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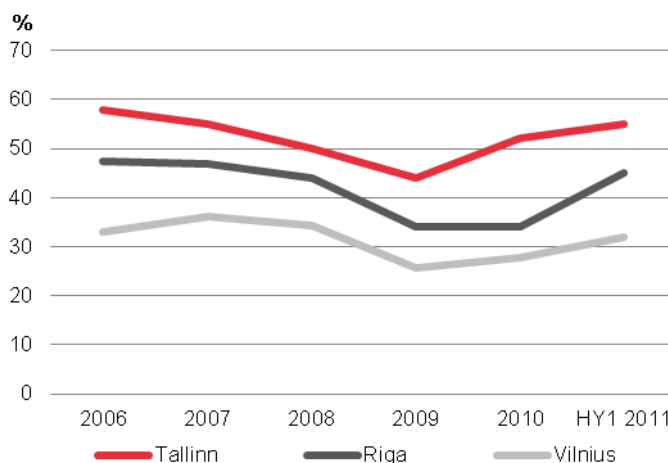
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- Recession in Baltic countries is over and although the recovery has been uneven across different economic sectors, turnaround is evident
- Baltic capitals get busier each summer, with tourists arriving to the cities in ever greater numbers as they discover the beauty of the region. Growing number of visitors shows positive trends in hospitality business in Q3 2011.
- Hotel classification system differs in each country across the Baltic region, but according to national statistic bureaus the most popular destination country is Estonia with 2.4 million visitors in 2010, and then follows Lithuania with 1.55 million tourists and Latvia with 780 thousand visitors.
- Majority of hotels are smaller economy class hotels and operated by their owners, business hotels are in general operated by international operators based on operating agreements. There exist certain features, which are typical for most of hotel markets.
- The hospitality market has seen occupancy ratio increased in H1 2011, to 55% (+8% y-o-y) in Estonia, to 45% (+10% y-o-y) in Riga and 42% (+6% y-o-y) in Lithuania.

Figure 1

The average room occupancy rate in Baltic States



Source: National Statistics

Macro economic trends

General trends

Recession in Baltic countries is over and although the recovery has been uneven across different economic sectors, turnaround is evident. In 2010-2011, the biggest contributor to growth was the recovering export sector. Stabilisation in household consumption, driven by stronger consumer confidence and more positive outlook towards future, supported the overall economic activity. However, global uncertainty has risen, and global growth is now expected to slow down more sharply than previously forecast.

ESTONIA

The economic situation in Estonia has mainly improved by support of export, but the domestic demand is playing continuously larger role in overall growth. After joining the Euro zone in the beginning of 2011, the Estonian reliability has increased in the eyes of foreign investors and in international scene as whole. The amount of investment transactions in real estate sector has increased throughout the year 2011.

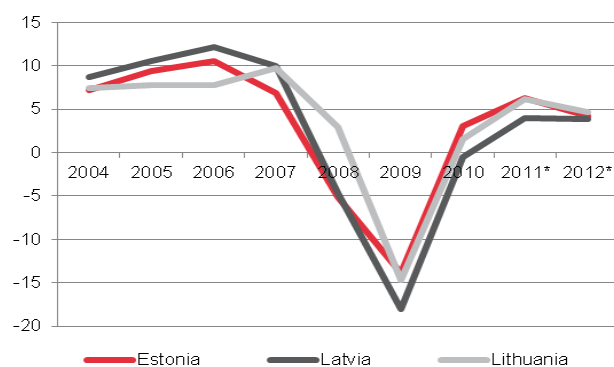
Based on the information from Statistics Estonia, GDP decreased by 13,9% in 2009, and was followed by 3,1% increase in 2010. Based on the prognoses of Estonian Bank (from June 2011) the growth of GDP will be 6,3% in 2011 and 4,2% in both 2012 and 2013. The growth of GDP was 8,4% in the Q2 Y2011 compared to the same period in 2010. In the comparison with 1st quarter of 2011, the growth was 1,8%.

