Research &
Forecast Report

Latvia | Lithuania | Estonia
2015

Real Estate Market Overview

Annual Report

Accelerating success.

Contents

Latvia Market Overview

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Dear Reader,

It is our pleasure to present the Colliers International real estate market review for Latvia, where you will find much useful information about market trends and forecasts, the latest statistics and market insights. We express our gratitude to our partners - Sorainen and Pricewaterhousecoopers (PWC) - for contributing to preparation of the real estate legal and tax reviews. We believe this material will be useful when evaluating all the risks before making the right business decisions.

2014 was a very active and interesting year. It was especially emotional in the residential segment, which faced a decrease in demand by both residents and non-residents, both heavily influenced by local legislative changes as well as a weakened Russian economy.

Commercial real estate was surprisingly stable last year, showing vivid activity in all its segments. Overall investment activity stayed high, with total investment volume very close to the 2013 results, exceeding EUR 300 mln. Despite the worries of several new investors about geopolitical risks, especially from those who are not yet in our region, our forecast for 2015 is cautiously optimistic. We will see new names in the market and more cash flow investment transactions compared to recent years.

At the same time, in comparison with our neighbouring countries, the Riga development market is lagging behind Vilnius, which is extremely active in construction of new office volume during recent years, and Tallinn, which is seeing modest growth in development activity in all commercial segments. The development pipeline in Riga for the next two years looks solid in all commercial real estate segments, so our wish is for timely realization of developers' plans so we can catch up our neighbours in post-crisis development activity.

Thank you and we wish you an interesting and successful year,

Deniss Kairans

Economic Overview

Summary

During 2014, the Latvian economy faced a series of challenges associated with political tension plus the slowdown in the main external markets. Still, the Latvian economy experienced positive annual developments, even though to a more modest extent than initially predicted.

According to the latest available estimates, real GDP growth in 2014 amounted to 2.3 per cent. Growth was driven mainly by household consumption, in line with employment and remuneration growth in the recent years. Among the most successful real economy sectors in terms of average y-o-y quarterly growth in Q1 - Q3 2014 were the construction sector (average 13.7 per cent growth), the financial and insurance sector (average 7.6 per cent growth) and accommodation and food services (average 3.8 per cent growth).

The export sector, which has been among the main economy drivers during recent years, suffered from devaluation of the ruble and a decrease in demand on the main external markets. The situation is not expected to improve within the upcoming year.

Annual inflation for 2014 stood at 0.6 per cent, mainly driven by low energy prices. The highest price increases were observed in housing, water, electricity and gas product group, as well as alcoholic beverage and tobacco product group, while transport, communication and food and non-alcoholic beverages expressed deflation. The fact of low inflation had a positive influence on consumption through an increase in real wages in the context of steadily growing incomes.

Throughout 2014, unemployment continued to decrease, reaching 10.8 per cent by the end of 2014. Notably, the share of young people among the unemployed continues to decrease.

Along with the decrease in unemployment, wage growth is observed. During Q1 - Q3 2014, real wages grew at an average rate of 8.2 per cent per quarter, which indicates an effective increase in the consumption power of the population.

Tendencies and Forecasts

- According to available forecasts, GDP is expected to grow by 2.5 per cent in 2015. Household consumption will remain as the main driver.
- Unemployment is expected to decrease further, yet at a slower pace compared to previous years. This trend is expected to intensify the demand for skilled labour.
- Given continuation of low energy prices, the Latvian economy is expected to operate with inflation close to zero. A positive contribution to the inflation figure will come from liberalization of the energy market.
- Given low inflation expectations and the expected decrease in unemployment, further positive real wage development is foreseen. Additionally, in January 2015 the minimum wage was raised by 12.5 per cent and personal income tax was decreased by 1 per cent. All these considerations will continue to improve purchasing power.

Key Economic Indicators of Latvia

	2006	2007	2008	2009	2010	2011	2012	2013	2014F	2015F
GDP Current Prices, bio EUR	17.1	22.5	24.4	18.9	18.2	20.3	22.0	23.2	23.9	24.7
GDP Growth (Real), % yoy	11.6	9.8	-3.2	-14.2	-2.9	5.0	4.8	4.2	2.3	2.5
Industrial Production, % yoy	4.8	-1.0	-8.3	-17.7	14.0	11.5	9.4	0.6	-0.1	1.0
Share of Unemployed to the Active Population, %	6.8	6.0	7.5	16.9	18.7	16.2	15.0	11.9	10.8	10.2
Total Central Government Debt, % of GDP	11.0	9.0	20.0	37.0	44.7	42.6	40.6	38.2	40.7	39.4
PPI, % yoy	10.2	16.1	11.8	-4.7	3.1	7.7	3.6	1.5	0.3	n/a
CPI, % yoy	6.5	10.1	15.4	3.5	-1.1	4.4	2.3	0.0	0.6	0.7
Fiscal Deficit, % of GDP	-0.5	-0.3	-4.2	-9.7	-8.2	-3.4	-0.8	-0.9	-0.9	-0.9
Export Change, % yoy	14.0	22.7	9.6	-18.7	30.3	27.8	13.9	2.2	1.2	1.1
Import Change, % yoy	31.1	22.0	-3.2	-37.4	25.5	30.6	12.0	0.9	0.4	1.6
Current Account, % of GDP	-22.6	-22.4	-13.1	8.6	2.9	-2.2	-1.7	-2.3	-2.8	-2.6
FDI Indicator, mln EUR	810.5	955.2	408.3	-1,089.7	79.4	486.2	841.7	557.3	693.1	296.4

f - forecast
Source: Central Statistical Bureau, SEB, Swedbank

Investment Market

General Overview

- 2014 closed with a total annual investment volume of EUR 316.9 million, which is on the previous year's level.
- Demand for professional commercial cash flow properties continued and materialized in a number of investment deals.
- In terms of most popular investment targets, cash flow-yielding commercial properties were in high demand. However, the largest transactions of 2014 involved mixed-use properties, which were the target of 25 per cent of investment deals and consisted mainly of properties with further development potential.
- Improvement in the investment climate contributed to further yield compression. Additionally, the Latvian S&P credit rating was upgraded to A- with a positive outlook.

Investment Volumes and Key Market Players

In 2014, the real estate investment market continued to be active. The year closed with a total investment volume of EUR 316.9* million, compared to EUR 331.5 million in 2013. The total number of investment deals closed during 2014 amounted to 112, exceeding the 2013 level by 19 per cent.

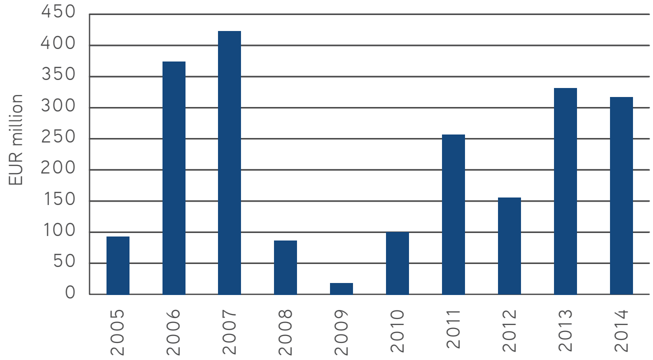
Similarly to previous years, the structure of investment volume was dominated by smaller investment transactions - 79 per cent of transaction numbers were below EUR 3 million, or 31 per cent of total annual investment volume. However, during 2014 the market saw an increase in both number and volume of transactions exceeding EUR 20 million.

The key market players responsible for the major part of 2014 annual investment volume can be divided into three general groups: Nordic investors, investors from CIS countries and Russia in particular, and local Baltic investors. Each group has its own investment preferences and targets specific investment properties. Nordic investors are mostly represented by investment funds and fund managers, which target cash flow-yielding properties with long term income potential and tend to place investments not only on a single asset transaction base but also on a cross Baltic portfolio base.

New Agenda Partners (Nordic investors) and Eften Capital (Pan-Baltic investors) were most active in Latvia during 2014. The presence of private investors from CIS countries and Russia is a fact that distinguishes the Latvian market from the Estonian and Lithuanian markets. Private investors from CIS countries and Russia aim at more risky projects, compared to institutional investors, as well as considering properties with development opportunities.

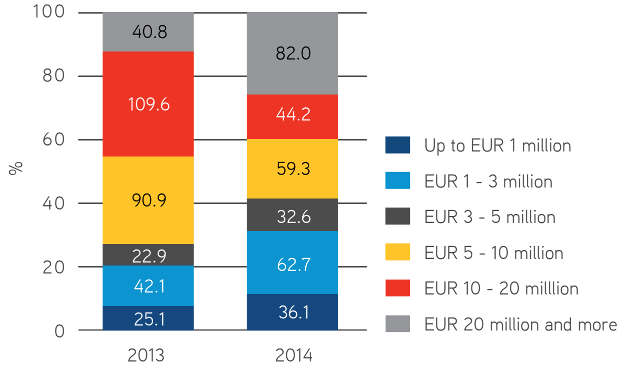
The Latvian investment market was marked by some newcomers, which announced their deals in early 2015. These included Partners Group, which acquired a portfolio of properties in the Baltics and Poland with one shopping centre in Latvia, and Hili

Dynamics of Investment Volume in Latvia



Source: Colliers International

Investment Turnover by Size



Source: Colliers International

* *The number of transactions includes both asset and share deal transactions exceeding EUR 0.4 million.*

Properties BV, which acquired nine smaller shopping centres in Riga and Latvian regional cities. In addition, the Latvian investment market is seeing increasing interest from investors seeking investment opportunities on a Pan-Baltic level but previously focusing on Lithuania and Estonia. Although private investors from the CIS remained active and during the first half of 2014 the market even saw new names, activity by this group of investors showed a decreasing trend during the second half of the year.

Investment Properties

During 2014, the share of investment in retail, office and industrial commercial properties decreased from 61 per cent in the previous year to 48 per cent. The share of investment in mixed-use properties, which includes mostly properties acquired for redevelopment purposes, significantly increased to 25 per cent of total investment volume compared with 9 per cent in 2013. However, it should be noted that most of the investment volume in the mixed-use property segment was accumulated by two Skonto Stadium deals.

In 2014, average transaction size decreased in all segments, except mixed-use, which was driven by two large deals. Still, average transaction size in all segments exceeds the figures for 2012.

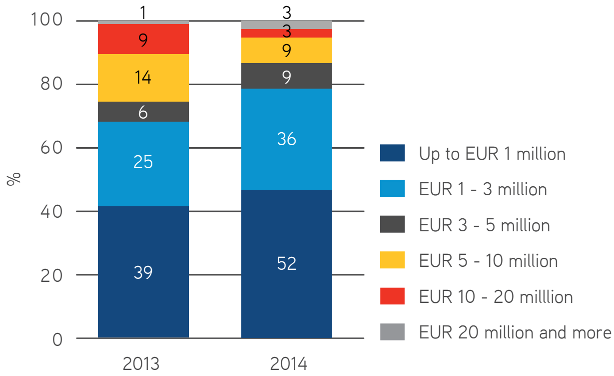
Stable interest in cash flow-yielding properties continued. However, a shortage of good quality investment properties mainly due to lack of development in the crisis years prevents demand from materializing into actual investment deals.

Investment Yields

An improving investment climate and positive market expectations contributed to slight yield compression in 2014. The prime yield for industrial objects remained on the 2013 level of 9 per cent, while prime retail and office yields experienced a decline to 7.5 per cent and 7.75 per cent respectively.

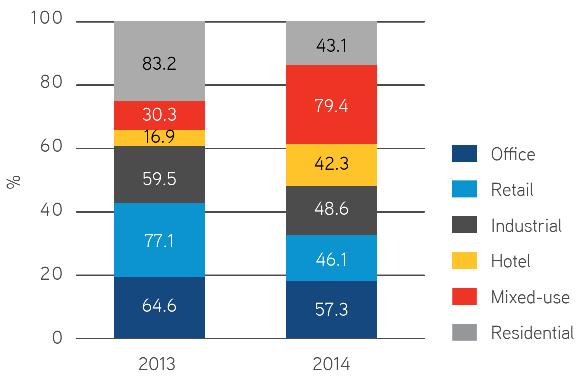
Still, many transactions in the Latvian market continue to be "price per square meter" based. But as asking and offering yield spreads shrink, we expect to see more yield-based transactions in the future.

Distribution of Transaction Numbers by Size



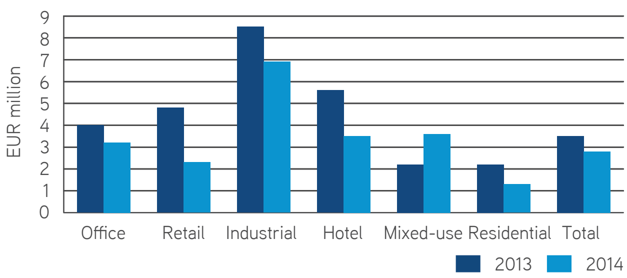
Source: Colliers International

Distribution of Transactions by Property Type



Source: Colliers International

Average Transaction Size by Sector

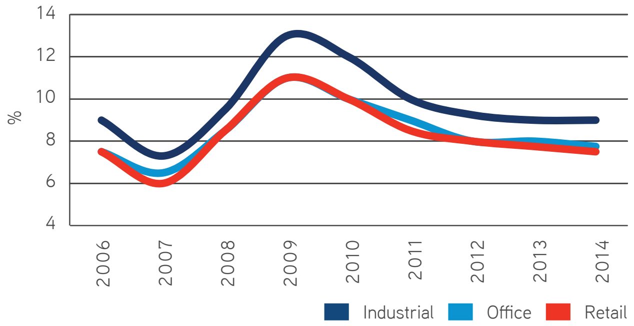


Source: Colliers International

Top 10 Investment Deals in Latvia in 2014

NO.	PROPERTY NAME	ADDRESS	SECTOR	SELLER	BUYER
1.	Skonto Stadium	E. Melngaila St., Riga	Mixed-use	SSA	MANI Group
2.	Rimi Distribution Centre	A. Deglava St., Riga	Industrial	Niam III Holding	Plesko Real Estate
3.	SC Damme	Kurzemes Pr., Riga	Retail	Plesko Real Estate	New Agenda Partners
4.	Nordic Technology Park	Jurkalnes St., Riga	Industrial	NORDIC TECHNOLOGY PARK	EfTEN NTP
5.	Skonto Stadium	E. Melngaila St., Riga	Mixed-use	NIF Projekts 5	SSA
6.	LNK Centre	J. Dalina St., Riga	Office	Bank SNORAS	JD 15
7.	Blaumana 5a	Blaumana St., Riga	Office	Private person	Blaumaņa Centrs
8.	Wellton Old Riga Palace Hotel	Minsterejas St., Riga	Hotel	Homeland	Arktika Nord
9.	Erglu 2	Erglu St., Jurmala	Mixed-use	JŪRMALAS PRIEDES	Seagull Investments
10.	Pils 23	Pils St., Riga	Office	Bank SNORAS	UNISEB

Prime Yield Dynamics



Source: Colliers International

Forecasts

- In 2015, the investment market is expected to remain active with investment volumes remaining on the 2014 level.
- Office and retail commercial properties will become the main investment focus of 2015, while activity in the mixed-use and residential segment is expected to decrease.
- Prime yields are expected to remain stable in 2015.
- The Latvian investment market might see the entry of new players, especially those that were previously focusing their activity on Lithuania and Estonia.

Office Market

General Overview

- The Latvian business environment continued to develop. Existing companies persistently faced staff expansion alongside overall improvement in business sentiments.
- Foreign companies, having built up activity and resources and seeking relocation opportunities for their service centres and process outsourcing in Eastern Europe, consider Latvia as a potential place for establishment due to a well-qualified and relatively cheap labour force plus a decent business environment, including supply of professional office areas.
- The Latvian office market saw the first noticeable office stock increase since 2010. However, general development activity is considered to be lagging behind Estonia and Lithuania in the context of similar vacancy figures.
- Alongside the appearance of new properties, previously frozen objects re-entered the market. These were quickly absorbed, indicating high demand for professional office premises on the local leasing market.

Supply

By the end of 2014, the total stock of office premises in Riga was estimated at 592,400 sqm. Speculative stock dominates with 400,800 sqm or 68 per cent, while built-to-suit office buildings account for 191,600 sqm or 32 per cent.

During 2014, four newly developed and existing buildings were added to office stock. A major part of the stock increase falls on the newly developed HQ of the State Revenue Service (GLA 43,000 sqm), commissioned in April 2014. This led to freeing up of premises previously occupied by the institution across Riga, including professional office buildings and historical objects. Among these are premises in properties located at Jeruzalemes Street 1, SWH Business Centre, Brivibas Street 214 and 11 Novembra Krastmala 17, which require investment in reconstruction in order to restore competitiveness, but landlords were not yet willing to take this risk in the absence of tenants.

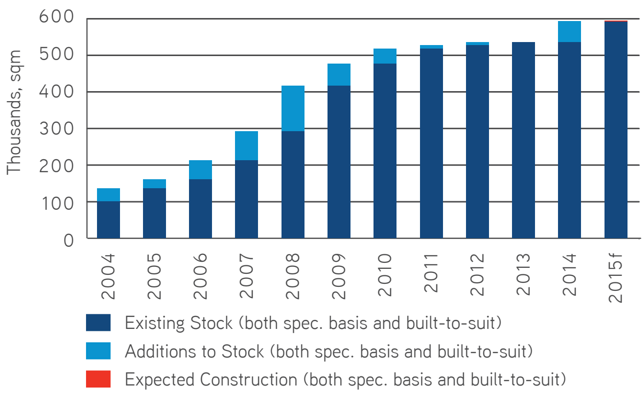
Apart from that, a new administrative building located at Vainodes Street 1 (GLA 7,400 sqm) supplemented office stock after its commissioning in Q4 2014. Additionally, the existing M4a office building (GLA approx 3,000 sqm) at Mednieku Street 4a was added to professional office stock after it had undergone investment and was actively placed on the leasing market.

The year was marked by a number of comebacks of existing professional office buildings. After a change of owners, the office building at G. Astras Street 1c (GLA 7,000 sqm) was placed on the leasing market at the beginning of 2014. Moreover, the former Krajbanka HQ office property located on J. Dalina Street was acquired by LNK Group and re-entered the active leasing market under the name of LNK Centre with approx 7,200 sqm of GLA. The owners have reserved 2,400 sqm for their own needs, while the remaining 4,800 sqm were offered for lease.

Change of office building owners throughout the year triggered improvement of these properties. Good examples of this tendency are office buildings at Dzelzavas Street 117 and 13 Janvara Street 3, which were acquired by the Nordic and Baltic Property Group. The Dzelzavas Street 117 property underwent an improvement of internal systems, while 13 Janvara Street is undergoing full refurbishment.

The development pipeline for the upcoming next three years is starting to grow, but still lags behind Tallinn and Vilnius. Hanner is continuing construction works for the 2nd stage of the Europa Business Centre, which includes 2,400 sqm of B1 class office premises and is expected to arrive on the market in Q2 2015. Moreover, approx 10,000 sqm of A class office premises are under construction in Z-Towers, expected to be commissioned in Q4 2016 / Q1 2017.

Dynamics of Office Stock in Riga*



* - office stock at the end of the period
f - forecast
Source: Colliers International

Apart from the anticipated additions already mentioned, an A class office building on Sporta Street 11 with planned GLA of 14,000 sqm, announced as due to enter the construction phase in 2015, is being developed by Hanner and is expected to appear on the market in the second half of 2016.

Additionally, a number of projects announced their willingness to start the construction phase on the threshold of 2015 / 2016. Among these is Business Garden Latvia 1st stage, being developed by Vastint with planned GLA of approx 14,000 sqm. Moreover, Linstow announced plans to develop expansion of the Origo shopping centre, containing 9,000 sqm of B class office premises. Lastly, the 1st stage of the New Hanza City project, consisting of an A class office building of 16,500 sqm and a built-to-suit office building of 16,300 sqm, has entered the final technical design stage.

Demand

According to Colliers International estimates, absorption of total office space in 2014 amounted to 50,900 sqm. Nevertheless, the total absorption volume to a great extent consists of the State Revenue service occupying 42,700 sqm in its newly constructed built-to-suit building. This indicates that the absorption volume generated by other market players amounts to 8,200 sqm. This relatively low figure is explained by the fact that remaining leasing activity was generated by tenants rotating within professional stock plus a lack of good quality available premises.

Demand for good quality premises remained high. The situation is best characterized by developments which occurred around LNK Centre after it re-entered the active leasing market in September 2014. The property was fully leased out during the last quarter of 2014.

In 2014, the most active tenants in the market were public institutions, IT and professional service companies, altogether accounting for more than 75 per cent of all market leasing transactions. Shared service centres continued to constitute a notable part of demand.

The trend remains, with companies seeking expansion opportunities in surrounding areas additional to their current locations. This persists due to lack of expansion opportunities within existing locations. Additionally, a lack of large premises above 1,000 sqm available for lease continues. In this context, landlords are starting to feel their strength in lease negotiations.

Rent Rates

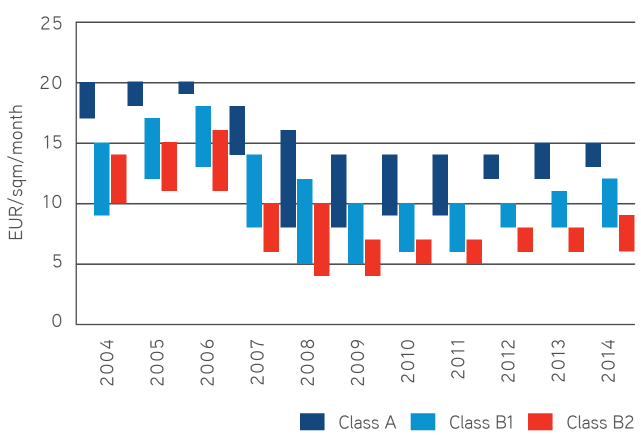
By the end of 2014 the market saw an increase of rent rate spreads in all property classes. Rent rates were equal to 13 - 15 EUR/sqm per month for A class premises, 8 - 12 EUR/sqm per month for B1 class office premises and 6 - 9 EUR/sqm per month for B2 office premises. Shortage of qualitative office premises was the main driver of rent rate increases in 2014. We expect the upper bounds of rent rates to remain stable in 2015, although the lower bounds could slightly increase.

Rent Rates* for 2014 in Riga and Trends for 2015

CLASS	2013	2014	TRENDS FOR 2015
A	12 - 15	13 - 15	→→
B1	8 - 11	8 - 12	→→
B2	6 - 8	6 - 9	→→

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable
Source: Colliers International

Dynamics of Rent Rates* in Riga



* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
Source: Colliers International

Top 10 Office Lease Transactions of 2014

NO.	TENANT	INDUSTRY	OBJECT / ADDRESS	AREA, SQM
1.	State Revenue Service	Public	State Revenue Service HQ	42,700
2.	Latvijas Valsts Mezi	Public	Vainodes St. 1	7,000
3.	Exigen	IT	LNK Centre	4,200
4.	ATEA	IT	Mukusalas St. 15	3,500
5.	LNK Group	Manufacturing / Construction	LNK Centre	2,400
6.	Cabot Corporation	Manufacturing / Construction	Upmalas Biroji	1,588
7.	TV3	Media	Rīgas Industriālais Parks	1,500
8.	ELKO	IT	Toma St. 4	1,500
9.	Allnex	Manufacturing / Construction	Astras Biznesa Centrs	1,300
10.	Premera Air	Professional Services	Astras Biznesa Centrs	1,200

Source: Colliers International

Vacancy

By the end of 2014, the total vacancy rate for both speculative and built-to-suit projects comprised 5.7 per cent, compared to 5.3 per cent one year ago. Vacancy calculated only for speculative office buildings stood at 8.4 per cent, compared to 7.4 per cent one year ago. Minor increases in vacancy figures were mainly caused by the relocation of the State Revenue Service to its new built-to-suit property.

Vacancy in the A class segment stood at 3.2 per cent, which is a decrease compared to the 5.6 per cent recorded in 2013. The decrease was mainly driven by the successful lease out of the LNK Centre.

Vacancy Rates for 2014 in Riga and Trends for 2015

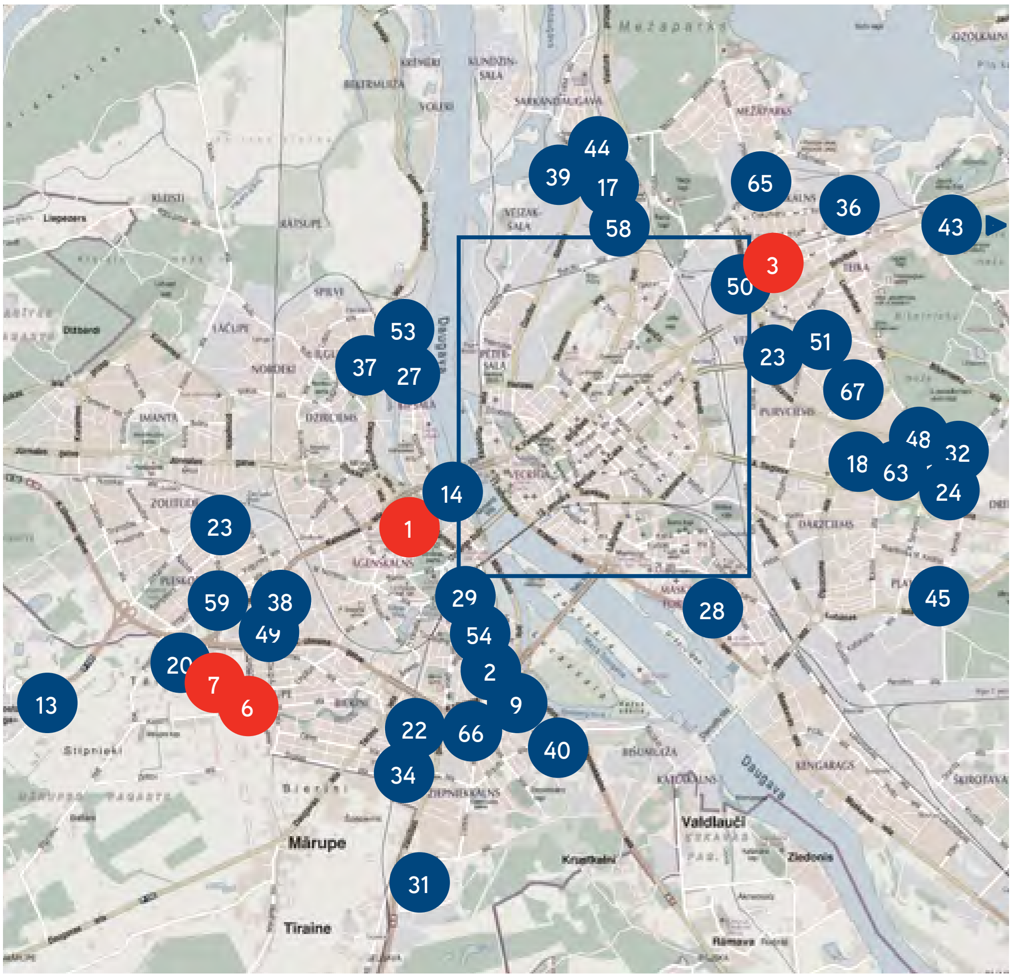
CLASS	2013	2014	TRENDS FOR 2015
A	5.6 %	3.2 %	→↘
B1	5.1 %	6.3 %	→↘
B2	5.7 %	5.3 %	→↘

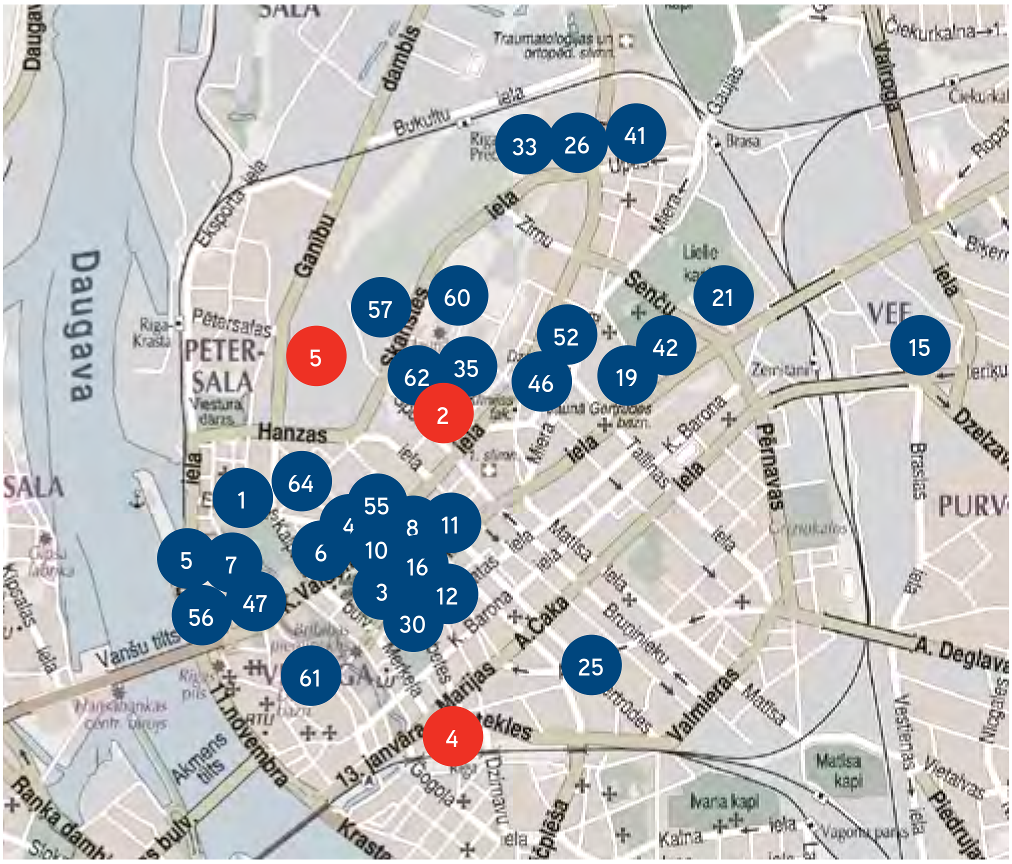
→↘ - slight decrease
Source: Colliers International

Tendencies and Forecasts

- While anticipated project completion for 2015 is scarce, development activity is expected to improve in 2016.
- Upper bounds of rent rates are expected to remain stable in 2015, while lower bounds could slightly increase.
- We anticipate a decrease in total vacancy figures, especially in the B1 class segment.
- Demand for office premises over 1,000 sqm will continue in 2015.
- The focus has returned to Skanstes Street area, marked by interest in both land properties and existing buildings. The area is expected to see further development in upcoming years.

High Class Speculative and Built-to-Suit Office Centres in Riga





Existing Developments

1. WTC „Rīga”
2. Business Centre “Mukusala”
3. Pasta Banka, Brivibas 54
4. Valdemara Centrs
5. Office Centre at Citadeles St. 12
6. Eirkel BC
7. Kronvalda Bulvaris 3
8. Gertrudes Centrs, Baznicas 20/22
9. Valdo Office Complex
10. Dominante Office Building
11. Gertrudes Centrs, Gertrudes 10/12
12. Terbatas Centrs, Terbatas 30
13. Helio Biroji
14. Swedbank HQ
15. Domina Office Centre
16. Terbatas BC
17. Marine BC
18. Astras Biroji
19. North Gate, 1st/2nd stage
20. Baltais Vējš
21. Brivibas 171 Office Building
22. Office Centre at Vienibas St. 87H
23. NTP BC
24. PBLC BC
25. Modern City
26. Duntes Nami
27. Office Complex “Ostas skati”
28. Gredu 4a BC
29. Mukusalas BC, 2nd stage
30. Office Centre at Terbatas 14
31. Torensberg
32. Dzelzavas Biroju Nams
33. SWH BC
34. Unity BC
35. Rietumu Capital Centre
36. Reaton Office Building
37. Magnat Business Centre
38. Panorama Plaza
39. Indi Centrs
40. Upmalas Biroji
41. Duntes Biroji
42. Barons Kvartals
43. ASU Centre
44. O’Live BC
45. Lubanas Centrs
46. Valdemāra Pasāža
47. Muitas 1 Office Building
48. Dzelzavas 120 Office Building
49. Zuma Biroji
50. Europa BC
51. Tomo BC
52. Alojas BC
53. Office Complex “Ostas Skati”, 3rd stage
54. Office Complex Mukusalas 41
55. Zaļā 1 Office Building
56. Citadele Bank Headquarter
57. DnB Nord HQ
58. Office Building of Riga Sanitary Transport Depot
59. American Embassy Administrative Building
60. LNK Centre
61. Office building at Kalku St. 15
62. Jupiter
63. Energoefektiva Biroju Eka
64. Mednieku 4a
65. HQ of State Revenue Service of Latvia
66. Vainodes 1
67. Astras BC

New Speculative and Built-to-Suit Projects, Projects Under Construction / Reconstruction and Most Realistic Projects for Development in Riga

1. Z-towers
2. Sporta 11
3. Europa Business Centre, 2nd stage
4. Origo Retail and Business Centre
5. New Hanza City, 1st stage
6. Business Garden Latvia, 1st stage
7. Ulmana Office Park

Retail Market

General Overview

- In the context of a steady economic improvement in 2014, which led to an increase in wages and general consumer confidence, the retail sector enjoyed favourable conditions compared to other commercial real estate sectors.
- During 2014, major shopping centres continuously pursued a tenant-mix improvement, giving priority to widely recognized international brands, and tenant rotation for optimal disposition and synergy within existing locations.
- Activity around the new SC Akropolis continued during the first half of 2014, although construction has not yet begun. In addition, a leading shopping centre owner - Linstow - officially announced plans to expand the Origo and Alfa shopping centres.
- The grocery sector was marked by continuous activity, including acquisition of the IKI grocery chain, part of the REWE group, purchased by local grocery chain Mego in Spring 2014, plus construction of new properties by leading market players.
- Street retail was marked by significant new openings and the emergence of a new prime location within Riga city centre.

Supply

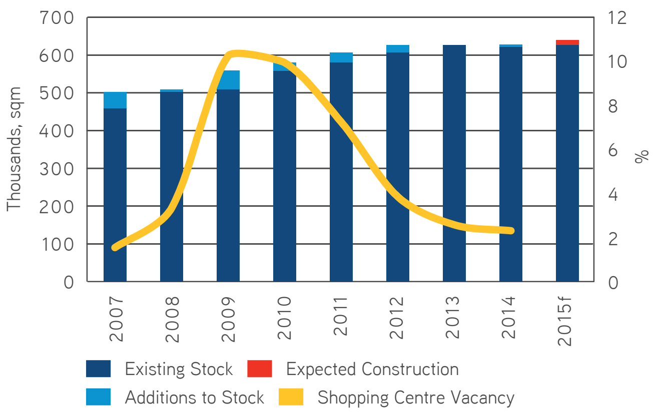
By the end of 2014, total leasable retail stock amounted to approx 627,400 sqm, consisting of shopping centre premises (380,800 sqm), big boxes (214,600 sqm) and department stores (32,000 sqm). Retail stock has been revised in order to match the most up-to-date layouts of existing retail objects.

In 2014, retail stock was supplemented by a new Maxima XX on Bikernieku Street (GLA approx 5,900 sqm). Additionally, 2014 was marked by realisation of a number of new concepts, including Sky&More opening the first part of its shop-in-shop concept in spring.

Currently, retail stock is expected to be supplemented by a new Depo store on Krasta Street and a new Rimi store located in Zolitude, both of which are under active construction, as well as a Maxima grocery store on Dammes Street, which is waiting to be commissioned.

