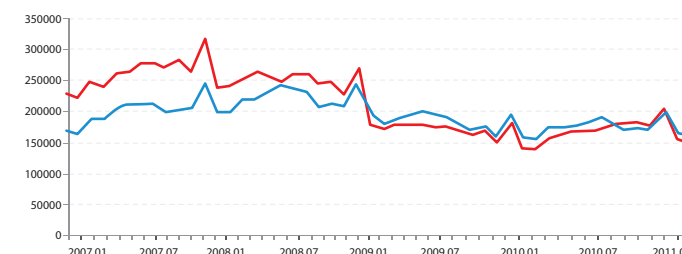
SIA "Mozum Pro" was sold to two Russian investors. The company owned two largest summer cafes in Old Riga.

Municipality came back to long discussions regarding converting Terbatas Street into a walking street. Current proposal being discussed is from Elizabetes to Lacplesa streets.

OUTLOOK

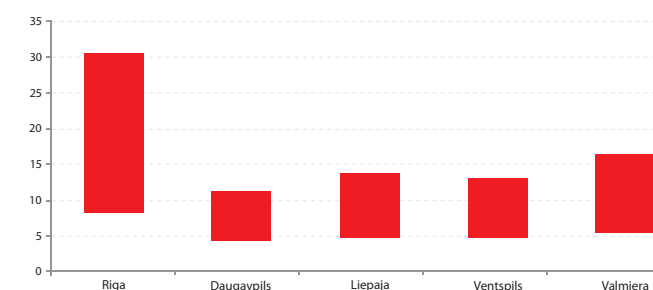
- No major changes are expected on the market in the next 6 months, as spending on food products still exceed spending on non-food products.
- However, increase in Latvenergo tariffs and, as a result, in utility costs, may lead to increase in food price. If this is to happen, small decrease in non-food retail turnover may be expected.
- Three new hypermarkets are due in 2011 and 2012.
- Some international chains, currently not present in the Baltics, consider getting back to planning their entering Baltic market.

Retail Turnover, k EUR



Source: Central Statistical Bureau of Latvia
 — Retail sales of food, beverages and tobacco, k EUR
 — Retail sales of nonfood products, except motor vehicles and fuel, k EUR

Rent Rates, Street Retail, EUR/sq m



Source: Newsec

Rental Rates and Vacancies in Shopping Centers in Riga

	2009 2H	2010 1H	2010 2H	2011 1H	↑ ↓ →
Rental Rates, EUR/sq m/month					
up to 100 sq m	15-45	20-0	20-50	20-50	→
100-500 sq m	12-22	14-25	14-28	14-28	→
> 500 sq m	6-13	7-15	7-15	7-15	→
anchor tenant	5-9	5-10	6-10	6-10	→
Vacancy Rate, %					
well-performing sh. centers	Up to 5%	Up to 5%	Up to 5%	Up to 5%	→
others	15-30%	15-30%	15-25%	15-25%	→

Source: Newsec

Careful expansion of selected retailers based on turnover improvement and positive outlook

OFFICE MARKET OVERVIEW

Activity on the market is growing slowly. According to official statistics, total number of jobs occupied decreased by 7% in 2010, compared to 2009, however, increased by 3% in the 2H of 2010, compared to 1H of 2010.

The main trend on the market is client relocation from C to B class office buildings. Another trend being observed is that office spaces in the centre of Riga are letting out relatively fast. However, the premises are located not only in the modern office premises, but also in the former residential apartments.

Business is looking more optimistic to the future and companies are thinking about hiring new staff and slowly expanding their premises.

PROJECTS UNDER CONSTRUCTION:

- The new American Embassy was completed and is planning to be put into operation this year.
- JUPITER centre – around 7,000 sq m on Skanstes street is expected to be finished in 2012. Asked rent level – 10-11 EUR/sq m.
- Z-TOWERS – a landmark multifunctional complex consisting of office tower, 5* hotel Sheraton with around 320 rooms, retail and entertainment area, as well as conference and meeting facilities. The project is expected to be finished by 2014.
- New State Revenue Service administrative building in Mezapark will be built in the frame of PPP project and is due in 2014. Total investments are around 50M EUR, while total area will be 45,000 sq m.

Main demand in Riga is for office premises 100-200 sq m from finance, law, consulting and transport and logistics companies.

The majority of deals were in price range of 5-8 EUR/sq m.

Vacancy rates vary between different properties.

A CLASS

There are 6 properties which can be considered as A class. The majority of stock are HQ of Latvian Banks.

Vacancy for A Class offices was around 7-8%. Main demand for these properties comes from tenant relocation within the sector.

B CLASS

The majority of leases took place within B class office segment due to companies' relocation to a better location or property, or intention to fix lower occupational costs within the same quality segment.

Average vacancy rates are around 22-25%. However, properties with good concept, convenient location and market average price have vacancies around 5-10%.

C CLASS

This sector has the largest vacancy. Currently, the companies are moving to higher quality property class for similar or slightly higher costs.

OUTLOOK

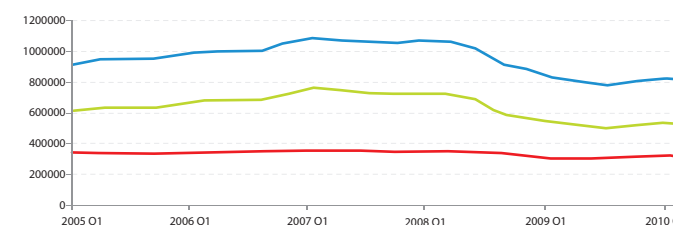
No major changes are expected in office segment within the next six months. Rental rates are not expected to change significantly, while vacancies could go slightly down.

Due to increasing difficulty to prolong rental discounts, companies are looking for relocation in order to fix lower occupational costs for longer term and, therefore, the pattern of companies' location is expected to change.

Three new properties are under construction at the moment.



Number of Jobs Occupied in Latvia



Source: Central Statistical Bureau of Latvia

Rental Rates in Riga, EUR/sq m/month

	2009 2H	2010 1H	2010 2H	2011 1H	↑↓→
A Class	8-9	5-14	5-12	5-13	→↑
B Class	5-14	3-11	3-11.5	3-11.5	→↑
C Class	6-10	4-9	4-9	4-9	→
Vacancy Rates in Riga, %					
A Class	10-12%	8-10%	7-8%	4.2%	→
B Class	~20%	20-25%	22-25%	22-25%	→↓
C Class	~30%	~30%	~30%	30-35%	→↑

Source: Newsec

Trend for relocation of office occupiers driven by shrinking possibilities to fix quality for money for longer term

WAREHOUSE MARKET OVERVIEW

Warehouse / industrial market in Latvia is one of the slowest sectors to recover. The "modern" warehouse property stock in Latvia is concentrated mainly in and around the capital.

Volume of goods transported by rail and road transport and through ports has decreased since 2008. As well, as logistic structure in the Baltics has changed. Several companies have closed warehouses in Latvia and deliver goods directly from Estonia, Lithuania and Poland.

Rental and vacancy rates remained stable. Main trends on the market:

- lease term negotiation and relocation to better premises fixing existing low rental rates for longer term;
- increasing demand for third-party logistic providers. There were examples on the market when instead of having their own warehouse facilities, companies preferred to outsource these services.

MAYKEL BUSINESS PARK, built-to-suit property for KUEHNE & NAGEL, was put into operation in 2010. Total area of the warehouse is 15,000 sq m.

Main leases on the market were SIA Atlas and Sanitex JSC.

A AND B CLASS (MODERN WAREHOUSE FACILITIES)

Official vacancy rates are around 30% in general; however, the reality shows that existing tenants are not able to use the whole space rented. Taking into account unused space, non-official vacancy rate currently is around 50%.

No major changes in industrial rental rates and occupancy, but changes in the pattern of tenants allocations

C CLASS

Vacancies in this segment are increasing. However some niche companies (metal producers, specific export production, etc) are acquiring old warehouse buildings for their own needs with further plan to gradually reconstruct premises, following development of their business.

OUTLOOK

Logistic sector is the last to recover after retail and office sectors. No speculative development is expected on the market. However, built-to-suit developments may appear in the future.

Export goods are usually going through ports directly to the en-user in Russia, Scandinavia, Germany or other European countries. There are common cases when goods are transported by car directly to the Latvian port and further by ferry to the European countries. So, goods are predominantly transported on cheap Russian fuel. During peak seasons (for example, Christmas time), goods can be stored in Latvia for couple of days/weeks, but this is very short-term lease.

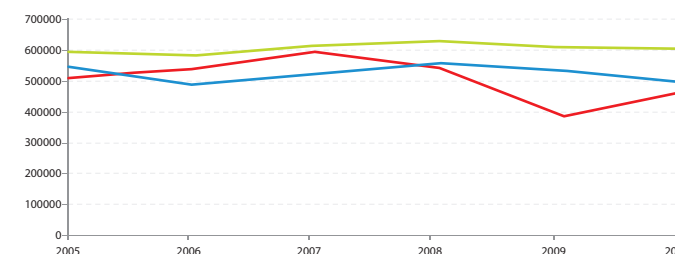
In general, demand for warehouse premises will come back only after internal consumption will go up. However, this is not forecasted in the near future.

Some retailers are actively expanding in Latvia and Lithuania, which may eventually need distribution warehouses.

Riga will always be consumption and distribution hub for Latvia, therefore demand for logistic premises in and around Riga is to be increased following economic recovery.



Goods Transported in Latvia



Source: Central Statistical Bureau of Latvia

— Rail: Goods transported - total, k t
— Roads: Goods transported - total, k t
— Ports: cargo loaded / unloaded at Estonian ports, k t

Rental Rates, EUR/sq m/month

	2009 2H	2010 1H	2010 2H	2011 1H	↑↓→
Riga and Riga district (new/renovated)	2.5-4.5	2.5-4.5	2.5-4.5	2.5-4.5	→
Riga and Riga district (other)	0.5-2.5	0.5-2.5	0.5-2.5	0.5-2.5	→
Other cities	0.3-2.5	0.3-2.5	0.3-2.5	0.3-2.5	→
Vacancy Rates, %					
Riga and Riga district (new/renovated)	Up to 35%	Up to 30%	Up to 30%	up to 30%	→
Riga and Riga district (other)	Up to 40%	Up to 45%	Up to 45%	up to 45%	→
Other cities	Up to 50%	Up to 50%	Up to 50%	up to 50%	→

Source: Newsec

RESIDENTIAL MARKET OVERVIEW

Market has stabilized, but there is still no evidence that the market is recovering. Prices are still slightly decreasing in the secondary cities.

The majority of transactions are in cash. Banks are still very cautious with issuing new mortgage loans.

SUPPLY

Almost 200 new residential houses were built in Riga since 2004. Currently there are more than 8,000 apartments for sale on the market in houses built after 2004. Banks are still not in a hurry to put their residential stock on the market. According to Newsec estimations, currently there are 6-8 times more apartments for sale, than actual deals closed.

PROPERTIES CURRENTLY UNDER CONSTRUCTION

- Eglaines Nams in Riga (Kengarags) is planned to be put into operation by the end of 2011: 64 apartments, average price – 800-1,000 EUR/sq m.
- YIT is planning to build 8 economy class multi-residential houses in Riga till 2015. In Autumn 2010 the company started construction of three residential complexes and in 2011 planning to start one more project.

- Skanstes virsotnes are planning construction of the 4th building within the residential complex.

- Homburg multifunctional project in Zolitude. Residential apartments are planning 50-70 sq m large, fully finished. Price level – 800-1,000 EUR/sq m.

