Research &
Forecast Report

Latvia | Lithuania | Estonia
2017

Colliers INTERNATIONAL

SORAINEN
ESTONIA LATVIA LITHUANIA BELARUS

EY Building a better working world

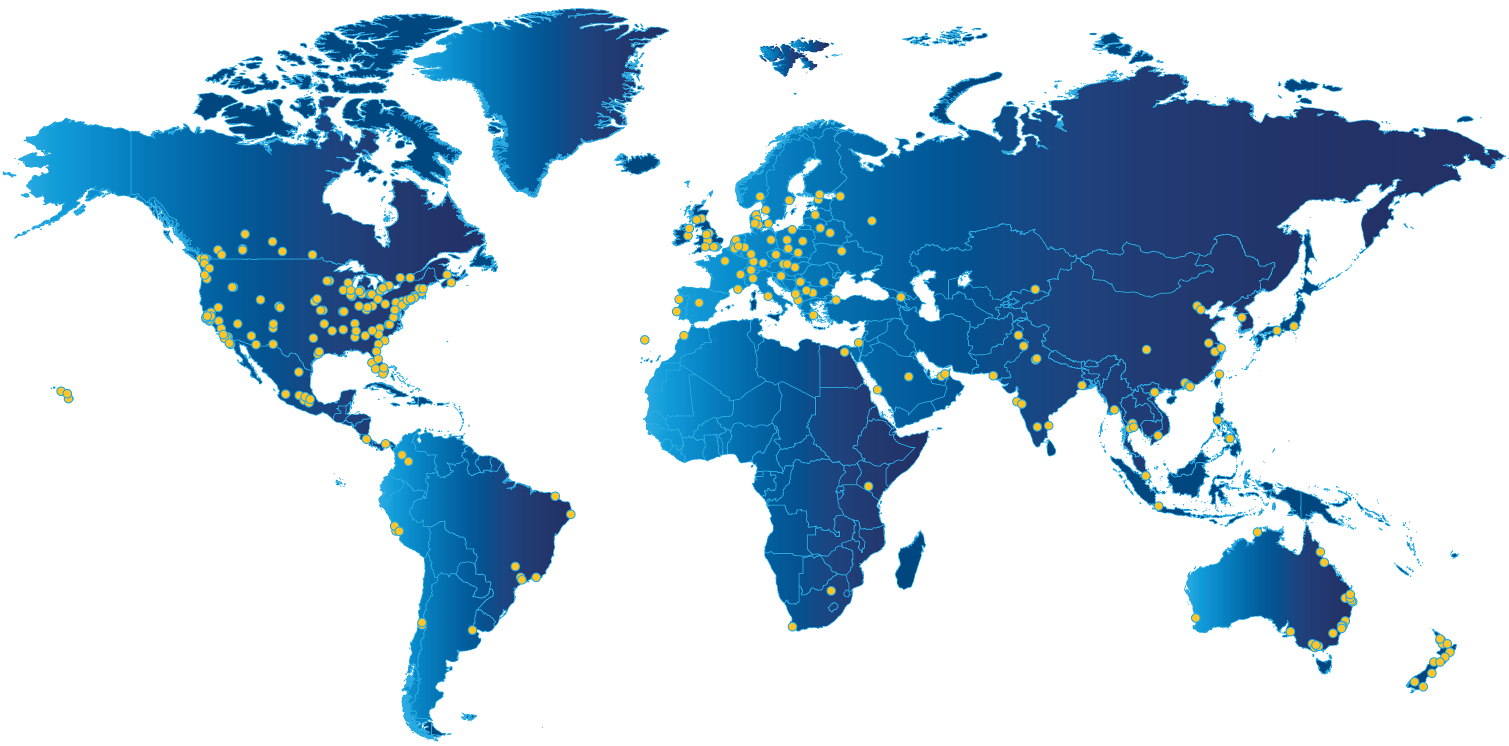
Real Estate Market Overview

Annual Review

Accelerating success.

Real Estate is a location business.

That’s why we do business where you do business.



When you partner with Colliers professionals, you tap into an integrated team of experts. Together, we offer insight from 554 world markets, eight service lines and countless specializations, all with a common goal - *accelerating your success*.

Contents

Latvia Market Overview

Deniss Kairans

Partner | Managing Director
deniss.kairans@colliers.com

Dear Reader,

We are delighted to present the Colliers International Real Estate Market Review for Latvia, Lithuania and Estonia, wherein you will find much useful information about market trends and forecasts, the latest statistics and market insights. We are grateful to our partners - Sorainen and EY - for contributing to preparation of our real estate legal and tax reviews.

It was an interesting year in the region, with activity staying high in most segments. Investment volumes for the 2nd year in a row reached more than EUR 1 billion of investments in commercial real estate in the Baltic capital cities. Pan Baltic investors made the biggest volume of all the transactions, although the trend of new investors entering the region continued last year. The markets continued to show a yield compression for core properties, although even with yields below 7% Baltic capital cities can provide greater returns compared to what is happening in Northern Europe or the CEE region overall.

2017 remains promising. Development activity continues in Estonia and Lithuania and is restarting in Latvia. Riga is lagging behind, with new development happening at a slower pace, although the pipeline of potential new projects is beginning to look promising and realistic.

The market is expecting to see the start of construction of the first IKEA store in Riga and new developments in the shape of SC ALFA and SC AKROPOLE RIGA. The commissioning of Place Eleven, developed by Hanner, will clearly indicate possibilities for developers in the office market. Last but not least VGP, one of the biggest Eastern European developers, will finalize new industrial park construction close to Riga in 2017.

Forecasts for all three Baltic States stay positive and we look forward to cooperating and serving your needs in the region.

Sincerely,

Deniss Kairans

Economic Overview

Summary

In 2016, economic growth experienced a slowdown compared to the previous year's figures. Similarly to previous years, growth was mainly driven by household consumption, while disruption of EU funding availability served as a limiting factor, holding down gross fixed capital formation.

According to the latest available estimates, Latvian real GDP growth in 2016 amounted to 1.6%. Among the most successful real economy sectors in terms of average y-o-y quarterly growth in Q1 - Q3 2016 were the accommodation and food service sectors (average 8.1% growth), taxes on products (average 6.2% growth) and the information and communication sector (average 5% growth). Despite impressive growth in the majority of real economy sectors, the construction sector experienced a 20% average decline.

The year concluded with inflation close to zero per cent for the second year in a row. However, housing and utility costs, as well as transport price inflation decrease, outweighed growth in food and alcoholic beverage prices.

By the end of the year, unemployment remained practically unchanged compared to the previous year. Nevertheless, more and more enterprises are experiencing lack of skilled personnel, which continues to materialize in the shape of wage increases, although at a slower pace compared to 2014 and 2015. Still, almost zero per cent inflation has led to positive development of real wages, indicating a further increase in population purchasing power.

During 2016, the market faced an increase of credit issuing activity by the banking sector. More accessible leverage opportunities in conjunction with a low interest rate environment had a positive impact on economic development.

Tendencies and Forecasts

- According to available forecasts, GDP growth is expected to reach 2.9%, which will be triggered by EU funding injection and household consumption.
- Inflation is expected to reach approx 2.5%, driven by energy and food prices.
- Unemployment is expected to experience a further decline with increasing pressure in terms of shortage of skilled labour availability.
- In the context of positive economic development and decrease in unemployment, wages are likely to continue increasing, although at a slower pace compared to previous years. At the end of the day, wage increases are expected to exceed inflation, leading to a further improvement in purchasing power.

Key Economic Indicators of Latvia

	2007	2008	2009	2010	2011	2012	2013	2014	2015F	2016	2017F
GDP Current Prices, EUR billion	22.6	24.3	18.8	17.9	20.2	21.8	22.8	23.6	24.3	24.8	26.3
GDP Growth (Real), % yoy	9.9	-3.6	-14.3	-3.8	6.2	4.0	2.9	2.1	2.7	1.6	2.9
Industrial Production, % yoy	0.3	-3.4	-20.3	16.6	11.7	9.3	0.1	-0.3	4.3	3.5	4.5
Unemployment Rate, % avg	6.1	7.7	17.5	19.5	16.2	15.0	11.9	10.8	9.9	9.7	8.5
Growth of Average Monthly Gross Wages, % yoy	31.5	20.5	-3.9	-3.5	4.4	3.7	4.6	6.8	6.8	5.1	4.8
Total Central Government Debt, % of GDP	11.8	22.7	39.9	48.3	42.4	40.4	38	40.2	36.3	40.0	38.3
HICP avg., % yoy	10.0	15.3	3.3	-1.2	4.2	2.3	0.0	0.7	0.2	0.1	1.6
CPI, % yoy	10.1	15.4	3.5	-1.1	4.4	2.3	0	0.6	0.2	0.1	2.5
Fiscal Deficit, % of GDP	-0.7	-4.1	-9.1	-8.5	-3.4	-0.8	-0.9	-1.6	-1.3	-1.4	-1.3
Export, EUR billion	8.7	9.6	8.0	9.6	11.7	13.4	13.7	14.1	14.4	14.7	15.3
Import, EUR billion	13.0	12.8	8.3	9.9	12.7	14.4	14.5	14.5	14.6	15.2	16.1
Current Account, % of GDP	-20.8	-12.4	7.8	2.0	-3.2	-3.6	-2.7	-2.0	-0.8	0.9	-1.5
FDI, EUR billion	1.70	0.86	0.07	0.29	1.05	0.86	0.68	0.59	0.60	-0.10	0.35

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

Investment Market

General Overview

- During 2016, Latvian real estate investment market activity resulted in EUR 341.3 million investment volume.
- Investment in the retail segment was the main driver of investment activity.
- Demand for potential investment targets was high, but a shortage of attractive cash flow investment opportunities served as a limit.
- Improvement in the investment climate contributed to further yield compression in all commercial property segments.

Investment Volumes

In 2016, the Latvian real estate investment market continued to be active. The year closed with a total investment volume of EUR 341.3* million, compared to EUR 394.4 million in 2015. The retail sector continued to dominate the investment horizon with 53% of investment volume driven by acquisitions of three shopping centres, namely Riga Plaza, Domina Shopping and Galerija Azur.

During 2016, 64% of total investment volume was generated by transactions exceeding EUR 20 million in size. Despite large total volumes, investment transactions below EUR 3 million still constitute 72% of transaction numbers. At the same time, these transactions generate only 12% of total annual investment volume.

Recent market activity has shown that local Baltic investors are becoming more active and better capitalised. Among Baltic investors in Latvia, Estonians are the most active, followed by domestic investors. Only a few acquisitions were by Lithuanian investors but Colliers International expects their interest to grow in 2017, as competition in Lithuania tightens. Private CIS investors are still present in the region but on a smaller scale and often looking for income-generating assets located in the city centre. The number of direct Nordic and international investments remains limited, but such investors do consider the Baltics as a potential investment market and can be attracted by large scale properties and portfolios, thus making a significant impact on investment volumes.

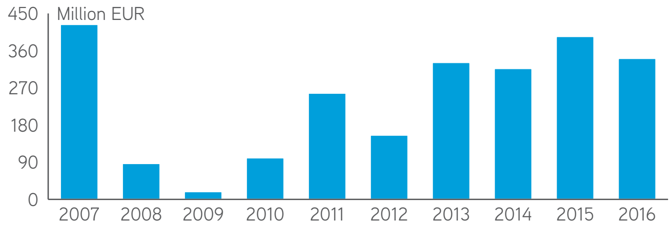
* The number of transactions includes both asset and share deal transactions exceeding EUR 0.4 million, excluding land, development and reconstruction projects, distressed properties and end-user deals.

In 2016, the Latvian real estate investment market saw only one new name of a global private equity firm - Lone Star Funds, responsible for the acquisition of SC Riga Plaza. Among existing market players, EfTEN Capital, New Hanza Capital and New Horizon Capital were the most active, with 24% of total annual investment volume generated by their acquisitions. The market also saw increasing activity by local private investors, mainly aiming at EUR 1 - 4 million transactions, with separate transactions above EUR 10 million.

Although interest in the country increases, the number of available high-grade properties is declining along with yields, so that investors are becoming more careful when considering new acquisitions.

Additionally, activity from end-users continued in 2016. Transactions with properties acquired for own business or occupation needs provided an additional EUR 30 million to the transaction volumes mentioned above. While still significant, this number is much lower compared to EUR 120 million in 2015.

Dynamics of Investment Volume in Latvia



Source: Colliers International

Investment Properties

During 2016, division of investment volume between the main property segments remained similar to the previous year.

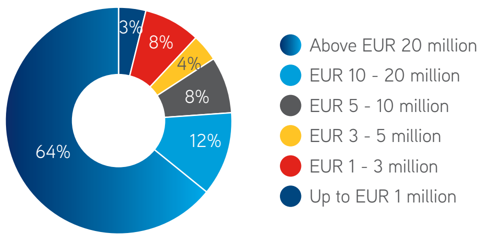
The retail segment was a dominant investment target in 2016, generating 57% of total investment volume. High volume was driven by several large transactions and by more individual transactions above EUR 3 million. The share of office investment deals accounted for 30%. Even though Colliers International mostly saw transactions below EUR 3 million during the first half, the year concluded with quite a few large transactions in this segment. The industrial segment continued to be less active compared to the office and retail sectors, which led to industrial segment investment volume of just 6% of the total.