Based on the information from Bank of Estonia and Statistics Estonia, the CPI was 0,2% in 2009 and 2,7% in 2010. Such fast inflation is mainly caused by price increase in food and fuel sector. Based on the prognoses of Estonian Bank, the CPI will be 4,7% in 2011 and after the inflation in food market has stabilized, 2,5% in 2012 and 2,9% in 2013.

There average registered unemployment rate was 12.3% in 2010. The same figure has continuously decreased, being averagely 7.4% in Q3 2011 and after three quarters of 2011 8.8% on annual base.

Figure 2

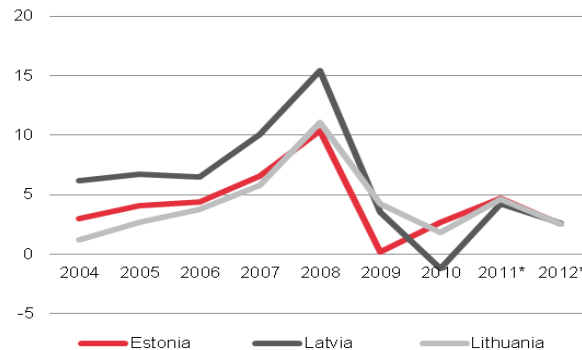
Real growth rate of GDP in Estonia, Latvia, Lithuania



Source: Statistics Estonia, Bank of Estonia, Statistics Latvia, Statistics Lithuania, Lithuanian Ministry of Finance

Figure 3

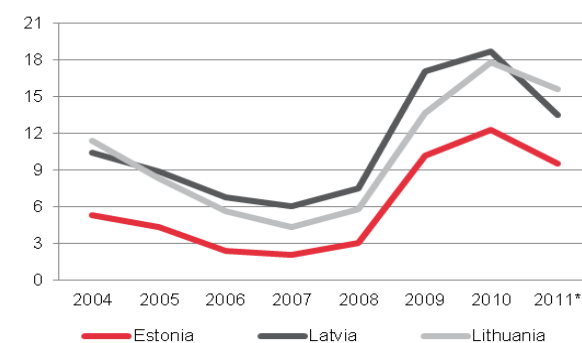
Growth rate of CPI in Estonia, Latvia and Lithuania



Source: Statistics Estonia, Bank of Estonia, Statistics Latvia, Statistics Lithuania, Lithuanian Ministry of Finance

Figure 4

Unemployment rate in Estonia, Latvia and Lithuania



Source: Statistics Estonia, Bank of Estonia, Statistics Latvia, Statistics Lithuania, Lithuanian Ministry of Finance

Macro economic trends

LATVIA

Economic growth picked up strongly in the first two quarters of 2011; however slowdown was experienced in the Q3 Y2011 because of growing import. In July 2011 the most significant share in Latvia's export had export to the countries of the European Union (74.5%), followed by export to the CIS countries – 14.1%. The main trading partners were Lithuania (18.0% of total export), Estonia (14.1%), Russia (9.7%), Germany (8.1%) and Poland (6.9%).

Compared to the second quarter of 2010, the GDP in the second quarter of 2011 has increased by 5.6%. Historically, from 1996 until 2011, Latvia's average annual GDP growth was 4.54 % reaching an historical high of 13.90 % in March of 1996 and a record low of -19.10 % in September of 2009 according to the data of the Central Statistical Bureau of Latvia. Stronger export and restocking has stimulated investments and, thus, import in 2011. Activity gains are still weak, especially in the public sector, and adjustment should continue.

The labour market situation continues to improve. In Q3 Y2011 there were 11.6% unemployed of the active population in Latvia. However, unemployment rate will remain high for years to come. Further developments will depend on productivity and wages growth.

LITHUANIA

GDP as compared to corresponding period of previous year, seasonally adjusted, in the end of September 2009 was –decreased 14.5%, and in September 2010 GDP decreased by 1.6%. In the end of June 2011 compared with previous half-yearly GDP increased by 0.4 %. The Lithuanian Ministry of Finance forecasts 5.8% and 4.7% economic growth in 2011 and 2012, respectively. The recovery of Lithuanian economy is stimulated by the growth of domestic demand, whereas the influence of foreign demand ceased to increase.