Improved demand for residential, but the affordability is still volatile

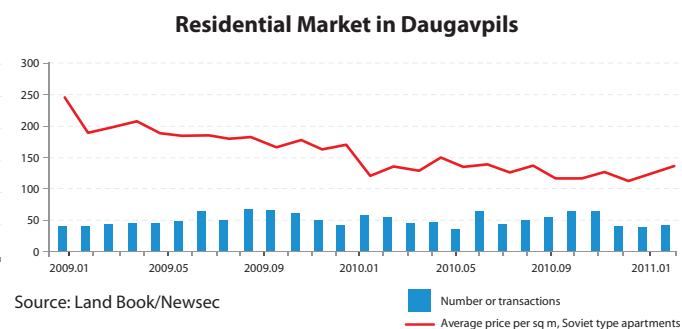
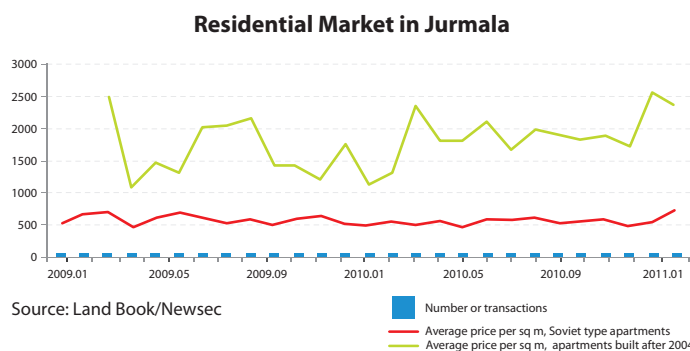
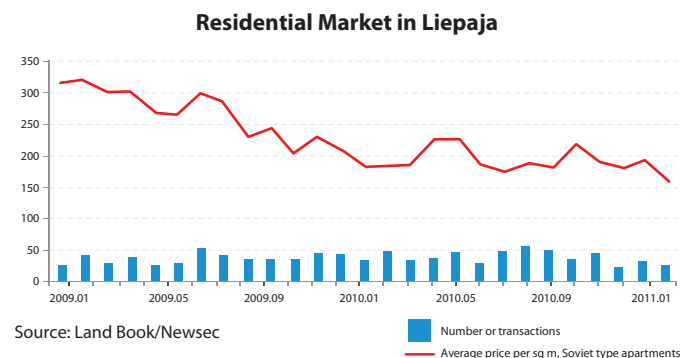
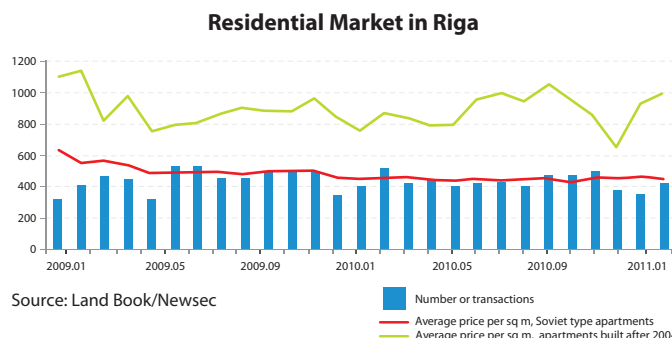
DEMAND

Number of transaction and price per sqm in Riga and Jurmala are fluctuating on the same level. Exclusive apartments are mainly bought by Russians and other CIS buyers.

The majority of transactions in Riga are in the price range up to 30,000 EUR.

Situation in the secondary cities is different. In Daugavpils and Liepaja number of transaction is slightly increasing since 2009, but prices are slightly decreasing.

OUTLOOK



1. RECENT DEVELOPMENTS

For the last few years Latvian real estate market has not undergone any considerable changes. The market is still comparatively slow and inactive. In the light of financial problems of majority of market players, Latvian real estate market trend is directed towards establishment of bank subsidiaries, involved in repurchasing of real properties of insolvent clients. Properties are repurchased at auctions for the value which is substantially lower than their initial acquisition value. Bank subsidiaries are either reselling the bought properties, or managing them without releasing for market circulation and waiting for economic recovery, then it would be possible to sell the real estate for a better price.

2. OWNERSHIP

Are there any legal restrictions on ownership of real estate (interests in entities which own real estate) by particular persons?

Foreigners are prohibited to acquire urban land title to:

- land in state frontier areas;
- protected coastal areas of the Baltic Sea and Riga Bay, and other public bodies of water, except for the areas where construction is permitted according to the municipal territorial planning; and
- agricultural and forest land as indicated in the municipal territorial planning.

Also, foreigners are prohibited to acquire rural land title to:

- land in state frontier areas;
- land in nature reserves and zones of other protected territories in nature reserves;
- land in protected coastal areas of the Baltic Sea and Riga Bay;
- land within the protected zones of public bodies of water, except for the areas where construction is permitted according to the municipal territorial planning;

- agricultural and forest land as indicated in the municipal territorial planning; and

- land within mineral deposits of national importance.

Foreigners are not prohibited to acquire shares in a company which owns real estate in Latvia. However, it should be noted that the law has established certain restrictions in respect of the companies themselves which want to acquire land in Latvia. Land in Latvia can be acquired by a capital company registered in the Republic of Latvia or another European Union Member State:

- where more than a half of the share capital is owned by Latvian citizens, citizens of the European Union, Latvian state or municipality – by each individually or several entities jointly;
- where more than a half of the share capital is owned by natural persons or legal entities from the countries with which the Republic of Latvia has entered into international treaties on facilitation or protection of investments;
- where more than a half of the share capital is owned by several entities referred to in the above paragraphs (i) and (ii) jointly;
- which is a public joint stock company, and its stock is quoted at the stock exchange.

Can a legal owner lose the title to real estate due to restitution claims?

According to the Latvian laws, owners and certain qualifying descendants of owners whose real estate was nationalized under the laws of the former Soviet Union were entitled to restore their ownership rights to the buildings until 31 December 1996 and in respect to the land plots – until 1 September 2008. Nevertheless, it is to be emphasised that ownership rights are not restored inter alia to the real estate that has been acquired into ownership by third parties in good faith. The State is obliged to compensate the descendants of owners of such real estate under the prescribed procedure.

3. SALE AND PURCHASE OF REAL ESTATE

Are pre-acquisition agreements commonly used in your jurisdiction? Describe their legal effect and enforceability.

Pre-acquisition agreements in Latvian jurisdiction are used mainly in transactions involving an investor. As a rule, before acquiring the real estate, investor is willing to perform legal and physical due diligence of the real estate. Therewith, the said agreements serve as a confirmation that the purchaser wishes to buy the property, but is, nevertheless, willing to retain the possibility to refuse from the property, in case of detection of any circumstances not acceptable for the purchaser. The essence of pre-acquisition agreements is rather that of a conditional agreement aimed at conclusion of the purchase agreement in the future. Pre-acquisition agreement does not entitle to claim the real estate, which and which price has been agreed upon in the pre-acquisition agreement, but merely entitles to claim conclusion of the purchase agreement regarding the said real estate. The liability of the party for failure to comply with the pre-acquisition agreement may arise not for the failure to deliver the property, but rather for the failure to conclude purchase agreement, and this liability may be expressed in compensation for losses. It is often the case that the parties in pre-acquisition agreements state the performance of particular activities before the conclusion of the purchase agreement and the contractual penalties, if the other party due to unjustified reasons refuses to conclude purchase agreement.

Describe formal requirements for real estate sale and purchase.

According to the law, the title can be transferred only to real estate which is registered with the Land Register. This forms one of the underlying preconditions for transfer of the title. In addition, it is the presumption of law that a person (natural person, legal entity, state or municipality) registered with the Land Register as the owner of real estate is considered the lawful owner having full control of the property. In any transaction involving transfer of the title, it is of utmost importance to have the property registered in the name of the buyer as soon as possible in order for the buyer to obtain all rights of the owner with respect to third parties.

As a real estate acquisition agreement should be filed with the Land Register to register the change in title, this agreement should be expressed in writing. In case this requirement of a form is not observed, the transaction is not valid and no entries will be made in the Land Register. One original of the agreement must be filed with the Land Register for enclosure to the file of the respective real estate.

Does any third person (governmental authority, etc.) have a pre-emptive right to acquire real estate subject to sale?

If real estate is alienated in the territory of the municipality, then the respective municipality enjoys the pre-emptive right (with certain exceptions). Co-owners enjoy the pre-emptive rights (established by law), also an owner of a building has such rights, if the building is located on the land owned by another person and the land is alienated. The pre-emptive right can also be contracted under an agreement.

Describe the moment of acquisition of ownership to real estate.

The title to real estate is acquired as of the moment it is registered with the Land Register.

Does the seller have a statutory disclosure or warranty obligation?

The Civil Law of Latvia establishes a duty of the seller to disclose all defects known to him (both physical and legal) to the buyer. Otherwise the seller will be liable against the buyer, and the buyer can submit a claim for indemnification of losses or abolishment of the transaction.

Seller's warranties v. buyer's due diligence: what is the most common balance?

In practice the balance is mostly equal, because sellers are not interested in hiding the actual condition of the property.

What is the effect of transfer of real estate on contractual and other rights, obligations and warranties? Do these pass over

along with the title to real estate?

Registered encumbrances (for instance, servitudes, notes on utilities, etc.) are not deleted in the event of change of the owners and remain binding on the new real estate owner as well. The parties may agree on other contractual commitments concerning the property (for instance, mortgage) in the course of transaction, and they are either deleted or transferred to the new owner.

Lease agreements are transferred to the new owner. If the lease agreement is registered with the Land Register, then it is binding for the new owner, and the new owner can terminate it only under the procedure established by the agreement or by law. If the lease agreement is not registered with the Land Register, the new owner can terminate the lease agreement. Any construction documentation (technical designs, construction permits, guarantees, etc.) related to the real estate has to be re-registered in the name of the new owner, because it is not automatically transferred to the new owner.

4. LEASE OF COMMERCIAL REAL ESTATE

Describe formal requirements for execution of a lease (form, registration, etc.).

The law does not prescribe a compulsory form for lease agreements. Therefore, they can be entered into in a freely chosen form at the discretion of the contracting parties. If the tenant wishes to register the lease rights with the Land Register, then the requirement for the written form of the lease agreement shall be complied with. The lease becomes effective as of the date indicated in the lease agreement and it does not necessarily have to coincide with the date of signing. Registration of lease agreements with the Land Register is not compulsory. However, it is advisable in case the tenant wants to ensure that the lease is binding on third parties and remains effective in case the landlord is changed.

Are there any statutory restrictions on a lease term?

There is no statutory requirement as to the term of commercial lease. It depends solely on the needs and agreement of the contracting parties.

Does a tenant have a statutory right to extend or renew its lease?

In respect of commercial lease, the law does not provide for the rights of a tenant to extend or renew the lease term; however, such rights could be agreed upon in the lease agreement.

Rent and its adjustment: are there any statutory restrictions on an amount of rent? What is the general market practise?

It is a common practice in Latvia that the rent is adjusted annually based on the consumer price index, other percentage agreed by the parties, or tied to the turnover. The latter is especially popular in relation to the lease of commercial premises in supermarkets. There are no restrictions on the amount of rent under the commercial lease contracts.

Alienation: what are the rights of the tenant and landlord with respect to assignment, sub-lease or placing a charge over a lease?

In accordance with provisions and principles of the Civil Law, the landlord can assign the lease (for instance, in case of change of ownership). The tenant is allowed to assign the lease upon prior consent of the landlord.

The tenant has a right to sublease the property only upon prior consent of the landlord and the terms and conditions of sublease may not provide for broader rights in respect to the object of lease than those provided for under the master lease agreement, as well as may not exceed the term of the master lease agreement.

Latvian law does not allow pledging of the lease rights and the Land Register does not perform registration of such pledges.

What is the common form of eviction?