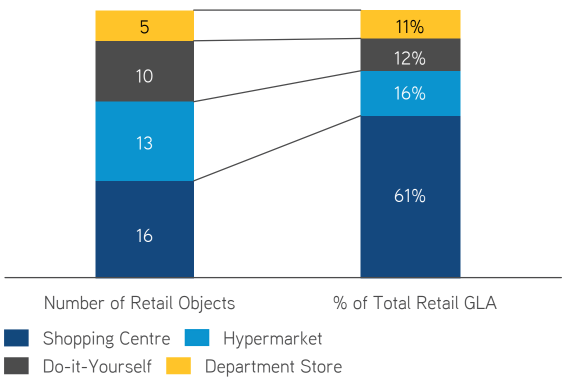
The shopping centre segment was also building up development activity throughout 2014. Currently, one of the leading market players - Linstow - officially announced plans to expand its existing shopping centres - SC Alfa and SC Origo. SC Alfa is expected to expand by an additional 11,150 sqm of lettable retail space, whereas expansion of SC Origo is designed as a multifunctional complex consisting of office space (GLA 9,015 sqm) and retail premises (GLA 15,750 sqm). In addition, preparation is ongoing for construction works of SC Akropolis on Maskavas street in the neighbourhood of the Southern Bridge. The announced retail GLA of the new shopping centre is 60,000 sqm.

Dynamics of Retail Stock and Vacancy in Riga*



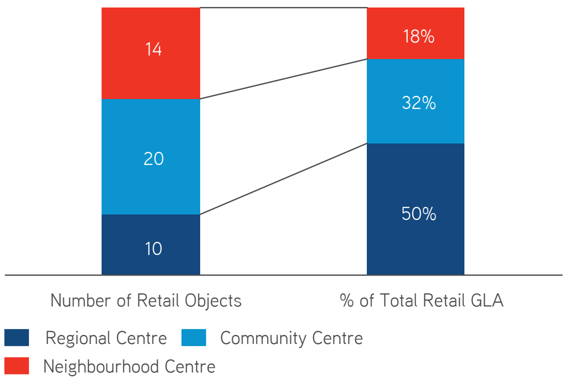
* - retail stock and vacancy rates at the end of the period
f - forecast
Source: Colliers International

Distribution of Retail Stock in Riga by Property Type*



* - retail stock at the end of 2014
Source: Colliers International

Distribution of Retail Space in Riga by Type



Source: Colliers International

ELL, another major retail market player in Riga, is also considering potential expansion of its own shopping centre, Spice Home, although no clear development schedule has yet been announced.

Finally, at the beginning of 2015, SC Olimpia was purchased from Northern Horizon Capital by a Swiss investment group - Partners Group. This could indicate that in the nearest future the market might see news regarding the 2nd floor of the shopping centre, which is currently closed for rearrangement as a new concept for a fashion section.

Demand

International brands and widely recognized tenants remained active in 2014. H&M remained one of the most active tenants, opening three new stores, including a store in SC Spice, occupying approx 2,300 sqm, in February 2014, then in April a store with an additional H&M Home product line department in SC Riga Plaza, occupying approx 2,900 sqm, and finally a store in SC Domina, occupying approx 2,100 sqm, in November. In April the first Debenhams store in Riga opened in SC Spice, occupying almost 3,000 sqm. Then in December a new Elkor Kids store was opened in SC Riga Plaza, occupying approx 1,000 sqm.

Activity by international brands was also marked by improvement of existing brand concepts. A good example is the opening of the expanded Reserved store in SC Spice in April 2014, occupying approx 1,400 sqm and introducing an improved concept.

Well known international retailers see the Baltic region as a prospective development area to expand to within the next 2 - 4 years, i.e. after fully establishing their positions in the developed markets. Most international retailers will choose a franchise partner for safer market entry.

The catering segment continued its expansion and modernization. The trend of appearance of new names remained throughout the year. In February, a new Lido restaurant opened in SC Domina. In June, the market saw the opening of the first Subway restaurant in Riga Centre, followed by the opening of an additional two Subway locations across the city. Additionally, CanCan Pizza introduced a new concept for their restaurant located in Old Town at Kungu Street. Finally, the latest news indicates that KFC is planning to enter the Latvian market in 2015, launching its first store in Riga Old Town.

2014 was also marked by activity in the street retail segment. In May, Reserved opened a new flagstore on Kalku Street. This occupies more than 1,600 sqm and is the largest store of the brand in the Baltics. Strong demand is noted for premises located near the crossroads of Terbatas and Elizabetes Streets. Within this year, the same location saw the opening of Baldessarini and Chopard boutiques, relocation of a Hugo Boss boutique from its previous location on Terbatas Street directly to the corner of Terbatas and Elizabetes Streets occupying more than 500 sqm and the opening of a new Elena Miro brand store.

Increasing activity is evident among local entrepreneurs, establishing business in street retail locations and dispersing the ongoing expansion of chains and international brands. By the end of the year, activity by local entrepreneurs and international brands in the street retail segment had almost levelled up.

Rent Rates

Compared to 2013, rent rates did not change except for the upper bounds of the rent rate spread for anchor tenants in shopping centres and prime Riga Old Town locations.

Rent rates (without all additional costs) for anchor tenants in shopping centres range from 4 to 11 EUR/sqm per month; from 15 to 35 EUR/sqm per month for medium-sized retail units (area between 150 and 350 sqm); and from 30 to 55 EUR/sqm per month for smaller-sized retail units (up to 100 sqm). Street retail rent rates in the active centre range from 20 to 40 EUR/sqm per month and from 25 to 50 EUR/sqm per month in Riga Old Town.

Rent Rates* for 2014 in Riga and Trends for 2015

CLASS	2013	2014	TRENDS FOR 2015
Large retail unit (anchor tenant)	4 - 10	4 - 11	→→
Medium retail unit (150 - 350 sqm)	15 - 35	15 - 35	→→
Small retail unit (up to 100 sqm)	30 - 55	30 - 55	→→

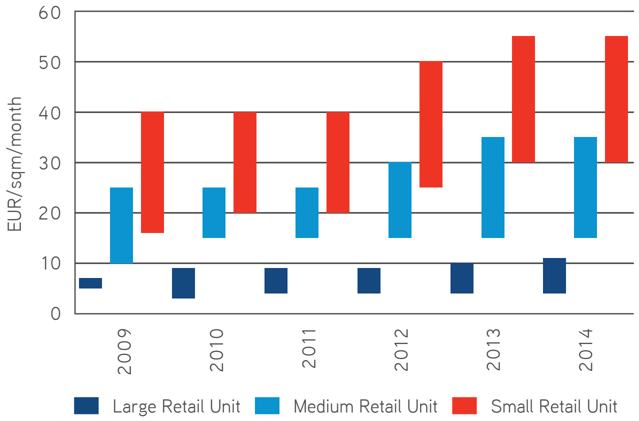
* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable
Source: Colliers International

Street Retail Rent Rates* for 2014 in Riga and Trends for 2015

STREET NAME, LOCATION	2013	2014	TRENDS FOR 2015
Kr. Barona, Terbatas, Elizabetes, Gertrudes	20 - 40	20 - 40	→→
Old Riga	20 - 50	25 - 50	→→

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable
Source: Colliers International

Dynamics of Rent Rates* in Riga



* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
Source: Colliers International

Vacancy

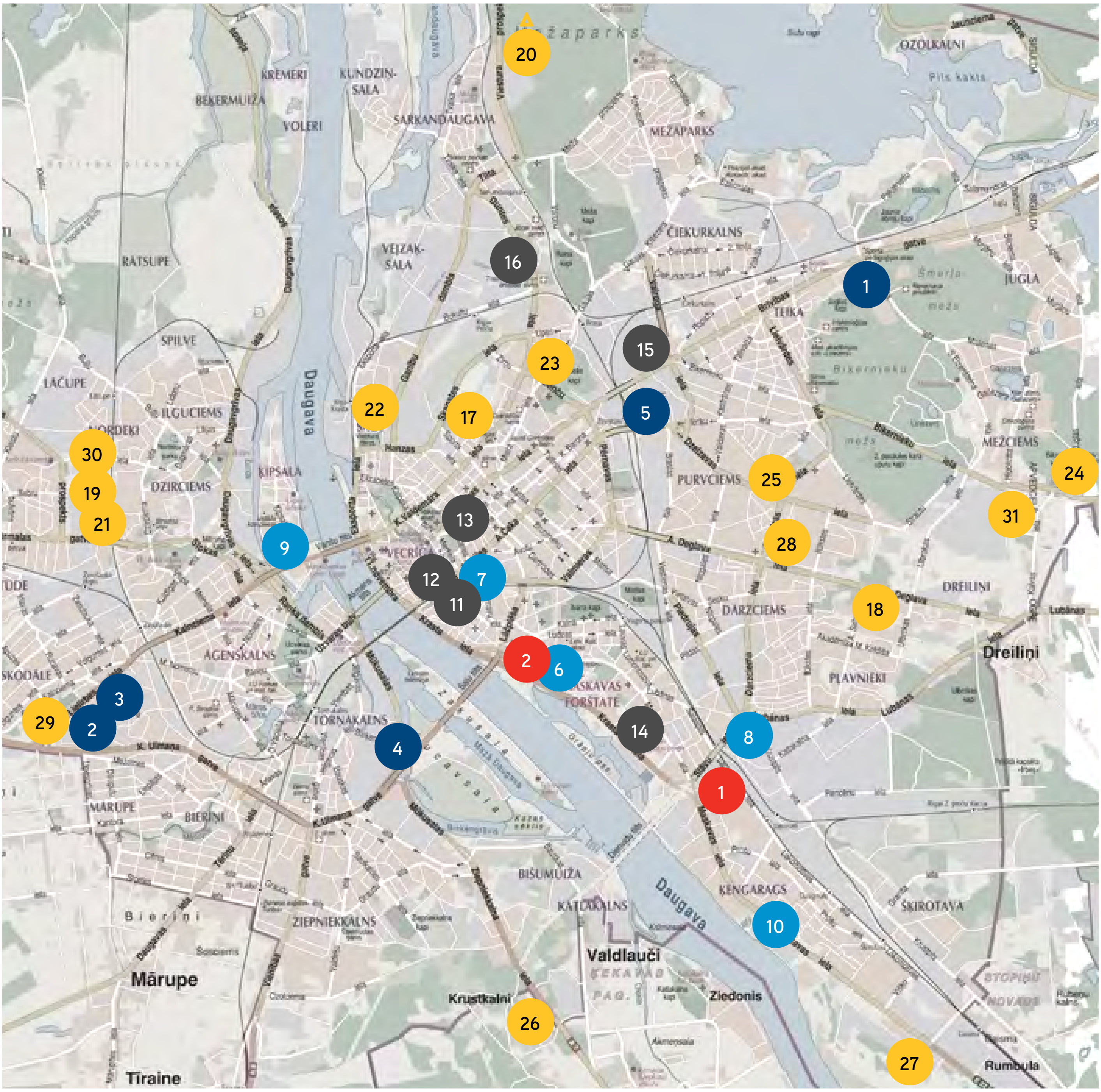
As of January 2015, the average vacancy rate in all shopping centres was 2.3 per cent. During 2014 vacancy decreased by 1,000 sqm. Vacancy continued to be biased among shopping centres, accounting for close to zero per cent in the most successful shopping centres, 2 - 5 per cent in the less successful ones.

Towards the end of 2014, Seppala announced plans to exit the Latvian market, which similarly to the 2013 situation around the market exit of Dressmann, BikBok and Cubus, is not expected to have a negative effect on vacancy throughout 2015.

Tendencies and Forecasts

- The retail sector is expected to continue development along with growth of the general economy, though at a more modest pace compared to 2014.
- In 2015, Riga retail stock is expected to be supplemented by a number of hypermarkets and a new DIY store, as well as new fast food chain locations.
- Shopping centre development is building up and the market will experience processes around the development of an expansion of SC Origo and SC Alfa as well as a new SC Akropolis, which is expected to materialize in current stock additions in the medium run.
- Demand for retail premises will remain high. However, in the context of very low vacancy, activity will most probably materialize in additional tenant mix improvement and design of new concepts for existing brands.
- Vacancy is expected to decrease further, mainly on account of less successful shopping centres.
- Rent rates will remain stable at least until the middle of 2015.

Retail Shopping Centres in Riga



Regional Centres

1. Alfa
2. Spice
3. Spice Home
4. Riga Plaza
5. Domina

Community Centres

6. Mols
7. Origo
8. Atrium Azur
9. Olimpia
10. Dole

Fashion Centres and Department Stores

11. Stockmann
12. Galerija Centrs
13. Galleria Riga
14. Mc2
15. Podium
16. Sky and More

Hypermarket - Anchored Neighborhood Centres

17. Prisma “Sporta”
18. Prisma “Deglava”
19. Imanta Retail Park
20. Rimi “Milgravja”
21. Rimi “Damme”
22. Rimi “P. Brieza”
23. Rimi “Valdemara”
24. Rimi “Bikernieku”
25. Rimi “Stirnu”
26. Rimi A7 near Kekava
27. Zoom
28. Maxima at A. Deglava St. 67
29. Maxima at K. Ulmana St. 88a
30. Maxima at Slokas St. 115
31. Maxima at Bikernieku St. 143

New Projects, Projects Under Construction and Most Realistic Projects for Development in Riga

1. Akropolis
2. Depo

Industrial Market

General Overview

- During the first half of 2014, the Latvian industrial real estate sector continued to be active in terms of demand. The beginning of the year was marked by generally optimistic expectations and the start of construction of several industrial properties, which are expected to supplement industrial stock by an additional 120,000 sqm of professional space.
- In the middle of the year, in terms of ongoing global political tension between Russia and Western countries, market sentiment shifted towards a more cautious attitude.
- Closer to the end of the year, although the industrial sector continued to be unstable, the negative momentum started to steadily settle down and market players were adjusting their processes to current realities.
- Throughout the year a significant amount of market activity was driven by the business requirements of industrial market players, which were consolidating and optimising their businesses in single locations.
- Despite the presence of some volatility, the market saw a further decline in vacancy to 2.2 per cent.

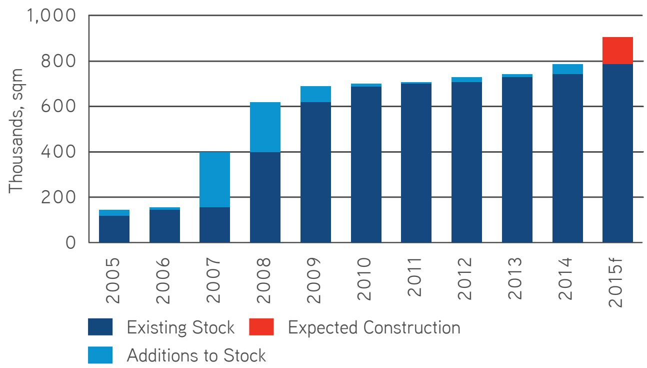
Supply

By the end of 2014, total leasable industrial stock amounted to approx 785,800 sqm, consisting of 589,300 sqm of speculative premises and 196,500 sqm of built-to-suit premises. Around 40 per cent of total stock is located within Riga city limits. The other 60 per cent is located around the Riga Ring Road (near Kekava, Olaine, Marupe, Salaspils and Jelgava).

Development activity, which resumed in 2013 after almost three quiet years, continued and built up in 2014. During the year, industrial stock was supplemented by two newly commissioned A class industrial properties: UA Investor on Daugavgrivas Street, consisting of approx 5,800 sqm of GLA, and Balt Cargo Solutions, located in Dreilini and including approx 24,000 sqm of GLA. Moreover, industrial stock was supplemented by the existing G31 industrial complex on Ganibu Dambis Street 31 (GLA approx 11,500).

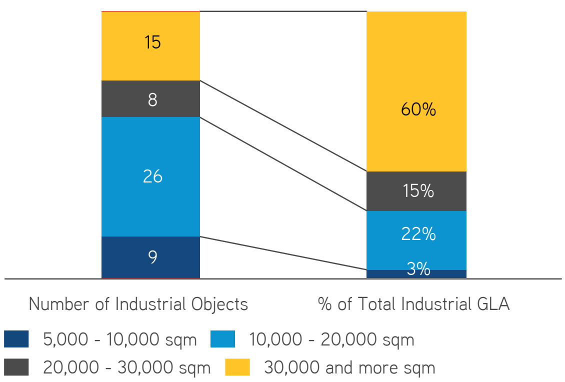
A number of projects, currently at the construction stage, with total GLA close to 120,000 sqm are planned for commissioning in 2015. Among these, the most significant is a BLS industrial

Dynamics of Industrial Stock in Riga and Riga Region*



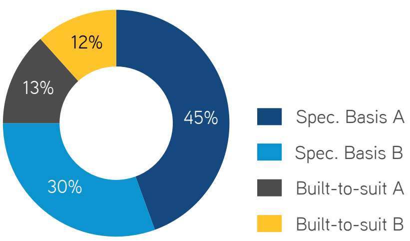
* - dynamics of industrial stock at the end of the period
f - forecast
Source: Colliers International

Distribution of Industrial Space by Size



Source: Colliers International

Distribution of Industrial Space by Type

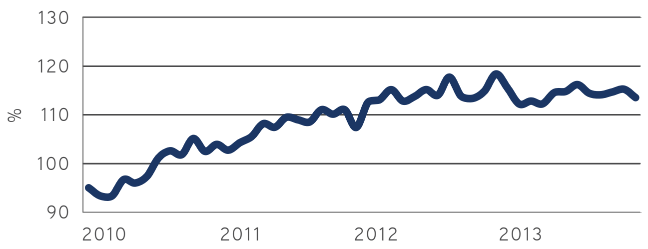


Source: Colliers International

Projects Under Construction in 2015					
PROJECT NAME	**ADDRESS**	**DESCRIPTION**	**GLA, SQM**	**DEVELOPER**	**EXPECTED YEAR OF COMMISSION**
BLS	Kekava	Built-to-suit	44,000	Sanitex	Q2 - Q3 2015
Polipaks	Marupe	Built-to-suit	30,000	Polipaks	Q2 2015
Plienciema 16	Marupe	Speculative	4,000	Plienciema 16	Q1 2015
Lexel Fabrika	Krustpils 35, Riga	Built-to-suit	10,000	Lexel Fabrika	Q2 2015
Frigo Terminal	Riga Sea Port	Built-to-suit	9,670	Frigo Terminal	Q2 2015
Jelgavas Biznesa Parks	Jelgava	Speculative	22,000	NP Properties	Q3 2015
TOTAL			**119,670**		

Source: Colliers International

Volume Indices of Industrial Production (2010=100)



Source: Central Statistical Bureau

complex totalling approx 44,000 sqm of GLA and the new Polipaks built-to-suit property currently under construction by Merks.

Apart from that, an additional 127,000 sqm is at the planning stage in several potential projects which are expected to begin arriving on the market starting from 2016. Among these planned projects the largest are VGP phase I in Kekava parish (GLA 33,000 sqm), the second phase of Balt Cargo Solutions (GLA 15,000 sqm) and expansion of Dommo Business Park (GLA 15,000 sqm).

Notable support for development has come from the Latvian Investment and Development Agency (LIAA), which issued approx EUR 8 mln co-funding, utilising EU fund support towards several industrial projects, including NP Jelgavas Biznesa Parks, Plienciema 16, among others. In contrast, Uralvagonzavod, which was planning to invest approx EUR 20 mln in expansion of their property in Jelgava, decided to put development plans on hold due to economic sanctions.

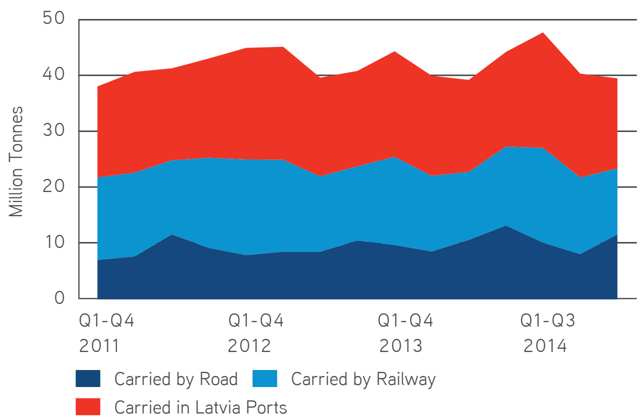
As a result, in 2015 we anticipate the most significant increase of industrial stock since 2009. Even so, the general trend remains that developers are willing to engage in new construction only in the event of having a predefined client. Additionally, shortage of premises above 1,000 sqm is observed.

Demand

In 2014, demand activity followed the usual seasonality trend with the highest activity achieved in the first part of the year. Total take-up of industrial premises amounted to approx 50,000 sqm, most of which happened during the first quarter and last months of 2014.

Decrease of demand activity in the middle of the year can be explained by the fact that it has been a typical busy season for logistics companies, representing a significant part of demand. Therefore companies focused on their core business rather than on acquisition or relocation of new warehouses.

Amount of Goods Carried



Source: Central Statistical Bureau

With the opening of Balt Cargo Solutions industrial property, both tenants - Amber Logistics and Via3L Latvia - relocated their warehouses from various facilities in Riga under one roof. This fact supports a trend in warehouse activity consolidation to single locations, which was initiated in 2013 and is expected to continue in the future.

Potential tenants continued the tendency of searching for optimal value-for-money leasing offers and were tending to negotiate prices, which was one of the main factors limiting the amount of leasing deals.

Rent Rates

During 2014, rent rates in both A class industrial premises showed a decrease of their lower bounds compared to the previous year, while B class rent rate bounds remained unchanged compared to the previous year. As a result, by January 2014 rent rates for A class industrial premises stood at 3.5 - 4.5 EUR/sqm per month and rent rates for B class industrial premises at 3.0 - 3.6 EUR/sqm per month.

Rent Rates* for 2014 and Trends for 2015			
CLASS	**JAN 2014**	**JAN 2015**	**TRENDS FOR 2015**
A	3.8 - 4.5	3.5 - 4.5	→↘
B	3.0 - 3.6	3.0 - 3.6	→→

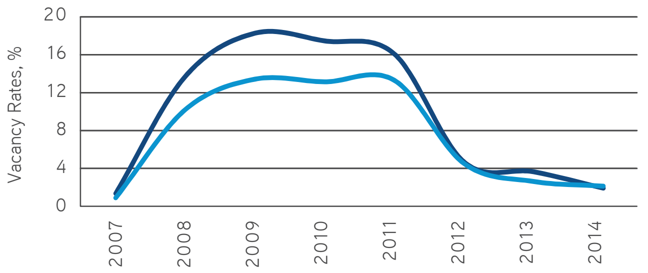
* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable, →↘ - slight decrease
Source: Colliers International

Vacancy

In January 2015, the total vacancy rate of industrial stock reached 2.2 per cent, compared to 2.7 per cent the previous year. The decrease in total vacancy was driven by the B class segment. In 2015, the commissioning of an impressive number of industrial properties, consisting mainly of built-to-suit, is expected to have a short term negative effect on vacancy, as companies will be relocating from non-professional premises.

Although the vacancy figures are signalling a very small number of vacant premises left available for the market, some tenants occupying industrial premises are offering sublease opportunities.

Dynamics of Vacancy Rates



Source: Colliers International

Vacancy Rates for 2014 and Trends for 2015

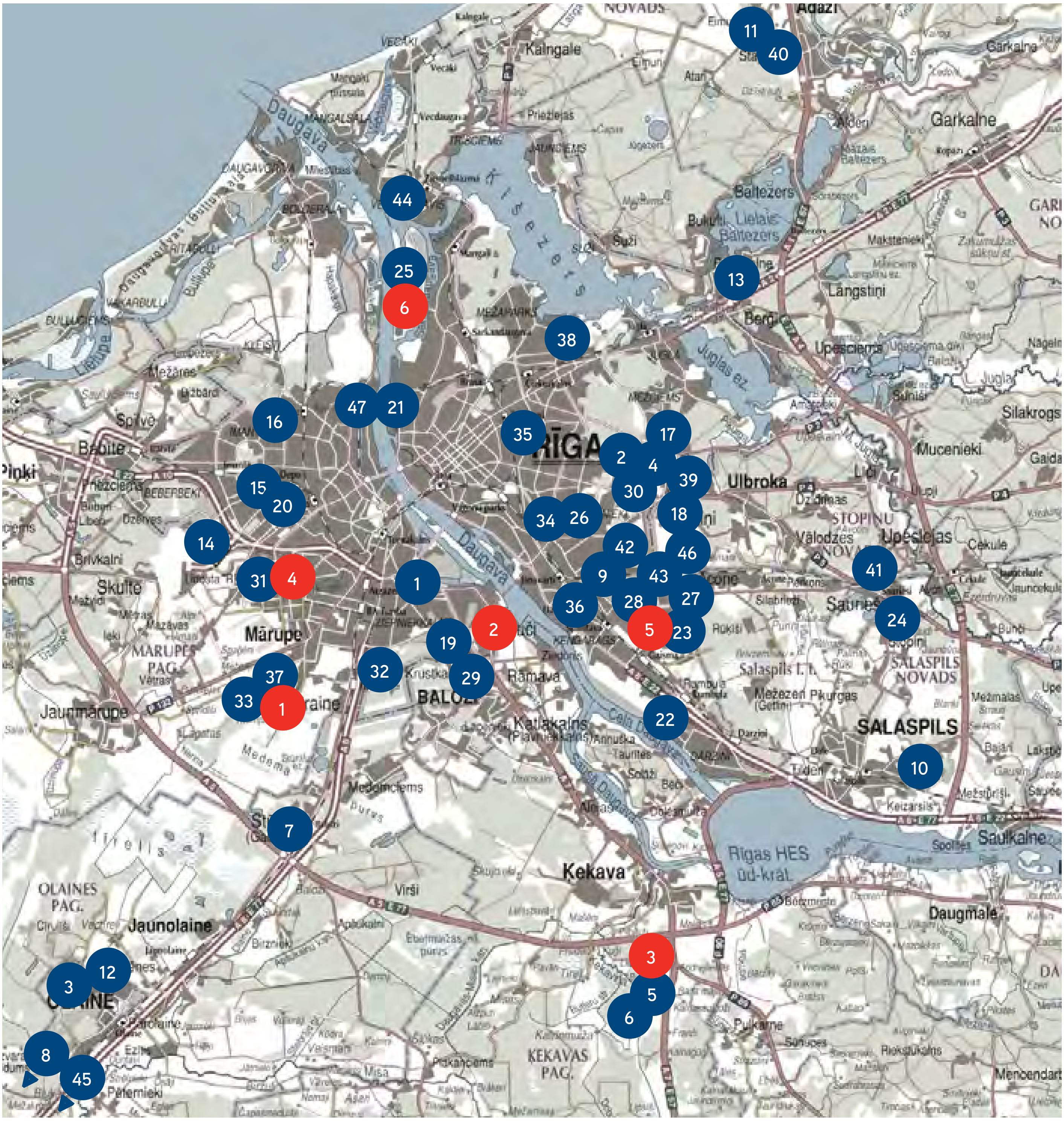
CLASS	JAN 2014	JAN 2015	TRENDS FOR 2015
A	3.7 %	3.6 %	→↗
B	1.4 %	0.3 %	→→
TOTAL	**2.7 %**	**2.2 %**	→↗

→→ - stable, →↗ - slight increase
Source: Colliers International

Tendencies and Forecasts

- Development of the global political situation will continue to influence the general situation in the Latvian industrial real estate sector and the expectations of market players.
- The current vast planned project pipeline will begin to materialize as soon as tenants ready to engage in prelease contracts are found.
- Most projects expected to arrive on the market in 2015 are leased out, so that a major increase in vacancy is not expected.
- Rent rates are expected to remain stable in terms of their upper bounds, although a minor decrease of lower bounds might be expected.

Speculative and Built-to-Suit Projects in Riga District Over 5,000 sqm



Existing Developments

1. Valdo Logistikas Komplekss
2. Riga Industrial Park
3. Nordic Industrial Park in Olaine
4. PBLC Business Centre
5. Dominante Park
6. Ronu ieleja 2
7. Dommo Biznesa Parks
8. Eirkel Business Park
9. Rolands S Warehouse Complex
10. Wellman Logistics Centre
11. Lauki Warehouse Complex, New Building
12. Olaines Logistic Park
13. Bergi Logistics Centre
14. Elipse-BLC
15. Nordic Technology Park
16. Abava Biznesa Parks
17. Ulbrokas 38 Warehouse Complex
18. Izoterms
19. DLW
20. NP Business Centre
21. Man Tess
22. Baltkors, I and II phases
23. Avers Centrs Logistic Park
24. Maykel Business Park
25. System Logistics
26. Atlas Logistic Centre
27. Granita Industrial Park
28. DSV Transport
29. Maxima Latvia Logistic Complex
30. Rimi Administrative and Warehouse Complex
31. DHL Logistic Centre
32. Sanistal Retail and Logistic Centre
33. Beweship Latvija Warehouse in Marupe
34. Baltijas Industrialais Parks
35. Kroni
36. BLRT
37. Kreiss Transport
38. Reaton Logistikas Centrs
39. Coca Cola Logistics Complex
40. Glaskek Industrial and Warehouse Building
41. Vollers Riga
42. DB Schenker Logistic Centre
43. LE/ROM Business Centre
44. Veju Roze
45. NP Jelgavas Biznesa Parks
46. Balt Cargo Solutions
47. UA Investor

Projects under Development

1. Polipaks
2. BLS
3. VGP, phase I
4. Plienciema 16
5. Lexel Fabrika
6. Frigo Terminal

Hotel Market

General Overview

- During the first three quarters of 2014, the number of visitors to Latvian hotels and other accommodation establishments grew for the fifth year in a row. Despite negative trends and political tension, Russian and CIS country tourists continued to constitute a significant part of accommodation industry clients.
- Positive visitation dynamics were significantly supported by continuous development of tourist attractions and big public events (e.g. the World Choir Games, Riga as European Capital of Culture in 2014) taking place throughout the year.
- During the first three quarters of 2014, the Riga hotel market saw a number of openings, which increased the total stock of 4-star hotels by 401 rooms.
- A new international chain entered the Latvian hotel market - Accor Hotel Group.
- Notwithstanding that hotel occupancy in low-season months - January, February and November - decreased compared to the same period in the previous year, average occupancy and performance indicators for the first 11 months of 2014 were higher than for 2013.

Supply

By the end of Q3 2014, the supply of hotels in Latvia stood at 222, among which 114 were not certified. Half of the hotels and 70.3 per cent of hotel rooms were located in Riga and Jurmala. Additionally, the most significant part of hotel room supply is dominated by 4-star hotel rooms, constituting 56.4 per cent and 66.7 per cent respectively of Latvia's total hotel room stock and the total of Riga hotel stock. During the first three quarters of 2014, Riga's certified hotel room stock increased by 141 rooms.

The Latvian hotel market continued to be dominated by local hotel operators; however one additional international chain - Accor Hotel Group - entered the Latvian hotel market in 2014 opening the upper class 4-star hotel Mercure and the budget 3-star hotel Ibis Styles Hotel in Riga. Thus five international hotel chains are present: Rezidor, Wyndham, Choice Hotels, Best Western and Accor. An additional international chain in the shape of Hilton is expected to enter the market in 2015 / 2016.

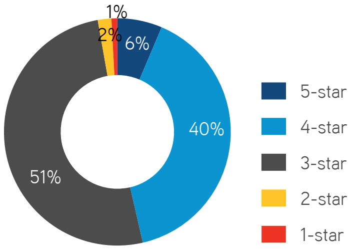
During the first three quarters of 2014, one new hotel opened in Riga: the 4-star Mercure Riga Centre with 143 rooms. Hotel reconstruction continued and as a result one hotel was reconstructed and three more were rebranded, among which two joined hotel chains. Thus Hotel Metropole opened as SemaraH Hotel Metropole after reconstruction while FG Royal Hotel was rebranded as Hotel Roma. Additionally, two hotels joined hotel chains: Karavella joined the international Accor chain and was rebranded as Ibis Styles Hotel while Hotel Centra joined a local hotel chain and was opened as Wellton Centra. More hotel stock additions are planned in 2015 / 2016, when at least two newly developed hotels, Hilton Garden Inn located in Pardaugava near Vansu Bridge and an additional Wellton Hotel Riga located on Valnu Street, plus a reconstructed Grand Hotel Kempinski Riga located at Aspazijas Boulevard 22, are expected to be commissioned. Moreover, in the upcoming years Wellton Hotel Group is planning to open two more hotels in Old Riga, while the 5-star Pullman Riga Centre hotel is planned at Jekaba Street 24. One more hotel is expected, at Raina Boulevard 5 and 6.

Number of Hotels and Rooms

STARS	RIGA		LATVIA	
	HOTELS	ROOMS	HOTELS	ROOMS
5-star	6	258	7	300
4-star	29	3,529	43	4,019
3-star	26	1,486	55	2,749
2-star	0	0	2	45
1-star	1	15	1	15
TOTAL CERTIFIED	**62**	**5,288**	**108**	**7,128**
Non-certified	31	1,091	114	2,785
TOTAL	**93**	**6,379**	**222**	**9,913**

Source: Central Statistical Bureau

Distribution of Hotels by Number of Stars in Latvia



Source: Central Statistical Bureau

Demand

During the first three quarters of 2014, the number of people serviced by Latvian hotels and other accommodation establishments experienced positive growth. A total of 1.68 mln visitors were serviced by the Latvian hotel industry, among which 1.15 mln or 68.6 per cent were foreign visitors. The total amount of visitors in the first three quarters of 2014 grew by 14.9 per cent and the amount of foreign visitors grew by 15.2 per cent compared to the same period in 2013.

Russian, German, Lithuanian and Estonian visitors accounted for half of all foreign visitors in the first three quarters of 2014, with Russian visitors alone standing out with 21 per cent. As compared to the same period in 2013, in the first three quarters of 2014 the number of visitors from Great Britain grew by 43 per cent, German visitors - by 36.9 per cent, Belorussian visitors - by 26 per cent and French visitors by 24.4 per cent.

Even so, the average number of nights spent by foreign visitors in a hotel or other accommodation establishment decreased from 2.1 in the first three quarters of 2013 to 2.0 in the same period in 2014. The leaders in terms of hotel stays were visitors from Belorussia with 3.1 nights spent per visitor, the USA with 2.4 nights and Russia with 2.2 nights. Compared to the previous year, in 2014 visitors from Estonia, Lithuania, Germany and Poland spent on average more nights in Latvian hotels and other accommodation establishments. The decrease in average nights' stay is affected by business trips, which typically last just one day.

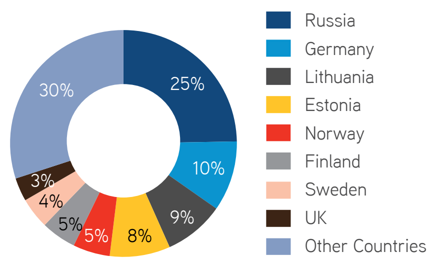
The positive visitation dynamics were significantly supported by continuous development of tourist attraction objects and big public events taking place throughout the year. Remarkable events that contributed to tourist inflow were the Nordea Riga Marathon, the World Choir Games, the New Wave song festival and the Riga city promotion programme presenting Riga as the 2014 European Capital of Culture. However, hotels continued to suffer from seasonality of demand, with high seasons reached in winter holiday time and in May - August and a low season observed in the second half of January and February.

Prices and Occupancy

According to City Cost Barometer, Riga continued to be one of the cheapest travel destinations not only among other European capitals but also among the Baltic States in terms of overnight stay costs. Minimum room prices for 3-star and 4-star hotels are on the same level, which indicates that some 4-star hotels are trying to compete with budget hotels, thus decreasing their potential revenues.