Top 5 Investment Deals in Latvia in 2016

NO.	PROPERTY NAME	SECTOR	GBA, SQM	INVESTOR
1.	SC Riga Plaza	Retail	67,000	Lone Star Funds
2.	SC Domina Shopping	Retail	111,000*	EfTEN Kinnisvarafond II
3.	SWH Biroju Centrs	Office	43,000	Group of private persons
4.	Upmalas Biroji	Office	15,400	Baltic Horizon Fund
5.	Geneba portfolio	Office	20,000	Laurus Fund

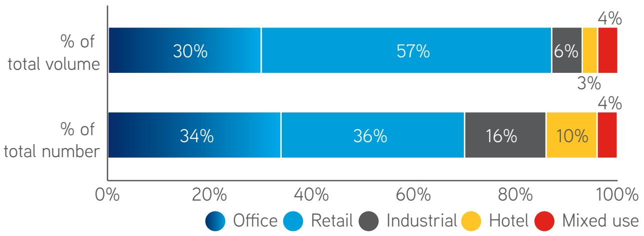
* - office and parking area included in GBA
Source: Colliers International

Investment Turnover by Size in 2016



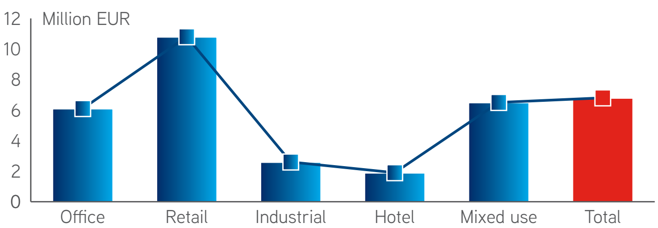
Source: Colliers International

Distribution of Transactions by Property Sector in 2016



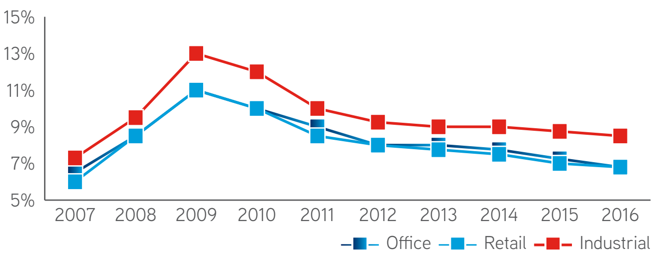
Source: Colliers International

Average Transaction Size by Sector in Latvia in 2016



Source: Colliers International

Prime Yield Dynamics in Riga



Source: Colliers International

Residential developers switched their attention to the local consumer and are actively pursuing new opportunities by acquiring well located sites in the city centre and popular suburbs. For this reason, the number of transactions with sites for residential development has grown, reaching approx EUR 30 million by the end of 2016.

Investment Yields

Prime asking yields continued to show improvements driven by several factors. These include a general improvement in the Latvian economy, a favourable interest rate environment and availability of leverage, as well as demand for good quality, with cashflow-generating buildings being greater than supply. By the end of 2016, prime yield for industrial objects reached 8.25%, while prime retail and office yields experienced a decline to 6.8%.

Tendencies and Forecasts

- Real estate investment market activity is expected to remain high in 2017.
- Due to the limited number of qualitative assets, target properties for new investments might be considered more cautiously.
- As active market players are ambitious and well capitalized, 2017 will be a good time to dispose of large scale properties and portfolios.
- Prime yields are expected to remain stable at least until the middle of 2017.
- Due to the size of the gap between prime real estate yields and both short and long-term interest rates, yield-hungry investors are turning their attention towards the Baltics.

Office Market

General Overview

> The office market has shown a consistent increase in construction activity, supplementing professional office space by 12,300 sqm in 2016 and continuing development of 74,600 sqm.

> Market construction activity was led by built-to-suit property development, due to shortage of large available premises in speculative stock.

> During the year, a large part of lease agreements in professional and non-professional office premises consisted of existing agreement renewals aimed at meeting new speculative commissioning in the future.

> Rent rates remained at the previous year's level, while the vacancy rate experienced a slight decrease during 2016.

Supply

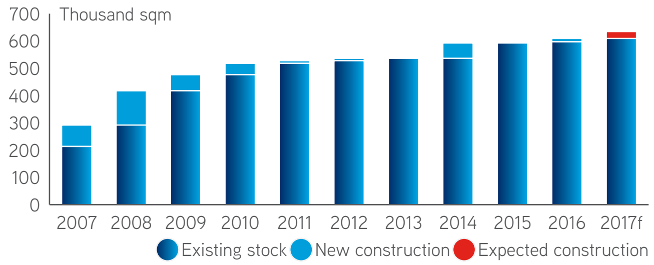
By the end of 2016, total space of Class A and Class B office premises in Riga amounted to approx 609,200 sqm. Speculative space dominates with 406,900 sqm or 67%, while built-to-suit office buildings account for 202,300 sqm or 33%.

In 2016, office space was supplemented by four new properties with total leasable area of 12,300 sqm, among which three properties were built-to-suit, including the Tele2 building at Mukusalas Street (Class B), the RBSSkals office building at O. Vaciesa Street (Class B) and the airBaltic office building at Tehnikas Street in Marupe (Class B). Additionally, one Class B property - D91 at Darzciema Street - was commissioned in the first half of 2016.

The construction pipeline consists of seven speculative office buildings under development in Riga with total GLA 65,600 sqm of professional office space, most of which is planned to be commissioned during 2017. Commissioning of the Class A speculative property Place Eleven developed by Hanner was announced at the turn of 2016, while the building will actively enter the market in Q1 2017.

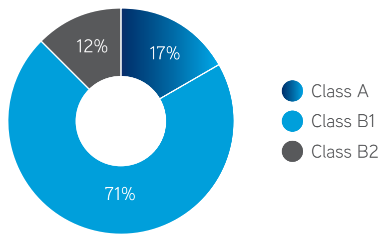
Several projects with total area exceeding 137,000 sqm GLA are in the planning pipeline and might enter the market by 2020.

Dynamics of Office Space in Riga*



* - office space at the end of the period (both speculative basis and built-to-suit)
f - forecast
Source: Colliers International

Distribution of Speculative Office Space by Class in Riga in 2016



Source: Colliers International

Completed Office Projects in Riga in 2016

PROJECT	ADDRESS	TYPE	DEVELOPER
airBaltic Office Building	Tehnikas St. 3, Marupe	Built-to-suit	Reverta
D91	Dārzciema St. 91	Speculative	New View Estates Latvia
RBSSkals Office Building	Ojara Vaciesa St. 6B	Built-to-suit	RBSSkals
Tele2 Office Building	Mukusalas St. 42D	Built-to-suit	Mukusalas Biznesa Centrs
TOTAL GLA, SQM		**12,300**	

Source: Colliers International

New Office Projects Under Construction in Riga				
PROJECT	**ADDRESS**	**TYPE**	**DEVELOPER**	**OPENING YEAR**
Place Eleven	Sporta St. 11	Speculative	Hanner	Commissioned December 30, 2016
Mukusalas Business Centre	Mukusas St. 42D, 2nd part	Speculative	Mukusalas Biznesa Centrs	2017
Katrinas Osta	Katrinas dambis 20	Speculative	CATRI	
Brivibas 21	Brivibas St. 21	Speculative	Baltic Re Group	
LOFTOffice	Akmenu St. 14	Speculative	Akmenu 14	
Z-Towers	Daugavgrivas St. 9	Speculative	Towers Construction Management	2018
Jauna Teika, 3rd stage	Ropazu St. 10	Speculative	Hanner	
TOTAL GLA, SQM			**65,600**	

Source: Colliers International

Demand

During 2016, leasing activity remained reasonably active. According to Colliers International estimates, absorption of total office space in 2016 amounted to 18,800 sqm, compared to 4,000 sqm in 2015. Absorption figures in 2016 were mainly generated by the commissioning of three built-to-suit buildings. On the other hand, according to Colliers International estimates, take-up of Class A and Class B professional premises stood at approx 29,500 sqm excluding renewals.

IT, telecommunications and Finance/Banking/Insurance companies were the key demand drivers, securing the largest lease transactions in 2016, while at the same time airBaltic's occupation of its new built-to-suit building was the largest relocation of the year. The first half of 2016 was marked by information and communication company Visma signing a lease agreement for approx 3,000 sqm in the new Place Eleven office project. Mobile operator Tele2 signed two lease agreements for approx 3,600 sqm for their SSC needs at Mukusalas Business Centre. Additionally, Nordea Bank relocated its back office to Unity Business Centre, occupying more than 2,000 sqm.

At the same time, due to shortage of available premises tenants started to express their readiness to engage in prelease agreements closer to the end of the construction stage.

Several companies, including large international tenants, are prolonging their current lease agreements in the face of shortage of available premises. However, many of these prolongations are temporary decisions aimed at meeting new speculative commissioning in the future.

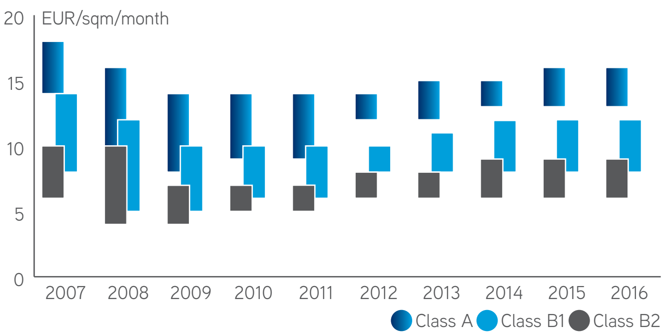
While the supply of larger premises is very limited, the major part of take-up activity was observed with premises of 500 - 1,000 sqm. It should be noted that to a noticeable extent this demand tendency was driven by companies seeking short term lease opportunities during reconstruction of their built-to-suit premises, which were acquired previously due to a shortage of large available areas.

Rent Rates and Vacancy

During 2016, the prime headline rent in professional office buildings remained stable. Rent rates amounted to 13 - 16 EUR/sqm per month for Class A premises, 8 - 12 EUR/sqm per month for Class B1 office premises and 6 - 9 EUR/sqm per month for B2 office premises.

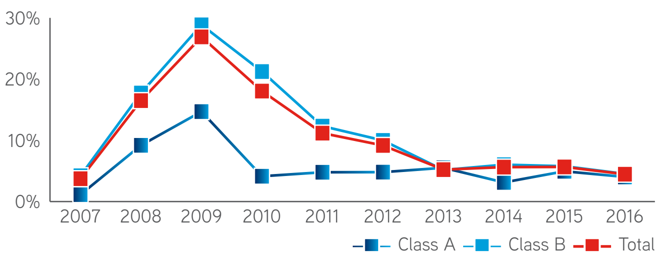
As of January 2017, the total vacancy rate for both speculative and built-to-suit projects stood at 4.5%, compared to 5.7% observed in the previous year.

Dynamics of Rent Rates* in Riga



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

Dynamics of Vacancy Rates in Riga



Source: Colliers International

Rent Rates* for 2016 in Riga and Trends for 2017		
CLASS	**2016**	**TRENDS FOR 2017**
A	13.0 - 16.0	→→
B1	8.0 - 12.0	→→
B2	6.0 - 9.0	→→

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

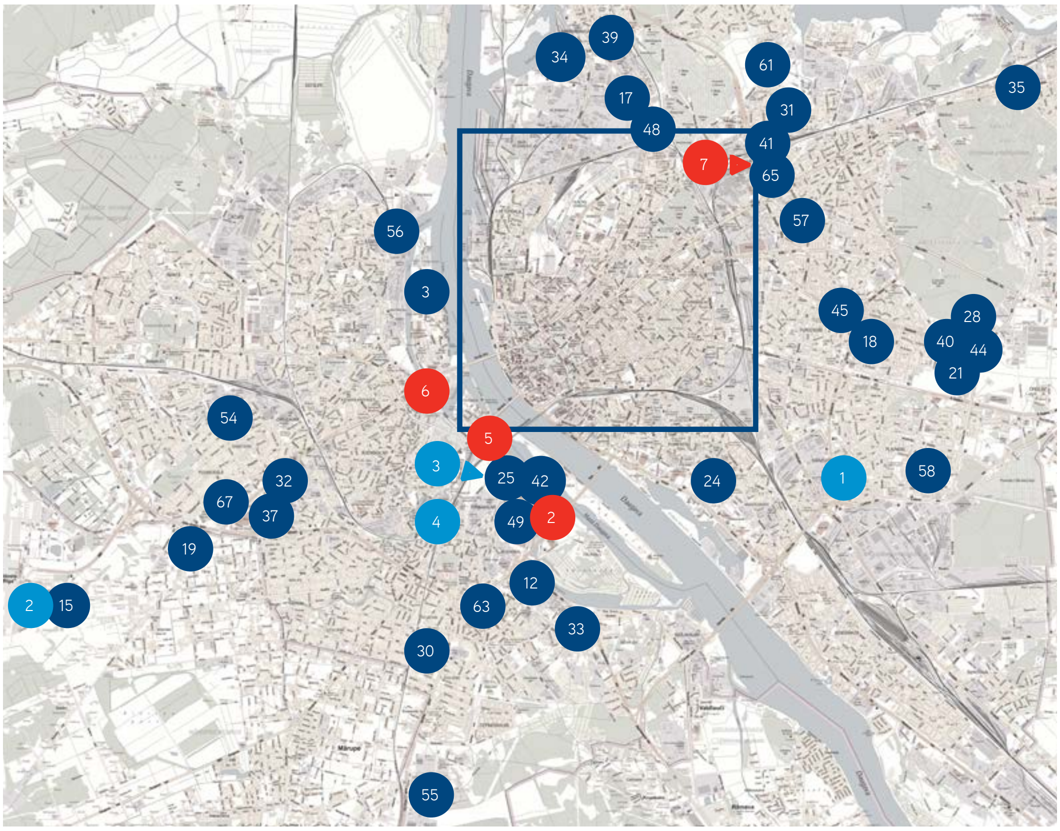
Vacancy Rates for 2016 in Riga and Trends for 2017		
CLASS	**2016**	**TRENDS FOR 2017**
A	4.1%	→→
B1	4.1%	→↗
B2	7.0%	→→

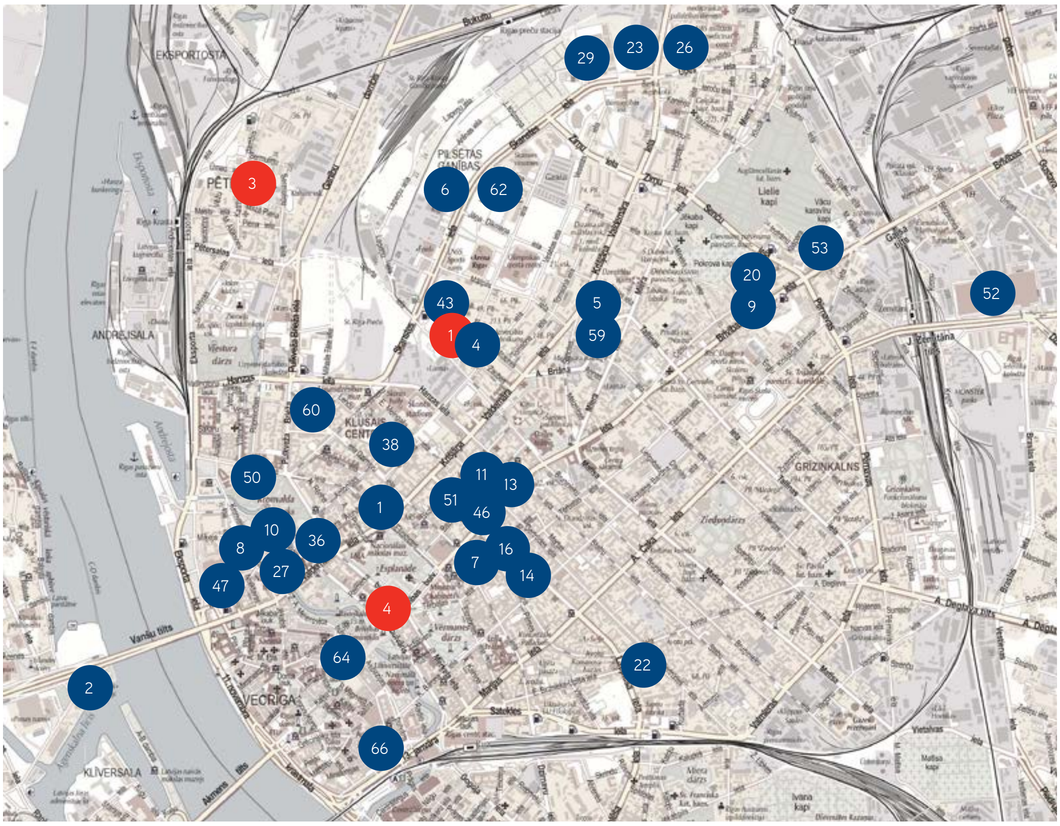
→→ - stable, →↗ - slight increase
Source: Colliers International

Tendencies and Forecasts

- The market is expected to build up activity, with a potential office commissioning pipeline of more than GLA 26,400 sqm for 2017.
- Some projects currently in planning will transform to the construction stage. Moreover, landlords of older buildings might consider reconstruction of their properties in the face of quality competition from new completions with high sustainability and energy efficiency standards.
- IT and Financial/ Banking/ Insurance companies will continue to be the demand drivers seeking areas above 1,000 sqm preferably with further expansion opportunities.
- Rent rates are expected to remain stable during the first half of 2017, but the situation might change with commissioning of new properties.
- With commissioning of new speculative properties vacancy might slightly increase, especially in the Class B1 and non-professional segment.