The Civil Law prohibits arbitrary eviction of tenants, even if such right is included in the lease agreement. Irrespective of the fact that any of the parties may have the right to unilaterally withdraw from or request termination of the agreement, the landlord is obliged to give a reasonable time period for vacation of the leased premises. If the premises are not vacated, the landlord has to lodge a claim with

the court for eviction of the tenant, as well as for recovery of the rent and damages.

Describe any restrictions on the transfer of title to or creation of a lien on real estate subject to lease.

Latvian laws and regulations do not provide for specific restrictions. Restrictions could be imposed as a result of contractual relationship, for example, providing for the rights of first refusal of the tenant to the object of lease in case of sale thereof.

How does the transfer of real estate affect the tenant's rights and obligations?

Change of the landlord of the real estate may not serve as the grounds for giving notice of termination of the lease to the tenant and the tenant will continue exercising his rights and fulfilling his obligations. In the event that the lease agreement is not registered with the Land Register, the new owner of the real estate is not bound by the lease agreement and may terminate it.

How can significant market change (e.g. economic downturn) affect the lease?

Significant market change (e.g. economic downturn), from the legal perspective, does not influence the lease in Latvia. Latvia has not adopted any laws or regulations in this period of time, which would allow lessees to withdraw from the lease agreement, due to economic situation. In fact, this problem is left at discretion of the contracting parties. In practice there is a tendency that the parties try to agree on reduction of the rent. Considering that the lessor is interested in retaining lease agreements and the profit pertaining thereto, in majority of cases lessor is responsive to the lessees and agree on reduction of the rent.

5. CONSTRUCTION

Describe common stages of construction (development) process, including permits involved.

- *Territorial planning.* It comprises preparation of detailed planning in case a wider territory is built up, consisting of several land plots. Under the planning, the location of engineering communications,

roads, infrastructure, etc. is designed and planned.

- *Environmental impact assessment* is required in case the planned construction falls within the list of particular activities established by the laws.

- *Application concerning intention of construction and documents pertaining thereto.* The initiator of construction files an application with the local government concerning the planned construction and in case of a positive decision receives the planning and architectural task and applicable technical regulations (requirements).

- *Designing work.* This stage includes preparation of a sketch (preliminary) design and approval thereof with the Construction Board, preparation of a technical project and approval thereof with the Construction Board, as well as performance of the necessary expert examinations.

- *Receipt of a construction permit.* Latvian laws and regulations do not establish a specific term within which the construction permit has to be issued. In practice it could take 30 days as of the receipt of the application. The construction permit is issued for the term set by the Construction Board; however, it may not be shorter than 1 year. The construction permit can be revoked in case the statutory construction procedures are not complied with, the construction work is not commenced within one year as of the receipt of the construction permit or other statutory requirements are not observed.

- *Performance of construction works.* In the course of construction works, the design, technical and State supervision is carried out.

- *Issuance of an occupancy permit.* Putting of the building into operation is performed by a special commission established by the local government which assesses the readiness of the building for operation and issues an act on acceptance of the building for operation. On the basis of the occupancy permit the building is registered with the Land Register under the ownership right of the builder.

Right now a new construction law is at the stage of development, where it is planned to make the procedure for circulation of

documents briefer and simpler, as well as to revoke requirements of mandatory certification.

6. REGISTRATION

Is all real estate required to be registered?

All real estate has to be registered with the Land Register except for temporary structures, engineering structures (for instance, parking lots, fences) and other structures not to be registered with the Land Register under the law.

What rights (if any) to real estate are subject to registration? What are the consequences of failure to register them?

Ownership rights (owner) have to be registered. Other rights (for instance, servitude rights, lease rights, encumbrances and similar) are not to be registered on mandatory basis; however, in practice persons enjoying such rights usually opt to register them.

If the owner does not register his ownership rights, then he cannot exercise them towards third parties. In accordance with the Civil Law of Latvia, the owner is the person who is registered with the Land Register.

Also, other rights, if not registered with the Land Register, will not be valid in respect to third parties.

What time and costs are involved in registration of real estate (rights thereto)?

Upon registration of the ownership rights over real estate, the state fee has to be reckoned which constitutes 2-3% of the transaction amount (subject to the type of transaction and persons involved), stamp duty (up to LVL 35), as well as notary costs of drawing and certifying the registration request.

The Land Register registers the filed documents within 10-30 days.

How reliable is the registration system?

The registration system is reliable, and it reflects all actual data

registered at the specific time. The registration duty is imposed on the parties to the transaction; therefore, conformity of the entries with the actual situation for the most part depends on activities of the parties to the transaction.

Is the register publicly accessible?

Data about cadastral numbers, addresses, owners, registered encumbrances and prohibitions is publicly accessible. Documents based on which the entries are made are not publicly accessible.

7. REAL ESTATE TAXATION

Describe state and local taxes levied generally on real estate investors and developers.

Latvia has experienced many changes in its tax system over the recent years. Notable points that make Latvia attractive: the corporate tax rate is maintained at a low rate of 15%; following Latvia's EU accession tax relief is still available to companies operating in enterprise zones and free ports; capital allowances on plant and machinery may exceed their acquisition value.

CORPORATE INCOME TAX (CIT)

Latvia levies CIT at a flat rate of 15% on adjusted accounting profits. Corporate capital gains are taxed as ordinary income, except for sales of EU listed securities and EU registered open investment fund certificates, which are non-taxable. Capital allowances are computed under the reducing balance method and rates are fairly generous, from 10% for buildings to 70% for IT equipment. In addition, the value of new technology equipment is increased by coefficient 1.5 for tax depreciation purposes. Investment property accounted at fair value method may not be depreciated for tax purposes.

Latvia does not apply any Controlled Foreign Companies (CFC) rules. Also, there are no thin capitalization rules on interest paid to Latvian or EU banks, or to banks in double tax treaty countries.

Deductibility of other interest is restricted if the amount of borrowed capital exceeds equity more than four times, or if the interest rate is more than 1.2 times above the market average.

Dividends to qualifying EU companies may be paid without withholding tax (WHT). Dividends paid to other non-residents will be subject to 10% WHT or 5% if there is an effective double tax treaty. If a foreign company decides to purchase real estate directly and to lease it out to an independent management company, the lease payments will be subject to 5% WHT. If real estate (or shares in a company with Latvian real estate constituting 50% or more of its assets in the year of sale or in the previous year) is sold to a Latvian resident by such a non-resident, the sale proceeds will attract 2% WHT.

Incentives for shareholders to reinvest profits in Companies
Recent changes in CIT Law encourage shareholders to invest profits in the development of their company, rather than take them out in dividends. Businesses will be able to reduce their taxable income by a notional amount of interest that a taxpayer would have to pay on a loan equal to his prior-year undistributed profit.

Net operating losses

Starting from 2010 losses can be carried forward eight years (formerly 5 years). A company in which more than 50% of shares (a controlling interest) have changed hands can utilize its tax losses if it continues for five years the same business it carried on during the two years before the change of control. When companies are reorganized by merger or spin-off, it may be possible to utilize losses accrued.

Group taxation

Companies forming a 90% group and meeting certain statutory criteria may surrender their current-year tax losses to each other.

PERSONAL INCOME TAX (PIT)

From 1 January 2010 personal income tax comprise not only salary

tax, fixed income tax and trade tax, but also tax on income from capital (such as dividends, interest) and tax on sale of capital assets and patent fee (tax comprising personal income tax and social security contributions for sole traders).

Capital assets include: financial instruments (e.g. shares, investment fund certificates, bonds and similar), immovable property, intellectual property.

The following tax rates apply from 1 January 2011:

- 10% on income from capital (interest and dividends, insurance benefits related to long-term life insurance, private pension income);
- 15% on gains on sale of capital assets;
- 25% on other types of income, including paid employment;
- 25% on trading income;
- 2% of fees, paid by a Latvian entity or a sole trader, to a non-resident individual for the disposal of real estate or other capital assets. On contrary, if the non-resident sells Latvian real estate (or shares in a company with Latvian real estate constituting 50% or more of its assets in the year of sale or in the previous year) to private individuals (i.e. who are not sole traders), foreign individual is taxed at 25% PIT on the gains, irrespective of the asset holding period.
- Foreign individuals earning Latvian-source rental income have to pay 25% PIT.

Latvian and foreign individuals registered as taxpayers may deduct business expenses incurred in managing and maintaining property from taxable income. Income and expenses are recognized on the cash basis.

Social Insurance Contributions

Apart from PIT, salaries are also subject to social insurance contributions at a standard rate of 35.09% without any cap on

employment income, split 11% and 24.09% between the employee and employer, respectively. Certain groups and registered taxpayers qualify for lower social security rates.

INDIRECT TAXES

The standard rate of Latvian VAT is 22%. Certain supplies qualify for a reduced rate of 12%. Exports and transits as well as certain services treated as supplied outside Latvia may be zero rated (exemption with credit).

Property leases are subject to 22% VAT. Renting property to individuals for residential purposes is exempt.

The sale of land and buildings, other than unfinished, newly built or refurbished, is exempt (exemption without credit). The sale of newly built buildings is subject to 22% VAT on the sales price, while taxable value for sale of unfinished buildings is the difference between sales value and acquisition price. If a refurbished building is sold within one year of completion, VAT is charged on the difference between its selling price and value prior to refurbishment. Building land is subject to 22% VAT. To date, Latvia has not introduced any option to tax provisions for VAT on real estate transactions. As from 2010 there is a possibility for qualifying companies to create

VAT group and as from 2011 it is possible to appoint a fiscal representative for VAT purposes.

Input tax is recoverable on the development or refurbishment of buildings intended for taxable supplies. If the property is sold within a period of one to ten years of completion, then a portion of the VAT originally recovered must be repaid to the State.

Companies may also be subject to natural resource tax mostly on packaging, electrical and electronic goods and to excise duty on fuel, alcohol, tobacco and soft drinks. The EC Customs Code applies to imports into Latvia.

REAL ESTATE TAX (RET)

The following rates apply from 1 January 2010:

- 1.5% of the cadastral value of land, buildings and engineering structures;
- 0.2-0.6% of the cadastral value of private dwelling houses and flats in apartment blocks or any part of a non-residential building that is functionally used for living; and
- 3% of the cadastral value of uncultivated farmland.

The cadastral value is determined by the Land Service considering the type, location and use of a particular property, transaction prices over the previous two years, and other factors. Although cadastral value should be approximated to market price, cadastral value is not always up to date and may be lower than current market prices. Local municipalities calculate the tax charge and notify the taxpayer by sending a calculation and payment schedule.

Newly constructed or reconstructed buildings used in business are exempt for one year after completion. Other relief is available under the Real Estate Tax Act or determined by municipalities.

STAMP DUTIES

Stamp duties are levied on certain legal and other kinds of services, such as court trials, company formation and registration, licences for certain types of business activity, provision of information, notary services, operation of bills of exchange, and registration of real estate at the Land Registry (2% of the higher of deal value or cadastral value capped at LVL 30k (EUR 43k) per property). Due to this and potential VAT clawback, many investors prefer selling a company that holds real estate, as opposed to selling the asset itself.

Stamp duty is not payable if re-registration of real estate in the Land Registry is necessary due to re-organisation process. From 1 November 2009 the maximum amount of stamp duty payable for re-registration of the title to immovable property in case of contribution in kind in company's capital is reduced from LVL 30k (EUR 43k) to LVL 1k (EUR 1.4k).

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LITHUANIA

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Lithuania has a great potential of growth. It is proved by the increase of export and domestic consumption and stable political situation. Businesses and Investors have a choice from leading Vilnius to other big cities, like Kaunas and Klaipeda. The cost of debt accumulated throughout the crisis period will be the main "headache" for the Lithuania government and the effective state-owned asset management.