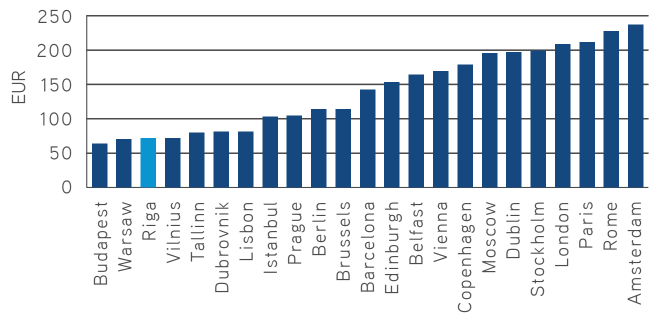
The occupancy rate continued to improve during the first three quarters of 2014. Average occupancy of hotels and other accommodation establishments stood at 57.1 per cent in Riga and 47.7 per cent in Latvia, returning to pre-crisis levels. One recent trend aimed at increasing occupancy in low seasons is active introduction of SPA services and conference hall facilities by local hotels, which aims to help hotels differentiate their income streams.

Distribution of Foreign Visitors by Country of Origin



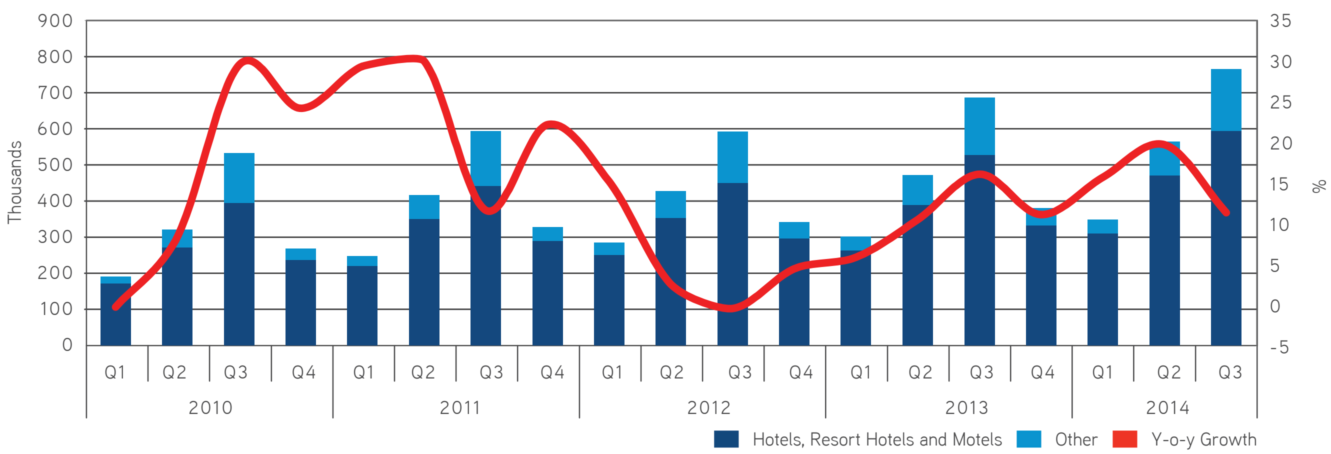
Source: Central Statistical Bureau

Price for a 2 Night Stay in 3-star Hotel for 2 Visitors



Source: City Cost Barometer

Number of Visitors Served



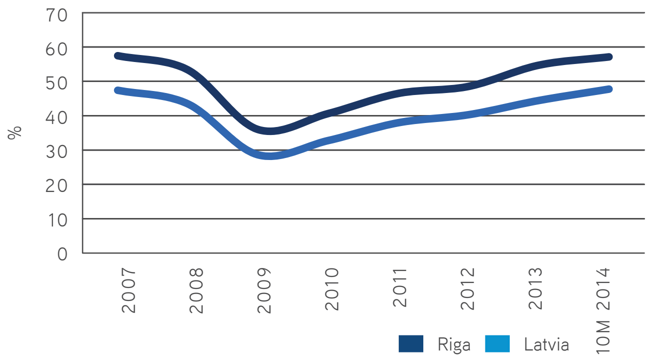
Source: Central Statistical Bureau

Price Range* for Double Standard Hotel Room in 2014

STARS	PRICE
5-star	105 - 275
4-star	40 - 146
3-star	38 - 86

* - rack rate, EUR
Source: Colliers International

Dynamics of Average Monthly Room Occupancy Rate in Accommodation Establishments



Source: Central Statistical Bureau

Tendencies and Forecasts

- We do not expect hotel visitation figures to grow in the upcoming year. The reason for this is devaluation of the ruble, which will negatively affect a major tourist group, though on the other hand this will be outweighed by the fact that Latvia holds the status of Presidency of the EU Council.
- We expect Riga hotel room stock to be supplemented by at least 450 rooms, when new developments now under construction and reconstruction are commissioned in 2015 / 2016.
- We might expect one more international hotel chain to join the Latvian hotel market in the medium run. Additional activity might come from already present international and local hotel chains which are expected to expand their presence.
- Increasing activity by professional hotel chains will force individual hotel owners to put their properties on sale.
- In terms of the present market situation, hotel market players need to seriously consider differentiation of visitation and revenue streams, which will be especially crucial in the second half of the year.

Legal Overview

Real estate in Latvia can be purchased in two ways - via an asset transfer deal or via a share transfer deal. Asset deals and share deals are both commonly used in practice.

Asset Transfer Deals

Main Steps

Usually the sale of real estate by one party (seller) to another party (buyer) would be completed within 2 - 3 months following these main steps:

1. The parties sign a single purchase agreement.
2. Sometimes, in the case of a larger real estate transaction, prior to the final purchase agreement, another agreement (letter of intent or preliminary purchase agreement) is concluded. The preliminary agreement sets out the main terms of the deal (eg, purchase price, payment mechanism, main deadlines to complete due diligence of the real estate and sign the final agreement).
3. The seller offers the municipality or third parties the chance to exercise their right of first refusal to acquire the property on the same conditions as agreed in the signed purchase agreement. The municipality has up to 20 days to do so, but the term for third parties can be different.
4. If a party with a right of first refusal acquires the property, then the purchase agreement signed between the parties terminates in respect of real estate acquired by third parties.
5. Simultaneously with the purchase agreement, the parties negotiate and conclude an agreement with a bank on opening and maintaining an escrow account at the bank.
6. The seller notifies the buyer on receipt of refusals from all third parties with a right of first refusal to acquire the real estate or alternatively the seller confirms that third parties have not replied to the offer to exercise their right within the given term.
7. If third parties (eg, the municipality) do not exercise their right of first refusal, the buyer transfers the purchase price (100 per cent) to the escrow account.
8. After transfer of the purchase price the parties in the presence of a notary public sign the corroboration request to the Land Book for registration of the buyer's title to the real estate. The buyer pays state and stamp duties.
9. The seller files the documents with the Land Book and performs other acts in order to register the buyer's title with the Land Book.
10. After the buyer's title is registered with the Land Book, the bank transfers the purchase price to the seller.

If the purchase of real estate is financed by a third party (eg, a bank) then the lender will require security in the form of a mortgage. This means that a third party will be involved in the transaction. This is usually done by having the third party as a party to the escrow account agreement. There the bank would undertake the obligation to finance payment of the purchase price if mortgages and encumbrances are established.

Main Advantages and Drawbacks

- Registration of title and thus payment of notary fees as well as state and stamp duty is required.
- Limited scope of due diligence investigation is required since the review concerns the target asset only.
- Agreements concluded by the seller for supply of utilities and other services must be assigned to the buyer or new agreements must be signed with utility and service providers.
- An asset transaction may in some cases be treated as sale of the entire company, in which case all obligations associated with the company may be transferred from seller to buyer.

Share Transfer Deals

Main Steps

The main steps for share transfer deals are:

1. Initial agreement on the transaction. This involves the understanding by both parties of the sale process.

   At this stage, the parties would sign a Letter of Intent (usually non-binding apart from confidentiality and exclusivity clauses) that will in general state the understanding of both parties on the subject of the sale and the potential price (including price calculation).

   Usually at this stage a due diligence of the target company starts. Depending on the volume and business activities of the target company, the buyer performs legal due diligence, financial due diligence, tax due diligence, as well as technical, environmental, and other due diligences.

   The aim of the due diligence is to identify potential risks having negative consequences on the business or share value of the target company.

   Results of the due diligence can lead to decrease of the purchase price, change of the deal structure or even to a decision not to proceed with the transaction.
2. Agreement on terms and conditions of the transaction.

   If the results of the due diligence are satisfactory, the parties start work on the transaction documents. In practice, the first draft of the share purchase agreement is provided by the buyer.

   Depending on the complexity of the transaction, negotiations on the terms and conditions of the transaction documents can take from several weeks to several months.
3. Closing the transaction.

   When the parties have agreed on all terms and conditions of the transaction agreements, signing of documents takes place.

   Depending on the complexity of the transaction and the business type of the target company (eg, whether this is a regulated company) as well as on whether the purchase of target company shares is considered as a merger under Latvian Competition Law, the time required for closing the transaction can vary from a couple of weeks to several months after signing the transaction agreements.

   The time for closing is required for the target company to obtain, eg, any consents required for change of control or merger clearances, as well as to provide other documents and perform other acts required for closing so that the title to the shares and control of the target company can be transferred from the seller to the buyer on the closing date. These include, eg, change of the target company management board to ensure transfer of control to the buyer on the closing date.

Between signing and closing the transaction, the buyer has to obtain the sum required to complete the purchase, which is usually paid into the escrow account before the closing date.

4. Registration of changes in the Latvian Company Register.

Depending on the form of company (eg, private limited liability company, public limited liability company, partnership), certain registration procedures must be carried out in the Latvian Company Register and the signatures of most of the documents that have to be filed must be notarised.

Registration may involve: registration of change of Articles of Association, change of the target company management board and notification of change of target company shareholders.

Issues to Consider

When considering a share transfer of a company holding target real estate the following should inter alia be taken into account:

- The buyer is considered to be the seller's legal successor, so that registration of the buyer's title to real estate (and payment of related expenses) is not required.
- Ownership of shares is transferred to the buyer at the time of signing the agreement or on registration with the Latvian Company Register, depending on the agreement. Registration of ownership of shares usually takes a few days.
- When implementing a transfer of a private limited liability company's shares, the signatures of both the buyer and the seller of the shares must be notarised.
- Upon completion of share transfer, the buyer assumes responsibility for the whole company, including any matters that occurred before change of ownership.
- Due diligence investigations are more extensive than in asset transfers as the entire company (with all its rights and liabilities irrespective of whether they were known to the buyer at the time of concluding the agreement) is transferred, as opposed to transfer of the target real estate only.
- Applicability of financial assistance rules.
- Deferred tax issues.

Title to Real Estate, Land Book

Title to real estate is formally created upon registration with the Land Book. Before registration the transaction remains valid between the parties but is not binding on third parties and the buyer cannot exercise ownership rights or other property rights to the real estate.

Registration of title is carried out on the basis of a corroboration request signed by both seller and buyer in the presence of a notary. Payment of stamp and state duty on registration of title is also required. In addition to the corroboration request, the original purchase agreement and documents evidencing payment of state and stamp duties, other documents may have to be filed with the Land Book (eg, written consent of the seller's spouse approved by a notary). Registration of title generally takes ten days as of filing all the necessary documents with the Land Book.

All the information registered with the Land Book, including information on the legal status of the real estate and its encumbrances is binding on third parties and is publicly available (including via the electronic Land Book database) for a fee.

General

A building erected on land is considered to be a part of the land. However, as a result of land reform, situations occur where a land plot and a building situated on it are in different ownership.

Generally, transfer of title to a building or land separately from each other is not possible unless the land plot and the building are registered with the Land Book as separate property objects.

Change of Ownership

Transfer of title to real estate may be restricted by a number of factors, including restrictions on foreign ownership of land, rights of first refusal as well as encumbrances registered with the Land Book, eg, mortgages and prohibition notes. Moreover, before title can be transferred, any real estate tax debt with regard to a particular real property needs to be paid, as well as real estate tax for the current year.

Form of Agreements

Written form is required for transactions with real estate, as well as registration with the Land Book. Notarisation of the purchase agreement is not compulsory, while notarisation is required for corroboration requests to the Land Book.

Language Requirements

There is no specific requirement to use only the official state language (Latvian) in agreements on real estate. Parties to the agreement may choose the language of the agreement themselves. However, if the original language or the prevailing language of the agreement is not Latvian, a translation of the agreement approved by a notary and an original counterpart of the agreement must be filed with the Land Book for registration of the transaction. Corroboration requests to the Land Book are always drafted by a notary in Latvian and if necessary orally translated by the notary or another person to the person signing the request.

Due Diligence

Before carrying out any real estate transaction, it is advisable to research the legal status of the real estate, eg, information on the title holder, encumbrances, lease agreements, pollution and permitted use as set by the local authority. The results of research may be useful for settling the final purchase price that better reflects its value and for more accurate assessment of potential expenses that the buyer is likely to incur on acquisition.

Right of First Refusal

Before title to real estate may be transferred, all persons with a right of first refusal to purchase the particular real estate must be offered an opportunity to exercise their right. Only after all these persons have declined in writing to exercise this right or the term for using these rights has expired may the purchase agreement and the buyer's title be registered with the Land Book.

Certain entities' rights of first refusal are established by law. However, these rights may also be agreed on by the parties to the particular transaction. A local authority has right of first refusal in respect of acquisition of real estate (land and buildings) located in its territory if the real estate is necessary for performance by the local authority of its statutory functions, eg, operation of schools, kindergartens, certain types of social housing.

The state has a right of first refusal upon sale of cultural monuments of state importance, land plots in protection zones as well as in ports and special economic zones.

Rights of first refusal also exist in favour of co-owners of real estate if any of them transfers their ideal part of the real estate to a person who is not a co-owner of the real estate. Additionally, where land and buildings (except buildings which have been divided into apartment properties) constructed on it are in different ownership, the owner of each property has a right of first refusal over the other owner's property if it is sold to a third party.

Rights of first refusal may generally be exercised within two months after the purchase agreement is delivered to persons with such rights. Depending on whether the real estate is or is not necessary for performance by the local authority of its statutory functions, the term for local government is 20 days or five days respectively.

Typical Purchase Price Arrangements

In complex and long-term projects, part of the purchase price (up to 5 - 10 per cent) might be paid by the buyer to the seller as an advance payment on signing the purchase agreement. Normally, the parties agree to use an escrow account with a bank for payment of the remaining purchase price, in which event an escrow account agreement is signed by the seller, the buyer and the bank. From conclusion of the purchase agreement and until registration of the buyer's title to the real estate none of the parties has access to the funds transferred to the escrow account. Generally, the parties agree on a list of documents that need to be submitted to the bank and/or actions that need to be performed by the seller as preconditions to the purchase price being transferred from the escrow account to the seller. A Land Book certificate evidencing the buyer's title to the real estate is usually the main document in the list.

Restrictions

Restrictions on Acquisition of Real Estate

Certain restrictions exist as to foreign ownership of land, while no such restrictions affect ownership of buildings. However, since a building erected on land is generally considered to be a part of the land, in most cases ownership of buildings is subject to the same regulations (restrictions) as is the land. Few restrictions apply as to foreign ownership of land located in cities in Latvia, while the regulations are more stringent with regard to the ownership of land in rural areas.

EU Citizens and Legal Entities

Amendments have been made to the law in force since 1 November 2014 limiting acquisition by foreigners of agricultural land in Latvia (these amendments will be fully applicable from 1 July 2015). As a result of these amendments an EU citizen will be able to acquire not more than 10 ha of agricultural land without any limitations. A citizen who wishes to acquire more must do the following:

- Register as a performer of commercial activities, have no tax debts in their country of domicile.
- Confirm in writing that after purchase of the land they will start agricultural activities with the particular land within 1 or 3 years from the purchase depending on whether the particular land in the previous or current year has been subject to single area payments or direct payments under EU Regulations.
- Confirm that (1) the person has acquired a specific agricultural education or (2) has received single area payments during the last 3 years, or (3) the person receives direct payments or (4) that person's income from agricultural activities during the last three years has formed at least one third of their total income.

Stricter limitations are set for legal entities. Consequently, a legal entity may acquire not more than 5 ha of agricultural land without strict limitations. An entity that wishes to acquire more must comply with all the following rules:

- The entity must be registered in any EU country and as a taxpayer in Latvia, all the shareholders of the entity are EU citizens or citizens of other countries that have concluded agreements on protection of investments with Latvia.
- The entity can identify all its beneficiaries and all of them are EU citizens.
- The entity has no tax debts in Latvia or its country of domicile.
- Confirm that the entity has received single area payments during the last 3 years, or receives direct payments or the entity's income from agricultural activities during the last three years has formed at least one third of all its income.
- Confirm in writing that after purchase of the land the entity will start agricultural activities with the particular land within 1 or 3 years from the purchase depending on whether in the previous or current year the land has been subject to single area payments or direct payments under EU Regulations.
- At least one employee or the shareholder has received an agricultural education or the entity should have at least one shareholder whose income from agricultural activities during the last three years has formed at least one third of that person's total income.

The maximum area of agricultural land that can be owned by one person is 2,000 ha. To ensure wider control over transactions with agricultural land, from 1 July 2015 the Latvian Land Fund will start its activities and will have rights of first refusal to agricultural land if more than 5 or 10 ha (respectively) are being purchased.

Unlike the situation with agricultural land, EU citizens and legal entities have no restrictions on acquiring land plots in cities in Latvia.

Non-EU Citizens and Legal Entities

Citizens of (and companies registered in) the European Economic Area or the Swiss Confederation may acquire land plots but must comply with the requirements set for EU citizens or EU-registered companies. However, this only applies to acquisition of land. Therefore, apartments or buildings may be acquired without further restrictions and limitations unless the land beneath them is part of the property. In most cases, apartment ownership also comprises a certain ideal part of the land plot, the land plot being in the co-ownership of all apartment owners in the building.

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

Merger Control

Real estate transfer may require prior approval by the Latvian Competition Authority (LCA) if it forms part of a company merger. The merger may take the form of either a share transfer or an asset transfer and must be notified for approval to the LCA if at least one of the following criteria is satisfied:

- Aggregate turnover of the companies involved in the transaction exceeds approx EUR 35.6 million for the financial year preceding the merger; or
- Joint market share of the companies exceeds 40 per cent of the relevant market.

However, notification of a merger to the LCA is not necessary if there are only two parties (the seller and the buyer) to the transaction and the turnover of at least one of them does not exceed approx EUR 2.13 million.

If real estate is being acquired or leased as part of a grocery chain or a retail company, additional considerations should be taken into account.

Encumbrances

Real estate may be encumbered with servitudes, rights of first refusal, lease rights registered with the Land Book, mortgages, protection zones and other encumbrances that should be taken into account when contemplating acquisition or lease of real estate, in particular with respect to constructions on it.

Property Management

Maintenance of both commercial and residential real estate is usually carried out by the owner or by an entity contracted by the owner.

Lease Agreements

General

Latvian Civil Law lays down the general terms for lease agreements. In residential law, the Law on Residential Tenancy grants extra protection to tenants in comparison with general Civil Law regulation. The reason for this difference is that the tenant is considered to be the weaker party to a residential lease agreement.

In order for a commercial lease agreement concluded by the seller of real estate with a tenant to be binding on the buyer, it needs to be registered with the Land Book. Without registration, the buyer may terminate the lease agreement, in which case the seller must compensate the tenant for all losses caused to the tenant by early termination. Residential lease agreements, in turn, are binding on the buyer, irrespective of registration with the Land Book.

Duration and Expiry of Lease Agreement

Lease agreements may be concluded for a definite or indefinite term. General rules on termination of lease agreements are laid down by law, while additional rights of each party to unilaterally terminate the agreement may be specifically agreed on by the parties. However, the landlord's rights to unilaterally terminate a residential lease agreement are limited to cases specifically provided for under the Law on Residential Tenancy.

Lease Payment and Other Expenses (Utilities)

Pre-payment of lease payments (as a deposit or a guarantee) is usually required by the landlord. These deposits and guarantees as well as the payment procedure are not specifically regulated by law.

In addition to rent, accessory expenses are usually paid by the tenant. Accessory expenses include payments for maintenance of the real estate and utilities provided such as water, gas and electricity.

Distressed Assets Purchase

Acquisition of distressed real estate can be on the basis of a voluntary agreement between the parties, in a procedure for compulsory enforcement or during insolvency proceedings of the owner of the real estate. In any case acquisition of distressed real estate is more complex. Therefore a thorough due diligence should be performed. The risk of the seller becoming insolvent has to be taken into account when planning distressed purchases, since a transaction made on conditions detrimental to the seller may be revoked during subsequent insolvency proceedings. This risk is at its highest during the first six months prior to beginning of insolvency proceedings. Therefore making any purchase price pre-payments to a potentially insolvent seller is not advisable and the transaction should be concluded on market terms.

Compulsory enforcement procedure is carried out by bailiffs and is executed through auction under the procedure set by the Civil Procedure Law. Sale of real estate during insolvency proceedings is also usually by auction and is regulated by the Insolvency Law and Civil Procedure Law.

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Tax Summary

Latvian Corporate Income Tax System

Latvia has a traditional profit based corporate taxation system where 15 per cent corporate income tax (CIT) is assessed on a company's financial profit (loss) that has been adjusted by certain corrections required by law. Resident companies are taxed on their worldwide income. Non-resident companies are taxed on their Latvia-sourced income either through permanent establishment (PE) at the standard 15 per cent CIT rate or by withholding tax at the rates varying between 2 per cent and 5 per cent.

Losses arising before and including the 2007 tax year can be used for the following 8 years. Losses arising in 2008 and later tax years may be carried forward indefinitely.

Acquisition

- Upon acquisition of land or land and buildings, or a building property which includes residential building (including function-related buildings), a 2 per cent stamp duty is levied on the property value.
- Upon acquisition of land or land and buildings, or a building property which includes only non-residential building or non-residential buildings and related engineering structures, a 2 per cent stamp duty is charged on the real state value, capped at EUR 42,686.15.
- If legal title is transferred under a deed of gift, a 3 per cent stamp duty is levied on the property value.
- If the legal title on residential building is transferred to the commercial entity, a 6 per cent stamp duty is levied on the property value.
- If real estate is invested in the share capital of a company, a 1 per cent stamp duty is payable on the investment value.

In first three cases described above, if legal title is transferred to spouses, children, parents, siblings, stepsisters/stepbrothers, grandchildren, great-grandchildren and great-grandparents, for registration of legal title in Land Register, a 0.5 per cent stamp duty is charged on the value of real estate.

The value of the real estate for the purposes of stamp duty is determined as the highest value of:

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

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

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

Rent

Value Added Tax (VAT): In general, companies pay 21 per cent VAT on the rental value, with the exception of residential property leased to individuals for dwelling purposes, which is exempt from VAT.

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

Withholding Tax (WHT): If a non-Latvian resident company rents Latvian located real estate to a Latvian company, the proceeds attract a 15 per cent WHT in the recipient of this payment is resident in off-shore country and 5 per cent WHT in other cases.

Personal Income Tax (PIT): Rental income is taxed at a rate of 23 per cent. A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filled. In this case all expenses related to rental activities are deductible, and any loss can be offset over a period of three years.

A person that is not registered with the tax authorities for commercial purposes pays PIT at a reduced rate of 10 per cent after filing the annual income tax return, if the lease agreement is presented to Latvian tax authorities. The taxable income may be reduced by paid real estate tax, however other expenses are not deductible.

If person has not presented the lease agreement to Latvian tax authorities nor registered for commercial purposes with tax authorities, the income of lease will be subject of 23 per cent PIT with no deduction for expenses associated with rental activities.

Sale

Value Added Tax (VAT): The sale of used real estate is generally exempt, with the exception of new (unused) real estate or development land. As of 1 January 2014, the definition of new unused real estate includes:

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

- A building under construction, or its part under construction, that has not been maintained, and the related land, or a part of related land;
- A building, or its part, that is under reconstruction, renovation, restoration, and has not been maintained, and the related land, or a part of related land.

As of 1 January 2014, the development land is defined as a piece of land that has a construction permit issued for building work or for the construction of engineering communications or roads. However, the parcel qualifies as development land only if the construction permit has been issued after 2009. The land is not meeting the definition of development land if the construction permit for construction works has been issued:

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

The applicable rate of VAT is 21 per cent.

In the case of reconstruction, VAT is levied on the difference between the selling price and the value before reconstruction.

The taxpayer may recover input VAT paid on the acquisition if the property is used to make taxable supplies. At the same time there is 10 years period during which the recovered input VAT should be repaid to the state budget if the taxable supplies are discontinued.

VAT registered traders may opt to charge VAT on supplies of used real estate if the sale is made to VAT registered person.

Construction services as defined in the VAT Act attract reverse charge VAT if:

- They are supplied in Latvia,
- The supplier and customer are both registered for VAT, and
- Non-cash payment is made.

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

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

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

A recent State Revenue Service ruling exempts WHT on proceeds where shares in a real estate company are sold through a share exchange as part of a group reorganisation.

CIT Act allows the non-resident from EU or DTT countries to pay 15 per cent on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence.

Any payment for the sale of real estate made to off-shore entity would be subject to 15 per cent WHT.

Personal Income Tax (PIT): If an individual sells real estate for non commercial purposes, a 15 per cent PIT is charged on the difference between acquisition cost and selling price. In this case the amount of PIT due must be declared and paid on or before the 15th day of the following month if the capital gain exceeds EUR 711.44.

The exemptions:

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

Land Tax

There is no land tax in Latvia.

Real Estate Tax

Real estate tax is levied on all land and buildings in Latvia owned by individuals or companies.

Starting from 1 January 2013 the local authorities in Latvian regions and cities are free to set rates on real estate in their area at 0.2 per cent - 3 per cent of cadastral value. A rate exceeding 1.5 per cent may be charged only on improperly maintained real estate. Applicable rates for the following year must be published by 1 November in the current year.

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

- 0.2 per cent of cadastral value below EUR 56,915;
- 0.4 per cent of cadastral value between EUR 56,915 and EUR 106,715;
- 0.6 per cent of cadastral value above EUR 106,715.

Relief is available to certain categories of taxpayers (such as families with three or more children under the age of 18).

All other real estate, including land and property used for commercial purposes, attracts a 1.5 per cent RET.

A 3 per cent RET applies to structures that are environmentally degrading, have collapsed, or endanger human safety.

From 1 January 2014 the same rate of 3 per cent is also applied for newly constructed buildings in case the permitted construction period has expired. The tax is applicable from the next month following the expired date and will be charged till the months the building is maintained in line with statutory procedures. The rate will be charged on the highest of cadastral value of the related land and the cadastral value of building itself.

There is a specific transition period, covering the construction permits issued before 1 July of 2013 and not extended till 31 December 2014, according to which the tax will be payable.

Unused agricultural land is taxable:

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

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

From 1 January 2014 the living property owned by proprietors are eligible for reduced rates (0.2 per cent to 0.6 per cent), but only in cases the property is rented out and the rent rights are properly registered within the Land Register of Latvia. There is also new obligation to notify the local council in case the business activities are carried out in the living property. The same notification must be submitted in case the business activity has ceased.

Notary Fees

Fees for drafting the Land Book registration application and approving the parties' signatures generally amount to EUR 92.

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Lithuania Market Overview

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Momentum Tends to Slow Down

The year 2014 fully met expectations, as Lithuanian RE market was as active as ever, especially in Vilnius. Strong interest from investors materialized in a series of cashflow investment deals recorded across the Baltic States. Moreover, new players entered the market (Nordic and Baltic Property Group, Prosperus RE fund), while the tense geopolitical situation did not have a strong negative impact as part of the investments earmarked for Russia and Ukraine were redirected to the Baltic States.

Further construction of commercial RE objects continued, especially in the office segment. This was encouraged by significant activity of international companies seeking opportunities to establish their businesses in Lithuania. Besides, the perspective of Euro integration in 2015 raised internal demand even more as citizens were seeking to invest or spend their money, afraid to lose their savings due to the change of currency. As a result, domestic consumption hit new heights, positively affecting the retail market. The industrial segment demonstrated positive stability with a significant amount of built-to-suit projects and the growing popularity of e-commerce having a stimulating effect on the transportation and storage sector.

Although the economic prognosis for 2015 is more conservative compared to previous years, perspectives for the Lithuanian commercial RE market remain quite positive. Further growth of external demand for office space is expected together with growing supply of retail space and entry of new retail chain Lidl. The industrial segment could experience some difficulties related to the Russian embargo, although companies are still positive about business perspectives due to a strong internal market and alternative export directions.

Sincerely,

Ramune Askiniene

Economic Overview

Summary

Continuing growth in domestic consumption and an increase in value added of the construction sector maintained the Lithuanian economy among the fastest growing in the EU. Marked instability in the geopolitical situation and the weak recovery of the Euro zone economy had a slight negative impulse for the growth of the Lithuanian economy in 2014 especially during H2 when exchange of sanctions between Russia and the EU began. According to preliminary data, GDP growth in Lithuania for 2014 stood at 2.9 per cent or 0.4 per cent lower than in 2013.

The average annual change in consumer prices in 2014 stood at + 0.2 per cent y-o-y, or 1 per cent lower than in 2013. As usual, the biggest decrease was recorded in communication (-6.3 per cent) and transport (-1.9 per cent) services as well as clothing and footwear (-0.3 per cent). Growth of prices was registered among alcoholic beverages and tobacco products (3.8 per cent) together with hotels, cafes and restaurant services (2.8 per cent). Comparing December 2014 with December 2013, the most significant decrease was recorded in gas prices (-13.9 per cent) and vegetables (-11.7 per cent). With Lithuania joining the Euro zone in 2015, a slight increase in prices can be recorded, although based on the experience of other countries, Euro-related growth more than 0.2 - 0.3 per cent is not expected.

The situation in the labour market continued to be positive. The unemployment rate in 2014 stood at 10.7 per cent, or 1.1 per cent lower than in 2013, mainly due to a decrease in youth and long term unemployment. As a result, every third person aged 15 - 24 was employed. Moreover, further wage increases were also recorded. In 2014 growth of real earnings was even higher than that of gross wages (5 per cent and 4.6 per cent growth, respectively) compared to 2013. The unemployment rate in the near future is expected to maintain positive trends as general improvements in the labour market with growing numbers of work places and increasing wages will encourage employees to find a job rather than live on social benefits.

In 2014, trade volume in Lithuania grew by 5.6 per cent compared to 2013. The highest increase in retail volume was recorded among non-food products (8.4 per cent), with retail sales of food, beverages and tobacco increasing by 2.4 per cent. This confirms that the basket of goods is changing, with customers spending less money on first necessity goods (such as food) and prepared to acquire additional products. Besides, a significant increase (27.6 per cent) was recorded in retail sales via mail order houses or via the internet.

Tendencies and Forecasts

- The Lithuanian economy is expected to further maintain positive trends. However, the situation in the international environment and uncertainty about the future may create more of a struggle for sustainable growth.
- Lithuania's integration into the Euro zone in 2015 will create a more reliable image of the country's economy, leading to increasing foreign investment flows and deeper integration into Western markets.
- The Lithuanian labour market will remain positive, with a decreasing unemployment rate and increase in wages caused by active expansion of Shared Service Centres (SSCs). However, the emigration problem will remain relevant, creating even higher competition among companies fighting for a qualified labour force.
- Domestic demand will become even more important for the Lithuanian economy in 2015, offsetting the effects of reduced exports and slightly contracted construction volumes (after strong growth in 2014) in order to maintain sustainable economic growth.

Key Economic Indicators of Lithuania

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015F
Nominal GDP, EUR billion	24.1	29.0	32.7	26.9	28.0	31.2	33.3	35.0	36.3	n/a
GDP at Chain-linked Volume, EUR billion	28.4	31.5	32.3	27.6	28.0	29.7	30.9	31.9	32.8	33.8
GDP growth, % yoy	7.4	11.1	2.6	-14.8	1.6	6.1	3.8	3.3	2.9	3.1
Industrial Production, % yoy	5.4	1.5	4.9	-13.8	6.3	6.4	3.7	3.3	3.8	n/a
Unemployment Rate, % avg	5.6	4.3	5.8	13.7	17.8	15.3	13.4	11.8	10.7	9.7
Growth of Average Monthly Gross Earnings, %	17.2	20.5	19.4	-4.4	-3.3	2.9	3.8	5.1	4.6	5.1
Total Public Debt, % GDP	17.9	16.8	15.5	29.5	38.5	39.4	38.3	36.6	38.3	n/a
HICP avg., % yoy	3.8	5.8	11.1	4.2	1.2	4.1	3.2	1.2	0.2	0.9
CIPI avg., % yoy	9.8	13.8	9.5	-10.6	-4.3	3.9	3.7	3.9	1.7	n/a
Fiscal Balance, % GDP	-0.4	-1.0	-3.3	-9.5	-7.2	-5.5	-3.0	-2.6	-0.6	n/a
Export, EUR billion	11.3	12.5	16.1	11.8	15.7	20.2	23.0	24.5	24.4	n/a
Import, EUR billion	15.4	17.8	21.1	13.1	17.7	22.8	24.9	26.2	26.5	n/a
C/A Balance, EUR billion	-2.6	-4.1	-4.2	1.0	0.0	-1.2	-0.1	0.4	0.1	n/a
C/A Balance, % GDP	-10.6	-14.4	-12.9	3.7	0.1	-3.7	-0.2	1.2	0.4	0.2
Cumulative FDI, EUR billion	8.4	10.3	9.2	9.2	10.0	11.0	12.1	12.7	n/a	n/a

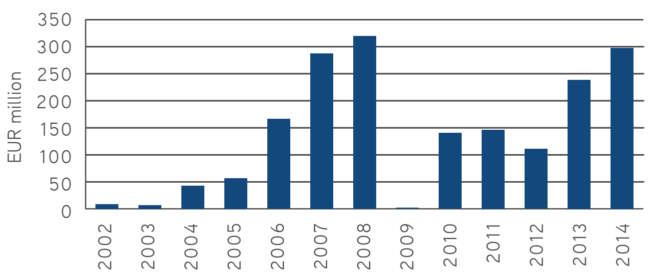
f - forecast
Source: The Lithuanian Department of Statistics, Ministry of Finance, Bank of Lithuania

Investment Market

General Overview

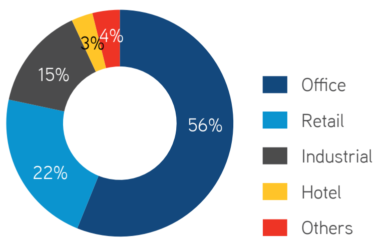
- 2014 saw growing investment activity maintained in the Lithuanian RE market, with increased transaction volume, entry of new players and further contraction of investment yields.
- During 2014 investment volume in Lithuania increased by almost 25 per cent and in terms of the number of cashflow deals Lithuania was the leader among the three Baltic States.
- Office properties in Vilnius were the most popular investment objects, creating more than 56 per cent of total transaction volume (including the biggest investment deal in the Baltic States - acquisition of 3 Bures BC (the former Vilnius Business Harbour) for EUR 61.6 million).
- Domination by Baltic, Nordic and Russian investors continued in the Lithuanian RE market. Integration with the Euro zone in 2015 is very likely to lead to a wider geographical spread of investors, especially from Western countries.