Existing and Development Office Projects in Riga





Existing Developments

1. Valdemara Centre
2. Swedbank HQ
3. Office Complex "Ostas skati"
4. Rietumu Capital Centre
5. Alojas Business Centre
6. DNB Bank HQ
7. Pasta Banka, Brivibas 54
8. Office Centre at Citadeles St. 12
9. Ziemelu varti
10. Kronvalda Bulvaris 3
11. Baznicas 20/22
12. Valdo Office Complex
13. Gertrudes Centrs, Gertrudes 10/12
14. Terbatas Centre, Terbatas 30
15. Helio Biroji
16. Terbatas Business Centre
17. Marine Business Centre
18. Astras Biroji
19. Baltais Vejs
20. Barons Kvartals
21. PBLC Bussines Centre
22. Modern City
23. Duntes Nami
24. GMP Bussines Centre
25. Mukusalas Business Centre, 2nd stage
26. Duntes Biroji Biznesam
27. Muitas 1a Office Building
28. Dzelzavas Biroju Nams
29. SWH Office Centre
30. Unity Business Centre
31. Reaton Office Building
32. Panorama Plaza
33. Upmalas Biroji
34. Indi Centrs
35. Asu Centre
36. Muitas 1 Office Building
37. Zuma Biroji
38. Zala 1 Office Building
39. Duntes Biroju Centrs
40. Dzelzavas 120 Office Building
41. Europa Business Centre
42. Office Complex Mukusalas 41
43. Jupiter Centre
44. Energoefektiva Biroju Eka
45. Astras Biznesa Centrs
46. Open Centre
47. Citadele HQ
48. RSTA Office Building
49. Bussines Center Mukusala
50. WTC "Riga"
51. Dominante Office Building
52. Domina Office
53. Brivibas 171 Office Building
54. NTP Business Centre
55. Torensberg
56. Magnat Business Centre
57. Tomo Business Centre
58. Lubanas Centrs
59. Valdemara Pasaza
60. M4A Office Building
61. State Revenue Service HQ
62. LNK Centre
63. Vainodes 1
64. Kalku 15
65. Jauna Teika, 2nd stage
66. NBP Central Offices
67. American Embassy
68. Valdemara Pasaza

Completed in 2016

1. D91
2. airBaltic Office Building
3. Tele2 Office Building
4. RBSSkals Office Building

Under Construction

1. Place Eleven, commissioned
2. Mukusalas 42C (MBC)
3. Katrinas Osta
4. Brivibas 21
5. LOFTOffice
6. Z-Towers
7. Jauna Teika, 3rd stage

Retail Market

General Overview

- Although during the last five years retail space has not been significantly supplemented, the long waited development pipeline of large scale retail schemes entered the active pre-development phase in 2016.
- The representative of Swedish furniture seller IKEA has announced active development work for opening their first store in Latvia, scheduled for August 2018.
- Existing shopping centres, DIY stores and grocery chains continued concept development and improvement of their properties.
- Tenant activity continued with international brands entering the market and existing ones expanding their presence.
- Rent rates remained at the level of the previous year, while the vacancy rate remained stable, despite fluctuations in mid-2016.

Supply

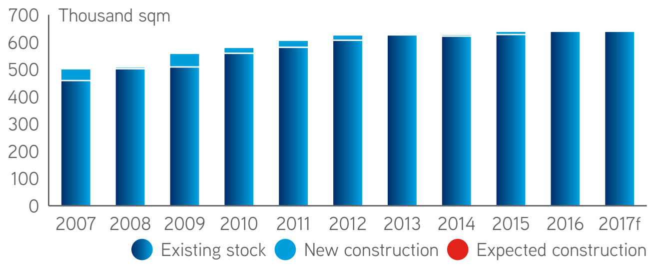
Lithuanian developer Akropolis Group has started the 1st stage with pile driving works on SC Akropole Riga with approx GLA 60,000 sqm and planned commissioning for 2019. Another market player - Multi Corporation - continued to work on SC Alfa expansion with start of construction anticipated for the first half of 2017. Additionally the start of construction work on SC Origo developed by Linstow is planned for the second half of 2017. Moreover, expansion plans for SC Damme (GLA 900 sqm) are planned to be delivered in the second half of 2017.

Apart from work on new construction and expansion, existing players continued concept development and improvement of their properties. At the beginning of 2016, SC Domina Shopping and SC Galleria Riga started reconstruction work to adjust their retail space for new tenants. The Competition Council has forbidden Rimi, which is already represented in almost all Riga shopping centres, to open a hypermarket in SC Domina Shopping. Thus, the first Maxima XXX will open instead in summer 2017. In the context of property improvement, SC Spice Home expanded its parking area. Shopping centre Sky&More continued the modernization and improvement of its F&More shop in shop concept, by attracting new tenants. Department store Podium closed its luxury store at Brivibas Street 201 to reopen it at Brivibas Bulvaris 21.

Grocery chains Rimi and Maxima continued expansion, with Rimi opening two stores - one at Merkela Street and a rebranded one at Nicgales Street, while Maxima X opened a new grocery store (GLA 1,100 sqm) at Pilsonu Street in Agenskalns. On the other hand, grocery chain Prisma closed two locations in SC Domina Shopping and A. Saharova Street, as well as continuing to optimize existing stores by reducing their area and offering vacant ones to the market.

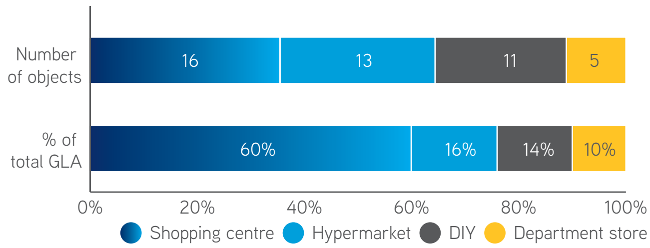
In 2016, the retail market saw a major change in shopping centre ownership structure, with acquisition of three shopping centres - Domina Shopping, Galerija Azur and Riga Plaza. Change of SC owners was followed by change of management to EfTEN Capital in SC Domina Shopping and Baltic Red in SC Galerija Azur.

Dynamics of Retail Space in Riga



Note: retail space at the end of the period
f - forecast
Source: Colliers International

Distribution of Retail Space in Riga by Type in 2016



Note: retail space at the end of 2016
Source: Colliers International

Demand

In 2016, the retail market continued to experience the appearance of new names in Riga shopping centres. This resulted in the opening of three international sport retail brand 4F stores, the first Maje and Sandro stores by Apranga Group, the first COS store (Hennes & Mauritz Group) in the Baltics. Another H&M store (already the seventh) opened in SC Galleria Riga at the end of 2016.

In contrast, the Latvian market saw the exit of NEXT brand, closing their stores in SC Spice, SC Domina Shopping and SC Alfa, as well as the other Baltic States. Additionally, Marks & Spencer announced the closure of their shops in all three Baltic States, one of which was located in SC Domina Shopping. Lastly, cosmetic retailer LUSH has also left the Baltic market, by closing its stores in shopping centres and street retail.

After the acquisition of K-Rauta's business in the Baltics, Senukai, one of the leading Pan Baltic DIY chains, started a format change for K-Rauta stores to the K-Senukai brand. The first reformatted store opened in October in Lucavsala. Additionally, development work for the first IKEA store in Latvia started in Stopini parish. The opening of this long-awaited brand is planned at the end of 2018 accompanied by infrastructure improvements to suit its clients' needs. A regular IKEA store with total area of approx 34,500 sqm plus a parking lot for more than 1,000 cars is planned to be developed on a ten-hectare site.

With the increasing popularity of healthy lifestyles, Riga saw the appearance of two new budget fitness chains - Lemon Gym opening three locations on Brivibas, Dzelzavas and Slokas Streets, as well as People Fitness with its two locations in Imanta retail park and at E. Birznieka - Upisa Street. One of the current market leaders, MyFitness, signed a lease agreement in SC Galleria Riga and plans to open more locations in Riga during 2017.

Apart from that, new concepts in street retail that started in 2015 continued their development. As a result, Rimi has opened the second new concept store at Merkela Street, while Statoil Latvia opened its first convenience store in the Old Town in 2016.

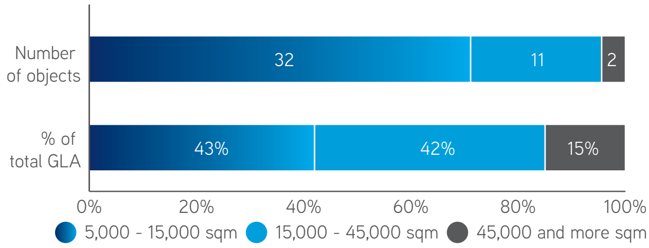
After active development of the catering segment in 2015, no new names appeared during the last year. However, fast-food restaurant chain Hesburger opened a new location at Krasta Street, and restaurant chain Lido opened two locations in SC Origo and SC Apelsins in Adazi. A number of individual catering concepts appeared in Riga, but no major activity was observed.

Rent Rates and Vacancy

During 2016 rent rates in shopping centres and prime high street retail premises remained unchanged.

By the end of 2016, vacancy remained on the same level as a year before and stood at the 3% level. Despite low vacancy at the end of the year, significant fluctuations were observed in the middle of 2016, mainly due to reconstruction of SC Domina Shopping grocery area and closure of the Prisma hypermarket.

Distribution of Retail Space in Riga by Size in 2016



Source: Colliers International

Rent Rates* for 2016 in Riga and Trends for 2017

CLASS	2016	TRENDS FOR 2017
Large retail unit (anchor tenant)	4.0 - 11.0	→→
Medium retail unit (150 - 350 sqm)	15.0 - 35.0	→→
Small retail unit (up to 100 sqm)	30.0 - 55.0	→→

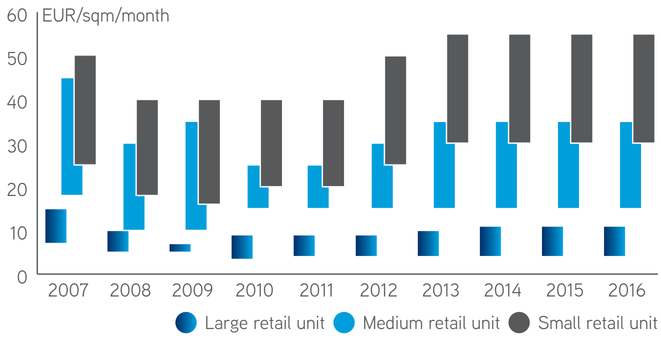
* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable
Source: Colliers International

Street Retail Rent Rates* for 2016 in Riga and Trends for 2017

STREET NAME, LOCATION	2016	TRENDS FOR 2017
Kr. Barona, Terbatas, Elizabetes, Gertrudes	20.0 - 40.0	→→
Old Riga	25.0 - 50.0	→↘

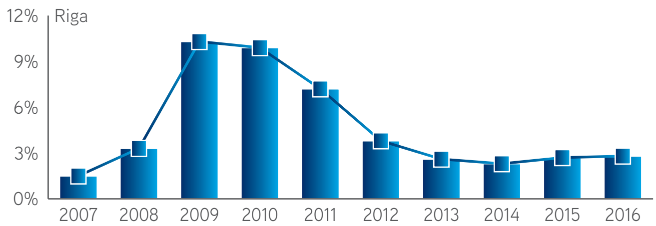
* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable, →↘ - slight decrease
Source: Colliers International