Average annual inflation was at 3.4% in the end of August 2011 and increased by 4.2%, compared with the August 2010. According to the forecast by Ministry of Finance of Lithuania, the average annual harmonized index of consumer prices was positive in 2010 and climb to 3.3% in 2011.

According to the estimates of the Labor Force Survey conducted by Statistics Lithuania, the unemployment rate in the country in Q2 Y2011 stood at 15.6 %. Over the year, the unemployment rate decreased by 2.7 percentage points. On the July 2011, there were 255.6 thousand registered unemployed, which is 15.6 % of the country's working age population. The average annual unemployment level is assumed to stand at 14.9% in 2011, and should be followed by a mild drop to 11.5% in 2012. The more positive changes are expected in 2013-2014, when according to the forecast by Ministry of Finance of Lithuania, the unemployment level will fall to 9.3% and 7.8%, respectively.

Legal Framework

ESTONIA

Land reform started in November 1991, with the objective to transform relations based on state ownership of land into relations primarily based on private ownership of land. The Western European style system of Land Register was introduced and enforced with a great success. During the years 1993-1995, the main legislative acts regulating the real estate transactions were evolved: Law of Property Act, General Principles of the Civil Code Act and Commercial Code.

Hardly had the national law been created, was Estonia in situation where it was necessary to bring the regulations into line with EU requirements. The transposition of the EU Aquis Communautaire started. Estonian Government started also developing the information society, where the priority was evolvement of digital state registers that could make different administrative procedures easier and more timesaving for private entities and public institutions. For transforming the economy more attractive for foreign investments, clear and advantageous tax-system was also established.

In Estonia information related to all real estate is registered in a Land Book kept by County Court real estate registration departments. Land Book shows for each property the owner, mortgages, servitudes and other information registered in the relevant portion of the registry. Land Book data is public and any interested party may have the information. Real estate units are registered in Cadastral Register which is publicly accessible via internet.

Table 1

Property registration systems			
	Estonia	Latvia	Lithuania
Land plots (physical parameters)	Cadastre	Cadastre	Cadastre
Buildings	Building Register	Cadastre	Cadastre
Mortgages	Title Book	Land Book	Mortgage Register
Ownership etc. rights	Title Book	Land Book	Cadastre

Source: DTZ Research

Legal Framework

LATVIA

Transactions with real estate are regulated by Civil Code, which along with Land Register law dated from 1937, were approved by Latvian parliament in 1993.

In Latvia there is a trustworthy and effective real estate registration system that is comparable with systems in Western Europe (Land Book registry). Usually a purchase agreement is submitted to Land Book along with the corroboration request, a notarization by a notary and other information in addition to registering title or leasehold estates under the Land Book registry system. As a difference to many other countries, it is possible for land and buildings to be owned by different persons. The relationship between the different owners is regulated on the level of reform law.

Land registration is regulated with corresponding law. Real estate units are registered in Cadastral Register. It is possible to get information about all cadastral units, buildings and the value of land. Some properties are registered only in Cadastral Register. Most of these are privatized apartments and land plots restored by their previous owners.

The Land Book forms one of the underlying preconditions for the transfer of title. It is the presumption of law that the person (natural person, legal entity, state or municipality) registered with the Land Book as the owner of real estate is considered it's lawful owner having full control of the property. In any transaction involving transfer of title, it is of utmost importance to have the property registered in the name of the purchaser as soon as possible to enable the purchaser to obtain all rights of the owner with respect to third parties.

LITHUANIA

In the beginning of 1990s shortly after becoming independent, land and ownership reforms was executed. Compared to Estonia and Latvia, the reform was less radical, combining all registers (no separate Land Book was formed).