Dynamics of Investment Volume* in Lithuania



* - deals over EUR 0.4 million
Source: Colliers International

Investment Volume by Sector in 2014



Source: Colliers International

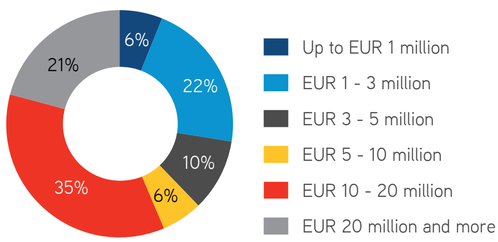
Investment Volumes

After the renaissance of investment market activity in Lithuania in 2013, the situation in the RE investment market in 2014 was even more positive. The situation was encouraged not only by a positive performance from the Lithuanian economy, with growing internal consumption and the retail trade, but also by vigorous activity from Shared Service Centres (SSCs) and Information Communication Technology (ICT) companies, which have been actively expanding in Lithuania. Besides, positive expectations related to Euro integration in 2015 gave an additional impulse to attract investment in the Lithuanian RE market. Despite some speculation about the negative impact of the Russia - Ukraine conflict in terms of attracting investment in Lithuania, especially from Russia, those fears have not materialized and investors from Russia have remained interested in the Lithuanian RE market.

During 2014 investment volume in Lithuania reached EUR 298 million, an increase of 24.8 per cent compared to 2013. The majority of investment deals (56.1 per cent) were implemented in the office segment (including but not limited to acquisition of 3 Bures BC, Business Park 4, Trio BC, Grand Office BC, North Star BC, Seimyniskiu BC) enlarging investment volume by more than EUR 135 million. Moreover, a significant number of investment deals (22.4 per cent) were observed in the retail segment (for instance, acquisition of Jeruzales SC, Norfa SC, Domus Centras retail and office complex, Mandarinas SC and some others).

The Lithuanian RE investment market was further dominated by Baltic, Nordic and Russian investors with the top three investors being East Capital, Nordic and Baltic Property Group and Capital Mill. These stood at the forefront together, investing more than EUR 123 million (41.4 per cent of total investment volume in 2014).

Investment Turnover by Size in 2014



Source: Colliers International

Top 5 Investment Deals in Lithuania in 2014				
NO.	OBJECT	SECTOR	GBA, SQM	INVESTOR
1.	3 Bures BC	Office	~30,000 (without parking)	East Capital
2.	Business Park 4	Office	29,600	Nordic and Baltic Property Group
3.	Trio Business Centre	Office	20,550	Nordic and Baltic Property Group
4.	Retail and office complex Domus Centras	Retail / Office	19,250	Westerwijk Investments
5.	North Star Business Centre	Office	10,500	Prosperus Real Estate Fund
TOTAL			**109,900**	

Source: Colliers International

Investment Yields

Market stabilization during 2013 - 2014 with a decrease of uncertainty and a positive performance by the Lithuanian economy gradually compressed investment yields, especially of prime properties in Vilnius. Investors were actively seeking attractive investment objects, thus increasing competition, which had a positive impact on sale prices. Additionally, the entry of new players (eg. Nordic and Baltic Property Group, Prosperus Real Estate Fund) and the perspective of Euro integration in 2015 moved the Lithuanian investment market, confirming positive expectations for the future.

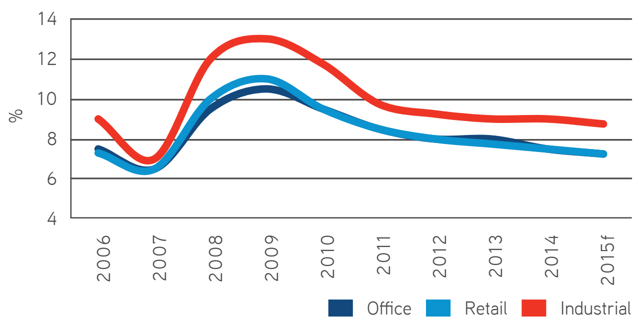
In 2014 prime investment yields in Vilnius fluctuated between 7.5 per cent and 9 per cent depending on property type and sector. The lowest yields were recorded among prime retail and office properties - 7.5 per cent - while the highest yields remained in the industrial segment, at approx 9 per cent.

Other Lithuanian cities remained quite inactive in terms of investment in RE due to weak regional economics and lower levels of business concentration. A possible exception is the industrial segment in Kaunas and Klaipeda where several deals were implemented. However, the recovery of investment yields in those cities is not yet significant.

Tendencies and Forecasts

- After integration with the Euro zone Lithuania is expected to become even more attractive to investors not only from the usual regions (the Baltics, Scandinavia, CIS countries), but also from Western countries.
- Despite good economic performance and increasing investment activity Lithuania will maintain greater investment returns than in some other European regions.
- Main investment targets are expected to remain office and retail properties located in Vilnius with strong cashflow and core locations.

Prime Yield Dynamics in Vilnius



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Source: Colliers International

Office Market

General Overview

- During 2014 the strongest performance in the office market was again recorded in Vilnius while other cities remained calm, with Kaunas a slight exception.
- About 63,000 sqm of new office space is planned to be constructed in Vilnius by the end of 2015.
- The Vilnius office market is more favourable for landlords (due to high demand and low vacancy), so asking higher rent rates for high quality and new office space is a common feature of the current market.
- During 2014 an increase in demand for class A office space was observed, especially from international companies.
- In 2014 rent rates for office space increased only in Vilnius (by 4 per cent) while other cities maintained the status quo.
- Positive trends in vacancy levels were recorded in all major cities in Lithuania (Vilnius, Kaunas, and Klaipeda) while Vilnius almost reached the pre-crisis level.

Supply

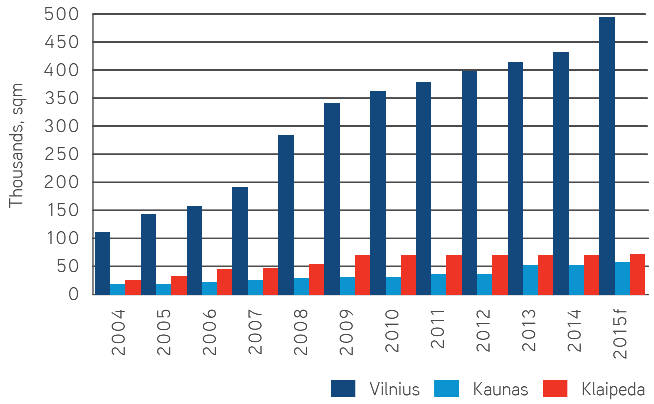
At the end of 2014 Vilnius office space supply stood at 428,120 sqm and grew by 3.9 per cent compared to 2013 with the introduction of three new business centres (Grand Office BC, Baltic Hearts BC 3rd stage, and Basanaviciaus BC).

With expectations for the future further improved, and over 150,000 sqm of new office space in the pipeline, the period 2015 - 2017 is expected to be quite active in terms of construction of new speculative business centres in Vilnius compared to the last several years. The majority of new construction will be concentrated in the city centre (about 61 per cent) where the highest demand currently exists for office space. Moreover, up to 56 per cent of new supply will be of class A office space.

Kaunas office market supply remained stable in 2014, but due to limited supply and a low level of vacancy some activity was recorded there. Construction of a new business centre by Mikrovisata (GLA of 3,600 sqm) and a small office building at Ozeskienes Street 15 (GLA of 1,000 sqm) is under way. Additionally, two more business centres at Pramones Street (Pramones 4D BC and Pramones 6 BC) are planned for implementation in the coming years.

In contrast to Vilnius and Kaunas, the Klaipeda office market remained in a difficult position with high vacancy and low level of investment as existing supply strongly exceeded demand. Only one small renovated office building "Liepu biurai" (GLA of 1,190 sqm) in the city centre was introduced in 2014, enlarging office space supply by 1.7 per cent. Plans for the future are modest, limited to introduction of small office objects mainly based in renovated buildings.

Dynamics of Speculative Office Space



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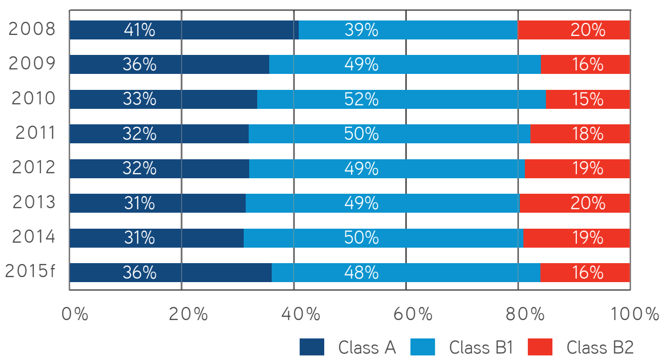
Source: Colliers International

Distribution of Speculative Office Space in Vilnius by Class



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Source: Colliers International

Completed Office Projects in Vilnius in 2014

PROJECT	CLASS	ADDRESS	GLA, SQM	DEVELOPER
Grand Office BC	B1	Virsuliskiu Sq. 34	10,500	YIT Kausta
Baltic Hearts (3rd stage)	A	Ukmerges St. 120	3,300	Indeco
Basanaviciaus BC (reconstruction)	B1	J. Basanaviciaus St. 15	2,250	Norvelita
TOTAL			**16,050**	

Source: Colliers International

New Development Pipeline of Office Projects in Vilnius

PROJECT	CLASS	ADDRESS	GLA, SQM	DEVELOPER	OPENING YEAR
Vertingis BC	B1	Ukmerges St. 322	5,570	Invalda	2015
Sostena BC	B1	Ukmerges St. 280	2,300	Sostena Auto	2015
K29 BC	A	Konstitucijos Av. 29	12,000	Lords LB	2015
Premium BC	B1	Sporto St. 18	7,120	Evolis	2015
Uniq BC	A	A. Gostauto St. 12A	7,000	Vastint (former Pinus Proprius)	2015
Quadrum Business City	A	Konstitucijos Av. 21	43,000	Schage RE	2015 - 2016
Santariskiu BC	B1	P. Baublio St. 2	2,000	Realinija	2016
Zalgirio 135 BC	B1	Zalgirio St. 135	4,600	Eika	2016
Hanner BC at Zalgirio St.	B1	Zalgirio St. 90	19,200	Hanner	2016
Green Hall BC (2nd stage)	A	Upes St. 21	7,600	SBA Koncernas	2016
Narbuto BC	A	T. Narbuto St. 5	4,600	E.L.L. Real Estate	2016 - 2017
VCUP Office Centre	B1	Konstitucijos Av. 16	~8,000	VCUP	2016 - 2017
Delta BC	B1	J. Balcikonio St.	21,000	Technopolis	2016 - 2017
3 Bures (expansion)	A	Lvovo St. 25	13,000	East Capital	2017
TOTAL			**156,990**		

Source: Colliers International

Demand

Growing demand for office space and decrease in vacancy led landlords to strengthen their position in the market, especially in 2014, as finding suitable office space was quite challenging. The biggest demand came from growing companies looking for larger office space and entry of new international SSC or ICT companies.

In Vilnius, office premises of class B1 located in CBD and close to the city centre still attracted the highest demand. Nevertheless, in 2014 an increase in demand for class A office space was also observed. Moreover, growing interest in the Kaunas office market was recorded as international companies were also interested in establishing a presence there.

The outlook for demand growth in the Vilnius and Kaunas office markets remains optimistic as international companies continue to seek opportunities to open their branches in Lithuania or expand existing staff due to a relatively cheap and highly qualified workforce.

Rent Rates

Growth in rent rates for the last few years has mainly been recorded only in Vilnius. During 2014 rent rates for office space increased by 4 per cent, with the most significant growth recorded in class A and B1 business centres, by 4.8 and 5.9 per cent respectively.

Rent rates in Vilnius are expected to maintain sustainable growth (2 - 3 per cent) as improving economic conditions and further expansion of SSCs keep demand at a solid level.

Kaunas and Klaipeda are still showing a low level of activity in the office market, so rent rates remained stable there, with no sign of significant growth predicted in the coming years.

Rent Rates* for 2014 in Vilnius, Kaunas, Klaipeda and Trends for 2015

CLASS	VILNIUS		KAUNAS		KLAIPEDA	
	RENT RATES	TRENDS FOR 2015	RENT RATES	TRENDS FOR 2015	RENT RATES	TRENDS FOR 2015
A existing	13.0 - 17.4	→↗	8.7 - 10.1	→→	-	→→
B1 existing	8.7 - 13.0	→↗	7.2 - 10.1	→→	5.8 - 8.7	→→
B2 existing	6.6 - 9.6	→↗	5.2 - 7.2	→→	4.3 - 6.3	→→

* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable, →↗ - slight increase
Source: Colliers International

Vacancy

The latest year for the Vilnius office market was the most successful since the crisis. Vacancy levels decreased significantly in all business centres, reaching 6.5 per cent, with demand for office space becoming higher than supply and developers actively constructing new office projects of which the majority had pre-lease contracts before completion of construction. At the end of 2014 the vacancy rate in class A business centres stood at 1.6 per cent, compared with 8.6 per cent in class B.

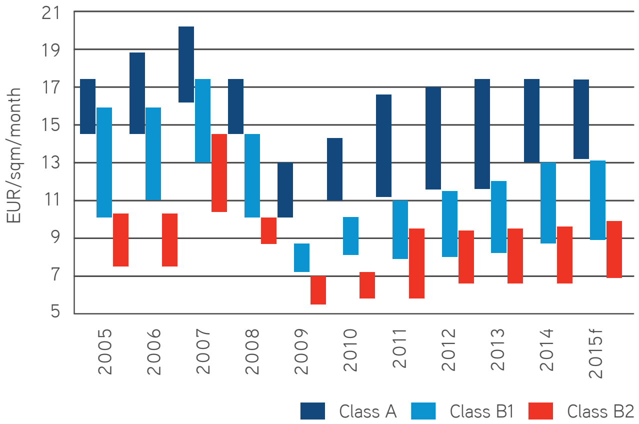
During 2014 Kaunas continued to have the lowest vacancy level in the country (approx. 2 per cent) mainly due to low levels of existing supply of modern office space. However, uncertainty in demand as well as relatively low rent levels deterred developers from hurrying to deliver new projects.

The situation in the Klaipeda office market continued to be negative. Although the vacancy level decreased to 14.5 per cent, unoccupied office space (especially in modern office premises) was still high.

Tendencies and Forecasts

- Investment in the Vilnius office market will continue, with a positive situation in business activity and tenants looking for higher quality premises encouraging developers to offer new modern solutions for tenants seeking more exceptional or environmentally friendly office space.
- Despite the optimistic mood in the market, developers will remain rational and future development will depend on how successfully anchor tenants are found. The lessons of the crisis have been learned and new construction is only implemented after thorough market analysis and a real need for new space.
- Although demand for office space is expected to grow, landlords of older business centres will have to put in more effort in order to retain their tenants as newly built office space is more attractive.
- Rent rates in Vilnius are expected to grow slightly by 2 - 3 per cent in the coming years, confirming healthy growth of the economy and the Vilnius office market. However, other cities will maintain the status quo.
- The vacancy rate for office space in Vilnius and Kaunas is expected to remain low but stable. A bigger decrease in vacancy will be prevented by growing supply despite the fact that demand continues to be high.

Dynamics of Rent Rates* in Vilnius



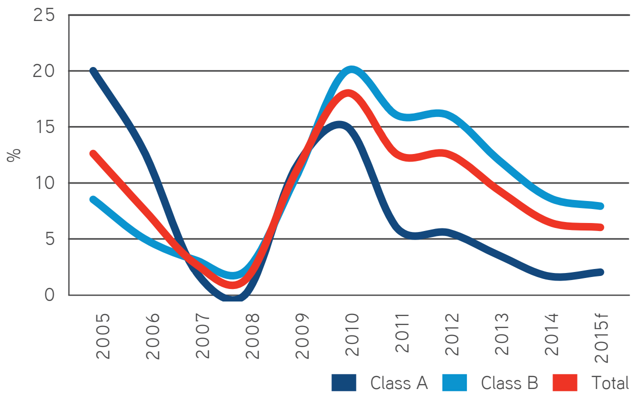
* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
f - forecast
Source: Colliers International

Vacancy Rates for 2014 in Vilnius, Kaunas, Klaipeda and Trends for 2015

CITY	2014	TRENDS FOR 2015
Vilnius	6.5 %	→→
Kaunas	2.0 %	→→
Klaipeda	14.5 %	→↘

→→ - stable, →↘ - slight decrease
Source: Colliers International

Dynamics of Vacancy Rates in Vilnius



f - forecast
Source: Colliers International

Business Centres in Vilnius

Existing Developments

1. BPT
2. MG Baltic
3. Baltic Centre
4. Eika
5. Office Plius
6. Victoria
7. BC12
8. Taurakalnis
9. Merchants Club
10. Vertas
11. BC 2000
12. House of Europe
13. Plaza 31/1
14. Administrative Building, Roziu St.
15. VIH
16. Helios City
17. Evita
18. LJB
19. Vilbra
20. Vytenio 46
21. Skraja
22. Smolensko
23. Skraidenis
24. Marenta
25. Green Hall
26. Hanner
27. Saltoniskiu St.
28. Saltoniskiu Trikampis
29. Baltic Hearts, 1st, 2nd stage
30. Europa
31. 3 Bures
32. IBC
33. Zalgiris
34. Kernave
35. Tuskulenai
36. North Star
37. Domus Centre
38. Danola
39. Ulonu
40. Ozo
41. Akropolis
42. Jin & Jan
43. Trapecija
44. L3
45. Evolution
46. Commercial & Administrative building
47. Unimodus
48. Business Park 4
49. Trio
50. Kamane
51. Orange Office
52. Alfa
53. Beta
54. Gama
55. Business - Residential Complex, Zirmunu St.
56. Business - Commercial Centre, Zirmunu St.
57. Zirmunu BC

Completed in 2014

1. Baltic Hearts, 3rd stage
2. Grand Office
3. Basanaviciaus

Declared for Completion in 2015

1. K29
2. Quadrum, 1st stage
3. Uniq
4. Premium
5. Sostena
6. Vertingis

Retail Market

General Overview

- During 2014 the retail market in Lithuania showed positive stability with an increase in retail space supply and further expansion of grocery retail chains.
- Construction of neighbourhood type SCs was the most popular as it leads to guaranteeing successful performance for the investor.
- New grocery retail chain Lidl was actively constructing stores all over the country with high expectations to enter the market in 2015.
- The demand for retail space remained high due to active expansion of international brands (eg, entry of Burberry, Frey Wille, Desigual, expansion of H&M).
- Customer flows in SCs grew further despite a decrease in external demand (customers from CIS countries) as local customers compensated the difference.
- The vacancy rate remained low especially in successfully operating SCs, thus creating a favourable environment for a slight increase in rent rates.

Supply

At the end of 2014, Vilnius retail space supply stood at 574,300 sqm and grew by 4.1 per cent y-o-y. Three new SCs were opened with total GLA of 22,620 sqm. All these SCs are neighbourhood centres with a large retailer as anchor tenant. Additionally, SC GO9 (former Gedimino 9; GLA of 10,600 sqm) has finally completed reconstruction and reopened with one of the largest H&M stores in Lithuania.

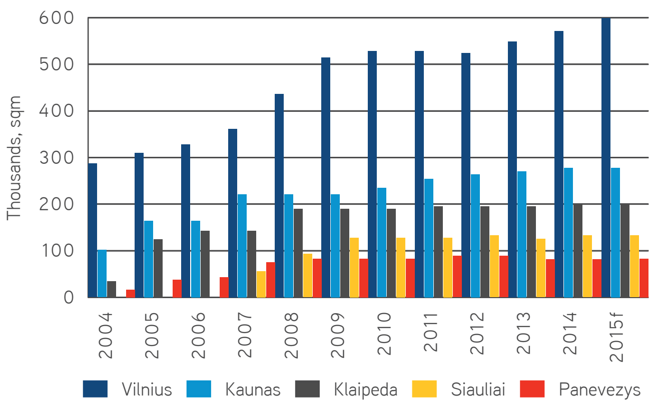
As Kaunas has the second largest retail space supply in Lithuania (after Vilnius), at the end of 2014 this stood at 279,460 sqm and increased by 2.7 per cent y-o-y. New neighbourhood type SC (GLA of 7,280 sqm) owned by Lords LB fund opened with anchor tenant Rimi Hypermarket.

Some activity was also recorded in the Klaipeda retail market. After a two-year break, a newly constructed SC Luize (GLA of 4,100 sqm; anchor tenant Rimi) enlarged the Klaipeda retail market supply to 200,640 sqm.

The retail market in other Lithuanian cities faced qualitative rather than quantitative changes in 2014. For instance, both Babilonas SCs in Panevezys replaced their anchor tenants. Moreover, Babilonas I SC implemented reconstruction works which expanded it by 1,600 sqm and at the beginning of 2015 announced that it's now called RYO. Besides, the former Bauhof store in Panevezys was rearranged as an industrial building showing that abandoned retail space can be used in an alternative way.

In 2014 activity by retail grocery chains was still one of the most important drivers of the retail market in Lithuania. New retail grocery chain Fresh Market actively expanded in Lithuania,

Dynamics of Retail Space



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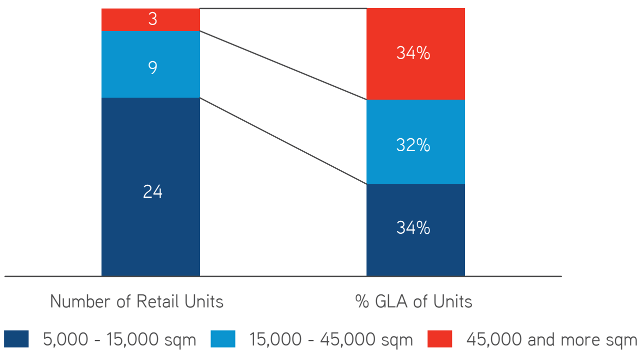
Source: Colliers International

Distribution of Retail Space in Vilnius by Size



Source: Colliers International

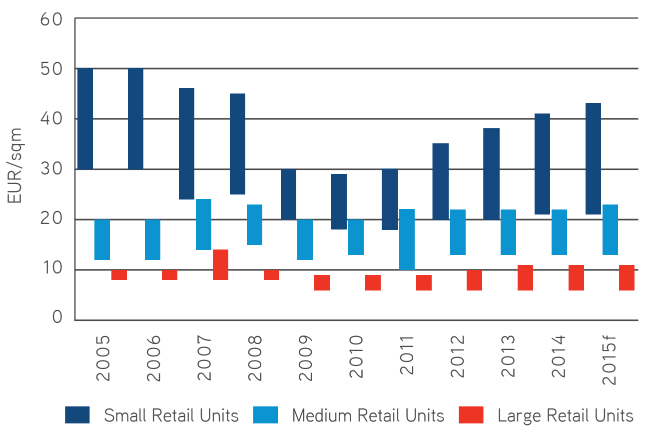
New Projects in Lithuania in 2015 - 2016						
CITY	YEAR	PROJECT NAME	ADDRESS	GLA, SQM	DEVELOPER	ANCHOR TENANTS
Vilnius	2015	Domus Pro (2nd stage)	Bieliunu St. 1	4,500	Northern Horizon Capital (former BPT)	-
		Rimi Hypermarket	Linkmenu St. 22	5,500	BM bustas	Rimi
		Nordika SC (1st stage)	Zirniu St.	18,000	Prekybos parkas	Senukai; Rimi
	2016	Nordika SC (2nd stage)	Zirniu St.	22,000	Prekybos parkas	Elektromarkt; Kotryna
		Olinda	Pavilnioniu St.	14,500	Vicus Group	Prisma
		Parkas Outlet (expansion)	Verkiu St. 29	3,000	Ogminos centras	Norfa
Kaunas	2016	Mega SC (expansion)	Islandijos Av. 32	22,000	Baltic Shopping Centers	Sport centre; H&M
Klaipeda	2016	Depo SC	Silutes Rd.	12,000	Kita kryptis	-
TOTAL				101,500		

Source: Colliers International

especially in Kaunas, where it already had the largest number of stores (8). Additionally, in various cities in Lithuania Lidl has been actively constructing stores which are planned to open in 2015. As expansion of retail chain Rimi has been quite weak for the last few years, overall 2014 and especially H2 of 2014 was significantly more active as in a two-month period as many as four new stores of the Rimi chain opened: one in Vilnius and three in Kaunas.

In terms of construction of new SCs, a slight growth of supply is predicted in the coming years. However, the majority of planned developments will be neighbourhood or community centres. Only one larger SC (Nordika SC; GLA of 40,000 sqm) is planned for construction during 2015 - 2016 in Vilnius, near IKEA SC. In addition, Mega SC in Kaunas announced plans to expand by 22,000 sqm in 2016 to become the largest SC in Kaunas and the second largest in Lithuania.

Dynamics of Rent Rates* in Large Shopping Centres in Vilnius



* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
f - forecast
Source: Colliers International

Demand

In 2014 previous trends were confirmed in terms of increasing domestic consumption, growing turnover and strong demand for retail space. The market share occupied by international brands grew further (eg, Burberry, Frey Wille, Desigual) causing greater competition among SCs, which benefited both customers and landlords.

Qualitative changes became the most important issues as customers started to pay more attention to service quality, a healthy environment and time-saving solutions while shopping. As a result, managers of SCs were actively improving their tenant mix and offered alternative leisure activities. Besides, e-commerce, encouraged by rapid growth in new technologies, became a strong competitor for SCs.

A tense geopolitical situation related to the Ukraine - Russia conflict led to a decline in customer flows from CIS countries, especially in major SCs, thus negatively affecting turnover rates. However, strong internal demand due to the improving economic situation in Lithuania together with speculation about Euro integration (expectations of price increases due to the new currency), encouraged customers to increase their spending during 2014, thus compensating for decrease in external demand.

Rent Rates

In 2014 the slight growth of rent rates continued. However, the most significant changes in rents were observed in Vilnius among small retail spaces in successfully operating SCs or retail streets (by 7 - 10 per cent). Rent rates in Kaunas and Klaipeda remained quite stable with the exception of small retail space (growth of 4 per cent) as economic conditions still prevented a stronger increase.

Rent Rates* for 2014 and Trends for 2015 in Major Shopping Centres and Retail Streets						
UNIT SIZE	VILNIUS		KAUNAS		KLAIPEDA	
	RENT RATES	TRENDS FOR 2015	RENT RATES	TRENDS FOR 2015	RENT RATES	TRENDS FOR 2015
Large retail unit (anchor tenant)	6.0 - 11.0	→→	6.0 - 11.0	→→	5.8 - 8.5	→→
Medium retail unit (150 - 350 sqm)	13.0 - 22.0	→→	10.0 - 20.0	→→	8.0 - 18.0	→→
Small retail unit (up to 100 sqm)	21.0 - 41.0	→↗	17.0 - 30.0	→↗	17.0 - 30.0	→↗
Retail streets	14.0 - 55.0	→↗	8.0 - 16.0	→↗	6.0 - 10.0	→→

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses.
→→ - stable, →↗ - slight increase
Source: Colliers International

Vacancy Rates

During 2014 the vacancy level in SCs in major cities in Lithuania (Vilnius, Kaunas, Klaipeda, Siauliai, Panevezys) was sustainable, fluctuating within a range of 1 - 5 per cent depending on the city and the object. Besides, successfully operating SCs practically had no free space and even less successful SCs managed to optimize their performance and attract a profitable tenant mix.

Vacancy Rates for 2014 and Trends for 2015

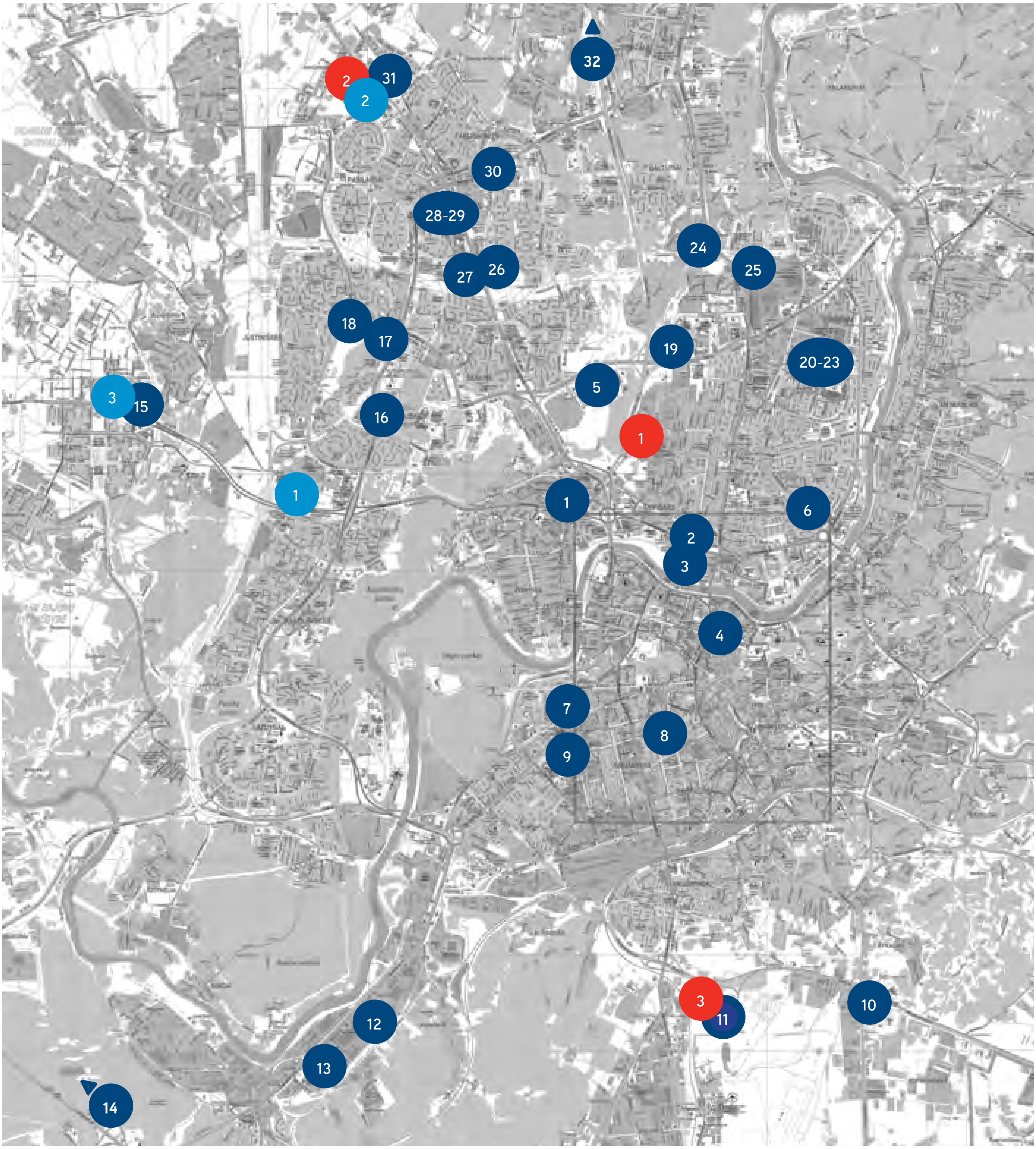
CITY	VACANCY	TRENDS FOR 2015
Vilnius	1.9 %	→→
Kaunas	1.0 %	→→
Klaipeda	1.8 %	→→

→→ - stable
Source: Colliers International

Tendencies and Forecasts

- The main driver of the retail market in Lithuania will remain grocery retail chains as further development of supermarkets is expected.
- Although the retail market is ready for major investment, construction of new retail properties will mainly concentrate on neighbourhood SCs with an anchor tenant-retailer in advance.
- Investment in improving the property concept of SCs will maintain high importance due to intense competition with other SCs and e-commerce. Besides, qualitative changes will create value added and increase attractiveness not only to customers, but also to investors.
- Significant changes in rent and vacancy rates in Lithuania are not predicted during 2015. Only a slight increase of rent rates in successfully operating SCs can be expected due to higher competition among tenants.
- The gap between rent rates and vacancy in primary and secondary projects will remain as SCs with higher customer flows will remain more in demand by tenants.

Retail Projects in Vilnius



Existing Developments

1. Panorama
2. Europa
3. VCUP
4. GO9
5. Akropolis
6. IKI Minskas
7. Helios City
8. Maxima XXX
9. RIMI Hypermarket
10. Maxima XX
11. IKEA
12. Norfa Baze
13. Furniture Gallery
14. Maxima-Baze XXX
15. Pupa
16. MADA
17. Laisves SC
18. Norfa XL
19. Ozas
20. RIMI Hypermarket
21. Domus Galerija
22. Banginis
23. Parkas Outlet
24. Norfa XXL
25. Statau
26. IKI Fabijoniskes
27. Senukai
28. Berry
29. Maxima XXX
30. Mandarinas
31. BIG
32. Link Moletu

Completed in 2014

1. Prisma
2. Domus Pro, 1st stage
3. Norfa XXL

Declared for Completion in 2015

1. RIMI Hypermarket
2. Domus Pro, 2nd stage
3. Nordika, 1st stage

Warehouse Market

General Overview

- Despite the unstable geopolitical situation and high uncertainty about the future, the transportation and storage sector managed to maintain a growth position in 2014, further positively affecting the warehouse market.
- The greatest activity was recorded in the built-to-suit warehouse segment with several projects completed.
- Due to increasing e-commerce and the growing popularity of home delivery, strong demand arose for warehouse space among transportation and logistics companies, which were actively expanding (eg, DPD, Lietuvos Pastas).
- The vacancy level in 2014 remained at its lowest point, causing a slight increase in rent rates for modern warehouse space.

Supply

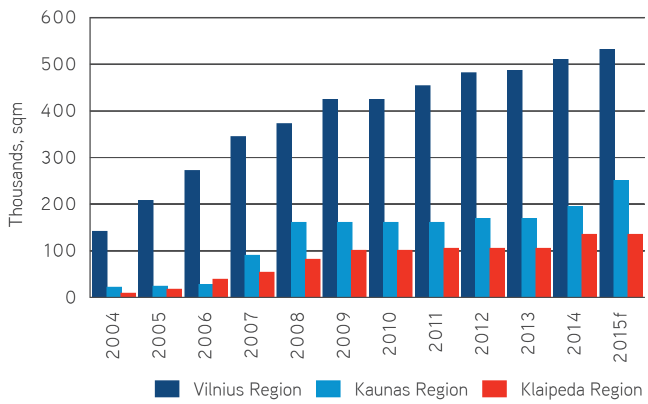
The majority of warehouse space is concentrated in the industrial territories of major cities in Lithuania and close to main highways. The biggest concentration of warehouse space is in the Vilnius region as the capital city attracts the majority of investment. At the end of 2014 Vilnius modern warehouse space supply consisted of 511,200 sqm of which 404,560 sqm was speculative. Over the year the supply of warehouse space in Vilnius increased by 4.8 per cent as two speculative (17,500 sqm) and one built-to-suit (6,000 sqm) projects were introduced. The majority of warehouse space in new projects was rented out in advance so that only a slight increase in free space was recorded.

During 2014 the Kaunas region witnessed active construction of built-to-suit warehouse projects. Three of these (27,600 sqm) were completed by the end of the year, enlarging the Kaunas region warehouse market by 16 per cent. This activity in the built-to-suit segment was mainly caused by lack of rentable warehouse space and the strategically attractive location of Kaunas for logistics purposes.

In Klaipeda two warehouse projects were also implemented: Vlantana phase II (15,000 sqm) and Ad Rem LEZ LC phase II (14,600 sqm). They are dedicated to both built-to-suit and speculative purposes.