Dynamics of Rent Rates* in Major Shopping Centres in Riga



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

Dynamics of Vacancy Rate in Major Shopping Centres in Riga

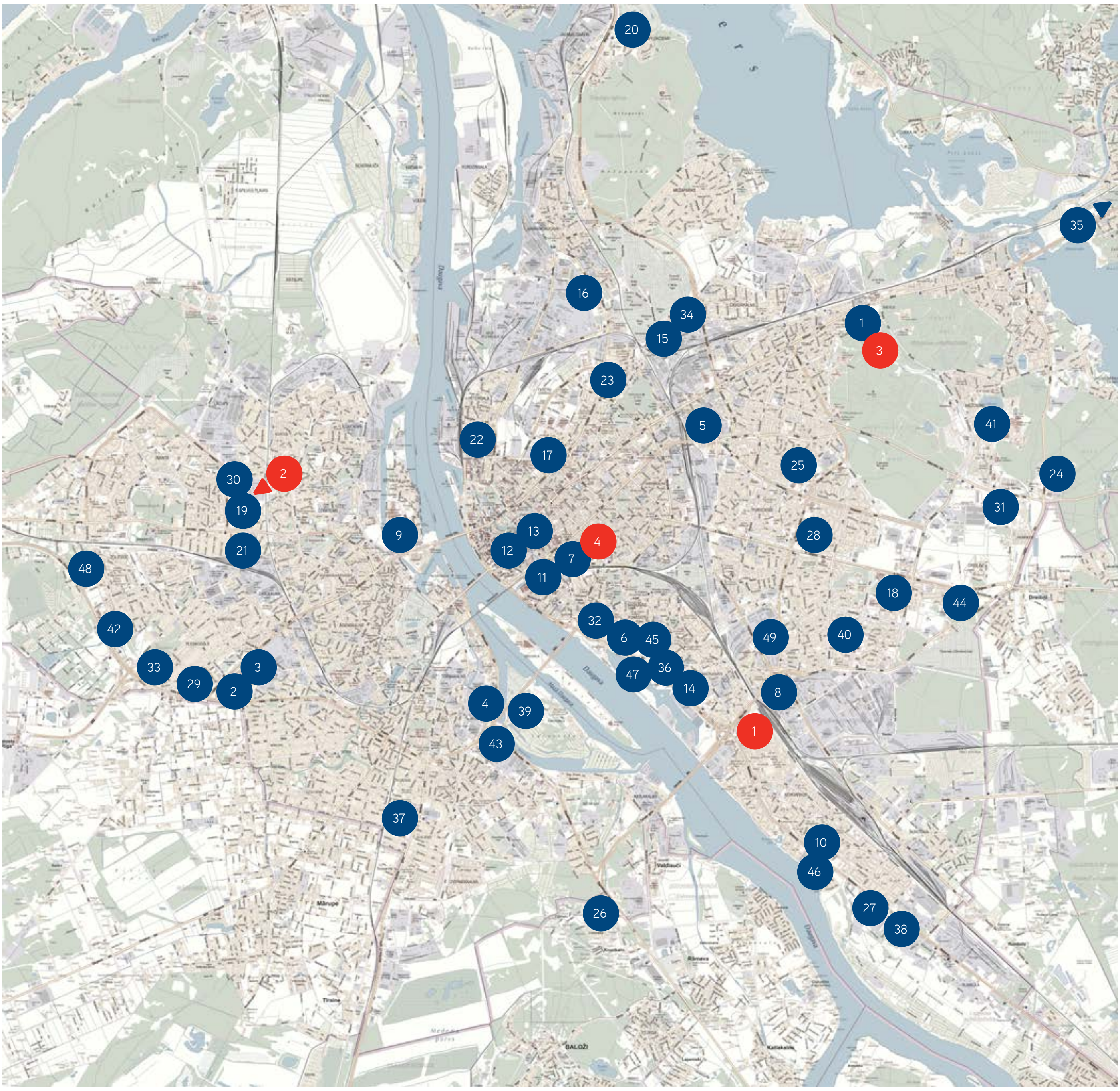


* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
Source: Colliers International

Tendencies and Forecasts

- Although major changes in retail space are not expected, active pre-development work will continue during 2017, with the first large scale commissioning still to come.
- International brands and widely recognized tenants will remain active. New brands will enter the market together with announcement of new developments.
- Leading grocery chains might expect new competition in 2017.
- Rent rates in Riga shopping centres are expected to remain stable. However, street retail might experience downward pressure in 2017.
- On account of stable demand, a slight decrease of vacancy is anticipated for 2017.

Retail Projects in Riga Over 5,000 sqm



Shopping Centres, Hypermarkets and DIY

1. Alfa
2. Spice
3. Spice Home
4. Riga Plaza
5. Domina Shopping
6. Mols
7. Origo
8. Galerija Azur
9. Olimpia
10. Dole
11. Stockmann
12. Galerija Centrs
13. Galleria Riga
14. Mc2
15. Podium
16. Sky and More
17. Prisma "Sporta"
18. A.Saharova 30A
19. Imanta Retail Park
20. Rimi "Milgravja"
21. 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
32. Depo at Krasta 36
33. Depo at K. Ulmana 96
34. Elkor Plaza
35. Depo Bergi
36. Krasta 60
37. Maxima at Vienibas St. 113
38. K-Rauta at Maskavas 418A
39. KSennukai at Lucavsalas 3
40. Maxima at A.Saharova 20A
41. Penta
42. K-Rauta at Priedaines 37
43. Maksima at Mukusalas 73
44. Depo at Lubanas 150
45. Krasta 52
46. Meistars at Maskavas 322D
47. SKY at Krasta 56
48. Orange Cash and Carry
49. cenuklubs.lv

Under Construction and Most Realistic Projects for Development in Riga

1. Akropole Riga
2. Depo at Kurzemes Prospekts
3. Alfa, expansion
4. Origo, expansion

Industrial Market

General Overview

> Despite modest completion volumes in 2016, development activity continues with projects under active construction and even more in the planning pipeline.

> Stable demand for modern and end-user oriented premises has encouraged developers to engage in speculative development even without prelease agreements.

> During the year, the market saw a gradual shift of professional industrial property rent rates towards a differentiation between Riga and Riga Region.

> Due to new project commissioning and a series of tenant activities, the market experienced an increase in vacancy, although a shortage of larger premises was observed.

Supply

By the end of 2016, total professional leasable industrial space* amounted to approx 944,100 sqm, consisting of 638,200 sqm of speculative premises and 305,900 sqm of built-to-suit premises. Around 42% of total professional space is located within Riga city limits. The other 58% is located around the Riga Ring Road (near Kekava, Olaine, Marupe, Salaspils and Jelgava).

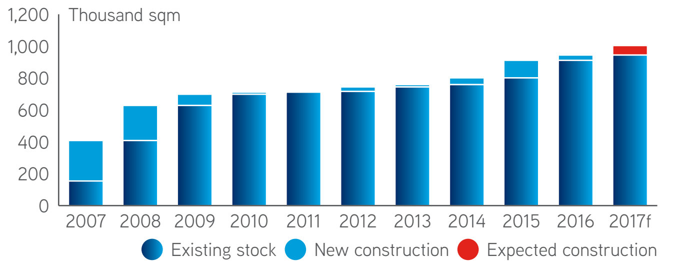
During the year, industrial space was supplemented by 34,000 sqm, which resulted in commissioning of Class A and Class B speculative buildings and one Class A built-to-suit building in Riga.

By the end of 2016, the construction pipeline was filled with GLA 59,700 sqm of speculative Class A properties, with VGP 1st (GLA 20,000 sqm) being the largest and developed in Riga Region. Additionally, two speculative properties with total GLA 24,000 sqm - Ulmana Gatves Industrialais Parks P5 and Elipse BLC 2nd stage - are planned to be delivered in 2017 within Riga International Airport area.

By the end of the year, 140,000 sqm of GLA of industrial premises were under planning, with a high probability of being transferred to the active construction stage in 2017. Developers are ready to initiate construction works without prelease agreements, moreover offering individual solutions adjusting premises for specific tenant needs.

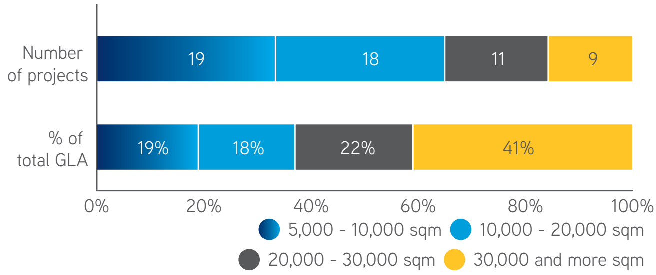
* Industrial space includes all modern warehouse, logistic and industrial buildings in Riga and Riga Region.

Dynamics of Industrial Space in Riga and Riga Region*



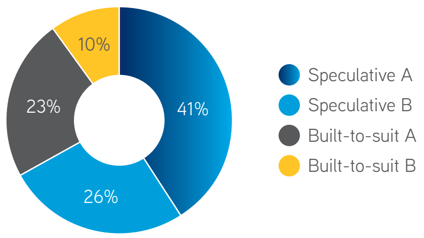
* - dynamics of industrial space at the end of the period
f - forecast
Source: Colliers International

Distribution of Industrial Space by Size in Riga and Riga Region in 2016



Source: Colliers International

Distribution of Industrial Space by Type in Riga and Riga Region in 2016



Source: Colliers International

Completed Industrial Projects in Riga and Riga Region in 2016

PROJECT	ADDRESS	TYPE	DEVELOPER
Piche	Plienciema St. 33	Speculative	Piche
Balt Cargo Solutions, 2nd stage	Noliktavu St. 5, Stopinu nov.	Speculative	Balt Cargo Solutions
Kraftool	Uriekstes St. 24, Riga	Build-to-suit	Crafttools (Japan)
TOTAL GLA, SQM		34,000	

Source: Colliers International

New Industrial Projects Under Construction in Riga and Riga Region

PROJECT	ADDRESS	TYPE	DEVELOPER	OPENING YEAR
UA Biznesa Parks, 2nd stage	Daugavgrivas St. 77	Speculative	UA Investor	2017
Baltijas Industrialais Parks, 3rd stage	Piedrujas St. 7	Speculative	LNK	
Balt Cargo Solutions, 3rd stage	Dreilini	Speculative	Balt Cargo Solutions	
Balt Cargo Solutions, 4th stage	Dreilini	Speculative	Balt Cargo Solutions	
VGP, 1st stage	Kekava	Speculative	VGP	
Ulmana Gatves Industrialais Parks P5	K. Ulmana St.	Speculative	Piche	
Elipse BLC, 2nd stage	Riga Airport	Speculative	Elipse	
TOTAL GLA, SQM			59,700	

Source: Colliers International

Demand

2016 was marked by active demand for industrial premises, which resulted in total take up of 61,100 sqm, with the typical average leased area of 1,500 - 2,000 sqm.

During 2016, tenants seeking individual solutions were moving to new properties, while tenants with expiring rent agreements were looking for relocation at the same price to new properties or staying in their current location at a lower price. The market saw a number of relocations, with the aim of business consolidation and optimization in a single location, among which were DSV consolidating their property in Riga and MMD Serviss centralizing their activities in contrast to previous occupation of three different locations. On the other hand, L'Oréal closed their distribution centre in Riga Region with the aim of continuing operations from Polish hubs.

In line with general e-commerce market development the Latvian industrial real estate market has seen increasing activity from parcel delivery/distribution companies seeking professional premises matching their specific requirements.

Rent Rates* for 2016 in Riga and Trends for 2017

CLASS	2016	TRENDS FOR 2017
A	3.5 - 4.5	→→
B	3.2 - 3.6	→→

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

Rent Rates* for 2016 in Riga Region and Trends for 2017

CLASS	2016	TRENDS FOR 2017
A	3.5 - 4.0	→↘
B	3.0 - 3.5	→→

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

In general, companies that service enterprises located in Riga prefer industrial space in Riga city itself. At the same time, companies that focus on the logistic and distribution business, as well as companies with limited rental budgets, are looking for premises in Riga Region preferably near the Riga ring road.

Rent Rates and Vacancy

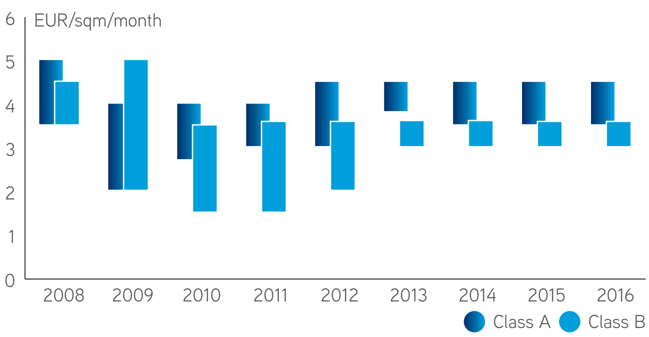
New properties offer tailor made solutions for market rent rates, which means that older warehouse rent rates might decrease. In the second half of 2017 vacancy is expected to increase on account of new anticipated completions and will put pressure on rent rates for existing warehouses.

Since the beginning of 2016 the market has seen a gradual shift towards a differentiation between Riga and Riga Region professional industrial property rent rates. Nevertheless, Riga and Riga Region properties share relatively similar lower rent rate bounds, while the upper bounds of Riga properties are clearly higher.

By the end of 2016, the total vacancy rate of industrial space increased to 6%, compared to 4.1% at the end of 2015, which was due to a series of activities by several companies.

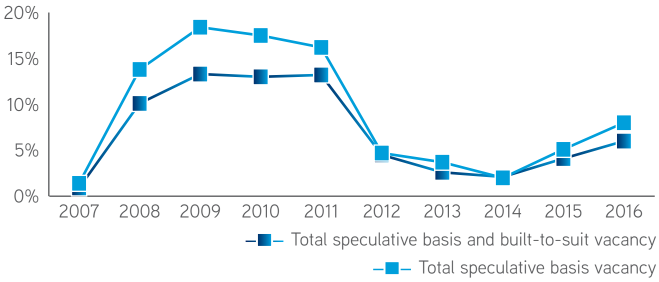
Despite the high vacancy rate, Riga still experienced a shortage of premises within the 1,000 - 2,000 sqm range.

Dynamics of Rent Rates* in Riga and Riga Region



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

Dynamics of Vacancy Rates in Riga and Riga Region



Source: Colliers International

Total Vacancy Rates for 2016 in Riga and Riga Region and Trends for 2017		
CLASS	2016	TRENDS FOR 2017
A	6.9%	→↗
B	4.3%	→→
TOTAL	**6.0%**	→↗

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

Tendencies and Forecasts

› During 2017, total professional leasable industrial space is anticipated to be supplemented by an additional 59,700 sqm and start of construction work on even more projects is expected in the coming year.