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Although there were no many high value real estate transactions in 2010, the recovery in the real estate market is being felt already from the beginning of 2011.

The tendency is that recent real estate transactions are long lasting and quite complicated where banks are highly involved. Joint ventures (with financial or professional partner) are frequently established and earn-out schemes are used.



GENERAL OUTLOOK

The recovery of the Lithuanian economy is gaining pace, whereas discussions on how to keep this pace at a sustainable level are already taking place. A balanced growth rate without triggering the inflationary pressures is a task hard to achieve in the current economic conditions. As the growth of food prices is prevalent worldwide, together with the growth of fuel and energy prices, it will affect the rate of inflation upwards, thus Lithuania is hardly expected to fulfil the Maastricht inflation criterion. Therefore, the adoption of Euro in the nearest future is questionable.

In 2010, the year-on-year real GDP growth reached 1.33%, whereas the unemployment was down to 17.1% in the IV quarter of 2010. The situation is uneven country-wide and is far worse in the rural areas, where the average unemployment reached 23.2% in the IV quarter of 2010.

Continuous governmental talks on the adjustments of the taxation policies in Lithuania (progressive individual income taxation) as well as introduction of new taxes (property taxes) weaken the attractiveness of the country to foreign high-value-added investments.

INDUSTRIAL PRODUCTION

In January and February 2011, the overall level of industrial production increased by 29.5% and 18% compared to January and February of 2010 respectively. Industrial production levels recorded in 2010 were higher for all months if compared with corresponding months of 2010.

The overall industry production growth over 2010 was 6.6%, if compared to 2009 level. The highest growth in January-February 2011 was recorded in manufacture of motor vehicles, trailers and

semi-trailers (almost 4 times higher than a year ago) and manufacturing of leather and related products (more than 2 times higher than in 2010), also in manufacturing of fabricated metal products (except machinery and equipment) – by more than 60%, manufacturing of electrical equipment – by more than 50%, manufacturing of other non-metallic mineral products and of furniture – by almost 45%.

The largest drops were recorded in manufacture of other transport equipment by almost 40% if compared with January-February of 2010, whereas repair and installation of machinery and equipment and manufacture of basic pharmaceutical products and pharmaceutical preparations were more dependent on month taken (i.e. rise in January, fall in February).

IMPORTS / EXPORTS

Both imports and exports decreased for three consecutive quarters starting from Q4 of 2008. As of Q3 of 2009, an average quarterly growth of 9% was observed in both imports and exports up to Q4 of 2010. The export-import balance stayed negative, however, its size diminished – the value of exports in 2010 constituted approximately 89% of the value of imports, whereas in Q1 of 2008 this ratio was 73%.

If we compare 2010 with 2009, the largest increase in imports was of electric current (almost 12 times), hides, skins and fur skins (3.34 times), pulp and waste paper (2.21 times), and metalliferous ores and metal scrap (2.15 times), whereas the largest drops occurred in meat and meat preparations (by almost 16%), footwear (-11%), animals oils and fats (-9%).

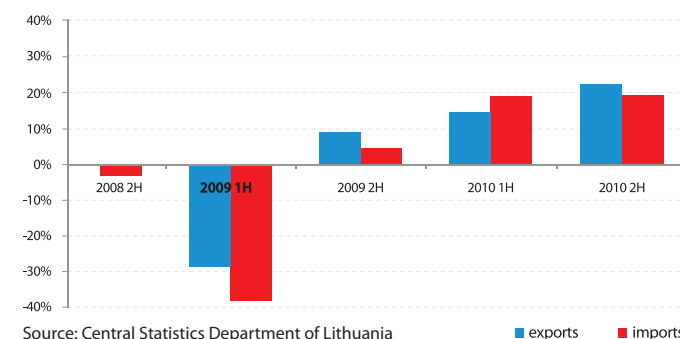
Overall, the export-oriented industries were quicker to recover from the crisis whereas many of internal-demand oriented industries are still fluctuating around similar levels with only minor signs of growth.

HICP, % Change from Corresponding period of Previous Year



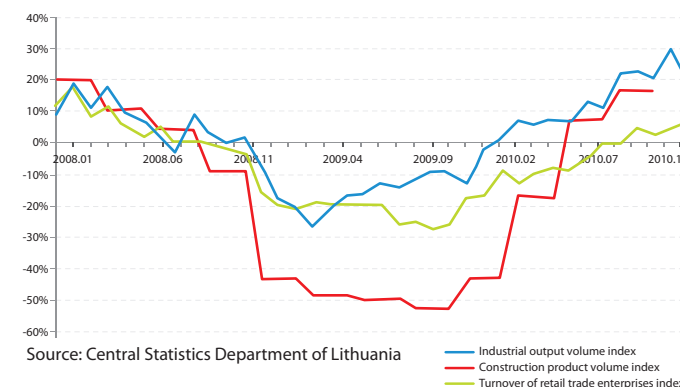
Source: Central Statistics Department of Lithuania

Exports and Imports, % Change from Previous Period



Source: Central Statistics Department of Lithuania

Business Indices, % of Corresponding Period of Previous Year (work-day)



Source: Central Statistics Department of Lithuania

Economic growth highlights positive trends, unfortunately still keeping unemployment levels high and boosting inflation. The cost of government debt accumulated will be the main "headache" for the upcoming governments

CONSUMPTION

The levels of retail trade were hit severely by the crisis in Lithuania and the recovery started appearing only from November, 2010, when retail trade outreached the level observed in 2009. Year-on-year monthly retail turnover was on average by 4% higher throughout November, 2010 – February, 2011 if compared with the corresponding months a year ago. This is closely related with both the decrease of unemployment, especially in city areas, and increases of average wages and salaries (as of Q2, 2010).

However, a continuing threat for a full recovery of consumption is the forecasted further increase in food and energy as well as fuel prices, which will eventually weaken the demand for the products and services in the economy.

FUTURE OUTLOOK

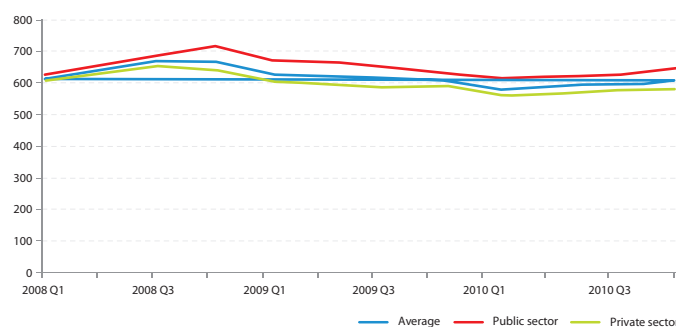
- The Lithuanian economy is turning to growth, with 1.33% GDP growth in 2010, and forecasted yearly 4-5% over 2011-2012. However, stronger growth will be followed by inflationary pressures from outside (rising food, fuel and energy prices), as well as inside (rising future income expectations, increased consumption).

- The euro will be very hard to achieve for the next coming years due to forecasted inability to meet the Maastricht criterion of inflation.

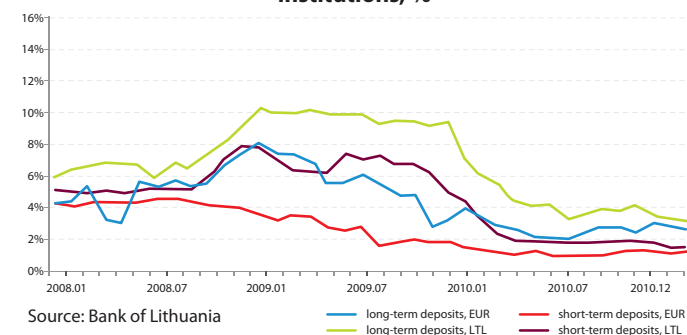
- The economic growth is currently mainly driven by exporting industries, whereas importing industries are expected to show clearer signs of recovery in 2011, together with increases in consumption and average salaries and wages, and decrease of the level of unemployment.

- The share of shadow economy is expected to remain fairly constant in the nearest future. Current proposals of increased employee taxation (progressive taxation) would not only reduce the attractiveness of Lithuania for potential foreign investors, but also increase the attractiveness of cheating on state via not declaring real levels of salaries and wages paid.

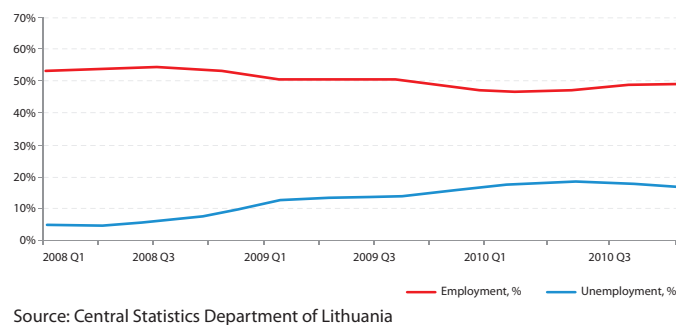
Average Monthly Wages and Salaries, EUR



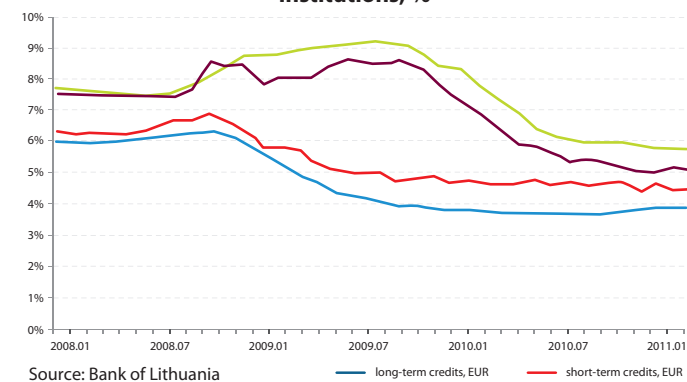
Average Monthly Interest Rates on Deposits in Credits Institutions, %



Employment and Unemployment, %



Average Monthly Interest Rates on Deposits in Credits Institutions, %



RETAIL MARKET OVERVIEW

The retail trade turnover started recovering only as of November, 2010, which led the overall yearly turnover to be down by 4.33% compared to 2009.

2011 is expected to be far more positive, with retail trade growth fuelled by diminishing unemployment and improving working conditions in the job market – thus larger disposable income available for consumption. The situation is mostly improving in the largest cities of Lithuania – Vilnius, Kaunas, and Klaipeda.

SHOPPING CENTERS

No major regional or national shopping centres are planned to be opened in 2011-2012. New deliveries will only constitute of big-box or similar type shopping centres serving local needs.

In 2010 new deliveries were only few and constituted of LINK MOLETU shopping centre (9,000 sq m), opened in April 2010, anchored by IKI and PASIDARYK PATS, and BANGINIS shopping centre (13,000 sq m), opened in December, 2010, and anchored by PRISMA. The construction of the most realistic project OLINDA – a 22,000-28,000 sq m shopping centre in Northern Vilnius, - is currently halted due to legal rows between the developer and the constructor.

The rental rates in shopping centres over 2010 remained fairly stable with increases of 5-15% in the most successful shopping centres. Vacancy rates went down throughout 2010 and continue to do so in 2011, most successfully in Vilnius.

The managers of the most successful shopping centres are concentrating on the improvements of their tenant mixes, sometimes sacrificing some of the short term income, in order to become more competitive and attract target shoppers better. However, high vacancy problems in the shopping centres with no clear concept or weak management are still persistent in the market.