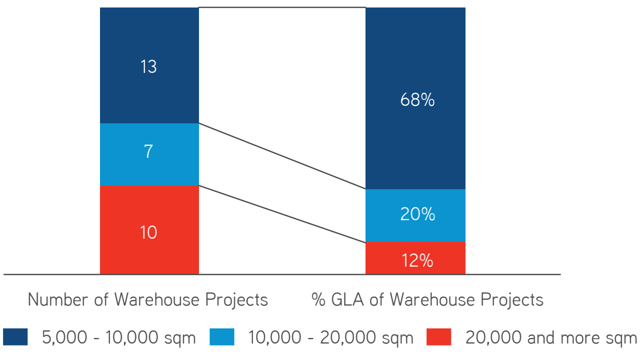
The current situation in the warehouse market can be characterized as a period of construction of built-to-suit projects as many of these have already been completed and those remaining will be introduced during 2015. As companies cannot find suitable warehouse space to rent they are forced to resort to alternative solutions and build new warehouse space for their own needs, which is mostly seen in the Kaunas region. In contrast, Vilnius region remains slightly different and also has few speculative projects in the pipeline. Besides, construction of the first stages of intermodal freight terminals in Vilnius and Kaunas Public Logistics centres have been completed with official opening plans in Q1 of 2015. The intermodal terminals are expected to create a strong synergy between rail and road transportation as well as to attract more investment to the warehouse segment.

Modern Warehouse Space Dynamics



f - forecast
Source: Colliers International

Distribution of Modern Warehouse Projects in Vilnius by Size



Source: Colliers International

Completed Warehouse Projects in Lithuania in 2014

REGION	PROJECT	TYPE	TOTAL AREA, SQM	DEVELOPER
Vilnius	Autoverslas, expansion	Spec. basis	3,500	Autoverslas
	Transekspedicija, phase II	Spec. basis	14,000	Transekspedicija
	Logistics Centre at Minskas Rd.	Built-to-suit	6,000	Sandeliavimo Imoniu Asociacija
Kaunas	Limedika Logistics Centre	Built-to-suit	9,600	Limedika
	Baltic Logistic Solutions, phase III	Built-to-suit	16,000	Sanitex
	Osama Logistics Centre	Built-to-suit	2,000	Osama
Klaipeda	Vlantana, phase II	Built-to-suit / Spec. basis	15,000	Vlantana
	Ad Rem LEZ, phase II	Built-to-suit / Spec. basis	14,600	Ad Rem Group
TOTAL			**80,700**	

Source: Colliers International

New Projects in Lithuania in 2015

REGION	PROJECT	TYPE	TOTAL AREA, SQM	DEVELOPER	YEAR OF CONSTRUCTION
Vilnius	AP Logistics Centre	Spec. basis	8,500	Arvydo Paslaugos	2015
	Transimeksa, expansion	Built-to-suit / Spec. basis	9,000	Transimeksa	2015
	Entafarma, expansion	Built-to-suit	4,500	Entafarma	2015
Kaunas	Lietuvos Pastas mail centre	Built-to-suit	10,000	Lietuvos Pastas	2015
	DPD Terminal	Built-to-suit	5,000	DPD Lietuva	2015
	Lidl Logistics Centre	Built-to-suit	40,000	Lidl	2015
TOTAL			**77,000**		

Source: Colliers International

Demand

Demand for modern warehouse space remained high in 2014. A number of tenants were seeking opportunities to expand or relocate their business in the local market. The best solution was to sign a contract with the developer to implement a built-to-suit project. The situation in the speculative warehouse market remained tense with a lack of free large warehouse space.

During 2014 heavy demand for warehouse space was recorded among transportation and logistics companies (eg, DPD, Lietuvos Pastas) which were actively expanding due to the rapid growth of e-commerce and the increased popularity of home delivery.

In the near future industrial complexes are expected to gain popularity, with production and warehouse space in one place as international companies are looking for opportunities to open their production lines in Lithuania due to lower costs.

Despite an unstable geopolitical environment and a tense situation on borders with Russia (the peak was reached in H2 of 2014), logistics and transportation companies managed to diversify their work geographically and still be positive about the future. For this reason, the industrial market continued its growth by attracting new investment and maintaining stable demand for warehouse space.

Rent Rates

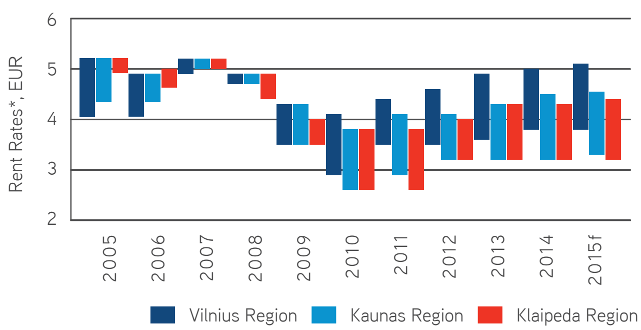
In 2014 a slight growth of rent rates for warehouse space continued in Vilnius and Kaunas, by 3.5 and 2.7 per cent y-o-y respectively. In Klaipeda rent rates remained quite stable due to a less active warehouse market compared to Vilnius and Kaunas. Growth was mainly caused by a further increase in demand and too slow attraction of investment in this segment leaving a low level of modern rentable warehouse space in Lithuania.

Warehouse Rent Rates* for 2014 and Trends for 2015

REGION	RENT RATES	TRENDS FOR 2015
Vilnius	3.8 - 5.0	→↗
Kaunas	3.2 - 4.5	→↗
Klaipeda	3.2 - 4.3	→→

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable, →↗ - slight increase
Source: Colliers International

Dynamics of Rent Rates*



* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
f - forecast
Source: Colliers International

Vacancy Rates

In 2014 the vacancy level in modern warehouses in Vilnius, Kaunas and Klaipeda remained low as practically no free warehouse space was left. Domination of built-to-suit projects was recorded and new speculative projects also had tenants in advance. The bigger choice of free warehouse space was only among old un-renovated objects which usually do not meet tenants requirements.

Tendencies and Forecasts

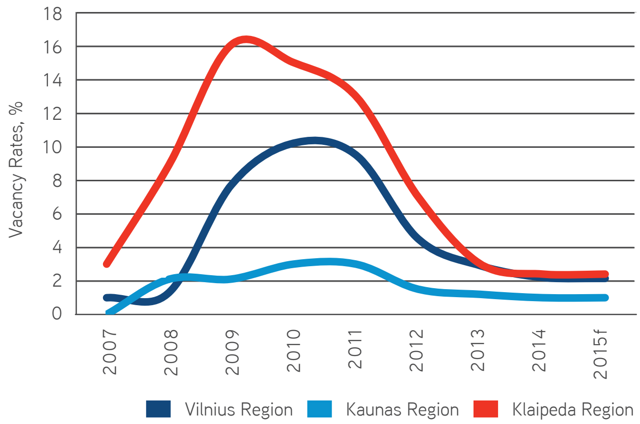
- The domination of built-to-suit projects will be further maintained and new speculative warehouses will be implemented very cautiously, evaluating market conditions and the worldwide economic situation as the industrial segment is highly dependent on the international environment.
- Despite the tense geopolitical situation and instability in the Russian market (a major export partner) the demand for warehouse premises will be maintained due to a strong internal market and alternative export directions.
- The popularity of industrial complexes (production, warehouse and office space in one place) will continue in the coming years due to significant activity by international companies wishing to open production lines in Lithuania due to lower costs.
- Rent rates will continue slight growth, especially in Vilnius and Kaunas, as improving market conditions and expansion of companies will maintain demand at a solid level.
- The vacancy level is expected to remain stable and low due to limited growth of supply, especially in the speculative warehouse segment.

Vacancy Rates for 2014 and Trends for 2015

REGION	VACANCY	TRENDS FOR 2015
Vilnius	2.2 %	→→
Kaunas	1.0 %	→→
Klaipeda	2.4 %	→→

→→ - stable
Source: Colliers International

Dynamics of Vacancy Rates*



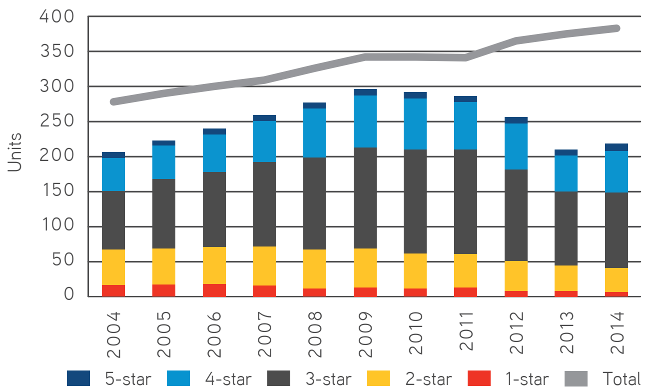
* - vacancy rates at the begining of the year
f - forecast
Source: Colliers International

Hotel Market

General Overview

- Lithuanian tourism performance continued to demonstrate positive numbers as 1.9 million tourists were accommodated in all types of accommodation establishments during Q1 - Q3 2014, 9.7 per cent more than during Q1 - Q3 2013.
- Nevertheless, hotel supply growth was less active in 2014, while only a few hotels were under renovation.
- Despite the slight decrease in Russian tourists (by 5.6 per cent y-o-y), mainly in Klaipeda region (by 16.3 per cent), Lithuania remained a quite popular destination with Russian tourists, especially in Kaunas and Vilnius.
- An increase in hotel occupancy rates was recorded across the country with the strongest growth in Klaipeda (7 per cent) and Kaunas (4.7 per cent).
- In 2014 a trend of a slight decrease in hotel room prices was maintained, seeking a greater competitive advantage among other countries.

Dynamics of Number of Hotels in Lithuania



Source: The Lithuanian Department of Statistics, the Lithuanian Association of Hotels and Restaurants

Supply

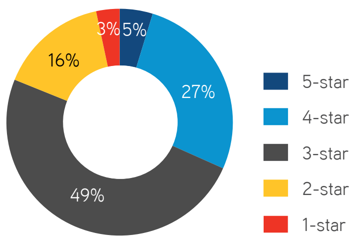
In 2014 the supply of hotels in Lithuania stood at 383 units of which 218 were classified. The number of classified hotels increased by 3.8 per cent y-o-y as a new classification system (HSU) was successfully introduced. 3-star hotels remained dominant (49.5 per cent) in the Lithuanian hotel market.

The Lithuanian tourism market continued to show positive results in 2014 with further growth in tourist numbers (by 9.7 per cent in Q1 - Q3 of 2014 compared to Q1 - Q3 of 2013) and increased interest from international brands in expanding in Lithuania.

Future perspectives for the Lithuanian hotel market are also quite optimistic due to overall growth of tourist flows, increasing hotel occupancy, elimination of currency risk in 2015 due to integration in the Euro zone, and refund of VAT exemption to 9 per cent for hotels from 2015. For instance, two hotels in Vilnius, the 3-star Algirdas and the 2-star Ambassador, are currently under reconstruction. Besides, MG Valda has plans to renovate a hotel at Pilies Street. Moreover, there are plans to introduce several new hotels in Vilnius as various international hotel brands (eg, Hilton, Accor) have been actively seeking opportunities to expand in Lithuania for several years. However, this is still at project level.

In other cities there are also plans for introduction of new hotels. In addition, the legendary “Metropolis” hotel in Kaunas is planned to be renovated and expanded, while the “Michaelson” hotel in Klaipeda is under reconstruction.

Distribution of Hotels by Number of Stars in Lithuania



Source: The Lithuanian Association of Hotels and Restaurants

Number of Classified Hotels and Rooms in Major Cities and Resorts in 2014

STARS	VILNIUS		KAUNAS		KLAIPEDA		SEASIDE RESORT (PALANGA)		WELLNESS RESORT (DRUSKININKAI)	
	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS
5-star	6	557	-	-	-	-	2	172	-	-
4-star	19	1,558	9	661	7	533	7	231	6	391
3-star	24	1,436	7	272	11	344	17	599	11	586
2-star	11	797	4	193	1	20	2	204	1	100
1-star	1	30	-	-	1	22	-	-	-	-
TOTAL	**61**	**4,378**	**20**	**1,126**	**20**	**919**	**28**	**1,206**	**18**	**1,077**

Source: The Lithuanian Department of Statistics, Colliers International, the Lithuanian Association of Hotels and Restaurants

Constructed or Renovated Projects in Major Cities and Resorts of Lithuania in 2014

CITY	STARS	PROJECT NAME	ADDRESS	NUMBER OF ROOMS	OPERATOR
Vilnius	3-star	City Hotel Rudininkai (reconstruction)	Rudininku St. 15	25	City Hotels
Kaunas	3-star	Algiro Hotel	Savanoriu Av. 120	23	Independent
	Not-classified	Vegetarian Hotel Radharane	M. Dauksos St. 28	8	Independent
Druskininkai	3-star	Hotel Goda	Veisieju St. 27	20	Independent
Palanga	Not-classified	Amberton Green Apartments	M. Valanciaus St. 1	59	Amberton Hotels
TOTAL				**135**	

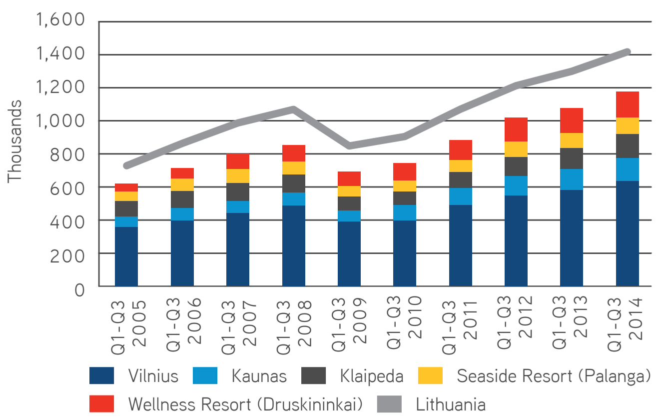
Source: Colliers International

Demand

During Q1 - Q3 of 2014 almost all European countries reported a growing trend in terms of foreign tourists. Compared to 2013, Lithuania slightly improved its position and with an increase in tourists of 9.7 per cent stood in 6th place among other European countries.

During Q1 - Q3 of 2014 the number of tourists accommodated in Lithuanian hotels increased by 9 per cent compared to Q1 - Q3 of 2013. The majority of tourists (45 per cent) were accommodated in Vilnius hotels, of which 83.4 per cent were foreigners. Additionally, Druskininkai managed to attract significant numbers of tourists (11 per cent of the total), of which 60 per cent were locals, confirming a high level of internal tourism. As a result, during Q1 - Q3 of 2014 growth in domestic travel was recorded (by 10 per cent y-o-y) encouraged by increasing internal demand and still cheaper domestic (compared to international) travel. However, the length of foreigners' stay in Lithuanian hotels was still longer (1.96 days), compared to Lithuanians (1.90 days).

Dynamics of Visitors in Hotels of Major Cities and Resorts



Source: The Lithuanian Department of Statistics

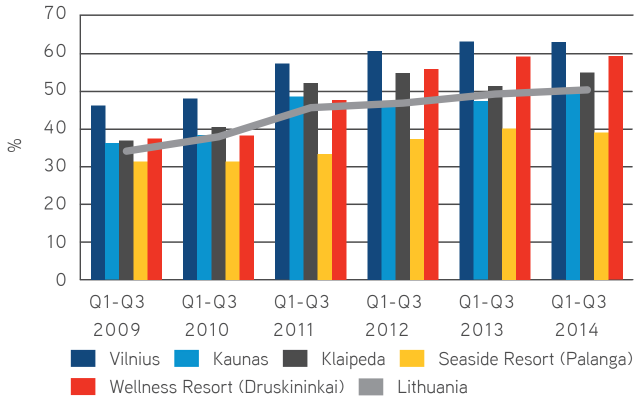
During Q1 - Q3 of 2014 the top five countries visiting Lithuania remained unchanged. Most tourists arrived from Russia - 177.9 thousand (-5.6 per cent), Germany - 145.9 thousand (+10.89 per cent), Belarus - 135.4 thousand (+23.64 per cent), Poland - 95.6 thousand (-9.63 per cent) and Latvia - 77.7 thousand (+24.73 per cent). Significant growth in tourists was also recorded from Israel (+96.87 per cent), Ukraine (+73.39 per cent) and Canada (+51.26 per cent), compared to the same period in 2013. Due to the tense situation between Russia and the EU, the number of Russian tourists decreased in the majority of European countries except Serbia and Turkey, where a significant increase was observed, +30.8 per cent and +12.9 per cent respectively, generally maintaining slight growth (by 2 - 3 per cent) of Russian tourists in terms of Europe as a whole.

As growth of the Lithuanian economy according to provisional data continued to be one of the fastest in the EU in 2014, during the period 2015 - 2016 the positive situation is expected to be maintained despite problems in the Euro zone and uncertainty in the geopolitical situation. Therefore growth will be more modest compared to 2014.

Occupancy

During Q1 - Q3 2014 the occupancy rate in Lithuanian hotels grew by 2.24 per cent, compared with the same period in 2013, reaching 50.2 per cent. The highest occupancy rate in hotels remained in Vilnius (62.8 per cent). However, compared to Q1 - Q3 of 2013, occupancy decreased slightly (by 0.3 per cent), mainly due to a high comparative basis which was reached in 2013 due to Lithuania's presidency of the EU Council. The most significant increase in occupancy rate was recorded in Klaipeda (by 7 per cent) reaching 54.8 per cent. The positive effect was mainly obtained from significant growth in local tourist arrivals (by 32 per cent) and overnight stays (by 38.1 per cent).

Occupancy Rate of Rooms in Major Cities and Resorts



Source: The Lithuanian Department of Statistics

Prices

During Q1 - Q3 2014 hotel room prices in Lithuania were slightly compressing. The exception was Klaipeda where prices of hotel rooms grew by 9 per cent YTD and 5-star hotels in Vilnius where prices increased by 6.5 per cent YTD. Meanwhile, in Kaunas and Vilnius prices of lower class hotels continued a decreasing trend. As the VAT exception of 9 per cent for hotels is implemented in Lithuania from 2015, hoteliers expect to gain a competitive advantage among other countries and will invest in further renewal of hotels, creating higher quality services. On that basis, we anticipate room prices in Lithuanian hotels to remain rather stable with a minor negative trend during 2015 - 2016.

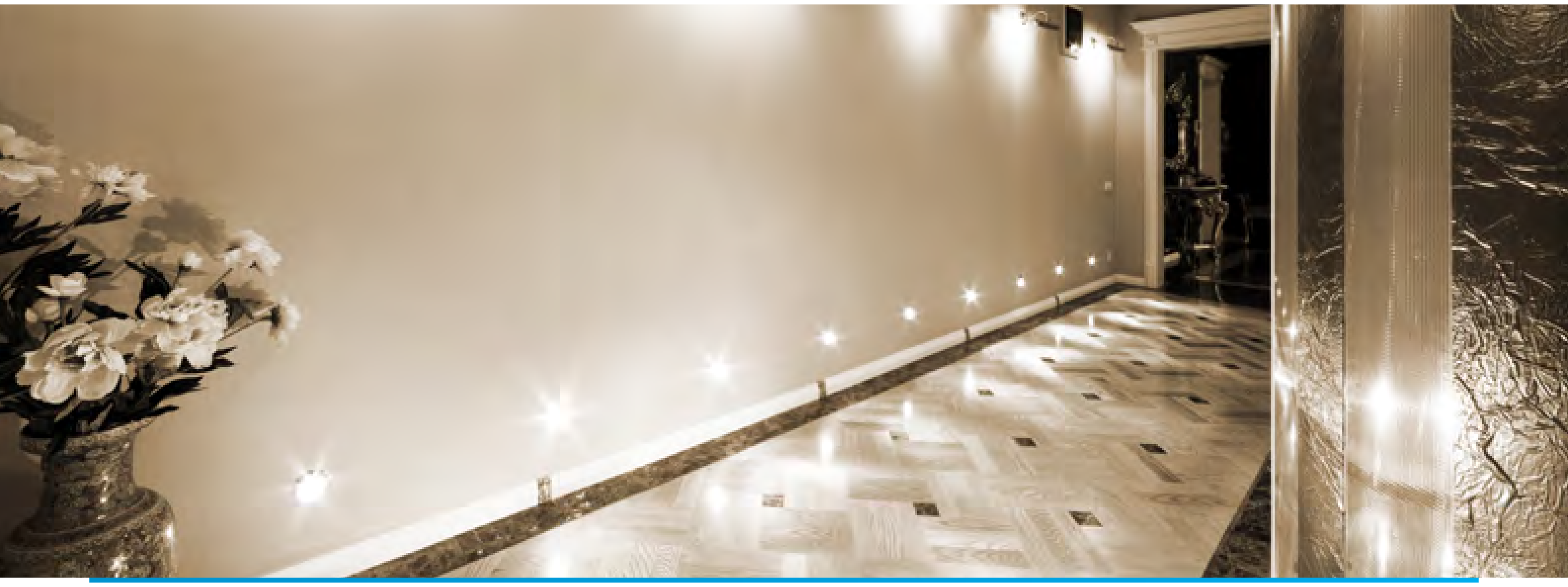
Price Range* for Double Standard Hotel Rooms in 2014

STARS	VILNIUS	KAUNAS	KLAIPEDA	TRENDS FOR 2015
5-star	100 - 230	-	-	→↘
4-star	60 - 119	52 - 72	52 - 102	→↘
3-star	38 - 90	36 - 42	35 - 52	→↘
2-star	35 - 60	38 - 45	25 - 40	→↘

* - rack rate, EUR
→↘ - slight decrease
Source: Colliers International

Tendencies and Forecasts

- Lithuania continues to be an emerging and cheaper destination with high potential and attractiveness to foreigners, so we expect further growth of the hotel market in 2015 - 2016.
- Overall growth of tourist flows, increasing hotel occupancy together with elimination of currency risks and refund of VAT exemption for hotels will further encourage international operators to establish or expand in the Lithuanian hotel market.
- Although a complicated geopolitical situation will remain in 2015, tourist flows are expected to continue to be positive and actions by the Tourism department to strengthen Lithuanian popularity will lend a positive effect.
- The forecast for growth of the occupancy rate in Lithuania for a short period is positive due to growth in domestic demand, which encourages domestic travel. Additionally, an increase in foreign tourists is also expected due to the improving situation in Europe as a whole. However, some slowdown of growth can be expected, mainly due to the Ukraine - Russia conflict.
- We anticipate that in 2015 - 2016 prices of hotel rooms in Lithuania will maintain a stable position with a slight negative trend as the accommodation sector is still trying to recover from the crisis and gain more competitiveness across Europe.



Legal Overview

Commercial real estate in Lithuania can be purchased in two ways - via asset transfer deal or via share transfer deal. Asset deals and share deals are both commonly used in practice.

Asset Transfer Deals

Main Steps

Usually a sale of real estate by one party (seller) to another party (buyer) would be carried out following these main steps:

1. In the case of a larger real estate transaction, before signing the final sale-purchase agreement the parties usually conclude preliminary documents (eg, letter of intent or preliminary purchase agreement) setting out the main terms of the deal (eg., purchase price, payment mechanism, main timelines to complete due diligence of the real estate and sign the final agreement).
2. Before concluding the final sale-purchase agreement the seller must offer third parties with the right of first refusal to acquire the property (eg, property co-owners, if such rights exist) the opportunity to exercise those rights on the same conditions as agreed with the buyer.
3. In the case of price settlement through a notary or bank escrow (deposit) account simultaneously with conclusion of the final sale-purchase agreement, the parties negotiate and conclude an agreement on the terms of use of the escrow account.
4. If purchase of real estate is financed by a third party (eg., a bank), then the lender will require security in the form of a mortgage. In that case the mortgage is usually created immediately after registration of the real estate in the name of the new owner or the new owner may mortgage real estate to be acquired in the future.
5. The parties sign an asset purchase agreement, which must be certificated by a notary. Non-compliance with the requirements of form makes the contract ineffective.
6. After signing and notarisation of the purchase agreement, title to the property transferred should be registered with the Real Estate Register in the new owner's name. Registration is through the notary who certified the transaction.
7. According to existing practice, the notary's fees and costs related to certification of the transaction are covered by the buyer or shared between the parties. The buyer also pays for registration of title in its name with the public register.

A regular real estate transfer transaction is usually completed within 10 - 15 business days. For more complicated transfers (involving preliminary documents, due diligence, fulfilment of certain conditions precedent, third party participation) the transaction may take about 2 - 3 months.

Key Issues Involved

- Asset deals from 2015 stop being much more expensive than share deals, as share deals are starting to involve notary and additional related fees;
- Lithuanian law entitles a tenant of the property to terminate the lease on change of ownership of the leased property; in practice this issue is tackled by collecting waivers from tenants;
- Under certain circumstances an asset deal may be treated as a sale of the entire company, in which case the buyer may be exposed to additional risks related to validity of the transaction and liability to creditors and employees of the company which owned the target real estate;
- The scope of due diligence investigation is limited as it covers only the target asset.

Share Transfer Deals

Main Steps

1. Especially in the event of a larger transaction, a letter of intent, preliminary purchase agreement or similar pre-contractual arrangement is entered into before signing the main share purchase agreement. The letter of intent, preliminary agreement or similar document sets out the main terms of the transaction (eg, purchase price, payment mechanism, main timelines to complete due diligence and sign the final agreement, exclusivity period).
2. Usually a due diligence (eg, legal, tax, commercial, financial) is performed before concluding the main share purchase agreement. Before examining the documents of the target company the purchaser and its advisors sign confidentiality / non-disclosure obligations. In certain situations due diligence may occur after signing the share purchase agreement but before completion of the transaction.
3. From 2015, a share sale-purchase agreement needs to be notarised when more than 25 per cent of the shares is transferred or the price of the share transfer exceeds EUR 14,500 (not applicable to shares of a public limited liability company). This requirement is not mandatory but only if the accounting of shares follows the rules and procedures of Lithuanian laws on the securities market.

   Currently, investors circumvent the notarial form requirement by switching to double-tier accounting of shares.
4. If the non-notarial form of share deal is preferred, the following steps are required in order to switch to double-tier accounting of shares:

- Accounting of shares is transferred to an independent manager (eg, licenced credit institution or financial brokerage firm); and
- Shares in the company are registered with the Lithuanian Central Securities Depository and an ISIN number issued.

5. Once the parties reach agreement on the transaction, the share purchase agreement is signed. If the accounting of shares has not been switched to double tier accounting, the share purchase agreement must also be notarised (for exceptions see above). The notary fee for certifying share sale-purchase agreement amounts to 0.4 - 0.5 per cent of transaction value but is capped at EUR 5,792. For transactions involving transfer of shares of two or more companies, the notary fee (when applicable) is capped at EUR 14,481.
6. When less than 100 per cent of shares is acquired, waivers have to be obtained from other shareholders (i.e. those not

selling their shares) of their right of first refusal (pre-emptive right) to acquire the shares to be sold by the selling shareholder. These waivers are collected before signing the purchase agreement or before completion of the transaction (in that case obtaining waivers is included as a condition precedent for closing). In addition, when less than 100 per cent shares is acquired, a shareholders' agreement may be concluded between the buyer and the seller and/or other shareholders.

7. Merger control and other regulatory filings are generally carried out before closing and are included in the transaction documents as conditions precedent for completion.
8. Title to shares is transferred as agreed in the share purchase agreement (eg, on signing, after payment of all or part of the purchase price). Transfer of title is evidenced by entries in the securities' accounts opened in the name of seller and buyer (in the event of non-certificated shares). If certificated shares are transferred, then entries evidencing the transfer (endorsements) are made on the share certificates. The new list of shareholders should be filed with the Register of Legal Entities.

Issues to Consider

- A share deal, if notary certification is applicable, involves notary fees, but not state duty for registration of real estate. However, fees for switching to double-tier accounting also apply.
- A share sale-purchase agreement does not need to be publicly registered, unlike an agreement for sale-purchase of real property. The list of new shareholders must be filed with the Register of Legal Entities. However, failure to do so does not have any impact on ownership rights to shares.
- From 2015, a share subscription agreement must also be in written form and certified by a notary when all or part of a share issue is paid up by real estate.
- The buyer takes over the entire company (assets and liabilities) including matters and risks occurring before change of ownership.
- Due diligence investigations are more extensive as a share deal is about transfer of the entire company, as opposed to real estate only.
- Deferred corporate income tax as well as other tax issues.
- Existing management structure, employees, and contractual obligations of the company may be not in line with the buyer's expectations.

Title to Real Estate, Real Estate Register

Ownership of real estate is acquired upon completion of construction or on the basis of different transactions, such as sale-purchase, grant, or exchange (swap).

Real estate and related rights are registered with the Real Estate Register. There is no mandatory requirement to register transfer of title; however, a transaction must be registered before it can be invoked against a third party.

The Real Estate Register keeps and manages information on the legal status of real estate, including all encumbrances, mortgages, rights of first refusal, and other rights and obligations; the information it contains is publicly available. Data recorded with the Real Estate Register are considered true and comprehensive until proven otherwise.

Acquisition of Real Estate

General

Ownership of immovable property can be transferred if the property is formed as a real estate object, has a unique number, and is registered with the Real Estate Register. Real estate objects include inter alia land plots, construction objects (eg, buildings) and premises.

Upon sale of a building, the buyer's rights to the land plot occupied by the building and necessary for use of the building must be specified in the acquisition agreement. An agreement which does not deal with these rights to a land plot may not be approved by a notary and, even if certified, is still ineffective.

Change of Ownership

Title to real estate passes as of the moment of transfer of the property to the new owner. The transfer must be formalised by a transfer-acceptance deed that may either be signed as a separate document or incorporated in the agreement on real estate acquisition.

Form of Agreements

Share transfer transactions require notarial form only in certain cases, whereas real estate transactions must always be certified by a notary. Failure to notarise both a share deal (when applicable) and a real estate transfer agreement makes the agreements ineffective.

Language Requirements

Transactions between Lithuanian legal and natural persons must be in Lithuanian. However, translations into one or more other languages may also be attached. Transactions with foreign natural and legal persons may be in Lithuanian and another language acceptable to both parties. However, if a transaction requires approval of a notary, the Lithuanian language document prevails.

Due Diligence

Legal due diligence of target real estate is recommended. This includes, eg, title, encumbrances, third party rights, zoning and planning issues, existing lease agreements. Due diligence analysis may provide the buyer with certainty and information relevant to the transaction and operations after the acquisition is completed. Due diligence forms a basis for contract negotiations, risk distribution, verification of purchase price, and pre - and post - closing commitments.

Right of First Refusal

The right of first refusal may be established by law or contract. Examples of the statutory right of first refusal include a co-owner's right of first refusal to acquire a share on sale of commonly-owned real estate, except if the sale takes the form of a public auction; the state's right of first refusal to acquire land in, eg, national and regional parks, or state reservations. In addition, if a building and its land plot have different owners, the owner of the building situated on a land plot to be sold enjoys a right of first refusal to acquire the land plot.

The parties may also agree on a contractual right of first refusal. If real estate is sold in violation of that right, the holder of the right of first refusal is entitled to claim transfer of the buyer's rights and obligations.

Typical Purchase Price Arrangements

The price of real estate must be specified in the sale-purchase agreement, otherwise the agreement is ineffective. The parties are free to arrange payment of the purchase price. Payment may be made in one lump sum or divided into several instalments. For example, the first portion of the price may be transferred in order to secure the preliminary agreement or on the day of notarisation of the sale-purchase agreement, with the remainder paid after certain conditions are fulfilled, such as release from mortgage, vacation of property. Title to real estate may be transferred before or after payment of the full purchase price.

Restrictions

Restrictions on Acquisition of Real Estate

Buildings and other constructions may be acquired by Lithuanian or foreign natural or legal persons without restriction.

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land and forest unrestrictedly except for acquisition of agricultural land in which case the total area of agricultural land possessed by either a natural or a legal person and persons related to them is limited to 500 ha. For the purpose of this restriction related persons means: (i) spouses, parents together with their children; (ii) persons who directly or indirectly (via an entity in which a person has not less than 25 per cent of votes) have more than 25 per cent of the votes in an entity; (iii) legal persons in which the same person has more than 25 per cent of the votes. Besides the 500 ha limit, for acquisition of agricultural land additional conditions apply (eg, 3 years' experience in agriculture, declaration of agricultural land and crops).

Investments in land (including agricultural, forestry and inland waters) for foreign citizens or legal persons, if the European and Transatlantic Integration criteria are met, are not more restricted than for Lithuanian citizens or legal persons. Foreign legal entities are deemed to comply with European and Transatlantic criteria if they are established in:

- Member States of the European Union (EU) or states parties to the European Treaty with the European Communities and their Member States; or
- Member Countries of the Organisation for Economic Cooperation and Development (OECD), states parties to the North Atlantic Treaty Organisation (NATO) or the European Economic Area Agreement (EEA).

Foreign natural persons are deemed to comply with European and Transatlantic criteria if they are:

- Citizens or permanent residents of any of the states specified above; or
- Permanent residents of Lithuania although not holding Lithuanian citizenship.

Merger Control

Acquisition or possession (eg, lease) of real estate may require prior approval by the Lithuanian competition authorities.

An intended concentration must be notified to the Lithuanian Competition Council, whose permission is required where the combined aggregate income of the undertakings concerned is more than EUR 14.5 million for the financial year preceding concentration and the aggregate income of each of at least two undertakings concerned is more than EUR 1.4 million for the financial year preceding concentration. Note: if a Lithuanian undertaking participates in a concentration, its worldwide income will be taken into account. This does not apply when determining the aggregate turnover of a foreign undertaking (i.e. not incorporated in Lithuania) participating in a concentration, where only income received from sales in Lithuanian product markets is taken into account.

Encumbrances

Real estate may be encumbered with servitudes (easements), rights of first refusal, lease rights registered with the Real Estate Register, mortgages, and other encumbrances that limit its use or disposal.

Mortgage

A mortgage is a security aimed at securing fulfilment of contractual obligations. A mortgage is created by executing a mortgage contract signed by the debtor, the creditor, the owner of the mortgaged real estate, and notarised. A mortgage contract comes into effect at the moment of signing, unless otherwise specified in the mortgage contract.

A secured creditor enjoys priority against third parties to redeem the debt from the mortgaged property. A mortgage survives transfer of title to real estate.

A mortgage can also be executed over a legal entity, i.e. its property (pool of assets), the composition of which may change in the normal course of business of the mortgaged entity.

Property Management

Management and maintenance of commercial real estate is usually carried out by the owner or a professional property management company. In the latter case the parties may agree on the scope of owner's rights and obligations to be delegated to the property management company by concluding a property management agreement.

Lease Agreements

General

The main regulatory framework of lease agreements is laid down in the Lithuanian Civil Code. Parties to lease agreements, however, may freely agree on most lease terms. The lease agreement survives transfer of title to the leased real estate object, provided the lease agreement is registered with the Real Estate Register.

Duration and Expiry of Lease Agreement

A lease agreement may be concluded for either an indefinite or fixed term, but in all cases the term may not exceed 100 years. If a term has not been set, the lease agreement is deemed to be concluded for an indefinite term. A fixed-term lease agreement becomes indefinite if the tenant uses leased property for more than ten days after its expiry and the landlord does not object.

Tenants who have properly discharged their obligations under lease agreements enjoy a right of first refusal against third parties to renew the lease.

Lease Payment and Other Expenses (Utilities)

Terms and conditions for payment of rent and other expenses are subject to agreement between the parties. Rent is usually paid monthly. It is common to agree on annual indexation of rent on the basis of local or EU harmonised consumer price indices.

As a rule, payments for maintenance of leased real estate and other utility costs (eg, water, heating, gas, electricity) are made on top of rent. The landlord may also require a deposit, guarantee, surety or other similar instrument securing payment obligations by the tenant. Triple net leases have become as a standard for “A” class offices.