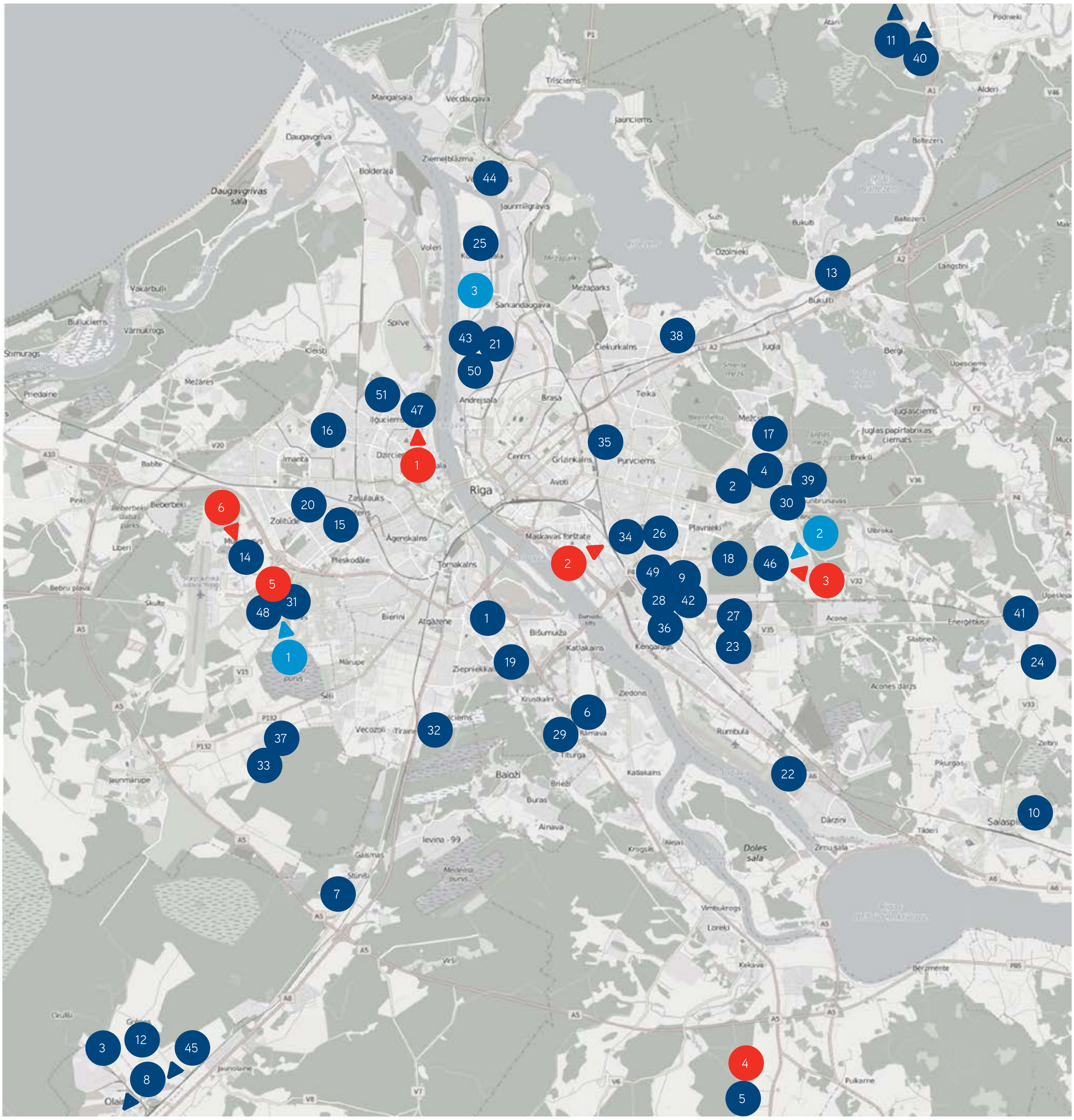
› Logistic and distribution companies are expected to remain the main demand drivers.

› Even more new speculative developments will be oriented to tenant requirements, including layout and other tailor made solutions, thus minimizing the difference between speculative and built-to-suit projects.

› After completion of initiated projects, vacancy is anticipated to increase.

› Rent rates in Riga are expected to remain stable on account of limited supply additions, while rent rate spreads in Riga Region are expected to experience a slight decrease of their lower bounds as a result of quality competition between newly constructed and existing industrial projects.

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. BLS
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. Karsten Latvia Logistic Centre
18. Izoterms
19. Piepilsetas
20. NP Business Centre
21. Man Tess
22. Baltkors, 1st and 2nd stages
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
34. Baltijas Industrialais Parks
35. Kroni
36. BLRT
37. Polipaks
38. Reaton Logistikas Centrs
39. Coca Cola Logistics Complex
40. Glaskek Industrial and Warehouse Building
41. Vollers Riga
42. DB Schenker Logistic Centre
43. G31
44. Veju Roze
45. NP Jelgavas Biznesa Parks
46. Balt Cargo Solutions
47. UA Investor, 1st stage
48. Plienciema 16
49. Lexel Fabrika
50. Rikargo
51. Eugesta

Completed in 2016

1. Piche
2. Balt Cargo Solutions, 2nd stage
3. Kraftool

Under Construction

1. UA Biznesa Parks, 2nd stage
2. Baltijas Industriālais Parks 3rd stage
3. Balt Cargo Solutions, 3rd and 4th phase
4. VGP Phase 1
5. P5 (Ulmana Gatves Industrialais parks)
6. Elipse BLC, 2nd phase

Hotel Market

General Overview

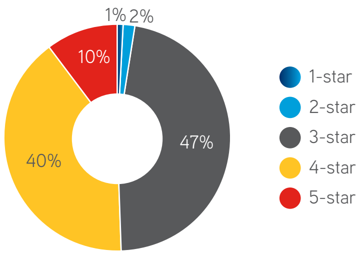
- During 2016, the number of visitors to Latvian hotels and other accommodation establishments grew for the sixth year in a row.
- Hotel market stock was supplemented by four new hotels with a total of 537 rooms in 2016.
- International chains, already present in Riga, continue to strengthen their position in the market by opening new hotels.
- Increasing awareness of Latvia as a business and leisure destination, as well as continuous development of tourist attraction objects, positively influenced the hospitality market in 2016.
- Despite the increasing number of foreign tourists, a slight decrease of the hotel occupancy rate was observed.

Supply

By the end of the year there were 232 hotels, among which 113 were not certificated. Of a total 8,953 certified hotel rooms 68% were located in Riga. In general, the most significant part of certified hotel room supply was dominated by 4-star hotel rooms, constituting 59% and 66% respectively of total Latvian certified hotel room stock and total Riga certified hotel room stock.

The Latvian hotel market is clearly dominated by local hotel operators, among which Mogotel with its Wellton and Rixwell chain is the largest. No new international hotel chain entered the Latvian hotel market. Meanwhile international hotel chains already present - Carlson Rezidor Hotel Group and Accor Hotel Group - continued to expand their presence by opening four new hotels in Riga.

Distribution of Hotels by Number of Stars in Latvia



Source: Central Statistical Bureau

Carlson Rezidor Hotel Group's expansion materialized in the opening of two new mid-scale hotels - Park Inn by Radisson Riga Valdemara and Park Inn by Radisson Residence Riga Barona - with a total of 256 rooms, as well as taking on management of the existing 4-star Astor Riga Hotel. Additionally, Accor Hotel Group supplemented its presence with the upper scale 5-star Pullmann Riga Hotel with 156 rooms and the economy class Ibis Riga Centre Hotel with 125 rooms.

Current market activity indicates that in 2017 the local hotel market will see the entry of a new international hotel chain - Kempinski, as well as further expansion by local hotel operators. The current construction pipeline is filled with four new projects under active development - the 5-star Kempinski Grand Hotel Riga with planned commissioning in Q1 2017, the 4-star Semarah Hotel to be commissioned in Q2 2017, the 5-star Wellton hotel at Kungu Street with planned commissioning in Q1 2018 and another upper scale Wellton hotel at Minsterejas Street with a commissioning date in 2018. Consequently, Riga hotel room stock is expected to be supplemented by additional 525 rooms on account of hotel projects currently under development.

Demand

During 2016, the number of people serviced by Latvian hotels and other accommodation establishments experienced positive annual growth. A total of 2.3 mln visitors were serviced by the Latvian hotel industry, among which 1.57 mln or 68% were foreign visitors. The total amount of visitors in 2016 grew by 7.7% and the amount of foreign visitors grew by 6.7% compared to the same period in 2015.

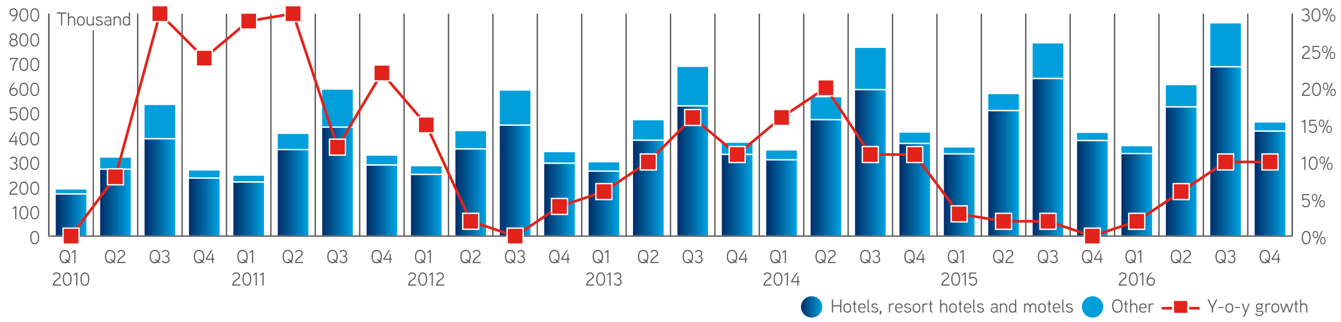
Russian, German, Lithuanian, Estonian and Finnish visitors accounted for half of all foreign visitors in 2016. In general, distribution of total foreign visitors by their country of origin remained similar compared to the previous year. Additionally, the number of visitors from Western European countries, the

Number of Hotels and Rooms

STARS	RIGA		LATVIA	
	HOTELS	ROOMS	HOTELS	ROOMS
5-star	8	430	12	790
4-star	31	3,996	48	5,263
3-star	25	1,583	56	2,840
2-star	0	0	2	45
1-star	1	15	1	15
TOTAL CERTIFIED	**65**	**6,024**	**119**	**8,953**
Non-certified	23	722	113	3,634
TOTAL	**88**	**6,746**	**232**	**12,587**

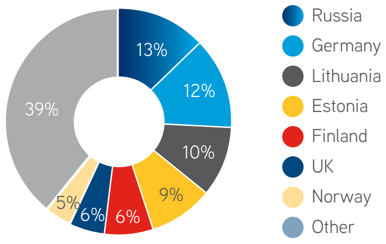
Source: Central Statistical Bureau

Number of Visitors Served



Source: Central Statistical Bureau

Distribution of Foreign Visitors by Country of Origin



Source: Central Statistical Bureau

USA, Japan and China has been constantly growing during the last three years.

In 2016, the average number of nights spent by foreign visitors in Riga hotels or other accommodation establishments remained unchanged compared to the previous year at 1.9 nights. The leaders in terms of hotel stays among the neighbouring countries were visitors from Belarus with 3.4 nights spent per visitor and Russia with 2.1 nights.

Increasing destination awareness (extended NATO mission in the Baltics, Riga's recognition as a former European Capital of Culture, the 16+1 Summit) has had a positive impact on foreign visitor numbers.

The growing number of passengers at Riga International airport and its further expansion by opening new terminals, as well as the development of RailBaltica, might increase the number of tourists visiting Latvia.

Prices and Occupancy

According to City Cost Barometer, Riga continued to be one of the cheapest travel destinations among European cities in terms of overnight stay costs. Thus, for the fourth consecutive year the Riga hotel market experienced a decrease in accommodation costs at 3-star hotels, while the average daily room rate for 3-star and 4-star hotels slightly decreased compared to the previous year.

Despite increasing visitor numbers, the occupancy rate of accommodation establishments slightly decreased in 2016. During the year, the average occupancy of hotels and other accommodation establishments stood at 55% in Riga and 44% in Latvia, which is respectively 0.6% and 0.2% less compared to 2015. The observed decrease of occupancy can be explained by additions to supply during 2016.

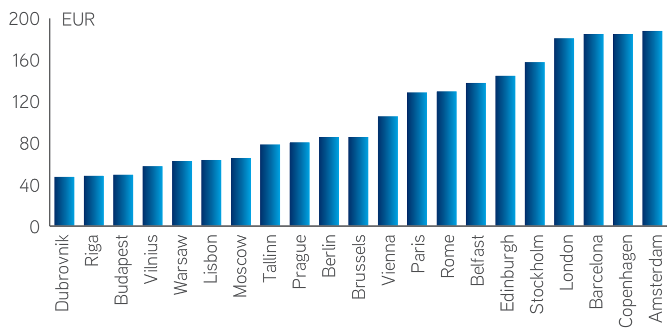
In general, a relatively stable and high room occupancy level might contribute to an increase in room prices. Additionally, the commissioning of luxury and upper-upscale hotels could be another factor in room price appreciation.

Price Range for Double Standard Hotel Room in 2016

NUMBER OF STARS	ROOM RATE RANGE, EUR
5-star	105 - 190
4-star	40 - 150
3-star	30 - 60

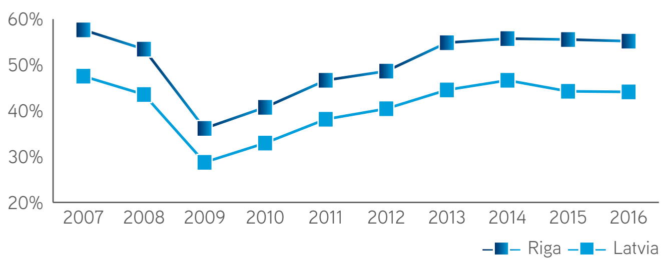
Source: Colliers International

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



Source: City Cost Barometer

Dynamics of Average Monthly Room Occupancy Rate in Accommodation Establishments



Source: Central Statistical Bureau

Tendencies and Forecasts

› Riga hotel stock is expected to be supplemented by an additional 355 rooms of 5-star and 4-star hotels in 2017.

› The fact that Latvia is considered a safe and relatively cheap destination might increase demand for accommodation services in the future.

› Despite the growing number of tourists, in the context of hotel room stock increase occupancy is expected to remain stable.

› Relatively high room occupancy, together with the luxury Kempinski brand entering the market, may drive price increases in chain hotels.

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 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 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 real estate, 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, or alternatively, in smaller transactions it is possible to use a sworn notary's services and to agree on depositing the purchase price at the sworn' notary's bank account.

6. The seller notifies the buyer on receipt of refusals from all third parties with a right of first refusal to acquire 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%) to the escrow account or to the sworn notary's bank account.

8. After transfer of the purchase price the parties in the presence of a sworn notary sign the corroboration request to the Land Register for registration of the buyer's title to real estate. The buyer pays state and stamp duties.

9. The seller files the documents with the Land Register and performs other acts in order to register the buyer's title with the Land Register.

10. After the buyer's title is registered with the Land Register, the bank (or the sworn notary) 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 notarial 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 (or so called business transfer), 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 or alternatively the documents must be signed by electronical signature.

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, as well as the signatures of its board 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 Register. 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 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 sworn 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 Register (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 Register, although in more complex cases it may be prolonged for up to 30 days.