HYPERMARKETS / SUPERMARKETS

The largest chain-store operators in Lithuania diversified their strategies in the beginning of 2010. IKI and NORFA are actively expanding their network of supermarkets in various locations of Lithuania. MAXIMA, the largest Lithuanian chain store operator opened 6 new stores and this renewed the expension as well. RIMI is concentrating its activities mainly on its hypermarket segment stores, which goes in line with previous closure of approximately a third (24) of their existing stores in Lithuania in secondary towns and/or in unprofitable locations.

The retail market activity was triggered at the beginning of 2011 by LIDL, which is believed to be planning to start its active operations and open its first stores in Lithuania already in 2011-2012 by many of the retail market participants.

STREET RETAIL

Street retail remains problematic in most of the Lithuanian cities. In Vilnius, retail streets are currently in the best position, especially of the luxury class shops on Didzioji str. and Rotuse square. The situation in Gedimino av. (from the Cathedral square to Jaksto str.) has also noticeably improved if compared with the beginning of 2010, however, it was mostly fuelled by opening new restaurants and cafes rather than shops.

In Kaunas, Laisves av. is also recovering from the crisis, with dropping vacancies and increasing rent rates. The most troubled situation in Vilnius and Klaipeda remains in the multi-tenant and multi-level stores in the central retail streets – in Vilnius, an unclear situation with Gedimino 9, the largest shopping centre in the very centre of Vilnius, prevents from the formation of a strong and



Quite modest growth of retail turnover is gaining double digit speed and seems to be moving at a faster recovery pace. Middle and upper segment shifted to more positive outlook, while largest retail chains still faces moderate growth

consistent tenant base thus failing to attract a critical mass of customers. In Klaipeda, street retail is still very weak and customer flows are not yet recovered, thus only shops on the first floors are attractive.

The average rental rates in the shopping streets of Vilnius and Laisves ave. in Kaunas increased by around 10% over 2010, whereas in Klaipeda the situation remained stable. The vacancy rates improved only in select locations of Vilnius and in Laisves ave., Kaunas.

OUTLOOK

- Retail trade growth is expected to continue throughout 2011, with the most favourable situation in upper-middle and luxury class shops. This will improve the situation in the most successful shopping centres, enabling the shopping centre managers to further purify the concepts and thus attract target customers better.
- The vacancies and the rental rates are expected to continue improving over the coming year.
- Only big-box type shopping centres serving local needs are attractive currently, whereas new large regional or national level shopping centres are forecasted for 2013-2015 only.
- LIDL is currently triggering hopes of entrance to the Lithuanian market already in 2011-2012, however, other chain store and department store operators are only reviewing Lithuania and are not expected to make any moves up to 2014-2015.

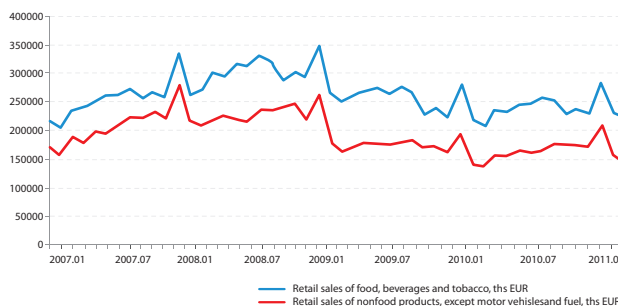


Rental Rates and Vacancies in Shopping Centers in Vilnius

	2009 2H	2010 1H	2010 2H	2011 1H	↑ ↓ →
Rental Rates, EUR/sq m/month					
up to 100 sq m	20-30	20-30	20-30	25-40	↑
100-500 sq m	10-15	10-15	10-16	12-20	↑
> 500 sq m	8-12	8-12	8-12	10-15	↑
anchor tenant	5-7.5	5-7.5	6-7.5	6-9	↑
Vacancy Rate, %					
well-performing sh. centers	Up to 5%	Up to 5%	Up to 5%	1-2%	→ ↓
others	20-25%	18-20%	15-17%	5-12%	→ ↓

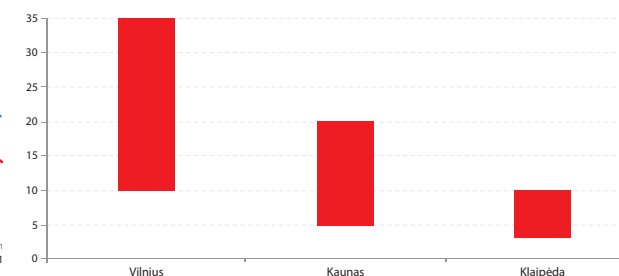
Source: Newsec/Re&Solution

Retail Turnover, thsd EUR



Source: Central Statistics Department of Lithuania

Rental Rates, Street Retail, EUR/sq m



Source: Newsec/Re&Solution

OFFICE MARKET OVERVIEW

The modern office market is mostly developed in Vilnius, and partially in Kaunas and Klaipėda. The development of this market is closely related to the job market in the country. In 2010, the level of unemployment peaked in urban areas reaching 16.9%, however by the end of the year it was already down to 14.6% and is expected to decrease further, consequently increasing the demand for office workspace, especially in Vilnius.

In 2010, there were several office projects delivered to the Vilnius office market:

- BETA – B class office building in Northern Vilnius, GLA of 20,000 sq m;
- PLAZA 31/1 – A class office building in Vilnius Old town, GLA of 6,500 sq m;
- GREEN HALL – A class office building in Vilnius CBD area, GLA of 10,800 sq m.

In 2011, two projects are expected to be delivered to the market:

- PIRKLIU KLUBAS – A class office building in Vilnius central area, GLA of 10,200 sq m;
- TRANSMEDA building - A quality class office building nearby Vilnius CBD, GLA of 2,500 sq m.

Other projects, such as BALTIC HEARTS (planned A class building in Vilnius CBD, GLA of 10,000 sq m), GAMA (planned B class building in Northern Vilnius, GLA of 11,400 sq m) or EVOLIS (planned B class building in next to the city centre, GLA of 8,400 sq m), are expected in 2012-2013, if strong pre-lease contracts are signed.

The overall space leased in 2010 reached over 44,000 sq m, with a Lithuanian telecommunications company TEO leading the market by renting app. 8,000 sq m in Vilniaus Verslo Uostas Business centre (A class). Market activity was the most intense in the second half of 2010.

Small scale, B class speculative office projects freshen up supply market. Optimistic expectations influence landlords' behavior more than potential tenants'. Demand focuses on Class A segment, leaving faster recovery of lower segments behind

A CLASS

After TEO transaction, the A class office market in Vilnius CBDs and centre were down to 6.5% and some office buildings were already fully or close-to-fully let. This allowed the pricing power to shift back towards the owners/managers of the A class office buildings.

B CLASS

The situation in B class office premises is the most diverse and is highly dependent on the location, perceived quality of the office building, office manager and other factors. Therefore, the rent rates of the most successful B class office buildings has grown, whereas less successful projects are experiencing stable or even decreasing rates.

Vacancy in B class office sector is heavily location dependent and reaches around 11% on average in Vilnius. Furthermore, B and C class stock of office spaces is enlarged by previous built-to-suit projects (RST, TEO, SEB, SWEDBANK), which were emptied by their previous owners/tenants when they relocated.

C CLASS

High vacancies still remain in the C class office buildings. These office premises are mainly attractive to smaller local companies which are unable or unwilling to maintain a higher quality office. Vacancies vary significantly, however are the largest in the market and reach 25-50%.

OUTLOOK

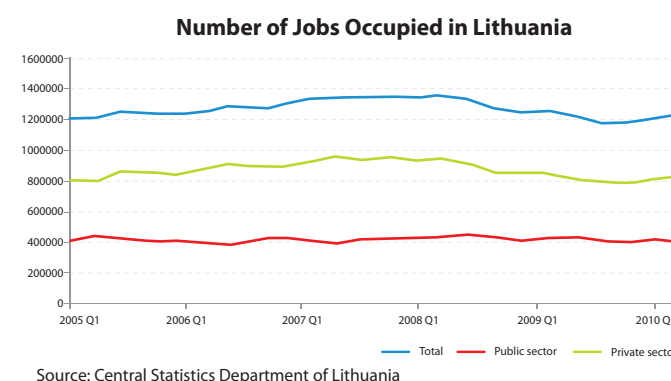
New office projects will only be attractive if a certain anchor tenant is present, speculative projects are not yet considered by developers and financing institutions and thus are not expected to appear in the market in the nearest future.

A class office vacancies are expected to remain very low up until

new A class projects are delivered to the market. Current situation will enable the continued growth of rent rates throughout 2011-2013.

Situation in B class is expected to improve as well, though at a slower pace and the development will be more diverse. The weakest projects currently are unable to compete with the most successful B class office buildings, thus the first will have to keep the rent rates low so to manage vacancy levels.

New market entrants are expected due to more favourable economic environment. Furthermore, relocation to modern offices is currently considered by several large telecommunications and services companies, currently owning old and ineffective office buildings.



Rental Rates in Vilnius, EUR/sq m/month					
	2009 2H	2010 1H	2010 2H	2011 1H	↑↓→
A Class	10-12	11-13	12-13	13-15	↑
B Class	6-8	7-8	8-9.5	7.5-12	↑
C Class	3-6	4-6	4-6	4-6	→

Vacancy Rates in Vilnius, %					
A Class	Up to 12%	Up to 5%	Up to 5%	Up to 5%	↓
B Class	Up to 25%	Up to 18%	Up to 18%	Up to 11%	↓
C Class	Up to 30%	Up to 25%	Up to 25%	Up to 25%	→

Source: Newsec/Re&Solution

WAREHOUSE MARKET OVERVIEW

During Q1 of 2011 the warehouse market in Lithuania was stable. Throughout 2010 and at the beginning of 2011, the rent rates were stable, whereas the vacancy rates decreased.

As noted in the previous report, in a longer term the most solid demand accelerators are expected to be local retail chains. Some of them need modern logistics facilities to be cost effective. The main driver here would be strong and increasing domestic consumption. Domestic consumption has only recently started showing growth signs – as of November, 2010, the retail trade level was for the first time higher than a year ago. This trend thus needs to prove its longevity to cause visible positive implications to the warehouse and logistics markets.

A AND B CLASS (MODERN WAREHOUSE FACILITIES)

The demand for logistics and warehouse facilities in Lithuania is limited to built-to-suit projects. Four projects are currently under development: TRANSIMEKSA logistics centre (Vilnius, Savanoriu ave.), TRANSEKSPEDICIJA logistics centre (Vilnius, on A2 road Vilnius-Riga), ENTAFARMA logistics centre (Vilnius, on A2 road Vilnius-Riga), VLANTANA logistics centre (Klaipeda).

In addition, two B class and previous built-to-suit projects reached the market from EKTORNET COMMERCIAL LITHUANIA: warehouses on Savanoriu ave. 172 (Vilnius) and in Skaidiskes (Vilnius region).

The rental rates remained at similar levels throughout 2010 and during the Q1 of 2011. Rent levels for prime warehouses and logistics centres were 3.0-3.5 EUR/sq m/month and 2.0-2.5 EUR/sq m/month for subprime (B-class) facilities in Vilnius. Rental rates in other cities were approximately 20%-40% lower.

Vacancy level in the Q1, 2011, reached 10% in Vilnius, 8% in Kaunas, and up to 18% in Klaipeda. In Kaunas, market developments were the largest with COCA COLA LIETUVA relocating from Via Baltica Logistics to a location in Garliava and SANITEX acquiring Via Baltica logistics building.

However, in some cases, vacancy rates were as high as 30% or more - especially in speculative projects, built in expectations for the continuous economic growth. Warehouse facilities near Panevezys

can be an example here – Logistics centre E67, and several logistics facilities on Ramygala str. are vacant as of 2009.