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Tax Summary

Currency

Lithuania has joined the Eurozone by adopting the euro on 1 January 2015. Euro took place of the former Lithuanian currency - litas - at the exchange rate of 3.4528 litas to 1 euro.

Lithuanian Corporate Income Tax System

The standard 15 per cent corporate income tax (CIT) is applied on taxable income received by a Lithuanian tax resident from its local and worldwide activities. Taxable income is calculated by reducing general income of a certain tax period with deductible expenses and non-taxable income. Non-resident companies are generally taxed on Lithuania - sourced income received through a local permanent establishment and reduced by deductible expenses or on income subject to withholding tax in Lithuania.

Acquisition

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

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

- Notary fees are 0.45 per cent on the value of real estate. However, the fee shall not be less than EUR 28.96 or exceed EUR 5,792.40 for one transaction;
- State duties imposed upon the registration of a transfer of real estate are typically not material and vary depending on the real estate value (up to EUR 2,320).

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

In case of a share deal the transfer of shares in a real estate holding entity is subject to the notary fee of 0.4 - 0.5 per cent on the value of real estate (the fee shall not be less than EUR 14.48 or exceed EUR 5,792.40), when:

- More than 25 per cent of limited liability company's shares are sold;
- The purchase price of the limited liability company's shares sale exceeds EUR 14,500 except for certain exemptions.

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

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

Rent

Value Added Tax (VAT): Rent of real estate (buildings and land) is generally exempt from VAT, with certain exceptions for residential premises and premises for parking of vehicles, etc.

Whereas rent is exempt from VAT according to the general rule, a VAT payer is entitled to opt for taxation, i.e. VAT can be charged on rent of the property if the customer is registered for VAT purposes and performs economic activities or if the property is rented to diplomatic and consular establishments and offices of international organizations in Lithuania. If a company exercises this right in respect of one rent transaction, the same VAT treatment will automatically apply to all analogous transactions for the following 24 months.

Corporate Income Tax (CIT): For local Lithuanian entities income from rent of real estate is considered as taxable income which is in general subject to 15 per cent CIT under regular taxation rules of company business activities (i.e. companies' profit is taxed). Reduced CIT rate applies for small companies - entities with fewer than ten employees and less than EUR 300,000 in gross annual revenues can benefit from a reduced CIT rate of 5 per cent.

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

Personal Income Tax (PIT): For local and foreign individuals income from rent of real estate located in Lithuania is subject to 15 per cent PIT on gross income. Upon certain conditions, individuals can opt to pay a fixed amount of tax on rent of real estate once a year, if such property is lent to individuals and not to legal entities. Individuals should obtain a business certificate for rent of residential premises.

Sale

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

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

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

Value Added Tax (VAT): According to the general rule, sale of new buildings (in use for less than 24 months after their completion), unfinished buildings, building land or land with new buildings is subject to VAT at the standard rate of 21 per cent. Sale of buildings completed or re-constructed earlier than

24 months ago is exempt from VAT, with an option to apply VAT if the purchaser is engaged in economic activities and registered for VAT purposes or if the property is rented to diplomatic and consular establishments and offices of international organisations in Lithuania. The right of option is implemented in the same way as explained in section “RENT”.

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

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

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

Land Tax

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

Land tax rates range from 0.01 per cent to 4 per cent depending on local municipalities. In Vilnius, the Land tax rate established for 2015 is 0.3 per cent. The tax base is the average market value determined according to the mass valuation performed not rarer than every 5 years. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20 per cent.

There is a transitional period set for the period 2013 - 2016 in case the taxable value increases, therefore the land tax expenses will gradually increase for a tax payer during this period.

Land Lease Tax

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

Real Estate Tax

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.3 per cent to 3 per cent depending on municipalities. In Vilnius, the RET rate established for 2015 is 1 per cent. As from 1 January 2015, residential and other personal premises of individuals are exempt from tax where the total family-wise-ownership value of EUR 220,000 is not exceeded (before 1 January 2015 the threshold was EUR 289,620), whereas the excess value is subject to 0.5 per cent RET (before 1 January 2015 the 1 per cent RET was applied). Tax base is the average market value of the property: depending on the type and purpose of the property it can be assessed either by mass valuation method (performed every 5 years) or using the replacement value (costs) method. There is a possibility to apply the property value determined during the individual valuation if it differs from the market value by more than 20 per cent.

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Estonia Market Overview

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Time to Take the Longer View

For the fourth year in succession, we at Colliers, mark positive changes in the commercial real estate market in Estonia, seeing buoyant demand, upturn in development activity, steadily increasing rent rates and low vacancies in most sectors.

The investment market, one of the major indicators of the health of the real estate market, continued to show truly remarkable results in 2014, driven by low-cost financing and positive performance by corresponding sectors. Despite shortage of investment grade products, strengthening demand from both highly capitalized and smaller investors and lower prime yield levels, total investment volume in 2014 surpassed the previous-year level by more than 12 per cent and showed the strongest results in terms of investment turnover since 2008.

At the same time, economic growth as well as private consumption expenditure is expected to slow down in 2015, driven by weaker external demand, more cautious consumer behaviour and high reference base. Modest economic growth in Estonia together with high supply of new commercial space and thus tightening competition in all segments may slightly dampen the commercial real estate market in 2015.

As 2015 is going to be yet again a year adding a considerable amount of new space to the market, then the main question for developers as well as for owners of existing building throughout 2015 is how to attract new tenants and thus secure 100 per cent occupancy of new buildings and keep vacancy rate in older buildings low.

We expect market players to approach the market in 2015 in a sober and rational manner to ensure maximum chance of sustainable success.

We at Colliers International believe that the following comprehensive market review, prepared by our best experts, will provide useful information and insights to assist in your business decision making in Estonia in 2015.

Sincerely,

Avo Roomussaar

Economic Overview

Summary

The domestic market remained the main pillar supporting the economic upturn in Estonia during 2014. Despite sluggish recovery in external demand, solid domestic demand, driven by rapid growth in wages and household consumption, still lifted economic growth to 2.1 per cent in 2014.

Private consumption expenditure increased annually by 3.8 per cent in 2013, and growth in private consumption expenditure was expected to remain so in 2014 as higher real wages and low inflation supported consumption throughout the year. In 2014 retail sales continued to grow in Estonia compared with the corresponding period in the previous year. The retail sales of retail trade enterprises reached EUR 4.9 billion in 2014, equivalent to growth of 6 per cent at constant prices compared with 2013.

During 2014, exports of goods decreased by 1.7 per cent and imports by 0.6 per cent compared to the same period in 2013. Real export growth (goods and services) was expected to be 3.1 per cent in 2014, 2.6 per cent in 2015 and 4.3 per cent in 2016.

In 2014 production of industrial enterprises grew by 2 per cent compared to 2013. Production increased by 3.7 per cent in manufacturing, while 70 per cent of all manufacturing production was sold on the external market. From February manufacturing showed a stable 2 - 7 per cent growth compared to the same month in the previous year.

The consumer price index in Estonia decreased by 0.1 per cent in 2014 compared to the 2013 average, driven by a 6.2 per cent electricity price decrease. Inflation in Estonia started to slow in the last quarter of 2012 and continued to decrease for the eighth quarter in succession. From June 2014 the consumer price index fell below zero.

The unemployment rate (7.4 per cent) in Estonia in 2014 was the lowest in the last six years. Unemployment has decreased and employment has increased since 2011, but these changes have gradually slowed down.

Improvements in the economic climate, GDP and employment in 2011 - 2014 inflated consumption and growth in gross wages. In Q4 2014, the average monthly gross wage reached EUR 1,039, indicating a 5.3 per cent y-o-y increase, while real wages increased 5.8 per cent during the same period (real wages increased for the fourteenth quarter in succession).

Forecasts

- According to Bank of Estonia forecasts, Estonian economic growth is expected to accelerate modestly in the future, reaching 2.1 per cent in 2015 and 3.3 per cent in 2016. The recovery in external demand still remains fragile.
- According to a Bank of Estonia forecast, private consumption is expected to continue growing by 3.9 per cent in 2015 and by 3.6 per cent in 2016. The private consumption expenditure levels of 2008 are expected to be met once more by 2015.
- Consumer price growth is expected to remain moderate in Estonia in the coming years, reaching 0.8 per cent in 2015 and 2.1 per cent in 2016, according to the Bank of Estonia.
- Despite the decline in the labour force due to ageing of the population and emigration, unemployment is not expected to fall significantly over the next two years, as there remains a major problem of the mismatch between the skills of those looking for work and the needs of employers (structural unemployment).

Key Economic Indicators of Estonia

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015F
GDP current prices, bln EUR	13.5	16.2	16.5	14.1	14.7	16.4	17.6	18.7	19.5	20.4
GDP growth (real), % yoy	10.4	7.9	-5.3	-14.7	2.5	8.3	4.7	1.6	2.1	2.1
Industrial Production, % yoy	10.1	6.4	-4.6	-24.0	22.7	19.8	1.5	2.9	2.0	3.2
Unemployment Rate, % avg	5.9	4.6	5.4	13.6	16.7	12.3	10.0	8.6	7.4	7.5
Total central government debt, % of GDP	3.7	3.6	5.3	7.1	6.6	6.0	9.7	10.1	10.0	9.5
PPI, % yoy	4.5	8.3	7.2	-0.5	3.3	4.4	2.3	4.1	-1.6	1.5
CPI, % yoy	4.4	6.6	10.4	-0.1	3.0	5.0	3.9	2.8	-0.1	0.8
Fiscal deficit, % of GDP	2.3	2.6	-2.8	-1.7	0.2	1.1	-0.2	-0.5	-0.3	-0.6
Export, bln EUR	7.7	8.0	8.5	6.5	8.7	12.0	12.6	12.3	12.1	12.2
Import, bln EUR	10.7	11.4	10.9	7.3	9.3	12.7	13.8	13.8	13.7	13.8
Current Account, bln EUR	-2.0	-2.4	-1.4	0.4	0.3	0.2	-0.4	-0.2	0.0	-0.2
Current Account, % of GDP	-15.0	-15.0	-8.7	2.5	1.8	1.4	-2.5	-1.1	-0.1	-1.0
FDI, mln EUR	1,431.9	1,985.0	1,181.8	1,324.5	1,206.8	244.9	1,180.5	715.4	n/a	n/a
EUR/USD, aop	1.26	1.37	1.47	1.39	1.33	1.39	1.28	1.33	1.33	n/a

f - forecast
Source: Statistics Estonia, Bank of Estonia, Ministry of Finance of the Republic of Estonia, Swedbank

Investment Market

General Overview

- Total investment volume in 2014 amounted to EUR 240 million, exceeding the level achieved in 2013.
- The largest deal of the year was the sale of the Metro Plaza Office Building for EUR 28.1 million to East Capital.
- The industrial segment attracted the biggest share of investment (34 per cent) in 2014, followed by the retail segment (29 per cent).
- The same players largely continued to dominate the Estonian investment market in 2014.
- Notable yield compression by 50 bps was recorded in Estonia in 2014.

Transaction Volume

Total 2014 investment volume stood at EUR 240 million, thus surpassing the previous-year level by more than 12 per cent (EUR 213.4 million in 2013) and showing the strongest results in terms of investment turnover since 2008. Following a satisfying 1HY, the investment market in Estonia performed very successfully at the end of 2014.

2014 saw 79 transactions closed in total (compared with 81 in 2013), with 2HY contributing 43 transactions to the total amount. The average transaction price remained somewhat higher in 2014 compared with 2013, due to the higher invested volume and almost unchanged number of transactions in 2014 (EUR 3.0 million in 2014 vs. EUR 2.7 million in 2013).

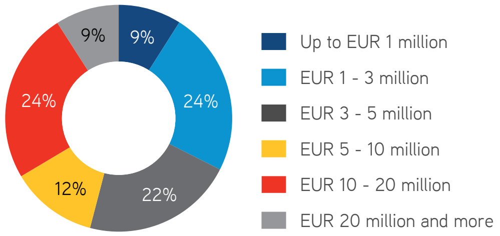
The proportion of large deals remained largely unchanged, with approx 45 per cent of total investment volume both in 2013 and 2014 made up of deals over the EUR 5 million threshold. Although deals of less than EUR 3 million accounted for approx 72 per cent of the total number of transactions, they made up approx one third of total volume.

The same players continued to largely dominate the Estonian investment market in 2014 - East Capital, EfTEN Capital, Capital Mill and Colonna together invested approx EUR 80 million or one third of total volume in Estonia, with East Capital being at the top in 2014. The share of TOP3 investors - East Capital, Zenith Capital and Capital Mill - amounted to ca one third of total investment volume in 2014. Zenith Capital Management, an independent business advisor and wealth management company, was a remarkable newcomer, being one of the most active players in the market in 2014.

Nordic investors, investors from the CIS countries and Russia in particular plus local Baltic investors continue to dominate the investment market in Estonia. Domestic spend was responsible for one third of acquisitions, while Russian capital was behind more than 36 per cent of invested volume in 2014. The majority of transactions above EUR 3 million in 2014 were made by local investors or foreign capital represented by local managers.

Notable yield compression by 50 bps was recorded in Estonia in 2014. Low-cost financing, shortage of investment grade products, and positive performance by corresponding sectors plus strengthening demand from both highly capitalized and smaller investors resulted in tighter competition and thus lower prime yield levels.

Investment Turnover by Size in 2014



Source: Colliers International

Investment Properties

Although in 2014 all asset classes remained in the focus of interest, the industrial segment attracted the biggest share of investment (34 per cent) in 2014, up from 28 per cent in 2013. The most notable deals in the industrial segment included the purchase of the DHL logistics centre and the Onninen warehouse by EfTEN real estate fund and the acquisition by East Capital of the Rimi Eesti Food logistics centre. Interest in warehouse / logistics properties in 2014 was driven largely by stable retail sales growth figures across the region during the last three years (above the EU average), resulting in growing activity by 3PL companies, shortage of investment grade products and the desire of institutional investors to diversify their portfolios.

At EUR 71 million, investment in retail property accounted for approx 29 per cent of transaction volume in Estonia in 2014. The most notable deals of 2014 in the retail sector were the sale of the Prisma Peremarket property in Tartu to Russian and Baltics Retail Properties, a real estate fund based in Finland with a purchase price of not less than EUR 16.5 million and yield estimated at ca 8 per cent. Additionally, Northern Horizon Capital's EPI Baltic I-fund completed the sale of the De La Gardie retail property (2,139 sqm) in Tallinn Old Town to Zenith Capital.

One the remarkable deals in the retail segment in the second half of 2014 was the sale of the Järveotsa Centre (with GLA 3,164 sqm), a neighbourhood shopping centre with a supermarket and smaller shops in Õismäe, Tallinn. With the sale of the Järveotsa shopping centre the EEREIF fund has disposed all of its holdings. As a result, the fund has been liquidated, and the capital - totalling EUR 20 million of equity - distributed to the investors. EEREIF has closed down, given the end of the fund's holding term.

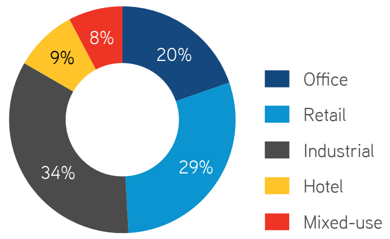
Investment activity in the second half of 2014 was largely dominated by the office segment seeing the largest single investment deal in Estonia in 2014 - in October 2014, East Capital acquired the Metro Plaza office building in Tallinn CBD for EUR 21.8 million, implying a yield rate of 7 per cent. In September 2014, investors affiliated with Colonna purchased an office building in the City Centre (Pärnu Road area) of Tallinn at Pärnu road 139c and Lumi Capital together with an Estonian private investor acquired the Flora office property (with GLA 4,400 sqm). Additionally, in Q4 2014 Geneba Baltic Investments sold an older office building in Tallinn CBD at Tartu road 13.

Additionally, around EUR 22 million was invested in Tallinn hotel properties in 2014.

Forecasts

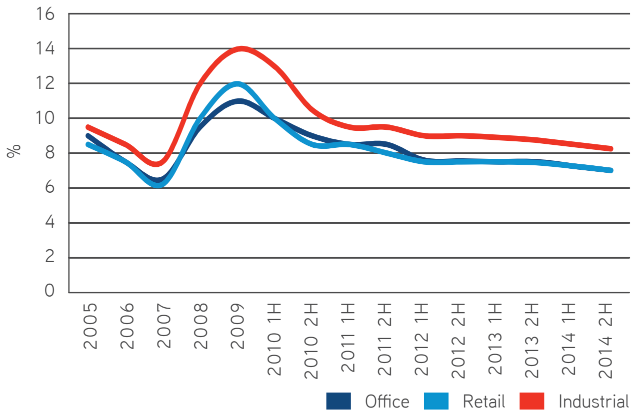
- In 2015 the investment market will continue to be active as most investors have capital available. Colliers foresees transaction volume in 2015 exceeding EUR 200 million in total, although total investment volume will depend on private investors and the number of small lot size deals.
- The market will see new players investing in Estonia and the Baltic region.
- According to a recent Colliers survey, investors are well capitalized and are constantly looking for good quality cash flow properties. Willingness to take increased risks can be observed among some investors due to the scarcity of investment grade products.
- Sector-wise, the office and retail sectors will still remain the most favoured by investors, international and local alike. Investment activity in the industrial real estate segment will largely depend on other alternatives for investors (i.e. the office and retail sectors).
- Larger investors will continue to look for alternative investment options in the development segment.
- Prime yields are expected to remain stable in 2015.

Investment Volume by Sector in 2014



Source: Colliers International

Prime Yield Dynamics in Tallinn



Source: Colliers International

Office Market

General Overview

- The office market has continued to demonstrate consistent activity in Tallinn during the last two years, resulting in increasing rent rates and supporting high development activity.
- By the beginning of 2015, estimated total stock (speculative + built-to-suit) of modern office facilities was approx 698,930 sqm. New supply delivered to the market reached 17,800 sqm.
- 2014 saw continually growing rent rates for quality modern office space. The estimated rent rate increase for Class A premises remained between 3 - 4 per cent on average and somewhat higher for Class B1 space (5 - 6 per cent on average in 2014 compared with last year).
- The vacancy rate continued to trend downwards in Class B1 office buildings, while new office supply somewhat decreased the occupancy rate in the Class A office segment in the first half of the year.
- Although demand continued to improve along with positive changes in labour markets, most tenants are keeping their focus on cost-efficiency.

Supply

Approx 12,440 sqm of new speculative office space was delivered to the market in 2014, bringing total speculative office stock to 522,750 sqm. Total office supply in 2014 reached 17,785 sqm. Although total supply fell by more than two and a half times in 2014 compared with 2013 (mostly due to completion of one of the largest office developments in Tallinn - the Lõõtsa 8 office building with GLA approx 22,300 sqm), the number of completed projects as well as projects under construction continued to trend upwards in 2014. Supply is expected to increase again in 2015.

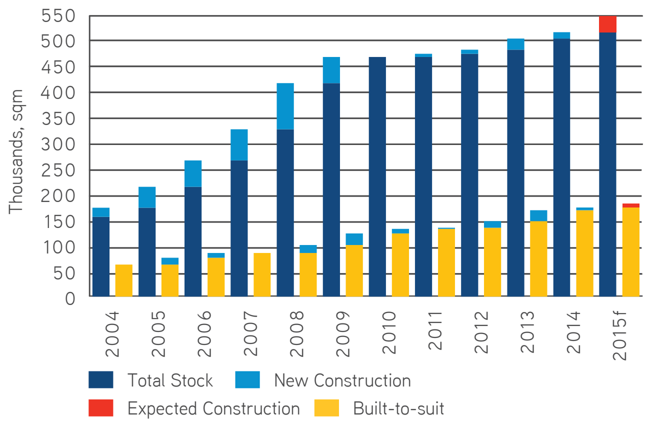
By the end of 2014 most of the new office development projects in Tallinn initiated in 2013 such as the Sõpruse 157 Office Building, the Metalli Maja, the Mehaanika 21 Office Building and the Narva road 63 Business House (with total GLA 19,000 sqm) as well as speculative and built-to-suit developments in Noblessner and Järvevana Quarters (with total GLA 12,980 sqm) were completed or in the completion phase, thus making addition of new supply, whether to 2014 or 2015 stock, rather relative.

The office development market continued its positive momentum throughout 2014. The year saw the start of several new office development projects - the Lõõtsa 5 Office Building in Ülemiste City with GLA 9,245 sqm, the Pärnu 102b Office Building (1,940 sqm) in City Centre, Eesti Loto Maja (GLA 4,860 sqm) at Hallivanamehe 4, Novira Plaza (4,330 sqm) in CBD, the Norra Building (7,600 sqm) in Baltika Quarter, the Explorer Office Building (5,000 sqm) in Tallinn Port area next to CBD.

Overall positive sentiment in the office market has encouraged developers also to initiate some larger scale developments. Thus 2014 saw the start of several middle-scale projects (e.g. Lõõtsa 5 and the Norra Building), while large-scale projects are also next in line for development. Mainor Ülemiste plans to start construction works on the Öpik Building with GLA 14,100 sqm in Ülemiste City at the end of Q1 2015, while the Maakri 19/21 office building, developed by EfTEN with approx 18,000 sqm of office space, is planned for construction in CBD during the next three years.

An active office development market forces landlords to invest in their existing stock in order to remain competitive and avoid a greater gap in terms of quality between new and existing properties. In addition to ongoing and planned new developments, several refurbishment and retrofitting projects were completed or expected to be undertaken (e.g. the ON-building in Telliskivi Quarter, the Tartu road 13 Office Building and the Endla 15 Office Building) resulting in additional growth in the quality of

Dynamics of Office Space in Tallinn and Forecasted Volume



f - forecast
Source: Colliers International

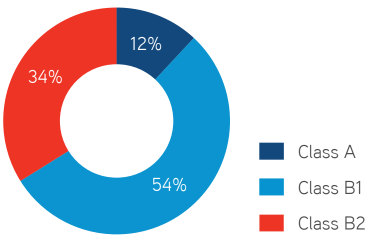
List of New Built-to-Suit and Speculative Buildings in Tallinn in 2014			
PROJECT	**ADDRESS**	**TYPE**	**DEVELOPER**
Creative House	Noblessner Quarter	Built-to-suit	BLRT Grupp
Tallinn Rescue Board and Emergency Centre joint building	Osmussaare 2	Built-to-suit	State Real Estate Ltd (RKAS)
Bliss House	Mehaanika 21	Speculative, B1	Famino
Metalli Maja Office Building	Metalli 3	Speculative, B1	Metalli Maja
ON-Building	Telliskivi 60	Speculative, B2	PLKV Invest
Kentmanni 6 residential - commercial building	Kentmanni 6	Speculative, A	Merko Ehitus
Sõpruse 157 Office Building	Sõpruse 157	Speculative, B1	Siili Ärimaja
TOTAL GLA, SQM		**17,785**	

Source: Colliers International

List of New Built-to-Suit and Speculative Buildings Planned for Completion in Tallinn in 2015 - 2016				
YEAR	**PROJECT**	**ADDRESS**	**TYPE**	**DEVELOPER**
2015	Eesti Energia Office Building	Lelle 22	Built-to-suit	Järvevana Kvartal I
	Kadriorg Business House	Narva Road 63	Speculative	Pirita Tee Development
	Järvevana Quarter	Lelle 24, Lelle 22	Speculative	Järvevana Kvartal I
	Lõõtsa 5 Office Building	Lõõtsa 5, Ülemiste City	Speculative	Technopolis Ülemiste
	Pärnu road 102b Office Building	Pärnu road 102b	Speculative	YIT Ehitus
	Eesti Loto Building	Hallivanamehe 4	Speculative	Hallivana
2016	Explorer Office Building	Kai 1	Speculative	Capital Mill
	Novira Plaza	Tartu Road 25	Speculative	Novira Capital
	Norra Building	Veerenni 24, Baltika Quarter	Speculative	Kawe
	Tehnopol2KV Office Building	Tehnopol Park	Built-to-suit / Speculative	Tehnopol
	Öpik Building	Valukoja 8, Ülemiste City	Speculative	Mainor Ülemiste
TOTAL GLA, SQM			**71,825**	

Source: Colliers International

Distribution of Speculative Office Space in Tallinn by Class



Source: Colliers International

office supply and new deliveries in both Class B1 and B2 office properties at an affordable price.

By end - 2014, Class A premises accounted for approx 12 per cent (62,350 sqm) of the total stock of speculative (not built-to-suit) office buildings in Tallinn, Class B1 for 54 per cent (283,730 sqm), and Class B2 for 34 per cent (176,700 sqm) of total stock.

The supply of office premises still remains weak in CBD. More than half of new speculative space supply in 2012 - 2016 is located outside the city centre and CBD, while speculative space supply in CBD during 2012 - 2016 accounts for only 7 per cent of total supply.

In addition to at least 20 projects under construction or at the active planning stage as of the beginning of 2015 with potential to deliver over 142,000 sqm of office leasable space by 2017, some other projects (e.g. the Lõõtsa 5 second tower, the Öpik B Building, Avala Business District, Vaari 4, Mustamäe 8, Liimi 4) are also next in line for delivery.

Demand

Take-up activity at the beginning of 2014 was driven by the professional, scientific and technical services sector and the finance and insurance sector, while the number of lease requests from companies in the information (IT and High Tech companies) and communications sector started to increase in Q2 2014.

Increased asking rates together with limited availability at an attractive price slowed down letting activity in the second quarter of 2014. Thus, take-up activity in Tallinn in Q2 - Q3 2014 was driven by the transportation and storage sector and the arts, entertainment and recreation sector, as well as an increased number of new enquiries from companies providing administrative and support services.

Overall, the highest contribution to take-up volume in 2014 came from the professional, scientific and technical services sector (19 per cent) and companies in the information (IT and High Tech companies) and communications sector (16 per cent) followed by the administrative and support services sector (15 per cent).

Class A office premises continued to be sought-after by occupiers in Tallinn in 2014. Class B1 office space remains continuously popular in Tallinn among tenants who seek quality but prefer lower rent rates.

Relocations and expansions still played an important role but new demand also showed a modest increase. At the same time, movements of larger-space occupiers within the market are largely following an ongoing trend towards less office space per employee through greater efficiencies.

Rent Rates and Vacancy

2014 saw continually growing rent rates for quality modern office space. The estimated rent rate increase for Class A premises remained between 3 - 4 per cent on average and somewhat higher for Class B1 space (5 - 6 per cent on average in 2014 compared with last year).

The achievable prime rent exceeded 15 EUR/sqm/month in 2014 (as the market saw more and more lease deals at ca the 15 EUR/sqm level), while rent rates for lower class premises remain under pressure as potential tenants try to negotiate a lower price. Thus, the gap in terms of rent levels between new or refurbished properties and existing properties became greater in 2014.

Several Class B1 buildings, experiencing high vacancy throughout 2013, were able to lease vacant space in Q4 and thus significantly improve the occupancy rate by the end of the year, a trend that continued in 1HY 2014. By end - 2014, the vacancy rate for Class B1 buildings stood below 7 per cent in Tallinn.

Vacancy among Class A office premises increased somewhat in 2HY 2013 due to the ending of several lease agreements and new supply of Class A premises to the market by the end of 2013. 2HY 2014 saw positive absorption of Class A space in Tallinn, as the vacancy rate for Class A buildings was estimated at 4.5 per cent in Tallinn at the end of 2014.

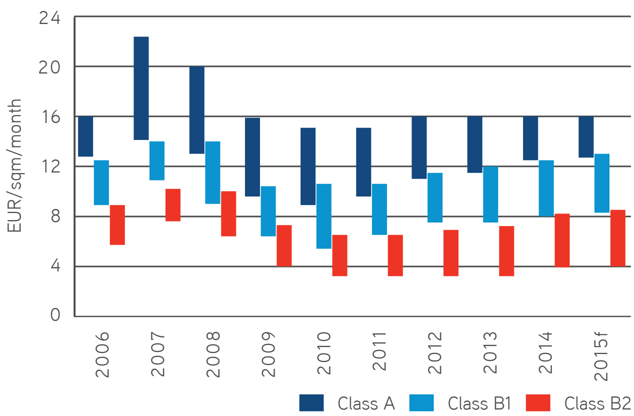
While at least 55,300 sqm of new speculative office space hit the market in 2014 - 2016, nearly 45 per cent of this space has already been pre-leased so that approx 55 per cent of it is still available.

Rent Rates* in Tallinn and Trends for 2015

CLASS	RENT RATES	TRENDS FOR 2015
A new construction	14.0 - 16.0	→↗
A existing	12.5 - 15.0	→→
B1 new construction	10.0 - 13.0	→↗
B1 existing	8.0 - 12.5	→↗
B2 existing	3.9 - 8.5	→→

* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable, →↗ - slight increase
Source: Colliers International

Dynamics of Rent Rates* in Tallinn

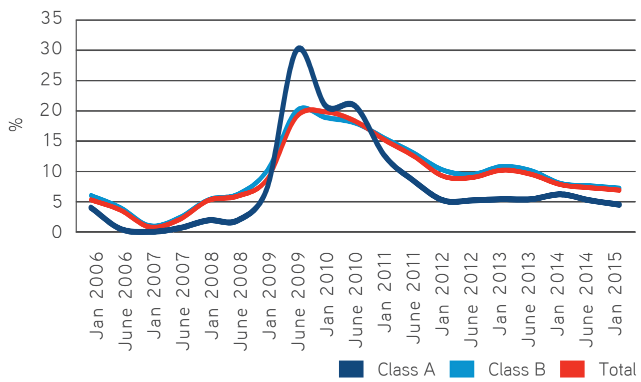


* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
f - forecast
Source: Colliers International

Forecasts

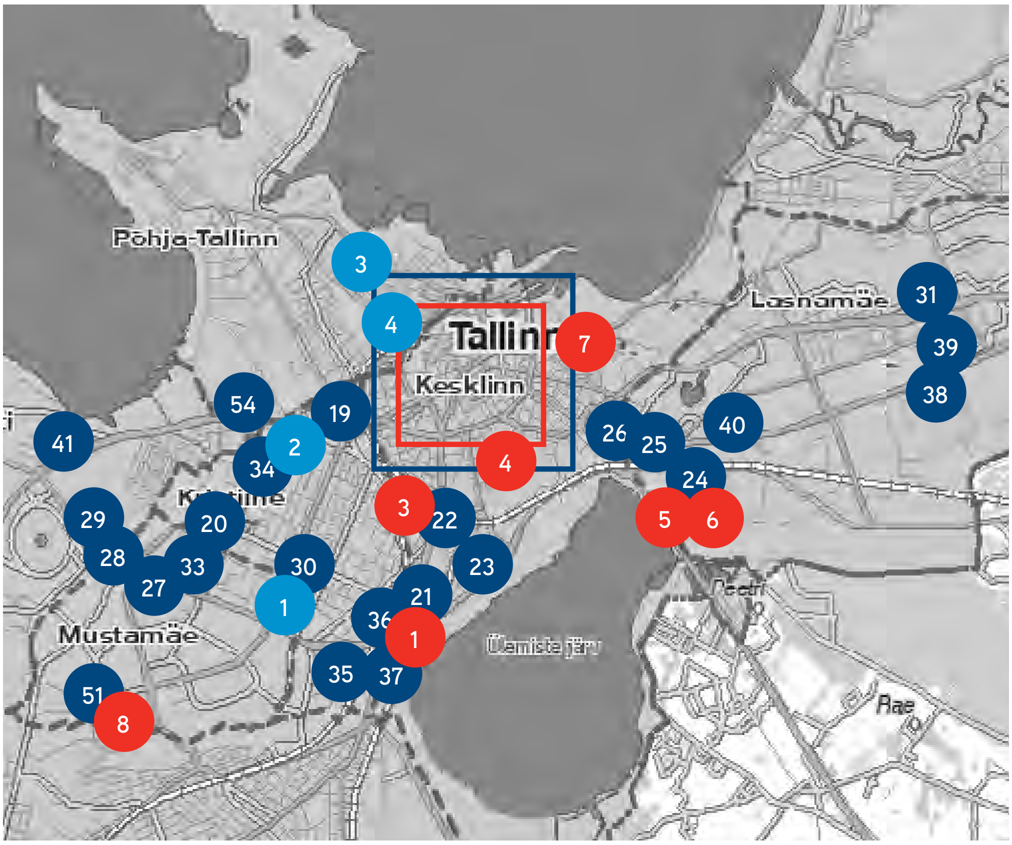
- Approx 84,500 sqm sqm of new speculative and built-to-suit office space is expected to be delivered to the market in 2015 - 2016.
- The office market started to turn back again from a landlord's to a tenant's market in 2014, while 2015 is going to be yet again a year adding a considerable amount of new office space to the market. Thus, the high level of supply enables tenants either to leave outdated offices or to renegotiate their leases.
- Projects currently under construction perspective are mostly small and medium size development projects (outside CBD), although some large-scale projects are now also planned for development.
- Estimated rent rate increases could be up to 3 - 5 per cent in 2015. The maximum rent level for A-class premises will stay around 15 - 16 EUR/sqm/month and for B1 class premises 12 - 13 EUR/sqm/month, with an average around 12 - 14 EUR/sqm/month and 10 - 11 EUR/sqm/month respectively. An increase in the upper end of headline prime rents in the next few years is not to be expected.
- Cost-efficiency will continue to be an increasingly important issue in the office real estate segment, making several tenants move from one location to another.
- Take-up activity in 2015 is expected to come continually from the information and communications sector (IT and media companies) as well as from BPO/SSC companies and the public sector.
- 2015 may see a somewhat increased vacancy rate, especially in older office buildings due to construction of new office buildings and movement by tenants from larger to smaller premises in order to achieve higher cost-efficiency.
- The gap in terms of rent levels between new or refurbished properties and existing properties may continue to grow in the coming years.