All the information registered with the Land Register, 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 Register 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. In order to eliminate issues arising out of such land and building separate ownership, a new regulation on building right was introduced as of 1 January 2017. According to which, it will no longer be possible to build a residential house on a land plot belonging to a different person. In other words, the so-called "split property" will not be allowed with respect to the residential buildings (however, it will not affect the "split properties" established until the 1 January 2017). The building right will be a transferable right with a minimum term of 10 years, it will be registered with the Land Register on the name of the entitled person who will be allowed to build a non-residential building or an engineering structure on the land plot encumbered by the building right.

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 Register as separate property objects. It is also possible to register certain engineering constructions, such as roads, bridges, and landfills, as independent real estate objects in the Land Register, thus ensuring broader financing opportunities, as these constructions can serve as fully-fledged collateral. In addition, there is also a specific regulation on acquisition of constructions which need not be registered with the Land Register as separate properties. The registration of legal possession in this case is performed and kept within the State Land Service.

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 Register, 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 Register. Notarisation of the purchase agreement is not compulsory, while notarisation is required for corroboration requests to the Land Register.

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 Register for registration of the transaction. Corroboration requests to the Land Register 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 Register.

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 municipality 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 municipality 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. In addition, according to the law the Latvian Land Fund and the lessee of the particular land plot have rights of first refusal to agricultural land, whereby specific rules in execution of rights of first refusal apply.

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 those rights. However, the maximum term for local government is 20 days.

Typical Purchase Price Arrangements

Normally, in complex and long-term projects the parties agree to use an escrow account with a bank for payment of the 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 Register certificate evidencing the buyer's title to the real estate is usually the main document in the list. In smaller transactions, the parties may agree to deposit the funds with a sworn notary, which serves as alternative to depositing funds with escrow account. The funds are transferred to the seller's bank account by the sworn notary after registration of the buyer's real estate title with the Land Register.

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

There are number of limitations with respect to acquisition of agricultural land in Latvia. A EU citizen (including a Latvian citizen), or a citizen of the EEA and Switzerland can acquire not more than 10 ha of agricultural land without limitations. A natural person 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 one or three 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 a specific agricultural education or (2) has received single area payments during the last three 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 is registered as a tax payer in Latvia and has no tax debts in Latvia or its country of domicile.

› All the shareholders of the entity are EU, EEA or Swiss 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, EEA or Swiss citizens.

› Confirm that the entity has received single area payments during the last three 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 one or three 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.

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

Citizens and Entities of EEA and Swiss Confederation

Citizens of (and companies registered in) the EEA or 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.

Merger Control

Real estate transfer may require prior approval by the Latvian Competition Authority (LCA) if it forms part of a company merger. According to the law, acquisition of assets or of the right to use those assets is considered to be a merger if it increases the market share of the buyer of the assets and the usage rights in any relevant market. 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 the aggregate turnover in Latvia of the undertakings involved in the transaction exceeds EUR 30,000,000 for the financial year preceding the concentration. However, if the aggregate turnover of each of at least two merger participants does not exceed EUR 1,500,000, the notification is not required LCA is entitled to review mergers falling below the above thresholds within 12 months after implementation if the parties' combined market share exceeds 40% in the relevant market and it is likely that a significant impediment to effective competition will be created. In case of uncertainty, the parties have the opportunity to submit a voluntary notification or to obtain a waiver from LCA.

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.

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

Encumbrances

Real estate may be encumbered with servitudes, rights of first refusal, lease rights registered with the Land Register, mortgages, protection zones and other encumbrances that should be taken into account when contemplating acquisition or lease of real estate, in particular with respect to constructions on it. Therefore, prior to buying a land plot for construction purposes, it is advisable to perform a legal, technical and environmental due diligence.

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 Register. 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 Register. However, only permanent residents of Latvia and persons who reside in Latvia based on a temporary residence permit may claim protection under this rule.

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.

Lelde Laviņa
Head of the Real Estate & Construction Team
Sorainen Latvia
Kr. Valdemāra Street 21, LV-1010 Riga, Latvia
Phone + 371 67 365 000
lelde.lavina@sorainen.com

Tax Summary

Corporate Income Tax System

The corporate income tax (CIT) rate in Latvia is 15% charged on a taxable income, which is calculated as financial profit before tax increased by disallowable expenses and decreased by additional deductions. There are no other taxes on corporate income stated either by the government of Latvia or by local municipalities.

Resident companies are taxed on their worldwide income.

Non-resident companies are taxed on their Latvia-source income through permanent establishment (PE) at the standard CIT rate. If no PE is created, non-residents may be taxed with 0% to 30% withholding tax (WHT) for qualifying payments (e.g. management fees, extraordinary dividends payments to tax havens).

CIT and property tax reliefs are available for companiesregistered in a special economic zone or free port.

Starting from the 2017 tax year, taxpayers are able to utilize tax losses that have been carried forward to cover up to 75% of the reporting year's taxable income.

Acquisition

Real estate transfer tax (RETT) is applied per property and is charged at 2% of the highest of the purchase price or cadastral value of the property or valuation for mortgage purposes. RETT is payable by the buyer of the property and is calculated per title not per transaction.

RETT for commercial property consisting of only non-residential properties (with or without land) is charged at 2% of the highest value, but it is capped at EUR 42,686.15 per property.

RETT rate for a title that includes a residential building is 2%.

RETT on a real estate transferred as an investment in kind into the equity of a company is chargeable at a rate of 1% from the amount of investment.

RETT rate for an apartment property sold to a legal entity, which performs commercial activity, is 6% from the value of the apartment property.

RETT rate, if real estate is transferred as a gift, is 3% of the value of the real estate.

A reduced RETT rate of 0.5% is chargeable when the new owner of the sold or gifted real estate is child, spouse, parent, brother, sister, stepbrother, stepsister, grandchild, great-grandchild or grandparent of the previous owner.

Rent

Value Added Tax (VAT): In general, companies pay 21% 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): In general, profit from rent of a real estate is subject to the standard CIT rate of 15%. Payments made to a non-resident for use of real estate located in Latvia are subject to 5% withholding tax (WHT). If the WHT is not withheld, the rent payments are considered as non-deductible expenses for CIT purposes.

Withholding Tax (WHT): If a non-Latvian resident company rents Latvian located real estate to a Latvian company, the proceeds attract a 15% WHT in the recipient of this payment is resident in off-shore country and 5% WHT in other cases. After suffering the WHT, the non-resident may submit to the Latvian tax authority a tax return disclosing acquisition cost and the profit and reduce the tax charge to 15% from the capital gain (if lower than 2% WHT on proceeds). The overpayment would be repaid to the non-resident by the Latvian tax authority.

Personal Income Tax (PIT): If a business activity is registered with the Latvian tax authority PIT of 23% should be calculated on the profit from the rent. If individual does not wish to register a business activity or expenses related to the rent of a property are insignificant, PIT of 10% on the rent received can be paid instead. In this case only real estate tax would be considered as a deductible expense.

PE of non-resident company may not deduct rent that is paid to the head office.

Sale

Value Added Tax (VAT): Sale of a new building is subject to a VAT of 21%. If a year has passed since the building has been put into an operation and the building has been used, it is not considered as a new building. Sale of the building in this case would be exempt from VAT.

If a building (or part of it) is sold within 10 years after the date when it was bought or put into operation, the company must repay part of the input VAT deduction claimed (if input VAT was claimed initially). The repayable input VAT is calculated by multiplying one tenth of the input VAT deduction claimed by the number of years which are left.

In Latvia an Alternative VAT treatment exists, meaning in sale transaction involved parties can agree to tax a real estate sale ("option to tax"). Using this option the real estate sale would be treated as a taxable transaction for VAT purposes, if both, the seller and the buyer, are registered as VAT payers. In this case, VAT at the standard rate of 21% would be due on the sale value, and the seller would not be required to repay any input VAT.

The State Revenue Service (SRS) should be informed of the sale of the real estate under the "option to tax" provisions. The buyer may then recover paid VAT if it intends to use the real estate purely for generating taxable income. The buyer would be required to monitor the proportion of taxable and exempt income for 10 years after the sale and to repay part of the deducted input VAT, if the property is used for exempt transactions in a higher proportion than the estimate based on which the input VAT was deducted upon acquisition.

Corporate Income Tax (CIT): There is no separate capital gain tax in Latvia. All capital gains, including gains on disposal of the real estate, are taxed together with the taxable income at the CIT rate of 15% on sales price less tax value. This stands for the sale of the real estate by a company that is Latvian resident.

Withholding Tax (WHT): WHT rate of 2% is applicable if a Latvian resident company purchases real estate in Latvia or shares in a real estate company from a non-resident. A real estate company is a company, which has more than 50% of its assets comprised of real estate in Latvia. The proportion is calculated based on book value as at the beginning of the financial year during which the transaction takes place.

After suffering the WHT, the non-resident may submit to the Latvian tax authority a tax return disclosing acquisition cost and the profit and reduce the tax charge to 15% from the capital gain (if lower than 2% WHT on proceeds). The overpayment would be repaid to the non-resident by the Latvian tax authority.

Personal Income Tax (PIT): In general, in case of sale of real estate or shares in a real estate company PIT of 15% would be applied to the capital gains.

However, there are exemptions available such as:

1. Real estate owned for more than 60 months and for at least 12 consecutive months has been the declared place of living of the seller.

2. Real estate is owned for more than 60 months, and for the last 60 months before the sale it was the only real estate owned by the individual.

3. The income from the sale of an individual's only property is used to acquire functionally similar real estate during the 12 months after or before the sale.

Construction

Local reverse charge VAT regime is applicable to construction services, if the supplier and recipient of services are both registered for VAT purposes in Latvia. VAT is calculated and accounted for by the customer. If the result of construction services is used to generate VAT taxable income, there is no VAT effect as input tax on the construction services would be equal to the VAT payable.

When a construction, renovation or acquisition of a new building occurs, the taxpayer is required to monitor and report to the Latvian Tax Authorities the proportion of VAT taxable and VAT exempt income generated from that property.

Land Tax

There is no land tax in Latvia.

Real Estate Tax

Real estate tax is calculated by municipalities based on the cadastral value of the property, i.e. buildings, constructions and land, in the Land Book Register, which might be subject to revision by the municipality over time.

The real estate tax rate is 0.2% - 1.5% of the value of the property as determined by the municipality. If the municipality has not set the applicable tax rates for the real estate in its territory, 1.5% applies to all properties used for economic activity. A municipality may apply a real estate tax rate of up to 3%, if a property is not maintained/managed properly. If a municipality does not publish binding regulation on property tax rates until 1st November of the previous taxation period, the following tax rates are applicable:

> For property and land used in a business activities and also for engineering technical buildings - 1.5% from the cadastral value of property.

> For agricultural land not used in agriculture - 3% of the cadastral value.

> For buildings that degrade the environment and endanger human lives - up to 3% of the cadastral value (if certain criteria are met).

> For houses, apartments for inhabitants and additional premises (garages, storage rooms, etc.) not used to conduct business activity:

- 0.2% of cadastral value up to EUR 56,915,
- 0.4% of cadastral value up from EUR 56,915 to EUR 106,715,
- 0.6% of cadastral value up which exceeds EUR 106,715.

The minimum tax payment for each tax payer to a particular municipality is EUR 7.

Families with three or more children are eligible for a 50% property tax deduction, but the total discount amount should not exceed EUR 427. Municipalities may set 90, 70, 50 or 25% discounts of the property tax amount paid by separate tax payer categories. Additionally, local governments may grant tax relief such as a de minimis aid for taxable persons, who are economic operators, but several conditions should be taken into account.

Some types of real estate are exempt from the real estate tax, e.g., exemptions apply to:

> Buildings which are utilised only for agricultural production.

> Buildings erected or reconstructed for the performance of economic activities for one year, counting from the next month after their commissioning.

> Buildings or the parts thereof, which are utilised for educational, health, social care or cultural purposes (except cinemas and video libraries).

> Residential auxiliary buildings, auxiliary buildings with area less than 25 sqm, excluding the garage.

> Other buildings specified by the Law on Real Estate Tax.

Tax Depreciation

Fixed asset depreciation for financial purposes is disallowed for CIT purposes, and depreciation for tax is calculated instead in accordance with the requirements set out in the CIT Law.

Buildings are depreciated at a rate of 10% per year applying the reducing balance method for each building separately.

Revaluation of a property is not taken into account in the calculation of tax depreciation.

Land is not depreciated for tax purposes.

If a company has chosen to apply the fair value model, instead of cost model for its property, a depreciation for tax purposes can no longer be calculated, and instead the property has to be revalued on a regular basis. The revaluation in profit and loss is a non-taxable or non-deductible item for CIT purposes.

Ilona Butāne

Partner, Tax Advisory Services
Ernst & Young Baltic SIA
Muitas Street 1A, LV-1010 Riga, Latvia
Phone +371 6704 3801
Ilona.Butane@lv.ey.com
http://www.ey.com

Lithuania Market Overview

2017 - Year of Opportunities and Challenges

Ramune Askiniene

Partner | Managing Director
ramune.askiniene@colliers.com

2016 was an eventful year for the Lithuanian real estate market. High investment activity in commercial real estate was observed throughout the year with significant deals across all segments. In contrast to previous years, industrial properties captured the largest share of total investment volume, achieving a record high level. The Vilnius office market had a dynamic year with the greatest growth recorded since 2010 and many new projects in the pipeline. Meanwhile, the retail market saw the expansion of shopping centres across the country and the completion of projects initiated last year. Nevertheless, grocery retail chains continued to be the most active due to fierce competition. In addition, the Lithuanian industrial market also showed activity, although the selection of modern warehouse space remained limited as a result of measured development.

2017 brings both new opportunities and challenges for the Lithuanian real estate market and economy. The largest historical increase in supply, including several Class A business centres, is expected in the Kaunas office market, allowing the city to become an up-and-coming destination for shared service centres, while Vilnius will face the issue of office space oversupply. Moreover, a large wave of new warehouse space supply is foreseen in Vilnius and Kaunas; however, the implementation of new projects is carefully planned. In addition, the Lithuanian market will continue to have to adapt to the rising role of technology, while the development of e-commerce will continue to influence the local retail market. The grocery retail segment is foreseen to undergo strategic changes among major market players in the coming years. Furthermore, the Lithuanian hotel market will continue to benefit from a steadily growing number of tourists and expanding tourist geography. Finally, the international economic arena will face significant changes due to Brexit and its resonance in other EU member states, including the Baltic states.

Sincerely,

Ramune Askiniene

Economic Overview

Summary

In 2016, the Lithuanian economy saw a strengthening business environment and an improving situation in the labour market, while strong domestic consumption remained the key driver of the country's economic growth. Consequently, GDP growth reached 2.3% y-o-y, compared to slower growth of 1.8% y-o-y in 2015. Nevertheless, the external environment continued to hinder achievement of higher growth. Primarily, Brexit has caused uncertainty in economic relations between the UK and the EU. In addition, such issues as a tense geopolitical situation, trade restrictions with Russia and large-scale emigration remain unresolved.