C CLASS

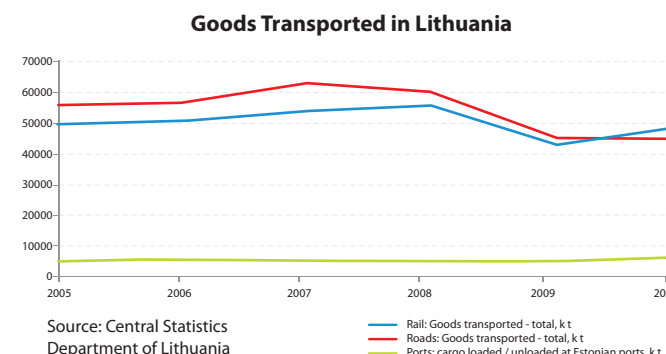
Non-renovated and old, not reaching modern quality standards C class buildings are mainly attractive for smaller companies which need no more than 500-700 sq m of warehouse or logistics space, that is usually not easily available in new and large logistics centres and warehouses. It is also a considerable choice for companies not affording to rent more expensive A or B class facilities.

OUTLOOK

Further development of the warehousing and logistics market is heavily dependent on the sustainability of the recovery of private consumption and, consequently, retail markets. Retail chains will be forced to upgrade their logistic facilities in the medium-term to more effective and modern solutions.

The forecasted rental rates for 2011-2012 will experience positive growth, especially for the highest class facilities.

New developments in the logistics and warehousing markets will remain built-to-suit projects, with potential sale and lease-back opportunities, however, no speculative projects will be attractive in the market in throughout 2011-2014.



Supply market is driven only by built-to-suit projects for logistics companies. Overall stability of rental rates and vacancy levels will shift to positive trends, although speculative development growth is not expected

Rental Rates, EUR/sq m/month

	2009 2H	2010 1H	2010 2H	2011 1H	↑↓→
Vilnius and Vilnius district (A class)	3.2-3.5	3.0-3.5	3.0-3.5	3.0-3.5	→↑
Vilnius and Vilnius district (B class)	2.0-2.7	2.0-2.7	2.0-2.5	2.0-2.5	→
Other cities (A class)	2.3-3.0	2.3-3.0	2.3-3.0	2.3-3.0	→
Other cities (B class)	1.0-1.5	1.0-1.5	1.0-1.5	1.0-1.5	→
Vacancy Rates, %					
Vilnius and Vilnius district	Up to 12%	Up to 15%	Up to 15%	Up to 10%	→↓
Other cities	Up to 20%	Up to 20%	Up to 20%	Up to 15%	→

Source: Newsec/Re&Solution

RESIDENTIAL MARKET OVERVIEW

Residential market revitalized throughout 2010. Though the prices still fell by around 10%, the number of transactions in the largest cities of Lithuania was at the level of 2008 and by 40% higher than in 2009, however, far from the activity observed in 2006-2007. The prices in the Q1, 2011, in Vilnius are by around 4% higher than in Q1, 2010.

The number of unsold apartments in the market is slowly decreasing and in Vilnius alone, around 15 projects are currently being developed. Revitalisation is also influenced by the credit institutions issuing mortgages for their preferred projects.

SUPPLY

Resumed construction/development activity in top 3 cities of Lithuania is increasing the supply of residential blocks of apartments. However, the developers are more cautious and the information of the new projects, especially pricing, is usually not provided to the general public but rather customized and individual offers are sent to the interested potential buyers.

DEMAND

The market is dominated by older, soviet-type apartments. In the first quarter of 2011, in Vilnius the number of newly constructed apartments sold was already lower than a year ago, though the number of old apartments sold increased.

The customers are still cautious and price sensitive when acquiring apartments as well as unwilling to take up new mortgages yet, though most of the banks are already publicly announcing better terms for financing.

OUTLOOK

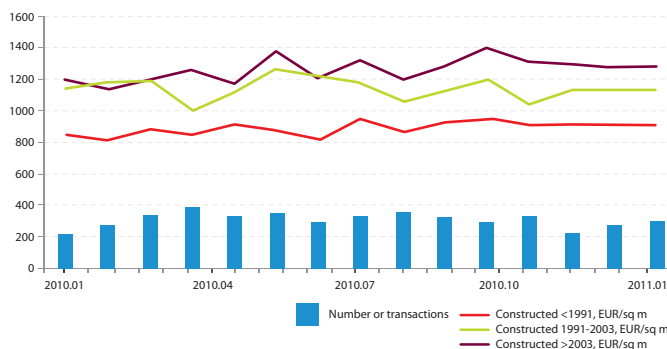
- Around 20 residential projects are currently under development throughout Lithuania, mostly resumed after the crisis. The expected completion is in 2011-2012.

- Vilnius will remain the most active and attractive market.

- Potential buyers will remain conservative and patient to wait for new projects that they like. Thus, a new project in current market conditions, if it is in line with buyers' expectations (on quality level, pricing and location), can be more attractive and easier to sell than apartments constructed before the crisis.

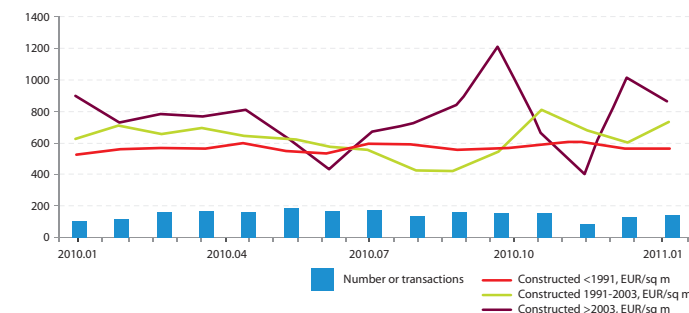
- Potential buyers value already developed (not planned) social infrastructure when looking for apartment much more, than during the peak of the economic boom.

Residential Market in Vilnius



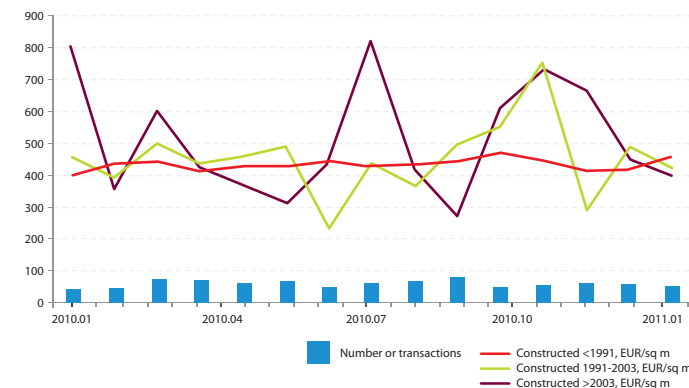
Source: Central Statistics Department of Lithuania

Residential Market in Kaunas



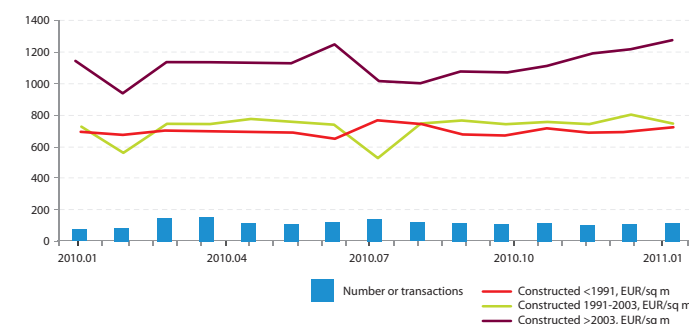
Source: Central Statistics Department of Lithuania

Residential Market in Siauliai



Source: Central Statistics Department of Lithuania

Residential Market in Klaipeda



Source: Central Statistics Department of Lithuania

Increased activity of developers augment economy segment supply. Lack of available apartments return pre-sale contracts to the market, however the prices are still at the lowest level and faces modest increase

1. RECENT DEVELOPMENTS

REAL ESTATE TRANSACTIONS

Although high value real estate transactions were quite few in 2010, the recovery in the real estate market is being felt already from the beginning of 2011.

The tendency is that recent real estate transactions are long lasting and quite complicated where banks are highly involved. Joint ventures (with a financial or professional partner) are frequently established and earn-out schemes are used.

First real estate collective investment vehicles: already created and active

The first real estate collective investment undertakings (an investment fund or an investment company the sole purpose of the incorporation whereof is, by offering the units or shares, to accumulate personal funds and invest such funds collectively into the assets) established in Lithuania are successfully operating.

Subject to certain diversification rules, the portfolio of real estate investment undertakings may comprise land, premises and buildings (including those under construction), securities, movable properties required for operation of acquired real estate, etc.

Lease contracts enforceability during economic downturn

During the last year, due to the economic downturn there was a number of court cases where the effect of the economic downturn on lease contracts and sale agreements was analysed. The Lithuanian Civil Code recognises that when supervening circumstances lead to a fundamental change in the equilibrium of the contract, relief on the ground of hardship may be available (the contract terms may be amended or contract can be terminated by the decision of the court).

A few cases solved by the Lithuanian Appellate Court have granted relief to the tenant under this provision due to the economic downturn, i.e. the Lithuanian Appellate Court stated that the right to demand the amendment of contract terms could be applicable in the situation of a significant market change (economic downturn).

However, the opinion of the Lithuanian Supreme Court is still expected. The fact is that both the Lithuanian and international legal doctrine (opposite to the conclusions of the Lithuanian Appellate Court) state that the market change (economic downturn) can rarely relieve a party of its contractual obligations.

Therefore, a party who wishes to have protection against market disruptions should provide for this contingency in a contract.

During economic downturn, many weaker tenants went bankrupt and the real estate market re-estimated the meaning and significance of the international tenant.

Public-private partnership (PPP) opportunities

The benefits of implementation of PPP were revealed in Lithuania in the recent years. During the last year, more ministries and municipalities were active in implementing the PPP projects. The implementation of PPP for the transport infrastructure projects is provided as the long-lasting strategy of the development of the Lithuanian transport system (to 2025).

Amendment of Construction Law

In 2010, the Law amending and supplementing the Law on Construction was adopted. The amendments and supplements of this Law regulate in more detail the elimination of consequences of unauthorised construction. The Law provides for a possibility to legitimize unauthorised construction, i.e. to prepare the required design documentation and, upon payment of the fee fixed in the Law for the legalisation of an unauthorised construction, to obtain the necessary document permitting the construction in the cases where the construction of a new structure of particular purpose can be carried out on the land plot where the unauthorized construction is established, or where respective reconstruction or repair works are allowed pursuant to the valid planning documents and such construction is in compliance with the mandatory statutory requirements related to environmental protection, heritage protection and protected areas.

Moreover, the amendments and supplements simplify the procedures of completion of construction works. From now on,

upon completion of the major repair of a building, change of purpose of a building (premises), renewal (modernisation) of a house of one or two units, the construction works will no longer have to be accepted as fit for use. The declaration on completion of a construction submitted by the builder shall be sufficient.

The amendments and supplements also establish the procedure for remedy of consequences of construction works carried out under illegally issued construction documents, give more precise definitions of a building, temporal building, incomplete building, reconstruction of a building and other terms, comprehensively regulate the cases in which the document allowing the construction is required, etc.

Tax news

According to the amendments of the Law on the Real Estate Tax, which came into force at the end of 2010, a tax payer may once a year (until 31 March of a respective year) file an application with the Real Estate Register requesting to revise the taxable value of a real estate unit determined by the Register on the basis of the individual property valuation provided by the applicant (tax payer). The Register will adopt a decision to consider the market value established in the individual property valuation to be a new taxable value of the real estate unit if such value differs from the average market value determined by the Real Estate Register by more than 20%.

Recently, there have been many discussions considering the benefits of introducing the expanded real estate tax and transaction tax. Therefore, some novelties in tax law are expected.