Harmonisation of the legislative acts with those of the European Union and the reform of the administrative system in Lithuania has contributed to the protection of ownership, legal occupancy and investments. The real estate market in Lithuania is regulated following the generally accepted principles of ownership immunity and protection of rights of a just acquirer (possessor). In addition, the principles of equal treatment and equal protection are the main principles of the investment law, meaning that both Lithuanian and foreign investors are subject to equal business conditions, and their rights and lawful interests are equally protected by law.

The Real Property Register contains all actual information of buildings and land plots, rights to real estate and encumbrances thereof. One can receive information from the Real Property Register on changes in real estate, mortgages on buildings or land plots including pledges of land lease rights, imposed attachments, civil cases brought to the court regarding real estate as well as registered agreements or decisions made regarding the legal status of real estate, such as concluded lease agreements and equivalent, regarding any particular piece of property.

In Lithuania commercial land is mainly state-owned, meaning rental relations are dominant. From the institutional point of view, Lithuania has a separate mortgage institution, while in Latvia and Estonia it is included in the Title Book system.

Hotel market

Hotel industry normally follows the trend of general economic climate in the country. During booming years in economy of Baltic countries also hotel industry had it's prosperous times. The number of clients increased and regardless of remarkable new construction, hotels' average occupancy rate increased. Along with the economic recession more difficult times arrived which today are clearly improving.

ESTONIA

According to Statistics Estonia, the number of visitors in hotels and other collective accommodation establishments increased by 11% in 2010 compared to 2009. During 2010, 35% of all visitors were Estonian residents and 65% foreign visitors. During 2010 compared to 2009, the number of foreign visitors increased by 12%. The number of visitors of first 6 months of 2011 is 17% higher than in the same period in 2010.

The highest share of foreign tourists stayed in Tallinn (1.3 million people). The other popular destination (over 220,000 visitors) has been Pärnu city as the summer capital of Estonia. The share of Tallinn has always been remarkable, especially among foreign tourist, and can be considered as the most popular destination.

In 2010 the largest number of visitors came from Finland – there were 1,664,139 people spending the night in Estonian hotels. The second largest number of visitors has over the time come from Russia – in 2010 there were 330,276 people visiting Estonia.

In the first half of 2011, similarly to 2010, the greatest number of visitors came from **Finland (720,022 people)** and **Russia (230,490 people)**. There are no bigger changes in the "pattern" of visitors, except that the number of visitors from Great Britain has been relatively high in the first half of 2011 compared to the whole year of 2010.

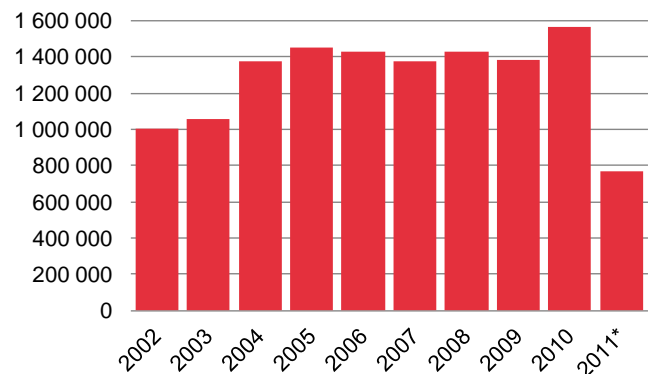
From 2002 to 2008, average hotel occupancy rate was in range of 50-60%. In 2009, occupancy decreased to disturbing 44%. In 2010 the average occupancy was again 52%. The average occupancy in the first half of 2011 has been 55%, the same figure was 47% in the first half of 2010.

The number of well-known international operators is relatively limited; Radisson Blu, Swissotel, Tallink, Scandic and Domina Hotels are examples of brand names which are presented in the market.

Majority of hotels are smaller economy class hotels and operated by their owners, business hotels are in general operated by international operators based on operating agreements.

Figure 5

Number of international visitors in Estonian hotels



Source: Statistics Estonia

Hotel market

LATVIA

The hotel supply has increased during years 2009/10. Only two hotels were commissioned in 2009/10 (Botique Old Town hotel and Tallink Hotel Riga). There are 110 officially rated and certified hotels in Latvia with a total of more than 6,000 rooms.