The average annual change in consumer prices based on HICP turned from negative into positive, starting from -0.7% at the end of 2015 and reaching 0.7% at the end of 2016. The largest price increases were recorded in the segments of restaurants and hotels (5.1%), alcoholic beverages and tobacco (3.7%) and education (3.6%). Nevertheless, price decreases were still observed in several segments, particularly in communication (-3.9%), transport (-3.8%) as well as housing, water, electricity, gas and other fuels (-1.6%). Furthermore, inflation is foreseen to be higher in 2017 due to increasing costs of services and raw materials.

The Lithuanian labour market experienced further positive development during 2016 with the unemployment rate declining to 7.9% (a decrease of 1.2% y-o-y) and monthly gross wages growing by 7.9% y-o-y (an increase of 2.5% y-o-y). This is mainly connected to higher minimum wages, which were raised twice during the year to EUR 380, and a shrinking pool of qualified candidates. On the other hand, the gender gap in unemployment remained, standing at 9.1% for men and 6.7% for women. Next year, positive trends are expected to continue, reinforced by the expansion of international companies, especially SSCs in Vilnius, which offer above-average salaries and better working conditions.

Strong domestic consumption boosted growth of retail trade turnover to 7% y-o-y (an increase of 1.6% y-o-y). In particular, retail sales via mail order houses or via Internet continued to record robust growth (25.8%), confirming entrenched changes in consumption habits due to advanced technologies. In addition, retail sales of automotive fuel also registered significant growth (18.8%) due to decreased prices. However, next year higher inflation is expected to affect domestic consumption, slowing down its growth.

Tendencies and Forecasts

› Domestic consumption will remain the main driver of economic growth, encouraged by increasing wages, declining unemployment, and household optimism. However, it is expected to grow at a slower pace next year due to forecast higher inflation.

› The entry and expansion of international companies, especially SSCs, will continue to positively affect the Lithuanian labour market, leading to a further decrease in the unemployment rate and sustainable growth of wages.

› The environment of low interest rates, stronger trade ties and increasing tourist flows is expected to continue to stimulate the Lithuanian economy in the coming years.

› An unstable geopolitical situation and export restrictions to Russia will remain the principal barriers to economic growth, along with the UK's decision to withdraw from the EU and other challenges in the EU.

› High volumes of emigration will result in a shrinking labour pool, especially in the regions, in turn affecting the availability of qualified candidates.

Key Economic Indicators of Lithuania

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F
GDP Current Prices, EUR billion	29.0	32.7	26.9	28.0	31.3	33.3	35.0	36.6	37.3	38.6	40.2
GDP Growth (Real), % yoy	11.1	2.6	-14.8	1.6	6.0	3.8	3.5	3.5	1.8	2.3	2.4
Industrial Production, % yoy	1.4	4.9	-13.8	6.3	6.3	3.6	3.2	0.1	4.9	2.8	n/a
Unemployment Rate, % avg.	4.2	5.8	13.8	17.8	15.4	13.4	11.8	10.7	9.1	7.9	7.4
Growth of Average Monthly Gross Earnings, %	20.5	19.4	-4.4	-3.3	2.9	3.8	5.1	4.8	5.4	7.9	5.7
Total Central Government Debt, % of GDP	15.9	14.6	28.0	36.2	37.2	39.8	38.7	40.5	42.7	41.0	43.5
HICP avg., % yoy	5.8	11.1	4.2	1.2	4.1	3.2	1.2	0.2	-0.7	0.7	1.9
CPI, % yoy	8.1	8.5	1.3	3.8	3.4	2.8	0.4	-0.3	-0.1	1.7	n/a
Fiscal Deficit, % of GDP	-0.8	-3.1	-9.1	-6.9	-8.9	-3.1	-2.6	-0.7	-0.2	0.7*	-0.7
Export, EUR billion	12.5	16.1	11.8	15.7	20.2	23.0	24.5	24.4	22.9	22.6	n/a
Import, EUR billion	17.8	21.1	13.1	17.7	22.8	24.9	26.2	25.9	25.4	24.8	n/a
Current Account, % of GDP	-15.1	-13.3	2.1	-0.3	-3.9	-1.2	1.5	3.6	-2.3	-1.6*	-0.7
Cumulative FDI, EUR billion	10.3	9.2	9.2	10.0	11.0	12.1	12.7	12.7	13.5	12.8*	n/a

* - Q3 2016
f - forecast
Source: The Lithuanian Department of Statistics, Ministry of Finance, Bank of Lithuania

Investment Market

General Overview

- 2016 saw completion of 158 transactions, totalling EUR 430 million of investment in commercial real estate.
- Nordic and Baltic investors continued to prevail in the market, along with some new international funds opting to invest in the Lithuanian market.
- Industrial properties emerged as the most favoured investment objects, capturing a 39% share of total investment volume.
- A further slight compression of prime yields was recorded across all commercial real estate segments.

Investment Volumes

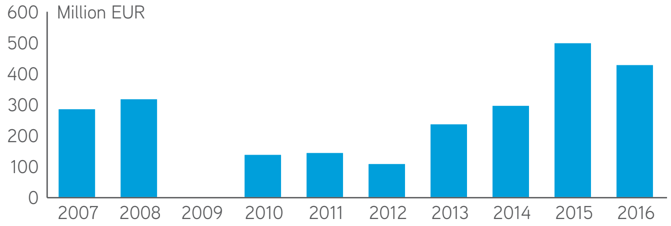
After the record-breaking year of 2015, high investment activity in the Lithuanian real estate market continued throughout 2016, resulting in total investment volume of EUR 430 million. Attractive market conditions, economic growth and membership in the Eurozone ensured further investment in commercial real estate during the year, even though total investment volume was 14% higher in 2015. Nevertheless, the number of closed transactions did not significantly differ from the previous year, standing only 4% lower.

The Lithuanian market continued to gain confidence among local investors as well as international investment funds. Although Baltic and Nordic investors maintained a dominant hold of the market, one of the biggest investment transactions was implemented by the American fund CPA:17 - Global managed by W. P. Carey Inc., which made a grand entrance with the acquisition of Kesko Senukai LC in Kaunas. The market also saw the partnership between the Swiss private investment company Partners Group and Northern Horizon Capital, whose joint venture Laurus completed an impressive acquisition of 42 commercial properties across the Baltics. Together CPA:17 - Global, Laurus, Zenith Capital Management, Lords LB Asset Management and EfTEN Capital acquired RE for over EUR 170 million, which formed 40% of total investment volume in 2016.

Investment Properties

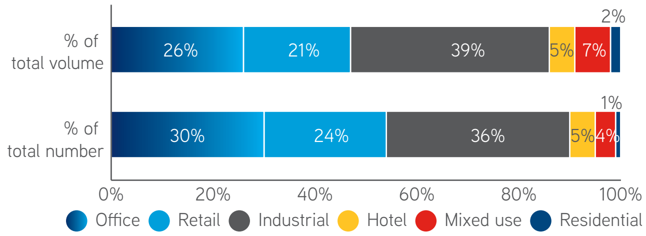
During 2016, in search of attractive investment alternatives, investors shifted focus to the industrial segment, which witnessed a substantial growth of interest in comparison to the previous year, when major investments were allocated to retail and office properties. Consequently, the share of investments dedicated to industrial properties reached 39% of total investment volume, compared to 18% last year. The major event was the acquisition of Kesko Senukai LC, situated in Kaunas district, by the newcomer CPA:17 - Global, which became the largest investment transaction in history for the industrial segment in Lithuania. Besides, EfTEN Capital acquired three DSV LCs across the Baltic states via a sale and leaseback transaction advised by Colliers International, while Capital Mill purchased Dobrovole LC II in Vilnius. Nevertheless, significant investment transactions were also recorded in other commercial property segments. The office segment accounted for 26% of total investment volume, including Laurus's acquisition of the Geneba portfolio with the anchor tenant SEB Bank and transactions involving Class B1 business centres situated in the capital city, such as L3 BC, Vilbra BC and Savanoriu 18 BC (former Evita BC). The share of the retail segment stood at 21% of total investment volume, supported by the transactions of Nordika SC (2nd stage) and RIMI Hypermarket in Vilnius as well as Prisma in Kaunas. The hotel segment also observed several noteworthy deals during 2016, including SPA Vilnius Druskininkai in the resort destination of Druskininkai, Comfort Hotel LT - Rock'n'roll Vilnius and two acquisitions of Park Inn Hotels by Green Hotel in Vilnius and Klaipeda.

Dynamics of Investment Volume* in Lithuania



* - deals over EUR 0.4 million
Source: Colliers International

Investment Turnover by Sector in 2016



Source: Colliers International

Top 5 Investment Deals in Lithuania in 2016				
NO.	**PROPERTY NAME**	**SECTOR**	**GBA, SQM**	**INVESTOR**
1.	Kesko Senukai LC	Industrial	67,500	CPA:17 - Global
2.	Geneba portfolio	Office/Industrial/Retail	46,000	Laurus (joint venture of Partners Group and Northern Horizon Capital)
3.	Nordika SC, 2nd stage	Retail	22,100	Zenith Capital Management
4.	Prisma	Retail	13,600	Lithuanian investors
5.	Comfort Hotel LT - Rock'n'roll Vilnius	Hotel	7,500	Lords LB Asset Management

Source: Colliers International

Investment Yields

2016 saw a further slight compression of prime investment yields across all commercial real estate segments, which by the end of the year reached 6.75% for both office and retail properties, and 8.25% for industrial properties located in the Lithuanian capital. This is mainly due to the limited selection of investment grade products, which also led to significantly increased attention paid to a previously quite passive industrial segment.

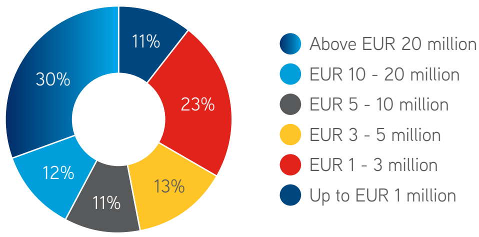
Furthermore, investors continued to place increased confidence in the country's profile due to its economic outlook. Coupled with higher investment returns in comparison to the Nordic and Western countries, this will ensure a steady interest in the Lithuanian commercial real estate market, encouraging the portfolio expansion of existing international investors and the entry of notable new players.

Consequently, prime yields are expected to follow a downward trend in 2017. Yield compression to a slight degree is likely among all commercial real estate segments. Although commercial properties located in Vilnius will remain the top priority, properties situated outside the capital city will be on the radar of investors if they are modern or well-maintained as well as occupied by strong tenants with long-term lease agreements that guarantee stable rental income. Thus, yield compression in other cities, especially the second largest city, Kaunas, is also likely even though it will be more moderate.

Tendencies and Forecasts

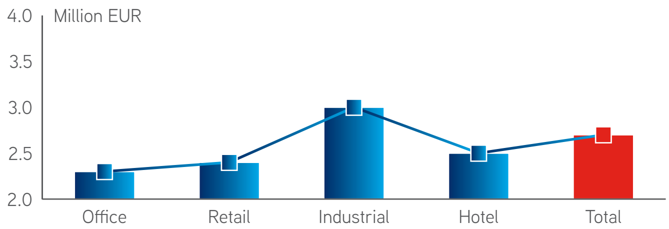
- Investors will continue to regard Lithuania as an attractive investment spot because of the acceptable risk level and the availability of good quality commercial properties with higher investment returns than in Scandinavia or Western Europe.
- New high-profile international investors, besides the Baltic and Nordic funds, will continue to enter the Lithuanian commercial real estate market.
- Having emerged as the most favoured investment direction in 2016, the industrial segment has potential to remain in the spotlight next to the office and retail segments as an equally interesting investment alternative, mainly due to investment market saturation in the office and retail segments.
- The hotel, healthcare and wellness segments are expected to capture more interest from real estate investors in the coming years as an option to diversify the portfolio.
- Prime yields are expected to experience a further slight compression in 2017, driven by the limited supply of investment-worthy properties.

Investment Turnover by Size in 2016



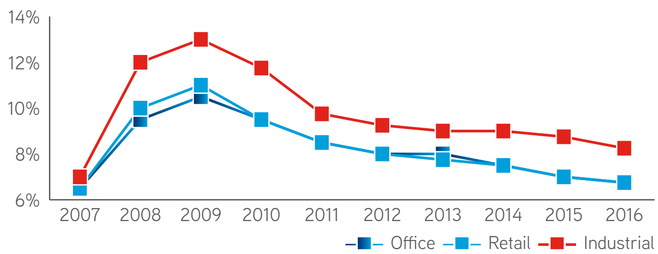
Source: Colliers International

Average Transaction Size by Sector in 2016



Source: Colliers International

Prime Yield Dynamics in Vilnius



Source: Colliers International

Office Market

General Overview

› In 2016, the Vilnius office market saw completion of five new office projects that significantly raised existing quality standards and substantially increased the office space stock to GLA of 550,900 sqm with many new projects in the pipeline.

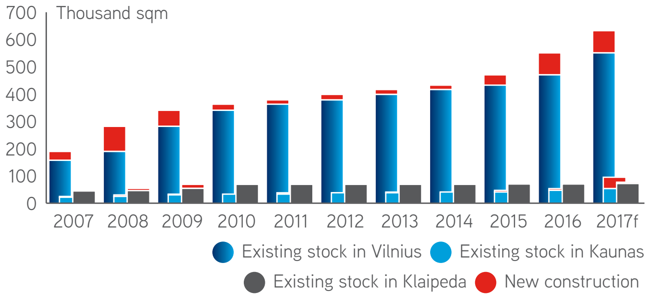
› The Kaunas office market demonstrated historic activity with three new office projects implemented and GLA of more than 40,000 sqm in the pipeline for 2017, while the Klaipeda office market remained relatively calm.

› International companies continued to maintain an interest in entering and expanding in the Lithuanian market due to a business-friendly environment as well as a well-educated and highly qualified talent pool.

› The Kaunas office market witnessed the largest growth of asking rent rates due to construction of new Class A business centres.

› Vacancy rates increased in both Vilnius and Kaunas due to rapid growth of new supply, while in Klaipeda vacancy stood at a similar level as a result of low market activity.