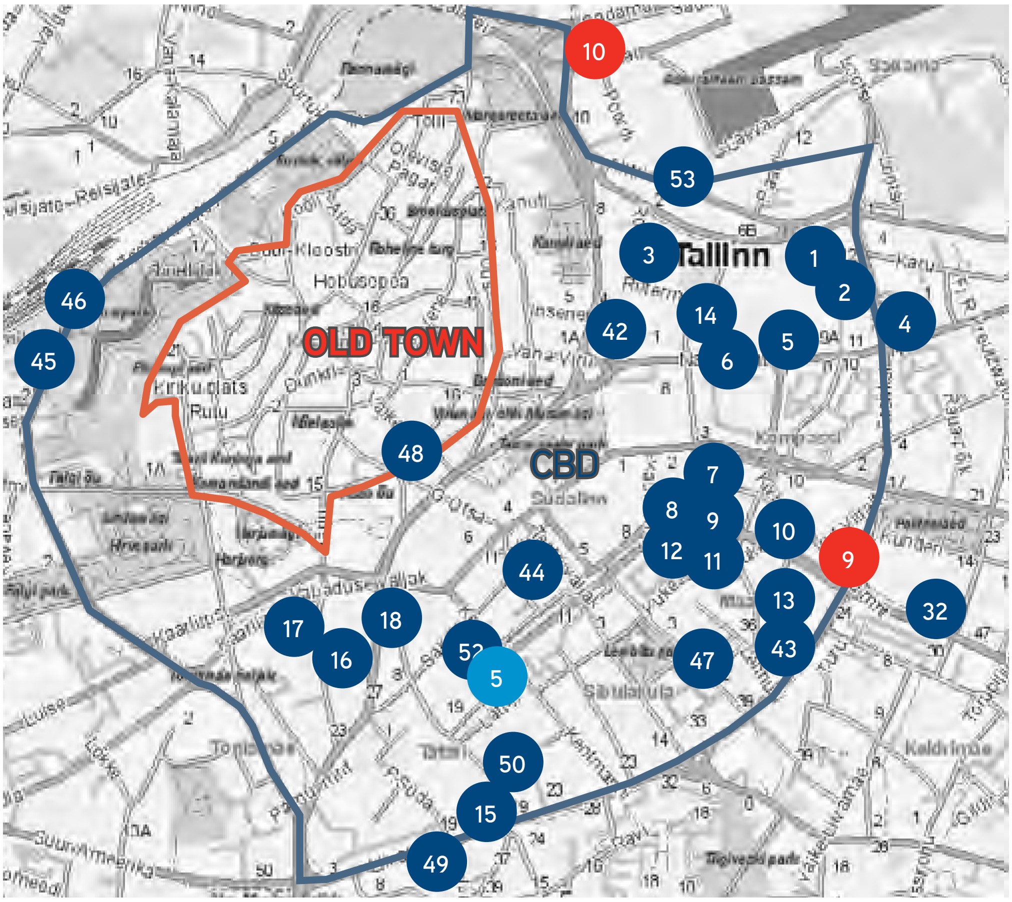
Dynamics of Vacancy Rates in Tallinn



Source: Colliers International

Speculative (Not Built-to-Suit) Office Centres in Tallinn





Existing Developments

1. Admirali Business Centre
2. WTC Business Centre
3. Rotermann Quarter
4. Pro Kapital
5. Triumph Plaza
6. Foorum Business Centre
7. City Plaza
8. Rävala pst 6 Business Centre
9. Rävala pst 4 Business Centre
10. Tornimäe Twin Towers
11. Radisson
12. Rävala pst 5 Office Centre
13. Office Building at Maakri 23
14. Hobujaama 4 Office Centre
15. ECE Business Centre
16. Swiss House
17. Roosikrantsi 2 Office Centre
18. Kawe Plaza
19. Tulika 15/17 Business House
20. Tetris Office Centre
21. Kalev Business Quarter (Lincona, Catweesi)
22. YIT Business Centre and Ärimaja Office Centre
23. Veerenni Business Centre
24. Ülemiste City
25. Ülemiste Business Centre
26. Valge Maja Office Building
27. Laki 34 Office Building
28. Ehitajate tee 114 and Ehitajate tee 108 Office Centres
29. Office Building - Meistri 22
30. Sõpruse pst 145 and Sõpruse pst 151 Office Centres
31. Tähesaja 14 Office Building
32. Scala City
33. Tammsaare Business House
34. Marienthali Business Centre
35. Tammsaare Business Centre
36. Estconde Business Centres
37. Delta Plaza
38. Peterburi Road Business Centre
39. Lasnamäe Business Centre
40. Peterburi Business Quarter, phase I
41. Rocca al Mare Tivoli
42. Metro Plaza
43. Nordea Building
44. Solaris
45. Toompuiestee Office Building
46. Shnelli Business Centre
47. Lauteri 5 Office Building
48. Saarineni Business House
49. EKE Invest Business Centre
50. Tatari 23/25 Business House
51. Tallinn Science Park Tehnopol
52. Sakala 10/Kentmanni 4 Business House
53. Laeva 2, Navigator
54. Paldiski 80 Office Building (G4S)

Completed in 2014

1. Sõpruse 157 Office Building
2. Mehaanika 21 and Metalli 3 Office Buildings
3. Noblessner Quarter (Creative House)
4. ON-Building, Telliskivi 60
5. Kentmanni 6

Declared for Completion in 2015 - 2016

1. Järvevana Quarter (Eesti Energia Office Building)
2. Eesti Loto Building
3. Pärnu road 102b Office Building
4. Norra Building
5. Lõõtsa 5 Office Building
6. Õpik Building
7. Narva road 63 Business Centre
8. Tehnopol2KV Office Building
9. Novira Plaza, Tartu road 25
10. Explorer Office Building, Kai 1 Buildings
11. Noblessner Quarter
12. Narva road 63 Business Centre

Retail Market

General Overview

- In 2014 sentiment in the retail sector was continually optimistic - with retail sales figures increasing, household consumption and expenditure on an upturn due to growing real wages, low deposit rates and a fall in inflation.
- Retail sales of retail trade enterprises are estimated at EUR 4.9 billion in 2014. Compared to 2013 retail sales increased ca 6 per cent at constant prices.
- 2014 saw the expansion of the Ülemiste shopping centre, the opening of a new shopping centre in Põhja - Tallinn city district of Tallinn, refurbishment of existing shopping centres and continuing activity in the grocery sector.
- After its expansion, Ülemiste became the biggest shopping centre in Tallinn.
- Several new international brands made their debut by entering the Tallinn retail market in 2014.
- 2014 saw an increase in the upper margin of rent rates. Vacancy rates in larger shopping centres remained effectively zero.

Supply

By the beginning of 2015, the stock of Tallinn retail space had increased by approx 28,900 sqm since the beginning of 2014, to a total of 542,200 sqm (1.25 sqm per capita). 2014 saw the expansion of the Ülemiste shopping centre, the opening of a new shopping centre in Põhja - Tallinn city district of Tallinn, refurbishment of existing shopping centres and continuing activity in the grocery sector.

The second half of the year was a period of grand openings in the retail sector as the Ülemiste shopping centre completed its extensions and refurbishments to become the biggest shopping centre in Tallinn. The extended Ülemiste now has more than 210 shops, including Estonia's first Sports Direct, the fourth H&M store in Tallinn and the first H&M Home. Designer brand name tenants saw a particular increase, from 7,000 to over 20,000 sqm of retail space.

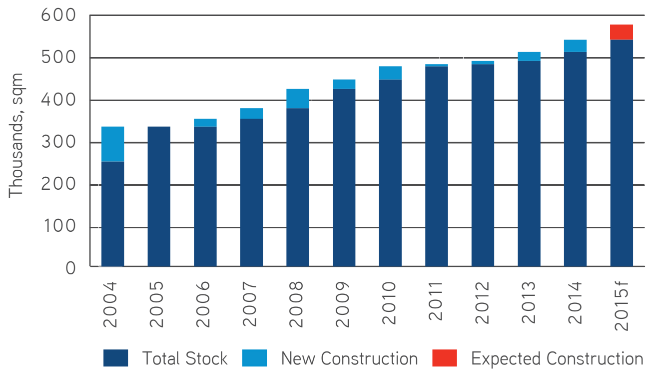
The new Stroomi shopping centre, with 50 stores and Maxima grocery store as the anchor tenant, opened in December 2014 in Põhja - Tallinn city district. Although Põhja - Tallinn occupies the third place by population among all Tallinn's districts, it still has the least stock of retail space (0.5 sqm per capita) of all districts in Tallinn.

Several shopping centres and local stores continued refurbishments in 2014. Following the first phase of the makeover of Lasnamäe Centrum at the end of 2012, some refreshment of the exterior of Lasnamäe Centrum and changes in the tenant mix in the second half of 2014 additionally transformed and refreshed the look of the centre.

Grocery chains continued to build and open new stores in 2014 in order to increase and secure their market share - the ETK grocery chain opened its Miiduranna Konsum store in June on the border of Tallinn and neighbouring municipality Viimsi, while Rimi opened a new mini-Rimi format local store in Astangu.

In October, Maxima completed an extension and redevelopment project and opened a XX format supermarket with an area of 2,070 sqm in Mustamäe city district and opened two new XX format stores in Põhja - Tallinn and Lasnamäe city districts in December. In the coming years Maxima is expected to gain more market share due to the opening of the first XXX format hypermarket in Tallinn by the end of 2015 and two more hypermarkets in 2016. Selver will become the anchor tenant in Viimsi Centre, while Rimi will open two supermarkets in Viimsi (redevelopment of Viimsi Market) and Mustamäe (Mustamäe Centre), resulting in constantly tightening competition in the grocery sector.

Dynamics of Retail Space in Tallinn and Forecasted Volume



f - forecast
Source: Colliers International

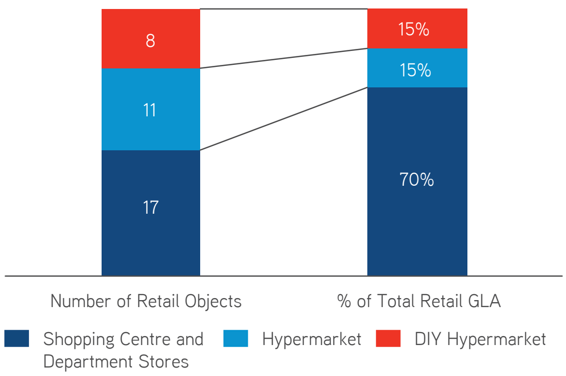
Completed Projects in Tallinn in 2014				
PROJECT	CITY / MUNICIPALITY	GLA, SQM	ANCHOR TENANT	DEVELOPER
Ext. of Ülemiste SC	Tallinn, Lasnamäe city district	20,800	Rimi, H&M, LPP Retail, Lido	Linstow
Stroomi SC	Tallinn, Põhja - Tallinn city district	8,400	Maxima	Kantauro
TOTAL		**29,200**		

Source: Colliers International

Projects Scheduled for Completion in 2015				
PROJECT	CITY / MUNICIPALITY	GLA, SQM	ANCHOR TENANT	DEVELOPER
Mustamäe Centre	Tallinn, Mustamäe city district	13,500	Rimi, Lido, Apollo Cinema	Mustamäe Keskus
Viimsi Centre	Viimsi municipality	14,300	Selver, MyFitness	Tallinna Kaubamaja
Maxima XXX hypermarket	Tallinn, Lasnamäe city district	8,000	Maxima	Maxima
TOTAL		**35,800**		

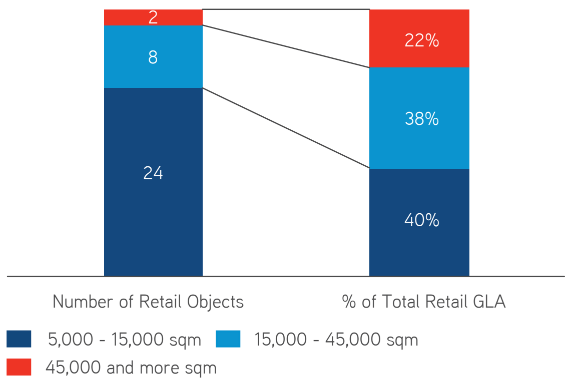
Source: Colliers International

Distribution of Retail Space in Tallinn by Type



Source: Colliers International

Distribution of Retail Space in Tallinn by Size



Source: Colliers International

2014 saw the start of the long-awaited development of the Mustamäe leisure shopping centre and the Viimsi Centre in Viimsi (Tallinn's neighbouring municipality). The new shopping centres aim to provide more leisure and entertainment activities and diversify their potential tenant mix with various leisure and sport (e.g. Apollo Cinema, MyFitness) and catering (e.g. Lido) providers. Completion of both projects is planned for 2HY 2015.

Despite previous announcements and some preparatory works, no new large-scale shopping centres (e.g. ProKapital Shopping Centre, Tallink City, and Gate Tallinn Retail Park) are under construction as of Q1 2015, while development of Panorama City with GLA 58,000 sqm was completely terminated at the beginning of 2014. Completion of these projects remains rather questionable due to the fact that the Tallinn shopping centre market is close to saturation.

Demand

Demand for well-located retail premises remains high and, in addition to existing retailers continually expanding and relocating, several new international retailers (Pedro del Hierro, Cortefiel, Brooks Brothers, Massimo Dutti, Tiger) made their debut in Tallinn in 2014.

Popular shopping centres in Tallinn as well as in all three Baltic capitals continued to diversify their tenant mix and attract more new international retailers in 2014. Thus, Viru Keskus invested approx EUR 8 million in refurbishment and diversifying its tenant mix in 2014 by opening new Massimo Dutti, River Island, Brooks Brothers, Marella, Créme de la Créme, Pedro del Hierro, and Cortefiel stores. The UK's largest sporting retailer, Sports Direct, opened its first store in 1,600 sqm in the expanded Ülemiste shopping centre at the end of October 2014. Danish retail chain Tiger entered the retail market in Tallinn and opened its doors in the Solaris and Ülemiste shopping centres in the second half of the year.

The entry of new retailers to the Tallinn retail market was continually supported by good retail sales numbers. 2014 saw an upturn in retail sales of textiles, clothing, footwear and leather goods, with the growth rate of retail sales in stores selling textiles, clothing and footwear accelerating especially markedly in the first half of the year (growing over 20 per cent compared with the corresponding period in the previous year).

New brands entering the market during the last two years (such as H&M, Debenhams, Sports Direct, River Island) hopefully reflect the potential of the Estonian retail market, although the number of local consumers and their purchasing power is still limited. While most newcomers operate in the clothing segment, there is room for new players in other segments as well, e.g. consumer electronics.

Additionally, the continually growing number of foreign tourists in Estonia (foreign tourist expenditure continued to set a new record in 2014) supported positive momentum in the retail market as well.

Rent Rates and Vacancy

Rents have remained largely stable in the main shopping centres in Tallinn during the last decade as demand continually exceeded supply (the vacancy rate in bigger shopping centres in Tallinn varied from 0.5 to 2 per cent).

Rental values for the shopping centre sector began to improve slightly in 2012 by 3 - 5 per cent on average mostly due to index increments and fewer rental discounts, a trend that continued in 2013 and 2014. Additionally, 2014 saw an increase in the upper margin of rent rates.

The upper margin of rent rates for street retail premises stood at 35 EUR/sqm/month (up to 45 EUR/sqm/month) in Tallinn in 2014, seeing an increase by approx 8 - 10 per cent on average compared with 2013 levels. The rent level increase is continually driven by increased demand from luxury and fashion retailers and lack of quality street retail space on the market.

Vacancy rates in larger shopping centres remained effectively zero in 2014. All premises in the extended Ülemiste Centre are leased out, while new centres currently under construction were more than 75 per cent pre-let before the start of construction in 2014.

Rent Rates* and Trends for 2015 in Shopping Centres in Tallinn

CLASS	RENT RATES	TRENDS FOR 2015
Large retail unit (anchor tenants)	7.0 - 12.0	→→
Medium retail unit (150 - 350 sqm)	10.5 - 37.0	→→
Small retail unit (up to 100 sqm)	13.5 - 48.0, up to 100	→↗

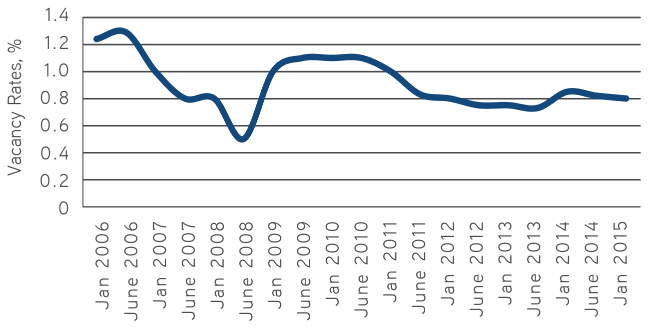
* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable, →↗ - slight increase
Source: Colliers International

Vacancy Rates and Trends for 2015 in Shopping Centres in Tallinn

CLASS	VACANCY	TRENDS FOR 2015
Major shopping centres	0.8 - 1.0 %	→→

→→ - stable
Source: Colliers International

Dynamics of Vacancy Rates in Tallinn Biggest Shopping Centres

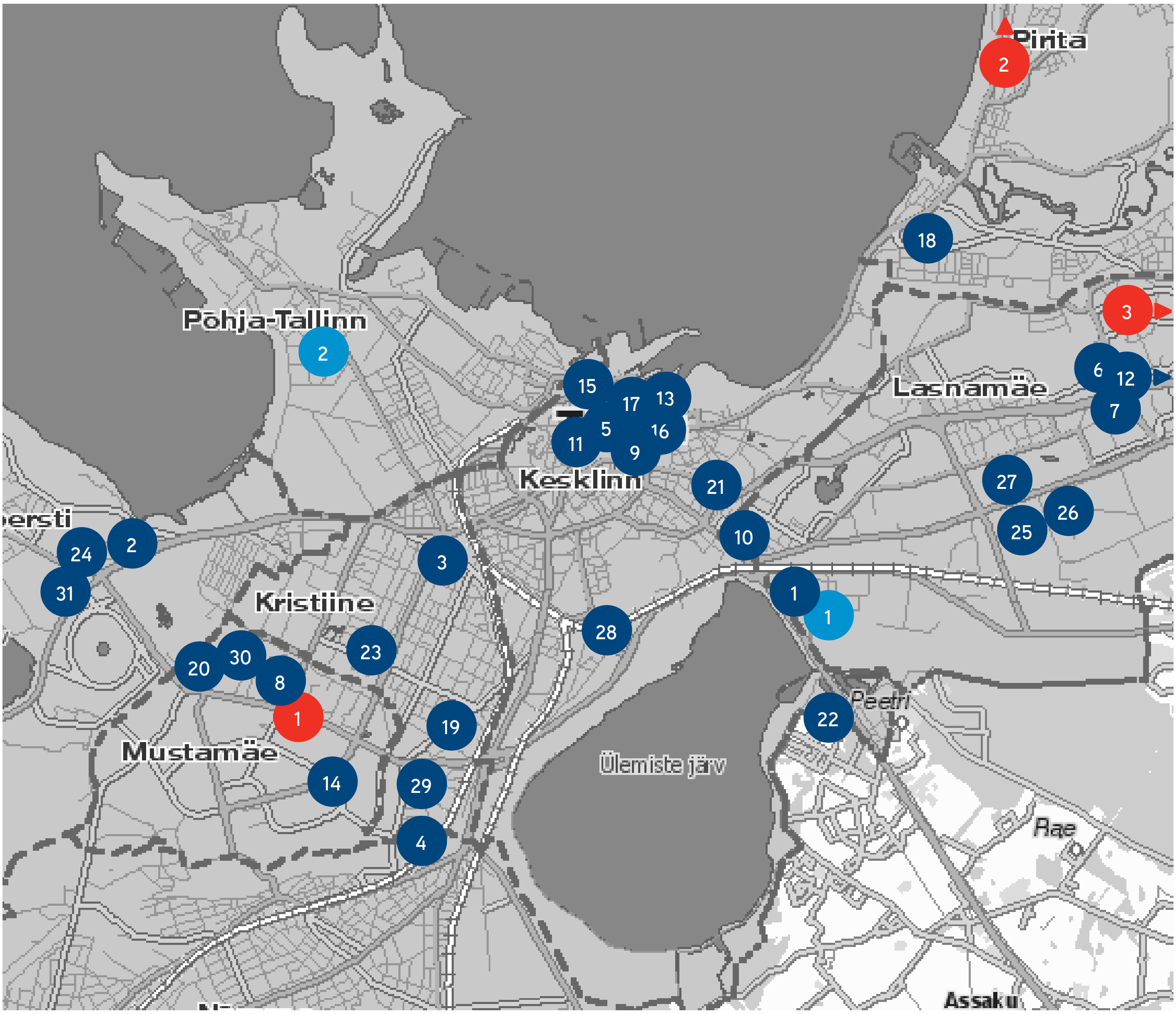


Source: Colliers International

Forecasts

- According to a Bank of Estonia forecast, private consumption is still expected to continue growing by 3.9 per cent in 2015 and by 3.6 per cent in 2016. At the same time, private consumption growth and retail sales may slow down in 2015 due to the uncertain external environment and a high reference base.
- Several grocery retailers (e.g. Maxima, RIMI, Selver) continue to seek possibilities for further expansion and opening of new stores during the next two years in Tallinn and its suburbs.
- 2HY 2015 will see completion of the Mustamäe leisure-based centre in Tallinn with GLA 13,500 sqm and the opening of the Viimsi Centre (and new Viimsi Market) in Viimsi (Tallinn's neighbouring municipality).
- The most intensive retail development is expected to occur during the next 2 years in Lasnamäe and Mustamäe city districts and Tallinn suburban areas.
- Vacancy rates in larger shopping centres will remain effectively zero in 2015.
- In 2015, rent rates are expected to remain more or less stable, with a slight improvement of 3 - 5 per cent on average likely due to index increments. Rent rates for anchor tenants are expected to remain stable.
- The retail market in Tallinn still does not feel considerable pressure from e-commerce, although the popularity of e-commerce is expected to grow exponentially in the coming years.
- Completion of new large-scale development projects remains rather questionable due to the fact that the Tallinn shopping centre market is close to saturation.

Shopping Centres in Tallinn



Shopping Centres, Hypermarkets and DIY Hypermarkets

1. Ülemiste Centre
2. Rocca al Mare
3. Kristiine Centre
4. Järve Shopping Centre
5. Viru Centre and Tallinna Kaubamaja
6. Tähesaju City (Mustakivi Prisma, Bauhaus)
7. Lasnamäe Centrum
8. Mustikas Centre
9. Stockmann
10. Sikupilli Centre
11. Solaris Centre
12. Mustakivi Centre
13. Norde Centrum
14. Magistral Centre
15. Rotermann Quarter
16. Foorum
17. Postimaja Shopping Centre
18. Pirita Selver Hypermarket
19. Tondi Selver Hypermarket
20. Kadaka Selver Hypermarket
21. Torupilli Selver Hypermarket
22. Peetri Selver Hypermarket
23. Sõpruse Rimi Hypermarket
24. Haabersti Rimi Hypermarket
25. Lasnamäe Maksimarket
26. Smuuli Bauhof
27. Lasnamäe Ehituse ABC
28. Espak
29. Tondi K-rauta
30. Kadaka Ehituse ABC
31. Haabersti K-rauta

Completed in 2014

1. Exp. of Ülemiste Centre
2. Stroomi Centre

Planned for Completion in 2015

1. Mustamäe Centre
2. Viimsi Centre
3. Maxima Hypermarket

Industrial Market

General Overview

- The warehouse and industrial property market continued to remain active in 2014 in terms of new developments and high demand for modern quality space.
- By the beginning of 2015, estimated total stock of modern industrial facilities was approx 953,200 sqm. New supply delivered to the market reached 107,000 sqm.
- 2014 saw completion and expansion of 17 warehouse and industrial buildings in industrial and logistics parks in Harju County, including the large-scale speculative VGP Nehatu project development.
- Strong local retail sales performance continued to support the warehouse sub-sector.
- In 2014, rent rates largely remained at the 2013 level. During the last three years since the beginning of 2012 the vacancy rate has continued to decline and stood below the 6 per cent level by the end of 2014.

Supply

By the beginning of 2015, estimated total stock of modern industrial facilities was approx 953,200 sqm (304,000 sqm of generic facilities plus 649,200 sqm of built-to-suit facilities). New supply delivered to the market reached 107,000 sqm.

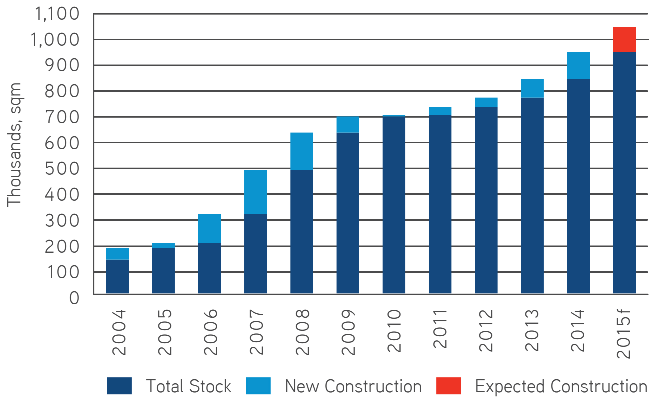
The volume of building permits issued for new industrial and warehouse buildings in Tallinn and Harju County continued to move upwards, from 185,201 sqm in 2013 to 220,487 sqm in 2014, indicating continually increasing development activity, especially in the warehouse sector. The volume of building permits issued for new industrial and warehouse buildings in Harju County surpassed the peak of 2007 and set a new annual record in 2014. The volume of occupancy permits issued for new industrial and warehouse buildings in Tallinn and Harju County amounted to 157,541 sqm in 2014 or 10 per cent higher than the total level achieved in 2013.

In 2014, development activity was seen in both the Tartu and St. Petersburg directions, although 62 per cent of new supply came in the Peteburi Road direction due to completion of several large-scale warehouse / logistics developments started in 2013.

Thus, Logistika Pluss opened the Nurmevälja logistics centre (23,100 sqm) next to Iru Industrial Park in January 2014 to join its separately located storage premises into one centre. In 2013, VGP Estonia started to expand, with construction of two buildings in the Nehatu logistics park (VGP Park Nehatu speculative project) in Jõelähtme municipality, thus adding a considerable volume of speculative warehouse premises to the market in 2014 - the first, A Warehouse, in VGP Park Nehatu was commissioned in January 2014 and the second, B Warehouse, was commissioned in November.

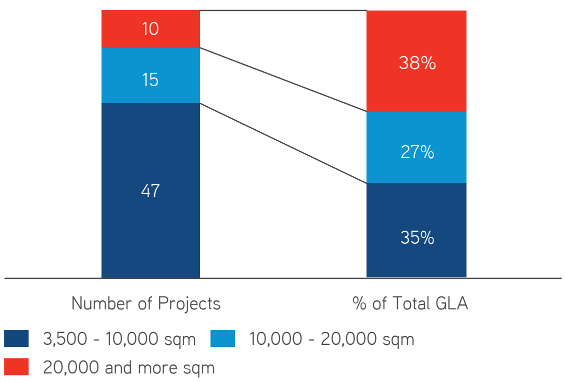
Overall, 2014 saw completion of 12 new plus expansion of 5 warehouse and industrial buildings in industrial and logistics

Dynamics of Warehouse Space in Tallinn and Harju County



f - forecast
Source: Colliers International

Distribution of Industrial / Warehouse Space by Size



Source: Colliers International

parks in Harju County, including five projects with total GLA exceeding 7,200 sqm in Mõigu Industrial Park, and four development and expansion projects with total GLA over 6,800 sqm in Rae Industrial Park.

The industrial segment remains active in Tallinn and its suburbs in terms of new developments with a total area of approx 120,000 sqm under construction in January 2015. Large-scale warehouse / logistics projects in Tallinn and its suburbs include the Maxima logistic centre (45,650 sqm) and the first phase of Smarten Logistics (17,000 sqm) in Rae municipality.

New construction in 2015 will continue to be driven mainly by built-to-suit activity, with speculative development remaining rather scarce. At the same time, VGP decided, based on the successful development of VGP Park Nehatu, to extend its current VGP Park Nehatu with acquisition of 46,000 sqm of new development land, allowing VGP to develop a further 23,000 sqm of lettable area.

Geographical distribution of new construction is returning back to the Tartu road direction. More than 70 per cent of new volume in 2015 is located in Rae municipality (Tartu road area).

Several new projects (incl. the ETK grocery chain logistics centre with total area of 45,000 sqm) are also ready to be launched soon; landlords are actively looking for prospective tenants and ready to develop new built-to-suit projects for specific clients, expand their existing sites, or even construct speculative buildings that are only partially covered by lease agreements. Activity in the market is supported by available cheap financial capital and lower development costs compared with other real estate segments, thus resulting in a wider range of small and medium developers and land plot owners looking for profitable business opportunities.

Current existing stock comprises ten industrial and warehouse projects with a GLA of over 20,000 sqm per project and a total area of 286,120 sqm. Most of the existing stock consists of industrial and warehouse projects with a GLA up to 5,000 sqm per project.

Demand

Despite the large number of new development projects and a non-supportive external environment, demand for industrial and logistics facilities remained buoyant in 2014, with continually prevailing demand for built-to-suit facilities. At the same time, strong demand for new lettable space from manufacturing and logistics companies also supported speculative development as well as leasing activity throughout the year.

Overall, 2014 saw an increase in activity on the leasing market by the production sector as well as high demand from 3PL companies searching for quality warehousing premises in order to capture the demand growth for logistics services from outsourcing activity (e.g. CF&S, Freselle). Additionally, Via3L, a 3PL logistics service provider, completed expansion of its logistics centre by 12,660 sqm in March 2014.

The market is clearly benefiting from increased consumption and improved retail sales numbers during the last three years, resulting in a stimulating effect on demand for premises (relocation of Anobion and Groupe Lemoine to Nehatu Logistics). The growth of online retailing is also an increasingly important demand driver in the logistics sector (Boomerang Distribution occupies 6,000 sqm of new warehouse space in the new Nehatu VGP Park).

Interest in larger industrial premises became more visible at the beginning of the year. The majority of interest and enquiries come from foreign industrial companies (e.g. Groupe Lemoine, Natura Siberica).

The most popular and frequently requested format of premises is quality space mainly in the size range from 500 up to 1,000 sqm. Currently available options on the rental market include mostly units over 1,000 sqm in the classic warehouse space segment and small-size units (up to 500 sqm) in the complex office-warehouse premises and storage / small-scale industrial premises segment.

Rent Rates and Vacancy

In 2014, rent rates largely remained at the 2013 level. Greatest demand continues to be for modern premises with a rent rate of 4.0 - 4.6 EUR/sqm/month in the direction of Tartu-Tallinn Road and Peterburi Road area.

However, as asking rates are directly related to the development cost, which has increased significantly over the past few years, the actual asking rents of warehouse/industrial premises are expected to stay between 4.5 - 5.2 EUR/sqm/month.

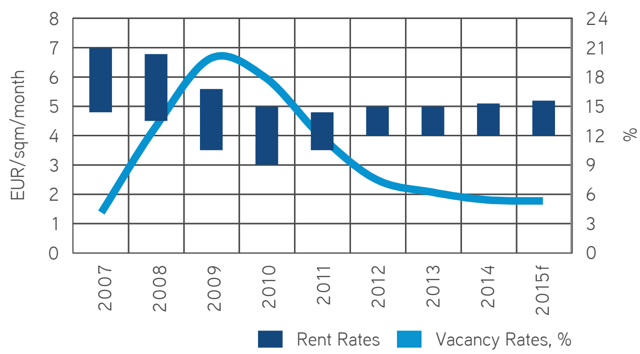
Due to high demand for modern industrial and logistics space the vacancy rate declined below the 6 per cent level by the end of 2014. At the same time, completion of several large-scale development projects during 2014 (e.g. the Logistika Pluss and Via3L logistics centres), resulted in consolidation of different units in one location, vacating some previously occupied premises, a trend expected to continue in 2015 and 2016.

Warehouse and Industrial Space Rent Rantes* and Trends for 2015 in Tallinn and Harju County

CLASS	RENT RATES	TRENDS FOR 2015
New and renovated buildings	4.0 - 5.2	→→
Older buildings	1.3 - 3.3	→→

* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable
Source: Colliers International

Dynamics of Vacancy and Rent Rates* in Tallinn and Harju County

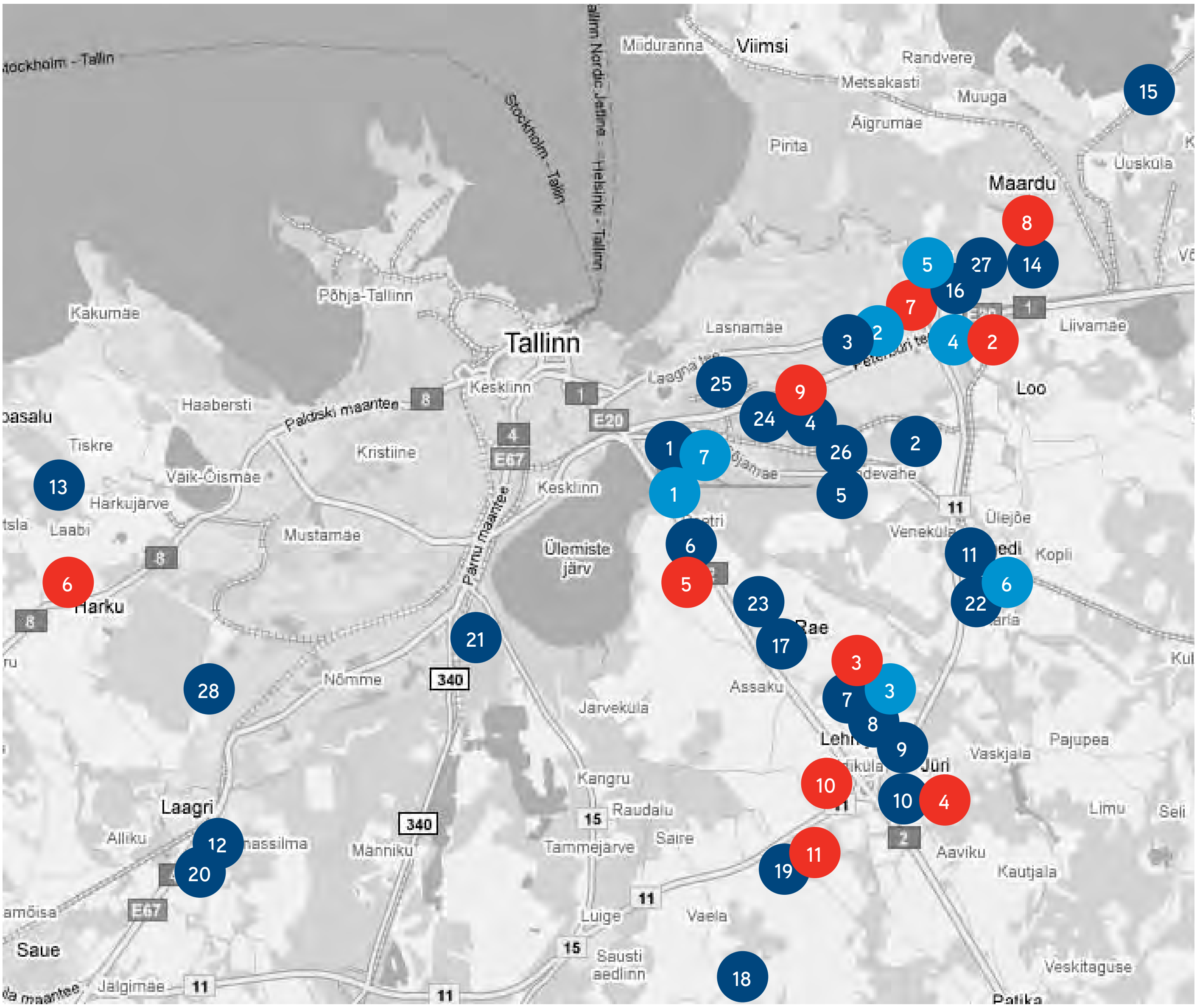


* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
f - forecast
Source: Colliers International

Forecasts

- At least 102,500 sqm of developments are anticipated to be completed during 2015, 81 per cent of it on a built-to-suit basis.
- Since 2009 the volume of new supply in the industrial and warehouse market in Harju County has remained largely stable and far below the record-high years in 2006 - 2008. At the same time, the volume of new construction in 2014 almost reached the 2006 level and will remain constantly high in 2015.
- Geographical distribution of new construction is returning back to the Tartu road direction. More than 70 per cent of new volume in 2015 is located in Rae municipality (Tartu road area).
- The retail trade oriented distribution sector is expected to remain among the most active sectors seeking and leasing warehouse premises in the coming years. At the same time, the decreasing pace of economic growth in Estonia may slightly calm the market in 2015.
- According to analysis and signs in recent months and assuming that construction costs remain stable, rental values for the industrial sector are likely to remain stable in 2015.
- Similarly to the office market, cost efficiency is also an important issue in the warehouse real estate segment, making several tenants move from one location to another.
- Completion of several large-scale development projects (e.g. logistic centres for Maxima, Smarten and ETK) during 2015 - 2016 may result in a growing vacancy rate in the near-term perspective due to a small and still limited local market.