The tourism businesses survey conducted by the Riga Tourism Development Bureau indicates an increasing number of tourists in Riga in August 2011. The average hotel occupancy rate in Riga has increased by 19%.

The main activities of the tourism business are concentrated in Riga. During the summer period large number of visitors is staying also in resort cities, i.e. Jurmala, Liepaja and Ventspils. 3-star hotels predominate among the others, i.e. 61% in Latvia and almost 55% in capital Riga.

Hotel industry in Latvia is mainly owner-operated. Operating agreements are rarely used and most of hotels do not belong to bigger hotel chains. Two large international hotel chains Marriott Hotel and Sheraton are planning to expand their activity in Riga within 2-3 years.

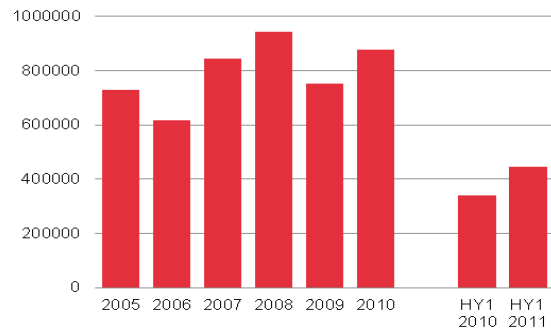
Due to lack of experience of local hotel operators several hotels were overtaken by banks or sold in auction during 2010-2011 eg: Elephant Hotel, Boutique Hotel Ainavas, Hotel Līva in Liepāja.

Tourists from nearby Russia (ca 172 000), Germany and Finland predominated among the visitors in first half year 2011. The number of visitors from Scandinavian countries has decreased, in the same time number of visitors from Russian Federation has increased by 50%.

The average occupancy rate in Riga has dropped from 47.4% in 2007 to 34.1% in 2010 however the rate is increasing in HY1 2011. Due to the one of the lowest room prices in EU Latvia hotel has a potential of increasing occupancy and room rates

Figure 6

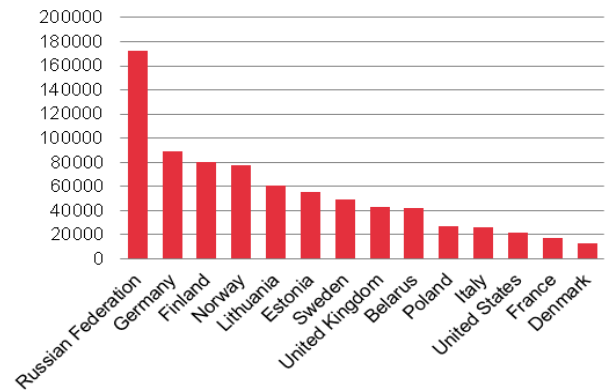
Number of visitors in Latvian hotels



Source: Central Statistical Bureau of Latvia

Figure 7

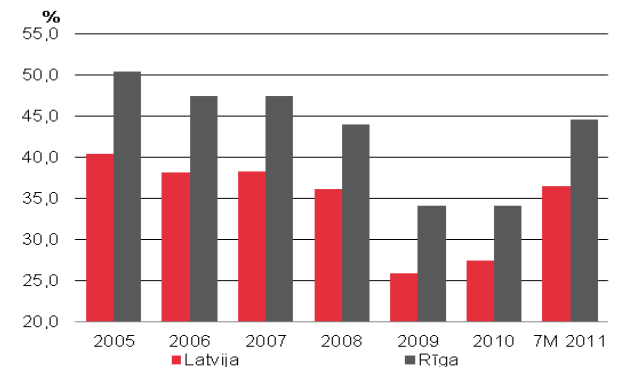
Number of visitors from different countries in 1 HY 2011



Source: Central Statistical Bureau of Latvia

Figure 8

Average room occupancy in Latvia and Riga hotels



Source: Statistics Estonia

Hotel market

The number of well-known international operators is relatively limited. Radisson Blu, Tallink and Best Western are examples of brand names which are presented in the market. Small hotels operated by inexperienced individuals faced difficulties in 2010 and some of them are being forced out of the market by hotels operated by international chains.