2. OWNERSHIP

Are there any legal restrictions on ownership of real estate (interests in entities which own real estate) by particular persons?

A foreigner willing to acquire land into ownership must comply with the criteria of European and Transatlantic Integration. To meet the said criteria a legal person is required to be established in, or a natural person is required to hold the citizenship or a permanent

residency of, one of the below listed states:

- a Member State of the European Union or a state that is a party to the European Treaty (Association Agreement) with the European Communities and their Member States;
- a Member State of the Organisation for Economic Co-operation and Development (OECD), a Member State of the North Atlantic Treaty Organisation (NATO) or a Member State of the Agreement on the European Economic Area.

In addition, land may be acquired into ownership by non-Lithuanian citizens having permanent residence in Lithuania.

With certain minor exceptions, even when complying with the above-described criteria, foreigners are not allowed to acquire agricultural and forestry land into their ownership until 1 May 2011. The European Commission has granted a permission to extend the said term until 1 May 2014.

There are no restrictions imposed on foreign investors (irrespective of their origin) to acquire interests in Lithuania-based entities which own real estate.

Can a legal owner lose the title to real estate due to restitution claims?

A person having become a legal owner of any type of real estate cannot lose it due to restitution claims. Real estate that has been acquired into private ownership is not subject to in kind restitution and thus may not be returned to the former owners. The State is obliged to redeem such real estate from the former owner.

3. SALE AND PURCHASE OF REAL ESTATE

Are pre-acquisition agreements commonly used in your jurisdiction? Describe their legal effect and enforceability.

Pre-acquisition (preliminary) agreements are quite common in Lithuania. Their content may vary from a very general (deadlines for due diligence and execution of the main sale-purchase agreement) to a very detailed (providing for the preconditions for closing,

calculation of a purchase price, reps & warranties, elaborated termination and liability clauses, etc.).

However, preliminary agreements (letters of intent, heads of terms, etc.) may not be enforced in kind. For instance, if a seller refuses to sell property subject to a preliminary agreement (breaches the same), a buyer will only be entitled to claim damages caused by such refusal as well as a contractual fine if the latter is set forth in the agreement.

Under certain circumstances, a preliminary agreement may be recognised by the court as constituting the main sale and purchase agreement.

Describe formal requirements for real estate sale and purchase.

Any real estate which is subject to a sale and purchase agreement must be registered with the Real Estate Register (except some simple structures which are not subject to mandatory registration).

Every agreement on sale and purchase of any kind of real estate must be concluded in a written form and certified by a notary public.

Although a real estate sale and purchase agreement is not subject to compulsory registration with the Real Estate Register, in case of absence of such registration the agreement may not be invoked (enforced) against third persons.

An agreement on sale and purchase of structures should explicitly discuss the rights of the buyer in respect of the land under the structures subject to sale. Failure to comply with the latter rule makes the agreement null and void.

Does any third person (governmental authority, etc.) have a pre-emptive right to acquire real estate subject to sale?

First of all, the co-owners have a pre-emptive right to acquire the parts of real estate owned and intended to be sold by another co-owner. In case of violation of this rule, the aggrieved co-owner has a right to demand, through the judicial procedure, assignment of the buyer's rights and obligations under the sale and purchase agreement to him.

The State has a pre-emptive right in respect of the land plots falling within the boundaries of certain protected territories (e.g. the territories that have been granted the status of Natura 2000, also certain areas of national parks, etc.). The price to be paid by the State for such land cannot exceed its average market value determined by mass valuation.

A pre-emptive right to acquire a privately owned land plot is granted to a person holding the title to the structures or facilities on such land plot.

Certain qualified farmers and users of agricultural land have a pre-emptive right to acquire the same into ownership.

Describe the moment of acquisition of ownership to real estate.

The title to real estate passes over as of the moment of its transfer, which has to be documented by a transfer-acceptance deed to be executed by the parties in addition to the main agreement (sale and purchase, exchange agreement, etc.). Upon agreement of the parties, the agreement itself may serve as a transfer-acceptance deed (in the latter case no separate transfer-acceptance deed has to be executed).

Does the seller have a statutory disclosure or warranty obligation?

The seller is bound by a statutory obligation to disclose to the buyer all third parties' rights, mortgages, attachments, litigation and other encumbrances with respect to the real estate subject to sale. If the seller fails to comply with the latter obligation and is not able to prove that the buyer was aware of the respective encumbrances at the moment of sale, the buyer becomes entitled to claim reduction of the purchase price or termination of the sale and purchase agreement.

The buyer cannot rely on the encumbrances over real estate and invoke remedy measures against the seller if the seller has notified the buyer of such encumbrances or the buyer could have learned of them from the public registers (such as the Real Estate Register, Hypothec Register and Register of Attachments).

Seller's warranties v. buyer's due diligence: what is the most common balance?

Despite various due diligence carried out in the course of real estate acquisition procedures, the buyer (in case of a share or asset deal) seeks to have a full set of representations and warranties in the real estate sale and purchase agreement. The seller, in its turn, seeks to limit the scope of representations and warranties by the facts/information disclosed to the buyer during the due diligence (i.e. the facts that the buyer should have been aware of as a result of the due diligence).

What is the effect of transfer of real estate on contractual and other rights, obligations and warranties? Do these pass over along with the title to real estate?

Generally, only the agreements and encumbrances that have been registered with the Real Estate Register will remain effective upon sale of real estate. However, examination of merely the data of the Real Estate Register will not safeguard the buyer from third parties' claims related to the acquired real estate.

Transfer of statutory warranties (e.g. construction warranties) is normally documented by an additional statement in the sale and purchase agreement or the transfer-acceptance deed declaring the assignment of all the seller's rights under such warranties to the buyer. The guarantees issued to the seller by third persons (e.g. bank guarantees, guarantee letters of insurance companies, etc.) normally should be reissued in the name of a new owner (or an additional assignment statement among the guarantor, the former owner and the new owner has to be executed).

4. LEASE OF COMMERCIAL REAL ESTATE**Describe formal requirements for execution of a lease (form, registration, etc.).**

Any real estate lease must be executed in a written form.

Further, lease of buildings, structures or land has to be registered with the Real Estate Register in order to be enforceable against third parties. The same requirement is applied to lease of other real estate when the lease term exceeds 1 year.

Are there any statutory restrictions on a lease term?

In general, the maximum term of any lease may not exceed 100 years. Special rules are applied to the lease term of the State-owned land: it cannot exceed 25 years for the State-owned agricultural land and 99 years for any other State-owned land.

Does a tenant have a statutory right to extend or renew its lease?

A tenant having duly performed its obligations during validity of a lease, upon its expiry has a priority right against third parties to renew the lease for a new term (if a landlord intends to further lease the property). The landlord is obliged to inform the tenant of its right to renew the lease prior to its expiry.

Rent and its adjustment: are there any statutory restrictions on an amount of rent? What is the general market practice?

Generally, there are no such restrictions. Nevertheless, all transactions between the related parties should be effected based on the arm's length principle. This means that transactions between the related parties should be made under such (market) conditions (including rent) as if the parties to the transaction were not related.

Rent charged for the State-owned land leased without auction procedure is calculated based on the fixed tariffs. Such tariffs may vary depending on the location of land and some other aspects.

In commercial leases rent is usually established as a fixed fee payable on a monthly (rarely on a quarterly) basis in advance. Establishment of the rent as a percentage of the tenant's turnover is characteristic to shopping centres. In addition to the turnover rent, a minimum fixed rent is usually set forth in order to secure the landlord's interest if the tenant's turnover does not reach the expected level.

In case the rent is established in a national currency (Litas), it is quite often pegged to Euro. Normally, the rent is adjusted annually based on the local or EU consumer price index.

Alienation: what are the rights of the tenant and landlord with respect to assignment, sub-lease or placing a charge over a lease?

Typically, the following alienation rules are applied:

- a landlord is free to sell the leased property, also pledge receivables from the lease or assign the landlord's rights to them;
- a tenant has to obtain a prior written consent of a landlord for:
 - (i) subleasing of the property to third persons (in office sector exceptions from this rule are frequently applied for sublease to the related persons (parent or sister companies, etc.);
 - (ii) pledging or otherwise encumbering the lease right;
- except for the above-mentioned, neither party has a right to assign all or any part of its rights and/or obligations under the agreement to any third person without a prior written consent of the other party.

What is the common form of eviction?

Generally, the landlord seeking eviction of the tenant has to apply to court. If the tenant fails or refuses to vacate premises after adoption of the final decision in favour of the landlord, the latter will need to apply to a bailiff for enforcement of the court decision.

Although there are no extensive case law as to the landlord's rights to exercise self-defence, commercial leases usually contain the landlords' rights to cut off the supply of electricity and other public utilities, lock the doors, inventory and remove the tenants' property and invoke other similar measures against the tenant refusing to vacate the leased premises.

Describe any restrictions on the transfer of title to or creation of a lien on real estate subject to lease.

The landlord is free to sell or otherwise transfer or encumber the leased property, unless otherwise set out in the lease agreement. The landlord must, nevertheless, disclose to the tenants the intended sale or other transfer of the leased property.

How does the transfer of real estate affect the tenant's rights and obligations?

Tenants have a statutory right to unilaterally terminate any lease in case of change of the owner. Further, upon change of the owner of real estate, its lease agreements will remain valid provided they have been registered with the Real Estate Register.

How can significant market change (e.g. economic downturn) affect the lease?

Generally, dramatic market change (e.g. economic downturn) cannot relieve a party of its contractual obligations. However, in several decisions of Lithuanian Appellate Court it has been stressed that the possibility to demand the amendment of contractual terms should be applicable in the situations of significant market change. The opinion of the Lithuanian Supreme Court in this respect is still expected.

5. CONSTRUCTION

Describe common stages of construction (development) process, including permits involved.

- *Territorial planning.* Usually, it is necessary to prepare a respective detailed plan of the site establishing particular development requirements such as density and intensity of construction, the maximum allowed height of the structures, construction area, etc.
- *Environmental impact assessment* will need to be carried out if the planned development falls within the list of particular activities established by the laws.
- *Design* of a building is prepared in accordance with inter alia territorial planning documents, connection conditions obtained from owners and operators of engineering and communication networks and special architectural requirements issued by local municipalities. Additional special requirements are applied to designing of buildings falling within the protected areas (parks, nature reserves, area of cultural heritage, etc.). For certain buildings the expertise of the design should be carried out.

- *Construction permit* must be issued within 10 to 45 working days of the submission of all required documents depending on the extent of construction works to be carried out. The construction permit is valid for indefinite duration. In the majority of cases the construction permit is issued by municipal authorities.

- *Construction works.* In the process of construction works, design, technical and State supervision is carried out.

- *Completion of construction works* must be documented either by the completion deed (in case major construction works have been carried out) to be issued by the State commission upon inspection of the works performed, or by the employer's declaration in the approved form which in certain cases has to be certified by a competent State authority.

6. REGISTRATION

Is all real estate required to be registered?

Except for certain simple and temporary structures, all other kinds of real estate have to be registered with the Real Estate Register. Only legally registered real estate may be sold or otherwise disposed of.

What rights (if any) to real estate are subject to registration? What are the consequences of failure to register them?

Generally, all rights in rem, contractual rights to or encumbrances of real estate, also various legal facts related to real estate or restriction of rights thereto (such as attachments, lawsuits, decision of authorities affecting real estate, etc.), may and, in the cases stipulated by the laws, must be registered with the Real Estate Register.

In most cases validity of rights, obligations and encumbrances to real estate is not dependant on their registration, and they become effective as of the moment agreed by the contracting parties. The exception to this rule is established in respect of some specific rights in rem, such as servitude, usufruct, mortgage, which become effective only as of their registration with the relevant public register.