Industrial and Logistics Parks in Tallinn and Harju County



Existing Developments

1. Ülemiste City
2. Tallinn Industrial Park
3. Tondiraba Industrial Park
4. Betooni Industrial Park
5. Suur-Sõjamäe Industrial Park
6. Mõigu Industrial Park
7. Sinikivi Industrial Park
8. Rae Industrial Park
9. Sweet Valley Industrial Park
10. Jüri Industrial Park
11. Killustiku Industrial Park
12. Tänassilma Industrial Park
13. Tabasalu Industrial Park
14. Maardu Industrial Park
15. Muuga Industrial Park / KTN Logistics
16. Iru and Nurmevälja Industrial Parks
17. Sõpruse Business Park
18. Kiili Industrial Park
19. Rebasepõllu Industrial Park
20. VGP Park Tallinn and DSV Logistics
21. Liiva Logistics Park
22. Via3L Logistics
23. KAWE Logistics
24. DHL Logistics Centre and Nordnet Logistics
25. ABT Warehouse
26. VIA Estonia Warehouse Complex
27. Vana - Narva road Logistics Park
28. ETK Logistics Centre

Completed in 2014

1. Mõigu Industrial Park
2. Tondiraba Industrial Park
3. Rae and Sinikivi Industrial Parks
4. VGP Park Nehatu, I - II
5. Logistika Pluss Logistics Centre
6. Exp. of Via 3L Logistics Centre
7. Ülemiste City

Declared for Completion in 2015

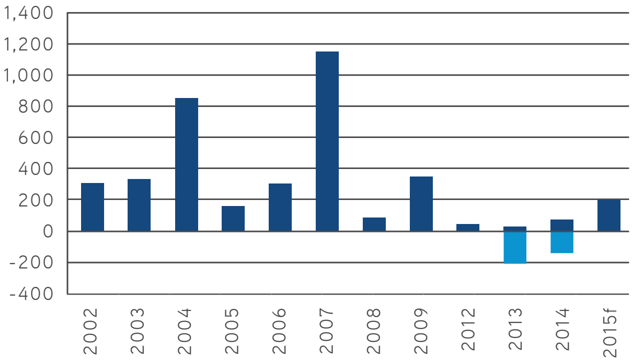
1. Mõigu Industrial Park
2. VGP Park Nehatu, III - IV
3. Rae and Sweetvalley Industrial Parks
4. Jüri Industrial Park
5. Peetri Business Park
6. Allika Industrial Park
7. Iru and Nurmevälja Industrial Parks
8. Maardu Industrial Park
9. Exp. of DHL Logistics Centre
10. Smarten Logistics
11. Maxima Logistics

Hotel Market

General Overview

- 2014 was yet another successful year for the hotel market in Estonia. Sales of accommodation services by all accommodation establishments continued to increase for the fourth year in succession, while the number of tourists continued to set new records.
- International arrivals in Estonia showed an upward trend, increasing by 3.1 per cent in Estonia and by 1.8 per cent in Tallinn during the first eleven months of 2014.
- An increase in the number of tourists from Finland, Germany, Latvia and the UK was offset by a decline in the number of tourists from Russia, Sweden, Lithuania and Norway.
- Growth in domestic tourism in Estonia of 5.8 per cent in 2014 was also reflected in positive results for the hospitality industry.
- Starting from autumn 2010 the average room price started steadily to increase, a trend that continued in 2011 - 2014. According to STR Global, hotel revenue per available room (RevPAR) in Estonia experienced double-digit growth in the first eight months of 2014 compared with the same period a year earlier.
- 2014 saw the opening of the renovated Palace Hotel, the closure of Hotel Stroomi and construction work on the Tallinn Hilton Hotel.

Number of Hotel Rooms Accrued to the Tallinn Hotel Market



f - forecast
Source: Colliers International, Estonian Hotel and Restaurant Association

Supply

2014 saw the opening of the renovated Palace Hotel, the closure of Hotel Stroomi and construction work on the Tallinn Hilton Hotel. Reconstruction of the historic 77-year-old Palace Hotel by its new owners, EfTEN Real Estate Fund and Esraven, started in October 2013 and the fully renovated hotel offering a total of 79 rooms, improved meeting and conference facilities and the new sauna centre opened its doors in June 2014. The new operator of the Palace Hotel is TallinnHotels Group which has 4 hotels with 280 hotel rooms in Tallinn.

Construction of a new 13-storey Tallinn Hilton hotel in place of the former 8-storey Reval Park Hotel building in City Centre continued throughout 2014. The deadline is set for late 2015 and a new 202 room Tallinn Hilton with conference centre, spa, restaurant and casino is due to open in 2016.

Additionally, Hotel Stroomi was closed at the beginning of 2014 due to the sale of the building and further redevelopment into a new residential scheme.

With one fourth of all Estonian hotels 4-star hotels, approx 40 per cent of Estonia's total hotel room stock is strongly rooted in the 4-star hotel segment, indicating that tourists visiting Estonia are often looking for middle and higher-value travel options.

As to the number of rooms, approx 35 per cent of Estonia's total rooms in accommodation establishments (incl. hotels, hostels, guesthouses, B&B, and others) is concentrated in Tallinn, while Tallinn hotel rooms account for 51 per cent of Estonia's total hotel room supply.

By the beginning of 2015, the 4-star segment comprised the largest percentage of Tallinn's available rooms, consisting of 26 hotels with 3,799 rooms, or 60 per cent of all hotel-room stock in Tallinn. The hotel market in Tallinn is dominated by local hotel chains and operators. Among local hotel chains the biggest are the Tallink Hotels chain, which has 4 hotels with 1,035 hotel rooms in Tallinn and the Meriton Hotels chain which has 3 hotels with 556 hotel rooms in Tallinn.

Number of Hotels and Rooms

STARS	TALLINN		ESTONIA	
	HOTELS	ROOMS	HOTELS	ROOMS
5-star	5	414	7	456
4-star	26	3,799	45	5,049
3-star	20	1,959	88	5,706
2-star	5	187	45	1,299
TOTAL	**56**	**6,359**	**185**	**12,510**

Source: Colliers International, Estonian Hotel and Restaurant Association

Demand

During 2014, 1.98 million foreign tourists stayed overnight in Estonian accommodation establishments. Their number increased by 2.2 per cent or by 43,185 compared with the same period in the previous year. Numbers of foreign tourists staying overnight in Tallinn accommodation establishments in 2014 increased by 0.8 per cent y-o-y, while the number of nights spent in Tallinn increased just by 0.5 per cent.

During 2014 the number of tourists from the largest source market, Finland, amounted to 915,540 (+2.4 per cent), showing the biggest increase in absolute figures, while the number of nights spent remained largely unchanged (-0.1 per cent). In Tallinn, their overnights exceeded the record level achieved in 2013, increasing by 0.4 per cent compared with the same period in the previous year.

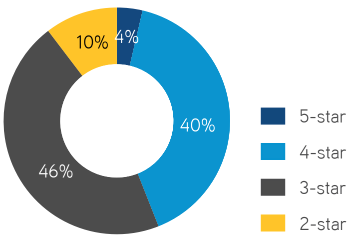
The number of Russian tourists staying at accommodation establishments during 2014 - 275,405 - was 29,239 less than a year earlier. Both the number of tourists and their overnights decreased by 9.6 per cent with exceptionally strong figures in 2013. Tallinn remains the most popular destination for tourists from Russia, but the number of tourists saw a decrease of 13.5 per cent (or 27,649 less) in 2014. After a good start in Q1, travel from Russia fell during Q2 by an estimated 14.3 per cent. Since March 2014 the number of Russian tourists staying at accommodation establishments in Tallinn has continued to decrease compared to the corresponding month in the previous year with only one increase recorded, in June.

Tourism from the third largest market, Germany, decreased in 2013 after three years of consecutive growth but turned again to increase in 2014. The decline in 2013 was mainly attributed to the decline in the number of flight connections with Germany. 2014 saw the recovery in the tourism from Germany in Estonia - the number of arrivals (112,877) and the number of overnights (242,102) increased by 11.1 per cent and 14.8 per cent respectively compared to 2013 figures. The number of tourists from Germany staying at accommodation establishments in Tallinn increased by 12.2 per cent y-o-y during 2014 and amounted to 79,406.

The number of Latvian tourists and their overnights achieved a new record. During 2014 112,703 Latvian tourists stayed at accommodation establishments in Estonia. This was 6.8 per cent more than during the same period in 2013. In Tallinn the number of tourists from Latvia remained unchanged in 1HY 2014, remaining at a record level, but then dropped significantly in July and August (by 15 per cent and 35 per cent respectively), leading to an overall decrease in the number of tourists from Latvia who stayed at accommodation establishments in Tallinn in 2014.

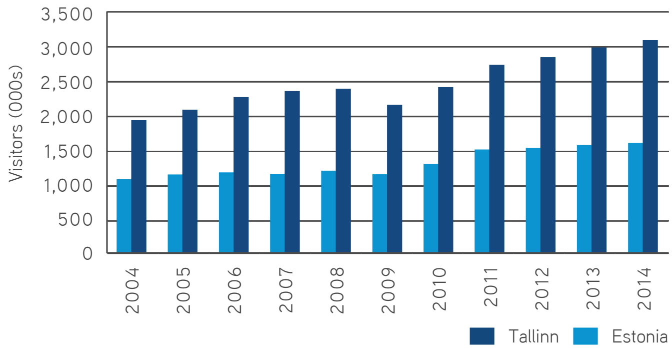
Tourism from Sweden, the fifth largest market in terms of numbers of tourists, continued to show modest results. Following a recovery in 2010 and 2011, their numbers decreased almost throughout 2012, a trend that continued in 2013 and 2014. During 2014 the number of Swedish tourists decreased by 3.2 per cent and their overnights by 6.3 per cent in Estonia. Tallinn as the main destination accounted for a bigger decrease, with the number of Swedish tourists staying at accommodation establishments in Tallinn decreasing by 4.3 per cent y-o-y and their overnights by 4.9 per cent during 2014.

Distribution of Hotel Rooms by Number of Stars in Estonia



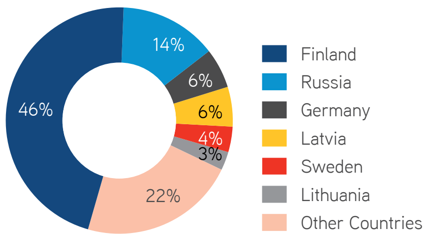
Source: Colliers International, Estonian Hotel and Restaurant Association

Distribution of Visitors in Accommodation Establishments in Estonia



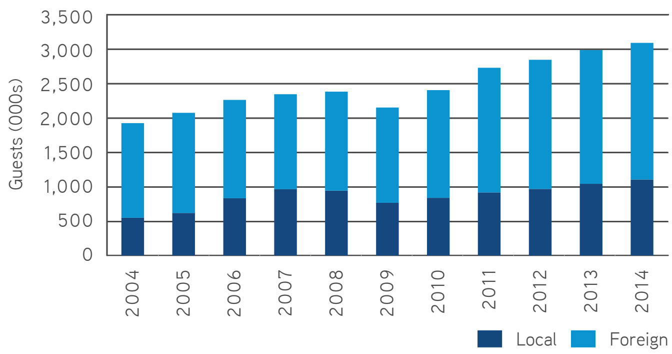
Source: Statistics Estonia

Distribution of Foreign Visitors by Country in Accommodation Establishments in Estonia in 2014



Source: Statistics Estonia

Distribution of Local and Foreign Visitors in Accommodation Establishments in Estonia



Source: Statistics Estonia

The number of domestic tourists and their overnights has grown steadily and new records have occurred. In Estonia, the number of domestic tourists increased by 6.1 per cent (63,020 more than a year earlier) and the number of overnights by 3.6 per cent respectively in 2014. The number of domestic tourists and their overnights in Tallinn continued to grow in 2014, increasing by 10.6 per cent and 7.8 per cent y-o-y respectively.

In 2014 the number of passengers (including both arrivals and departures) passing through the harbours of the Port of Tallinn hit a new all-time record of 9,569 million passengers, an increase of 332,857, or 3.6 per cent more than a year earlier. Approx 83 per cent of passengers passing through the harbours of the Port of Tallinn travelled on the Tallinn - Helsinki route, 10 per cent on the Stockholm route, 1.6 per cent on the St. Petersburg route, while 5.1 per cent were cruise passengers.

In 2014, the number of passengers (including both arrivals and departures) at Tallinn Airport increased by 3 per cent to 2.02 million passengers compared to 1.96 million passengers in 2013. 2014 saw more flights on both scheduled and charter services. Three new airlines launched flights from Vilnius, Barcelona and Lisbon in 2014 in addition to new flights introduced by AirBaltic from Tallinn to Paris and by Estonian Air to Bromma in Stockholm as well as summer services to Split and Berlin.

Prices and Occupancy

In Q1 - Q3 2014 foreign visitors' expenditure in Estonia amounted to EUR 865.5 million, increasing by 3.1 per cent compared to the same period in the previous year, thus setting a new all-time record.

During 2014 accommodation establishments in Estonia earned EUR 197 million from sales of accommodation services compared with EUR 185 million in 2013 (+6.5 per cent), indicating that sales are continually growing faster than the number of overnights.

In 2014, the average price for a night in accommodation establishments in Estonia was EUR 33.8 and EUR 40.1 in Tallinn, indicating a y-o-y increase of 4.7 per cent and 3.9 per cent respectively, according to Statistics Estonia.

According to STR Global, in the first eight months of 2014, hotel revenue per available room (RevPAR) in Estonia posted a 15.2 per cent increase compared with the same period a year earlier. According to Statistics Estonia, ADR surpassed the 2007 - 2008 boom level and set a new all-time record in 2014.

During 2014, the average room occupancy rate in Estonia was 42.6 per cent and 63.9 per cent in Tallinn, indicating a steady growth in the room occupancy rate in Tallinn, but at the same time a slight decrease in the room occupancy rate in Estonia.

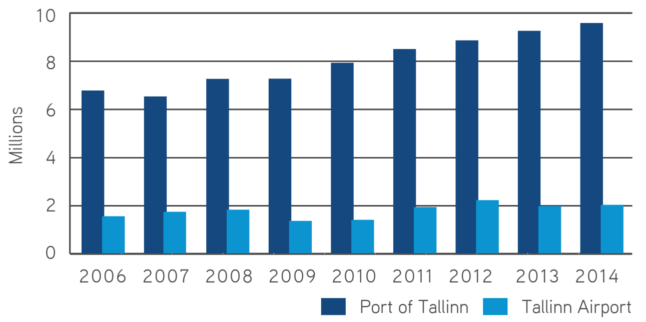
Although average occupancy remained more or less on the same level as a year earlier, the improving macroeconomic situation in 2012 - 2013 as well as the increased number of tourists had a positive effect on average hotel room prices, which increased by approx 5 - 10 per cent y-o-y in 2013 and later in 2014, and thereby also on hotel turnover numbers.

Change in Number of Tourists in Estonia, 2013 vs 2014

COUNTRY	NO. OF TOURISTS		CHANGE	
	2013	2014	%	ABSOLUTE FIGURES
Finland	894,504	915,540	2.4	21,036
Russia	304,644	275,405	-9.6	-29,239
Germany	101,596	112,877	11.1	11,281
Latvia	105,480	112,703	6.8	7,223
Sweden	74,313	71,963	-3.2	-2,350
Lithuania	52,201	52,522	0.6	321
United Kingdom	43,109	46,189	7.1	3,080
Norway	36,918	36,272	-1.7	-646

Source: Statistics Estonia

Total Number of Passengers (Including both Arrivals and Departures) in Port of Tallinn and Tallinn Airport



Source: Port of Tallinn, Tallinn Airport

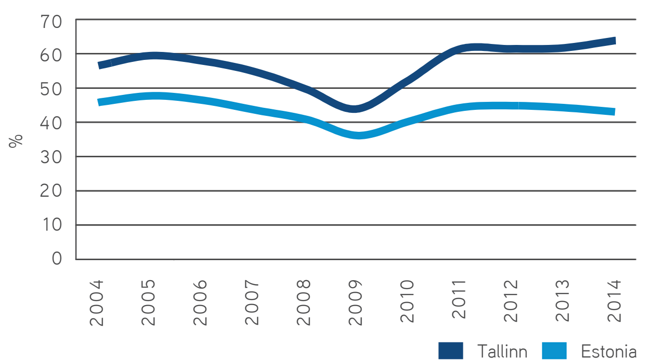
Price Range* per Night for Standard Double Hotel Rooms in Tallinn

NUMBER OF STARS	PRICE
5-star	110 - 250
4-star	55 - 150
3-star	40 - 100

* - rack rate, EUR

Source: Colliers International

Dynamics of Average Room Occupancy Rate in Accommodation Establishments



Source: Statistics Estonia

Forecasts

- Despite ongoing economic challenges, European tourism continued to grow robustly throughout 2014. Inbound tourism is expected to grow by approx 2 per cent in 2015 and 4.6 per cent in 2016 respectively in Central Europe and the Baltic States.
- In 2015 growth in the number of tourists accommodated in Estonia is expected to significantly slow down due to continually growing ADR and a high reference base.
- Despite the fall in the number of Russian tourists staying at accommodation establishments in Estonia in 2014, the number of tourists from Russia is still expected to turn to growth in 2015, although at a much slower pace compared with 2012 - 2013. A shrinking economy and rouble depreciation negatively affect Russian outbound tourism.
- The Port of Tallinn expects the number of passengers in 2015 to remain at the record level of 2014 or even grow slightly by 1 per cent compared to the previous year.
- Development of inbound tourism is substantially dependent on the volume of Estonia's air travel. Tallinn Airport expects the number of passengers to continue growing in 2015 to reach 2.1 million.
- New hotel chains (Hilton, Accor) are expected to enter the Tallinn hotel market in the 2 - 3 year perspective. The new Tallinn Hilton hotel will open its doors in 2016.

Legal Overview

Most commercial properties in Estonia owned for investment purposes are held in single asset or portfolio special purpose companies. Commercial property can therefore be sold either by selling the real estate (asset transaction) or by selling 100 per cent of the shares of the property holding company (share transaction). Both options are widely used. An asset transfer may constitute a business transfer in which case it will be similar to a share deal since the obligations of the seller will transfer to the buyer along with the asset.

Asset Transfer Deals

An important issue to consider is whether transfer of assets also constitutes transfer of a business as a going concern. This can happen if the asset comes with operational lease agreements, if the asset is for a specialised purpose or if other unique factors are involved. If the asset transfer constitutes a business transfer, the following issues must also be considered:

- Merger clearance may be needed;
- Obligations of the business transfer to the buyer (including tax obligations);
- Employees of the business must be notified of the transfer.

Main Steps

Usually in practice sale of real estate by one party (seller) to another party (buyer) would be completed within 2 - 6 months mostly following these main steps:

1. The parties sign a letter of intent (LOI or HOT) on the anticipated transaction, stating the main terms of the deal (eg, purchase price, payment mechanism, terms of conducting due diligence and the prospective timelines for the transaction). Note that in Estonia the obligation to buy or sell real estate must be notarised in order to be binding. However, if a LOI or HOT sets out the parties' obligation not to negotiate with third parties (so-called exclusivity), this agreement is considered valid and binding even without notarisation. Moreover, in commercial transactions, the LOI or HOT usually only regulates the structure and timelines of negotiations. Breach of the exclusivity obligation entitles the aggrieved party to compensation by way of damages, including payment of specific contractual penalties.
2. Negotiations with banks on financing, local municipalities and potential building contractors and conduct of legal, financial, environmental and technical due diligence of the property.
3. Often, prior to or simultaneously with the due diligence, the parties negotiate an asset purchase agreement (APA). This is usually signed after completion of the due diligence review. The APA must be notarized and state all necessary terms and conditions of the transaction (eg, purchase price, conditions of closing). Often a preliminary notation is also entered into the Land Register for the benefit of the buyer.
4. In the case of business transfer, applying for merger clearance and fulfilment of other conditions precedent (eg, issue of building permit, adoption of detailed plan).
5. Closing, i.e. conclusion of the real right agreement, transfer of the purchase price (whether from notary escrow or by the financing bank), payment of stamp duties followed by filing the purchase agreement with the Land Registry.
6. Registration of the new owner and other pertinent changes (eg, new mortgages) at the Land Registry (within 4 weeks as of filing at the latest). In some cases, payment of the purchase price is a condition of transfer of title, i.e. the purchase price is paid by the Buyer after the Buyer has been entered into the Land Register as the new owner. This is rare, though the most buyer-friendly set up of the asset transfer transaction.

Issues to Consider

- Asset transfer involves payment of notary fees and state duty, so is more expensive than a share transfer;
- Notarised agreements are usually in Estonian and seldom in English;
- Limited scope of due diligence investigation since the review concerns only the target real estate unless the transaction qualifies as a business transfer;
- Lease agreements survive change of ownership of the target asset, i.e. agreements transfer to the purchaser;
- Agreements on supply of utilities and other services must be assigned or concluded anew;
- LOI or HOT setting forth the parties' obligation not to negotiate with third parties (so-called exclusivity) is considered valid and binding without notarisation; the obligation to buy or sell must be in notarised form;
- An asset transaction may qualify as a business transfer, in which case all obligations (including employees, tax obligation) associated with the business acquired are transferred from seller to buyer.

Share Transfer Deals

Main Steps

As a compulsory rule, the shares of a public limited liability company must be kept in the securities account of the shareholder(s) opened with an Estonian commercial bank at the moment of establishing the company. The shares are registered and the shareholders' list is kept at the Estonian Central Register of Securities (ECRS).

This means that sale of shares of a public limited liability company (property holding company) is via bank transactions by transferring the share(s) from the securities account of the seller to the securities account of the purchaser.

In the case of a private limited liability company the share(s) may either be registered at the ECRS or not. Registration of share(s) of a private liability company at the ECRS is voluntary and requires a shareholder(s) resolution. If the share(s) are not registered at the ECRS the share transfer must be executed via notarised share purchase agreement. If the share(s) are registered at the ECRS, the sale of shares can be executed by concluding a share purchase agreement in simple written form and transferring the share(s) via bank transactions by transferring the share(s) from the securities account of the seller to the securities account of the purchaser.

General steps on selling shares via the ECRS are as follows:

1. In the case of a private limited liability company which does not yet have its share(s) registered at the ECRS, the shareholder(s) must open a securities account for themselves with an Estonian commercial bank. Securities accounts are always linked to a regular bank account.
2. To register share(s) at the ECRS the shareholder(s) adopt a resolution to that effect and the management board of the company files the application with the ECRS. The share(s) will be registered within 1-5 days.
3. The parties conclude a share purchase agreement in simple written form.
4. To transfer shares, the seller instructs the administrator of its securities account (the bank) to transfer the shares to the securities account of the purchaser, and the purchaser gives counter instructions to its securities account to acquire the shares.
5. The shares of the company can be transferred via two methods: FOP (free of payment) or DVP (delivery versus payment).
6. FOP transfer allows payment for the shares by instalments, on a different date than the closing date and from and to accounts not linked to the securities account and thus also not in a bank registered in Estonia.
7. DVP requires total payment to be made at the same time as the shares are transferred and from and to the accounts of the parties which are linked to their respective securities accounts in a bank in Estonia.
8. To execute the transaction, the seller must issue an irrevocable and unconditional instruction to the bank administering its securities account to transfer its shares in the company to the purchaser's securities account. In the case of DVP, the instruction is made and executed only against payment for the shares.
9. To execute the transaction, the purchaser must issue irrevocable and unconditional instructions to the bank administering its securities account to accept the shares of the company. In the case of DVP, the acceptance instruction is accompanied by an instruction to transfer the purchase price for the shares to the seller's current account. In that event, the shares are transferred only against payment for the shares.
10. Thereafter automatic changes are made to the list of shareholders in the company maintained by the ECRS. Transfer of title to the share(s) takes place at the moment the share(s) are registered in the securities account of the purchaser if the time for transfer of title is not agreed otherwise in the share purchase agreement.

General steps for selling shares by concluding a notarised share purchase agreement (only private limited liability companies whose shares are not registered at the ECRS) are as follows:

1. A notarised share purchase agreement is concluded by the parties. The notary fee depends on the transaction value of the share(s).
2. Changes in the shareholders' list are made by the management board of the company.

Issues to Consider

- Notary fees and state duty arising from real estate sales are saved from transaction costs where sale of shares of a private or public limited company (whose shares are registered at the ECRS) is completed without notarisation as an electronic share transfer via banks and the ECRS.
- Notary fees apply in the case of a share transfer by notarised share purchase agreement, which makes the transaction more expensive than executing via securities transaction via the ECRS.
- Ownership of shares is transferred as agreed in the sale agreement, usually at the time of closing the transaction, or (in the case of transfer via the ECRS), upon registration, which takes only a few days, whereas in an asset deal transfer of title takes 2 - 4 weeks (registration with the Land Register).
- Scope of due diligence investigation is extended because in a share deal the entire company transfers to the purchaser (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only.
- Financial assistance rules apply (the target company may not use its own assets to secure a loan taken by the buyer to finance acquisition).
- Deferred tax issues.

Title to Real Estate, Land Book

Ownership of real estate is registered in the Land Book. This is a national register, which includes information about ownership, details of real estate, and related encumbrances. Entries in the Land Book are assumed correct and valid vis-à-vis third persons acting in good faith.

The Land Book is a public register and everyone may access registered information. The register is maintained electronically.

Acquisition of Real Estate

General

Real estate consists of land and things permanently attached to it, such as buildings and standing forest. In general, transfer of a building separately from the underlying land is not permissible, except if building title is established and so transferred. In that case, the building forms an essential part of the building title, not of land.

Change of Ownership

Title to real estate is considered transferred on registration of ownership in the Land Book, not on signing the agreement. Ownership is usually registered within 2 - 4 weeks as of filing an application with the Land Book along with the signed and notarised real right agreement.

Form of Agreements

Transfer of title to real estate requires a sale agreement (setting the terms and conditions of sale) and a real property rights agreement (agreement to transfer title). These may be contained in one document but may also be separate.

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

Language Requirements

Notarised contracts are usually signed in Estonian. Notaries with sufficient language skills may consent to attest a contract in English or other foreign language. If agreements are verified in Estonian, foreigners may ask for a written translation or obtain the help of an interpreter before signing.

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

Due Diligence

It is advisable to carry out legal due diligence of the target real estate/holding company before concluding a purchase. Due diligence involves checking title, encumbrances, planning issues, building rights, third party rights, public restrictions, permits, environmental issues, disputes and other matters. This gives the buyer more security or bargaining power.

Right of First Refusal

Rights of first refusal may be created by contract or law. For example, a co-owner of real estate has a statutory right of first refusal upon sale of a legal share of the real estate to third persons. Further, the state or local government have a statutory right of first refusal upon transfer of real estate located within the boundaries of a shore or shore bank building exclusion zone or if real estate is located in certain nature protection zones, or if a heritage protection object is located on real estate.

Rights of first refusal may be exercised within two months after receiving notification of a sale agreement.

Typical Purchase Price Arrangements

The buyer may be required to pay a deposit on the purchase price to a broker's or seller's account before a real estate purchase agreement is signed.

Often the purchase price is transferred to a notary's deposit account before concluding the sale agreement. The notary releases the purchase price to the seller after the agreement is signed and filed with the Land Book and no other applications are filed in the Land Book that would hinder transfer of title.

Restrictions

Restrictions on Acquisition

In general, no restrictions are imposed on foreigners acquiring real estate in Estonia. Exceptions include forestry and agricultural land, plus some island and sea coast and state border areas.

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

- Estonian citizens.
- Citizens of a state which is a contracting party to the EEA Agreement.
- Citizens of a member state of the Organisation for Economic Cooperation and Development.
- A legal person, with its seat in Estonia, from a country which is a contracting party to the EEA Agreement or in a member state of the Organisation for Economic Cooperation and Development which has been engaged in production of agricultural products or forest management for three years immediately preceding the year in which it makes the transaction to acquire the immovable.

Other persons may own such land but on limited grounds and on approval of the county governor. Transfer of land on smaller islands and certain border areas to non-citizens or legal persons of states not contracting parties to the EEA agreement requires permission of the Estonian Government.

Concentration Control

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

Public Restrictions

Public restrictions may apply to use of real estate in the following areas: natural protection and coastal areas, Natura 2000 protection areas, heritage protection zones, protected zones of power lines, railways, roads, and other utility networks. Restrictions may mean that part of the real estate may not be used for building or the owner must avoid activity in protected zones, or that building or other activities require consent from utility networks, the operator, or the governing body (eg, heritage protection authorities, local government, environmental protection authorities).

Encumbrances

The following rights, which are entered in the Land Book, may encumber real estate: usufruct, servitudes, building title, rights of first refusal and mortgages. In general, these rights may be used in real estate transactions and are entered in the Land Book under notarised agreements to secure the interest of the parties, third persons, or neighbouring real estate owners.

The Land Book may register notation of a lease agreement, which ensures that upon transfer of real estate the new owner may not terminate the lease agreement within three months of acquisition citing urgent personal need to use the premises.

Property Management

Maintenance of real estate is usually carried out by the owner or by a professional management company which provides technical support, accounting, and other related services. Apartment owners may establish an apartment owners' association for the common management of property. The Estonian legislator has adopted a new Apartment Ownership- and Association Act by which an apartment owners' association will be established automatically on the basis of the law. The new act will enter into force in 2018.

Lease Agreements

General

For residential leases the law provides extensive mandatory regulation protecting the tenant.

Business leases are much more flexible but a set of mandatory rules also applies.

On transfer of real estate, lease agreements survive change of ownership. However, an owner who needs the premises urgently for own use may terminate a lease agreement within three months of acquisition. This right may not be exercised if a notation of the lease agreement has been entered in the Land Book.

Duration and Expiry of Lease Agreement

Lease agreements may be either for specified or unspecified terms. If the parties have not agreed otherwise, either party to a lease agreement for an unspecified term may terminate a residential or business lease by giving at least three months' notice.

A lease agreement for a specified term expires at the end of the term. Extraordinary termination is allowed for material breach of agreements for both unspecified and specified terms.

If the tenant continues to use the leased premises after expiry of a lease agreement (entered into for a specified term), the lease is taken to have become a lease agreement entered into for an unspecified term unless the owner or tenant expresses some other intention to the other party within two weeks of expiry of the lease agreement (applies to the tenant) and as of when the owner learns that the tenant is continuing to use the leased premises (applies to the owner).

If the tenant does not release the premises after expiry of a lease agreement the tenant will become an unlawful possessor of the premises. Under Estonian law unlawful possession is also protected by law and the premises can be recovered only through court proceedings. As a result, there have been problems in practice regarding recovering premises from unlawful possessors.

Lease Payment and Other Expenses (Utilities)

Rent is usually paid once a month to the bank account of the landlord. The rent is typically indexed (eg, changes in local CPI may be capped at, eg, 3 - 5 per cent per annum). The tenant commonly pays a deposit (or provides a first demand bank guarantee) of one to three months' rent.

Accessory expenses (utilities) such as electricity and water are considered included in the rent if not otherwise agreed in the lease agreement. Prevailing market practice is that the tenant pays for utilities and other expense items in addition to the rent in accordance with invoices from service providers or the landlord.

Distressed Asset Purchases

Distressed sales may be facilitated or controlled by banks that have been financing real estate projects which run into difficulties. The risk of seller insolvency has to be taken into account when planning distressed purchases because a transaction made on conditions detrimental to the seller may be revoked in later insolvency proceedings. This risk is higher during the first six months following appointment of an interim trustee for the seller. No purchase price pre-payments should be made to a seller who is potentially insolvent.

If a distressed asset is sold through enforcement proceedings, then statutory auction rules are applied so that the bankruptcy trustee or bailiff will arrange the auction. Real estate from insolvency or enforcement auctions can be bought using bank financing. The bankruptcy estate can be sold without public auction with consent of the creditors.

A distressed asset is usually sold "as is", which makes thorough due diligence even more important.

Lease contracts concluded by previous owners under terms adverse to the new owner may be difficult to terminate. As eviction of tenants is allowed only by court order then the process may be time consuming and costly.

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Tax Summary

Estonian Corporate Income Tax System

Estonia has a distinctive tax system in which the taxation of corporate profits is deferred until the profits are distributed. Corporate profits are subject to taxation upon distribution of dividends or other types of deemed or hidden profit distributions, e.g. liquidation proceeds, representation expenses, gifts and donations, non-business related expenses, transfer pricing adjustments, etc.

Corporate profits distributed by Estonian companies are generally subject to the 20 per cent corporate income tax (CIT) at 20/80 of the net amount of profit distribution at the level of the distributing company. The relevant amount of income tax due is required to be paid by the company by the tenth day of the month following the month in which the payment was made. However, dividends distributed by Estonian companies are exempt from CIT if the distributions are paid out of:

- Dividends received from Estonian, EU, European Economic Area (EEA), and Swiss tax resident companies (except tax haven companies) in which the Estonian company has at least a 10 per cent shareholding;
- Profits attributable to a permanent establishment (PE) in the EU, EEA, or Switzerland;
- Dividends received from all other foreign companies in which the Estonian company (except tax haven companies) has at least a 10 per cent shareholding, provided that either the underlying profits have been subject to foreign tax or if foreign income tax was withheld from dividends received; or
- Profits attributable to a foreign PE in all other countries provided that such profits have been subject to tax in the country of the PE.

Acquisition

Estonian real estate can be acquired directly (asset deal) or indirectly by way of acquiring shares in a company holding real estate (share deal). The transfer of shares in a property holding company is not subject to VAT.

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

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

Rent

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

Corporate Income Tax (CIT): Due to the specifics of the Estonian corporate tax system, rental income received by Estonian companies only becomes subject to 20 per cent corporate tax upon distribution of profits. Permanent establishments of non-residents are taxed similarly to Estonian companies, i.e. only upon making formal or deemed profit distributions.

Withholding Tax (WHT): As a general rule, non-residents without a permanent establishment in Estonia are subject to 20 per cent income tax on the gross rental income by way of withholding.

Personal Income Tax (PIT): Estonian resident individuals pay 20 per cent income tax on gross rental income, i.e. without the right to make any deductions on the expenses incurred in relation to the property.

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

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

Sale

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

Corporate Income Tax (CIT): Capital gains received by resident companies upon sale of real estate or shares in real estate companies remain untaxed until distributed as profits. Non-resident companies pay 20 per cent income tax on the capital gain from the sale of real estate or shares in real estate companies by way of self-assessment. A company is deemed to be a real estate company if at the time of sale or at any period during the 2 years preceding the sale more than 50 per cent of the assets directly or indirectly consist of Estonian real estate. The capital gain is calculated as the difference between the sales price and acquisition cost. All documented expenses made in order to buy, improve or supplement the property, including all expenses directly related to the sales transaction may be deducted.

Special Rules for Domestic Tnvestment Funds: According to the Estonian Income Tax Act domestic contractual investment funds are taxpayers in respect of their real estate related income and gains. Income tax is charged on gains derived from the transfer of property and the income which is received from the hire or lease of property that is located in Estonia. In addition, interest which is received in connection with holding in another contractual investment fund or pool of assets is subject to 20 per cent income tax.

Personal Income Tax (PIT): As a general rule, private individuals are liable to pay 20 per cent income tax on the capital gain upon sale of real estate. Exemption is provided for sale of home (one home can be sold tax exempt in every 2 years).

Land Tax

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

The tax rate varies between 0.1 per cent and 2.5 per cent of the taxable value of land annually, which depends on the location of land and is determined by the local municipality. The taxable value should not be confused with the market value. In Tallinn, the highest rate is imposed and thus levied at 2.5 per cent annually.

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

Real Estate Tax

There is no real estate tax in Estonia.

State and Notary Fees

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

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

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

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

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Commercial square meters under management

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