Many hotels had to raise prices at the beginning of 2009 due to a higher tax rate, as VAT was increased from 5% to 21%. Since 1 May 2010 VAT for hotel services was lowered to 10%, thus giving the opportunity for development. However, the VAT was increased again to 12% from January 2011. It is expected that it will not have a critical influence on the hotel industry, yet the tax increase will probably be compensated by the hotel owners. Together with rising number of tourists the net effect could be neutral.

Hotel market

LITHUANIA

Vilnius, as the capital of the country, is the most attractive tourism destination. Besides, this is the country's commercial/business centre, therefore attracting the bulk of business tourists. Almost 50% of all overnight stays in Vilnius can be attributed to business trips. Therefore, the majority of hotels, especially those belonging to the international hotel chains, are located in Vilnius.

The second most attractive Lithuania's tourism destination is the seaside area (Palanga, Neringa, Klaipeda). However, this market segment suffers from high seasonal influence (as the season for seaside recreation is rather short, only three summer months) and is dominated by local hotel and other accommodation establishments' owners.

Another specific tourism destination is spa resort Druskininkai, where the activity of new hotel and spa centre developments/reconstructions was probably the most intensive.

The hotel market in Lithuania comprises 333 hotels and guest houses. Over 44% of the said accommodation establishments are classified as 3-star ones. The share of hotels, classified as 4-star, is equal to 22%, while in these accommodation facilities the number of rooms makes one third of all rooms in the country.

The accommodation market in Lithuania is dominated by local players, mostly owning comparably small economy-class hotels. The business-class hotels are mostly run by international hotel chains.

The most of business-class hotels are expectedly located in Vilnius Old Town and the central areas. Many of these hotels belong to international hotel chains; a few names to be mentioned are Radisson Hotels & Resorts (Radisson Astorija, Radisson Blu), InterContinental Hotels Group (Holiday Inn, Crowne Plaza Vilnius), Accor (Novotel), Best Western International (Best Western), Scandic Hotels (Scandic Hotel Neringa). The business-class hotels are offering the bulk of conference venues in Lithuania. In fact, roughly 60% of hotels in Vilnius offer conference facilities.

Hotel market

The demand for hotel services has fallen significantly from 2008. The overall bed occupancy rate in Lithuania has increased to 42.3% in June 2011, compared to 34.6% and 36.0% in June 2009 and June 2010, respectively. The number of hotels has decreased.

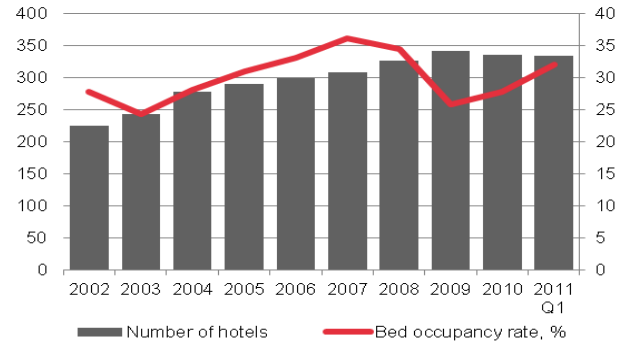
The high season in Lithuania's hotels is May-August. The occupancy rates in Vilnius hotels are somewhat higher compared to the rest of the country, however the same high seasonal influence remains.

The largest share of all accommodated guests in Lithuania in the end of March 2011 was from Russia (12.7%), Belarus (9.1%), Poland (7.8%), and Poland (7.8%), i.e. mainly neighbouring and closely located countries. However, the major stake of all stays belonged to Lithuanians (55.5%). The choice of tourists, depending on what country they are from, differs. For instance, the bulk of Russia and Belarus tourists tend to stay in Vilnius, whereas those from Germany prefer other locations (mainly, the seaside area in Neringa).