However, failure to register the contractual rights, obligations or encumbrances to real estate in majority of cases precludes the parties from invoking them (the agreement creating such rights, obligations and encumbrances) against third persons. For example, a tenant cannot rely on the premises lease agreement against a new owner of the premises if the lease agreement was not registered with the Real Estate Register.

What time and costs are involved in registration of real estate (rights thereto)?

Major costs relate to registration of the title to real estate. Such costs mainly depend on the type of real estate (land or building/premises), its average market value established by a competent authority by way of massive valuation and the acquirer of real estate (natural or legal person). In any case the costs for the title registration cannot exceed the established cap-fees – LTL 5,000 (approx. EUR 1,448) for legal persons and LTL 1,000 (approx. EUR 290) for individuals.

Substantially lower fees are involved in registration of other rights, encumbrances and legal facts pertaining to real estate.

The standard term for the title registration is 10 business days, while any other registration procedures have to be completed within 5 business days. Upon payment of a respective mark-up on the standard registration fee, the registration may be completed within 3 business days (with 30% mark-up), 2 business days (with 50% mark-up) or 1 business day (with 100% mark-up).

How reliable is the registration system?

By virtue of law, data recorded in the public register is deemed accurate and true (prima facie evidence) unless rebutted.

Is the register publicly accessible?

Data contained in the Real Estate Register, as a general rule, is considered public insofar disclosure thereof is not explicitly restricted (e.g. classified information) and complies with the personal data protection requirements.

Normally any person, upon paying the set fee, may order an extract on any real estate registered with the Real Estate Register based on the address of real estate, its identification number, or name or identification number of the legal person.

Access to the data of the Real Estate Register based on the name, surname and/or personal number of a natural person is available only to certain qualified authorities, organisations and officers (e.g. state authorities, notaries public, bailiffs, credit institutions, insurance companies, attorneys-at-law).

6. REAL ESTATE TAXATION

Describe state and local taxes levied generally on real estate investors and developers.

CORPORATE INCOME TAX

Taxation of Lithuania-based entities

The standard rate of corporate income tax is 15%. A reduced rate of 5% is applied to small entities complying with the established criteria.

The tax is imposed on the capital gains generated by Lithuanian entities or permanent establishments of foreign entities from the sale of real estate or shares as well as income from real estate lease. The exemption from corporate income tax is applied in respect of capital gains when:

- capital gains are received from the sale of shares of an entity, which (i) is established in a Member State of the European Economic Area or a state, which has an effective double taxation treaty with Lithuania, and (ii) is a payer of a corporate income tax or an identical tax; and
- the seller of shares (Lithuanian entity) has been the owner of more than 25% of the total number of shares of the company, whose shares are subject to sale and purchase, for at least 2 consecutive years.

The aforementioned relief does not apply in respect of transfer of the shares to their issuer.

Taxation of foreign entities

Capital gains of a foreign entity from the sale of real estate located in Lithuania received otherwise than through its Lithuanian permanent establishment, also income from the real estate lease and interest received from the source in Lithuania as a general rule are subject to a withholding tax at a rate of 15%.

Full exemption from the withholding tax is applied to the interest received from the Lithuanian source by a foreign entity, which is established either in a Member State of the European Economic Area or a state having an effective double taxation treaty with Lithuania.

The withholding tax is imposed on gross income received from the sale of real estate. Having paid it, foreign taxed entity is entitled to apply to Lithuanian tax authorities for the re-calculation of the tax on a net basis (i.e. on the difference between acquisition and sale price of real estate) and refund of the overpaid amount.

Capital gains generated by a foreign entity in Lithuania from the sale of shares otherwise than through its permanent establishment are not subject to taxation in Lithuania.

Dividends

Dividends paid by a Lithuanian entity to either Lithuanian or foreign entity are subject to the withholding tax at a rate of 15%, unless the participation exemption can be applied. That is, the dividends paid to a legal entity are tax exempt if a legal entity holds continuously, at least for 12 months, including the date of distribution of dividends, shares carrying more than 10% of the total number of votes in the Lithuanian legal entity (the payer of dividends). The participation exemption cannot be applied in case the recipient of dividends is established or otherwise organized in a tax haven country.

PERSONAL INCOME TAX

Sale and lease of real estate

Generally, capital gains from the sale of real estate are subject to a 15% personal income tax. Incomes of self-employed individuals are taxed after deduction of allowable expenses.

Full exemption from personal income tax is applied on income of either tax resident or non-tax resident of Lithuania when (i) real

estate is not related to the seller's individual activities and (ii) such real estate is sold at least 3 years after its acquisition if real estate was acquired prior to 1 January 2011 or 5 year after its acquisition if real estate was acquired after 1 January 2011. Some further tax exemptions are applied in case of sale of real estate used for residency purpose.

Income received either by a tax resident or non-tax resident of Lithuania from the lease of real estate located in Lithuania is subject to personal income tax at a standard rate of 15%.

Sale of shares

Capital gains generated by a tax resident of Lithuania from the sale of shares are not subject to taxation when (i) the shares are sold not earlier than 366 days after their acquisition and (ii) the seller had not owned more than 10% of all the shares of the entity, whose shares are subject to sale, for 3 years preceding the close of the tax period during which the sale of shares is effected. The said tax relief is not applied when shares are sold or otherwise transferred to their issuer. Unless the tax relief is applied, capital gains of Lithuanian tax resident from share sale are subject to 15% personal income tax.

Capital gains of a non-tax resident from the sale of shares are not subject to taxation in Lithuania.

SELF-EMPLOYED HEALTH AND SOCIAL INSURANCE TAX

Profit of self-employed individuals is subject to the health and social insurance tax at a rate of 37.5%. The taxable base (profit) cannot exceed LTL 56,160 (approx. EUR 16,265) per year irrespective of the actual profit generated by a taxable person.

VALUE ADDED TAX (VAT)

A standard VAT rate of 21% is applied only to the sale of (i) new buildings (i.e. which are under construction or had been built or materially renovated within the last 24 months prior to their sale), (ii) the land plots (parts thereof) together with new buildings and (iii) the land plots developed for construction of new buildings (regardless of whether or not the actual construction works are carried out on such land plot). Save for the above-mentioned, the sale of any other real estate is exempt from VAT.

Lease of real estate is VAT exempt except for the lease of (i) residential premises for a term not exceeding 2 months, and (ii) premises, parking sites/lots, garages for parking or keeping of any means of transport or other property with a similar function.

Notably, a VAT taxable person has the right of option for calculation of VAT on the sale or lease of real estate that is exempt from VAT provided however that such real estate is sold or leased to a VAT payer. Once chosen, the latter option should be applied for at least 2 years.

NOTARY FEE

A notary fee charged for certification of a real estate sale and purchase agreement amounts to 0.45% of the transaction value, i.e. real estate purchase price agreed by the parties. This fee cannot exceed the established cap of LTL 20,000 (approx. EUR 5,792) irrespective of the transaction value. The said cap increases if more than one real estate unit is subject to the same sale and purchase agreement. Nevertheless, in any case the ultimate notary fee for a single notarial deed (e.g. for certification of a single sale and purchase agreement) may not exceed LTL 50,000 (approx. EUR 14,481). The parties to the real estate sale and purchase agreement are free to agree whether the notary fee is to be covered by both of them or by a particular party.

REGISTRATION FEE

It is applied when registering the title to real estate and real estate acquisition agreements with the Real Estate Register. It mainly depends on the type of real estate (land or building) and its average market value established by a competent authority by way of massive valuation. As in case of a notary fee, there is a cap of LTL 5,000 (approx. EUR 1,448; VAT exclusive) established in respect of the registration fee.

REAL ESTATE TAX

Save for various exemptions, real estate tax is imposed on the real estate (except for land) located in Lithuania and owned by (i) Lithuanian or foreign entities or (ii) Lithuanian or foreign individuals, when the latter use real estate for their business or individual activities, or transfer real estate for use to the legal entities for a period longer than 1 month. When the real estate is transferred to a legal entity for its use for a period exceeding 1 month, the obligation to pay and declare the real estate tax arises for that legal entity.

The annual rate of the tax is set every year by local municipalities in the range of 0.3%-1% of the taxable value of real estate. As a general rule, the taxable value is deemed a market value established during the massive valuation by the Lithuanian Real Estate Register. Corporate tax payers have to pay advance instalments on a quarterly basis, while the individuals have to pay the real estate tax by the 1st of February following the tax year.

LAND TAX

Land tax is imposed on the land owned by legal entities and individuals. The annual rate of the tax in question is 1.5% of the taxable value of the land determined on the basis of the land valuation methodology approved by the Lithuanian Government.

STATE-OWNED LAND LEASE TAX

The annual rate of the State-owned land lease tax varies from 0.1% to 4% of the taxable value of the land, which is calculated according to the methodology approved by the Lithuanian Government. The particular annual rate of this tax and the terms of its payment are being established by the councils of respective municipalities within the territory whereof the land plot is located.

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Sell side advisory on "Valdeka"
shopping centre sale (14.000 sq m) in Latvia

2007



Sale of 90.000 sq m of the retail
scheme in Kaunas, Lithuania

2008

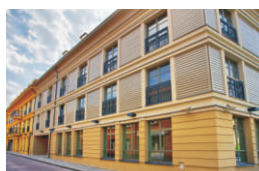


Exclusive sale side advisor of
30.000 sq m logistic centre in Lithuania

2008

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Exclusive consultant and sales partner: direct sales,
sales promotion, full coordination of project's
implementation (60 apartments), Lithuania

6.000 sq m



Expansion advisory and leasing
of 9 shops in the Baltics

8.000 sq m



Leasing the office space in the "Green hall"
office centre in Vilnius, Lithuania

10.000 sq m

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Asset management of Homburg Baltics'
portfolio of 105.000 sq m in Estonia, Latvia, Lithuania

2007-2010



Full scope of corporate real estate management
of Barclays Vilnius office (5.000 sq m), Lithuania

2009

Norwegian investment funds



Asset management of properties portfolio
of 138.000 sq m total area in Lithuania

Since 2011

NEWSEC TEAM

Mindaugas Kulbokas
Head of Research and Analysis,
Baltics

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Exclusive office building project "Z-towers", Latvia
2008-2011



Research and consultancy, Baltics
2010-2011



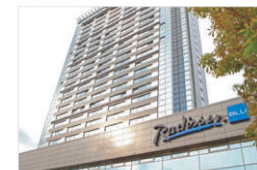
Research, consultancy and opinion about assets value.
Client: Office of the Prime Minister of Latvia
2010

Ugnius Meidus
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Annual valuation of 400.000 sqm property
portfolio in the Baltics and Poland
2006-2011



Valuation of property portfolio of 160.000 sq m
in Estonia and Latvia
2010



Valuation of property portfolio of
more than 600 asset units in the Baltics
2010



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Newsec is Northern Europe's only full-service company in the property sector, with 12 offices in Lithuania, Latvia, Estonia, Finland, Sweden, Norway and Kaliningrad (Russia). Newsec offers services to property owners and companies that lease or own their properties. Newsec has about 550 employees and has recently provided advisory services in transactions with a total value of more than EUR 9 billion. Annually we value properties worth more than EUR 65 billion and manage more than 1,000 properties with a total value of more than EUR 10 billion. Through our well-maintained international network of 6,000 consultants, we can offer our services in the global market. This makes us Northern Europe's only full-service property house in the property sector, which provides the company with a unique ability to forecast the future.



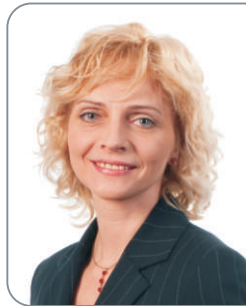
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BALTIC PROPERTY MARKET REPORT

Summer - Autumn 2011