A number of international operators showed interest to enter the Vilnius hotel market in 2007-2008; however, as a consequence of economic downturn they all have postponed their plans. In fact, a large 5-star *Kempinski* (96 rooms) hotel was about to open its doors in 2008 in the very heart of Vilnius city, Cathedral Square. However, until 2012 the development was frozen despite the fact that the building's reconstruction was almost finalized.

Figure 9

Number of hotels and bed occupancy rate in Lithuania



Source: Statistics Lithuania

Figure 10

Room occupancy rate in Lithuania and in Vilnius, %

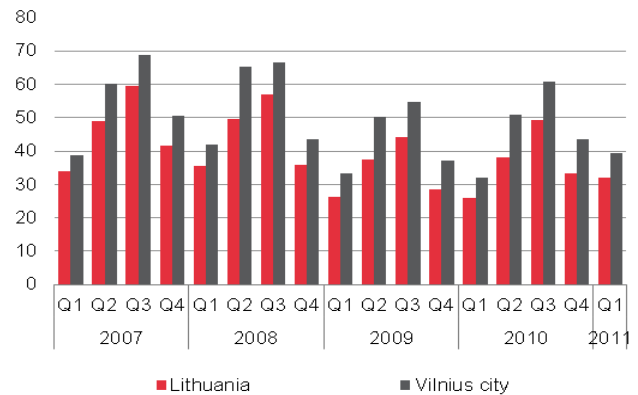
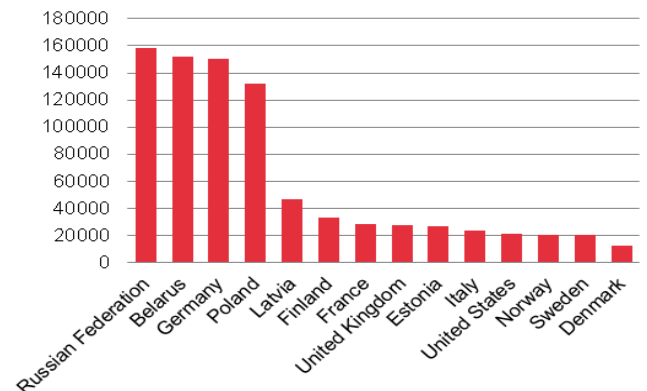


Figure 11

Number of visitors from different countries in 1 HY 2011



Source: Statistics Lithuania

Hotel market

Comparison between Estonia, Latvia and Lithuania

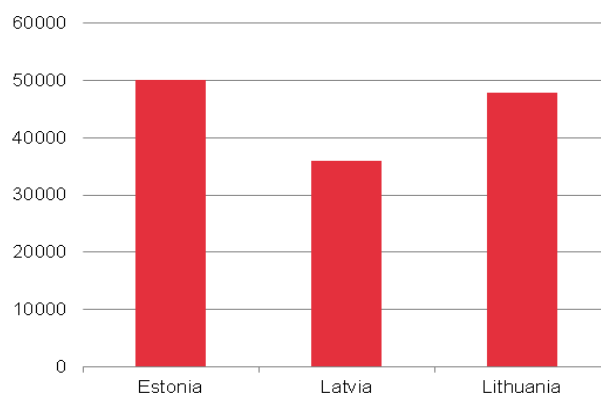
Capitals get busier each summer, with tourists arriving to the cities in ever greater numbers as they discover the beauty of the Baltics. Growing number of visitors shows positive trends in hospitality business in Q3 2011.

Majority of hotels are smaller economy class hotels and operated by their owners, business hotels are in general operated by international operators based on operating agreements. There exist certain features, which are typical for most of hotel markets.

Number of beds in all accommodations in Baltic States is the following: Estonia -50 084, Latvia – 35 961 and Lithuania 47 977. Hotel classification system in each country differs, but according to national statistic bureaus the most popular destination country is Estonia with 2,4 million visitors in 2010, and then follows Lithuania with 1,55 million tourists and Latvia with 780 thousand visitors.

Figure 12

Number of beds in accommodation establishments in Baltic States HY1 2011



Source: Statistics Lithuania

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