Dynamics of Speculative Office Space in Major Cities of Lithuania



f - forecast
Source: Colliers International

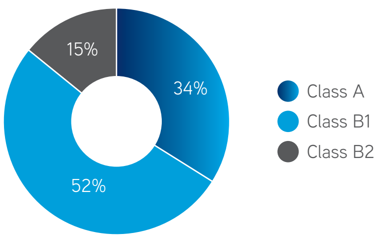
Supply

In 2016, development of the Vilnius office market accelerated with the commissioning of five new business centres. These are Quadrum BC (1st, 2nd stages), City BC, Delta BC, Highway BC and Zalgirio 135 BC, which increased office space supply by 17% compared to 2015, the largest growth since 2010. The pipeline of new office projects suggests that 2017 will be just as active with anticipated GLA of 81,500 sqm additional to modern office space supply in Vilnius.

The Kaunas office market continued a positive trend, recording an increase in supply for the second consecutive year due to the opening of Pramones 4 BC (2nd stage), Neris BC and Daimonda BC, which increased modern office space supply by 14% compared to the previous year. Furthermore, 2017 is expected to bring a huge wave of new supply, totalling GLA of over 40,000 sqm. It is important to note that several larger business centres with leasable area of over 8,000 sqm are foreseen. Examples include Kauno dokas BC, Arka BC and River Hall BC, which will diversify Kaunas office space supply, which is currently dominated by small business centres.

The Klaipeda office market also showed some activity, following a passive previous year. In particular, the small, Class B1 business centre M19 was reconstructed with some further progress in office space development awaited in the coming years. For example, the new Kamino biurai office project is expected to supplement the market with modern office space of 15,000 sqm, of which 5,000 sqm (1st stage) is anticipated for completion in 2017. Moreover, a new business complex is foreseen on the Dane river embankment with construction expected to start in 2017.

Distribution of Speculative Office Space in Vilnius by Class in 2016



Source: Colliers International

New Speculative Office Projects Under Construction in Vilnius

PROJECT	ADDRESS	CLASS	DEVELOPER	OPENING YEAR
Green Hall II BC	Upes St. 23	A	Concern SBA	2017
Narbuto 5 BC	Narbuto St. 5	A	E.L.L. Real Estate	
Link BC	Saltoniskiu St. 9B	A	Baltijos Gildija	
Park Town BC, 1st stage	Lvovo St. 105A	A	MG Valda	
S7 BC, 1st stage	Saltoniskiu St. 7	A	M.M.M. projektai	
B Nordic 26 BC	J. Basanaviciaus St. 26	B1	Asgaard Property	
Domus BC, 3rd stage	Bieliunu St. 1	B1	Northern Horizon Capital	
Duetto I BC	Virsuliskiu Al. 34	B1	YIT Kausta	
Eleven BC	Kareiviu St. 11A	B1	Baltic RED	
Pentagon BC	Ozo St. 12A	B1	Realco	
Zveryno Verslo Fabrikas BC	Saltoniskiu St. 29	B1	ZIA Valda	
Asgaard Keys BC	Ukmerges St. 124	A	Asgaard Property	2018
3 Bures BC, expansion	Giedraiciu St. 3	A	East Capital	
Green Hall III BC	Upes St.	A	Concern SBA	
TOTAL GLA, SQM			99,190	

Source: Colliers International

Completed Speculative Office Projects in Vilnius in 2016

PROJECT	ADDRESS	CLASS	DEVELOPER
Quadrum BC, 1st, 2nd stages	Konstitucijos Av. 21	A	Schage Real Estate
City BC	Zalgirio St. 90	B1	Hanner
Delta BC	J. Balcikonio St. 9	B1	Technopolis
Highway BC	Savanoriu Av. 178	B1	Inreal Valdymas
Zalgirio 135 BC	Zalgirio St. 135	B1	Eika
TOTAL GLA, SQM		80,530	

Source: Colliers International

Demand

Vilnius remained a top destination in terms of new foreign investment and expansion of existing international companies. In 2016, the greatest demand continued to be generated by SSCs as well as ICT and financial companies, such as Danske Bank Global Service Lithuania, Swedbank, Lindorff Business Services and others. A strong take-up performance accounted for over 50,000 sqm of modern office space leased throughout the year, significantly exceeding the results of previous years.

In 2016, tenants continued to prefer premises in Class A and B1 business centres located in the central city district. International companies, especially SSCs, are usually known for large lease agreements, while the demand for small but modern office space was answered by implementing projects that provide fully equipped and serviced offices in strategic locations, such as Baltic Business Centre in Quadrum BC, UMA co-working space in Delta BC and WorkLand in Gedimino Avenue.

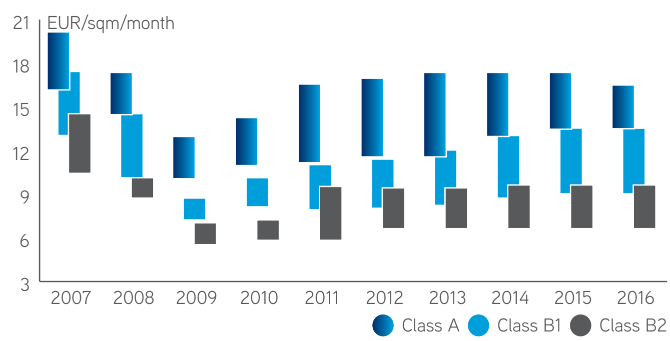
As to office space selection criteria, tenants placed higher emphasis on solutions that increase productivity and create a comfortable and healthy working environment, such as efficient space planning and energy use, climate control, recreational areas and a touch of nature with green spaces.

The abundance of new office projects in Kaunas, including several Class A business centres with a large floor area, is expected to better respond to the needs of international companies. This, coupled with the status of a student city and lower salary expectations in comparison to the capital, is expected to create more favourable conditions for doing business in Kaunas. As a result, the unexploited potential of the city is likely to lead to higher demand from international companies in the coming years.

Rent Rates and Vacancy

In 2016, rent rates in Vilnius decreased in Class A business centres by 3%, compared to the previous year, due to rapid growth of new office space supply and intensified competition among real estate developers. Besides, there are grounds to believe that rent rates will continue to follow a downward direction during 2017 due to the abundance of new office projects that will be commissioned in the coming years. In contrast to Vilnius, the Kaunas office market saw an increase of rent rates, which was recorded across all classes of business centres to varying degrees, while highest growth was witnessed in Class A due to construction of high-class business centres, which will benefit the current scarce supply of high quality office space. However, ongoing active development of office projects in Kaunas is expected to maintain rent rates at a more stable level during 2017. Meanwhile, rent rates in Klaipeda maintained their status quo due to low market activity.

Dynamics of Rent Rates* in Vilnius



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

Rent Rates* for 2016 in Vilnius, Kaunas, Klaipeda and Trends for 2017

CLASS	VILNIUS		KAUNAS		KLAIPEDA	
	2016	TRENDS FOR 2017	2016	TRENDS FOR 2017	2016	TRENDS FOR 2017
A	13.5 - 16.5	→↘	10.0 - 14.5	→→	10.0 - 14.5	→→
B1	9.0 - 13.5	→↘	7.5 - 12.5	→→	5.8 - 8.7	→→
B2	6.6 - 9.6	→→	5.2 - 7.5	→→	4.3 - 6.3	→→

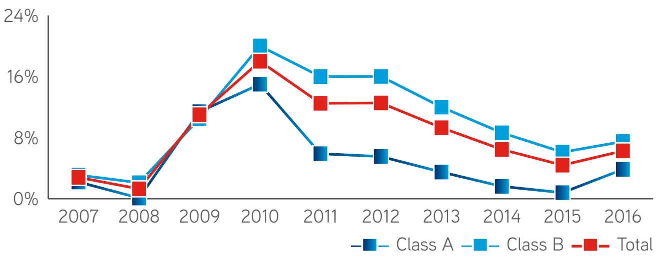
* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable, →↘ - slight decrease
Source: Colliers International

Vacancy Rates for 2016 in Vilnius, Kaunas, Klaipeda and Trends for 2017

CITY	2016	TRENDS FOR 2017
Vilnius	6.3%	→↗
Kaunas	7.3%	→↗
Klaipeda	13.5%	→↗

→↗ - slight increase
Source: Colliers International

Dynamics of Vacancy Rates in Vilnius



Source: Colliers International

Exceptionally high construction activity in the Vilnius office market during 2016 was reflected in vacancy rates, which increased to 6.3% on average. Higher vacancy was recorded in both Class A and Class B business centres, at 3.9% and 7.5% respectively. As the next few years are foreseen to be just as active, this will inevitably exert upward pressure on vacancy rates, creating tenant-favourable market conditions.

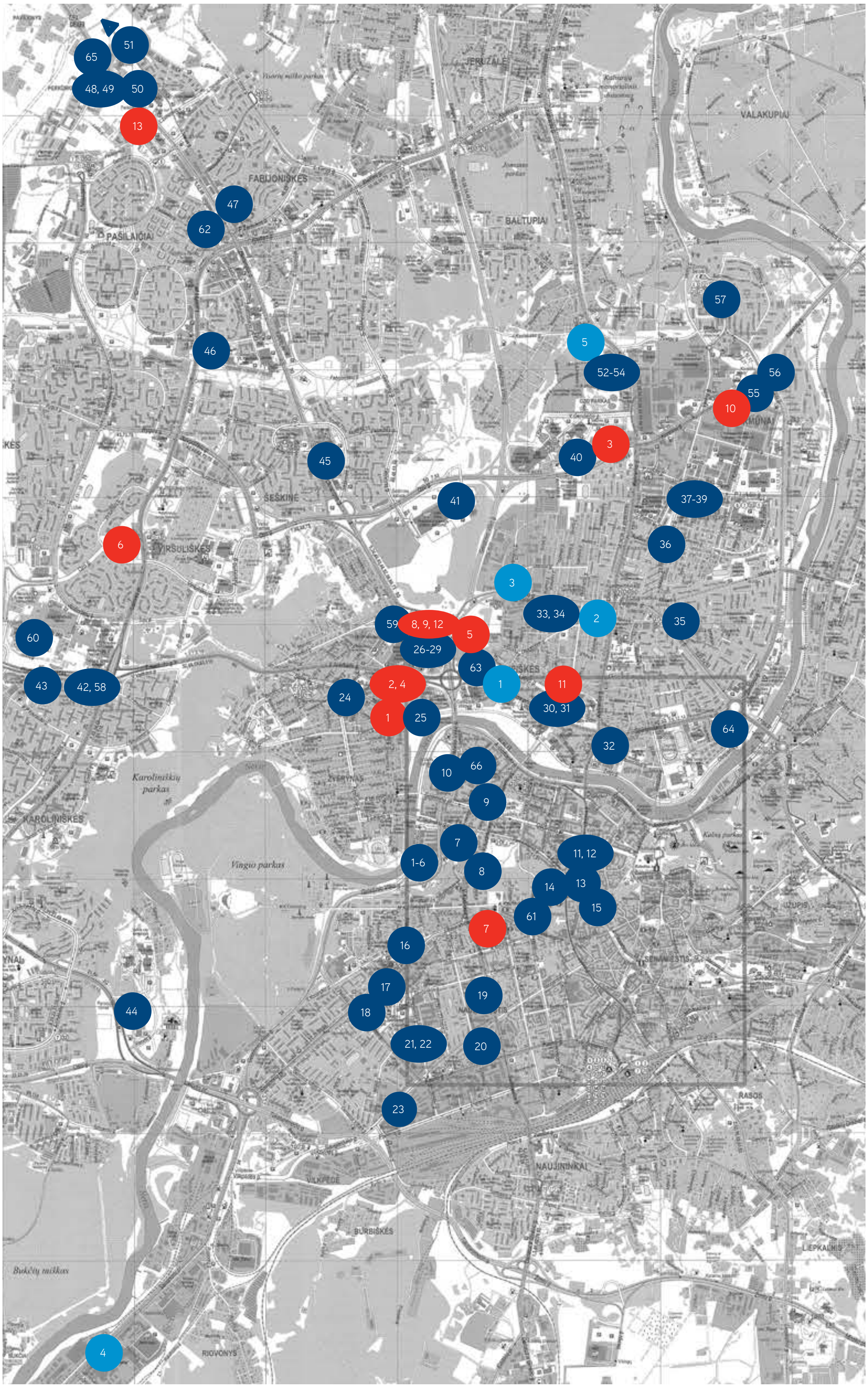
The Kaunas office market saw growth of modern office space for the second consecutive year, which led to a 7.3% vacancy rate. Besides, active construction of new business centres throughout 2017 is expected to increase vacancy even more, so that existing market players will have a wide selection for relocation as well as expansion, which was previously limited by low availability of large floor space.

In 2016, the Klaipeda office market experienced a rather calm year with only one small new office development. This resulted in a similar vacancy rate as in the previous year, standing at 13.5%. A slight upward correction is likely next year due to the commissioning of a new business centre, although its pre-lease agreements will prevent higher growth.

Tendencies and Forecasts

- The Vilnius office market will remain the most dynamic in Lithuania, with expected GLA of over 80,000 sqm to be presented to the market throughout 2017, followed by the Kaunas office market with anticipated GLA of over 40,000 sqm.
- Market absorption in the capital city will remain highly reliant on the entry of new international companies and expansion of existing ones as local players will not be able to absorb all the new supply.
- The construction of several Class A business centres will answer the currently scarce supply of high quality office space in Kaunas, resulting in higher interest from foreign companies. As a result, Kaunas has potential to emerge as an attractive alternative location to Vilnius.
- A slight downward correction of rent rates in Vilnius is expected due to an abundant supply of new office space, which tightens competition among real estate developers. Likewise, strong growth in the supply of office space will inevitably increase vacancy rates in both Class A and Class B business centres.
- The anticipated highest historical growth of office space in Kaunas during 2017 is expected to increase vacancy rates and maintain rent rates at a competitive level.
- The Klaipeda office market will continue to significantly lag behind Vilnius and Kaunas due to existing oversupply, which is expected to maintain vacancy at a similar level together with stable rent rates.

Business Centres in Vilnius



Existing Developments

1. Oracle
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. Savanoriu 18
18. LJB
19. Vilbra
20. Vytenio 46
21. Skraja
22. Smolensko
23. Skraidenis
24. Marenta
25. Green Hall, 1st stage
26. Hanner
27. Saltoniskiu St.
28. Saltoniskiu Trikampis
29. Baltic Hearts, 1st, 2nd stages
30. Europa
31. 3 Bures
32. IBC
33. Zalgiris
34. Kernave
35. Tuskulenai
36. North Star
37. Domus
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. Eta
57. Zirmunu BC
58. Menulio 11
59. Baltic Hearts, 3rd stage
60. Grand Office
61. Basanaviciaus
62. Sostena
63. K29
64. Premium
65. One
66. Uniq

Completed in 2016

1. Quadrum, 1st, 2nd stages
2. City
3. Zalgirio 135
4. Highway
5. Delta

Under Construction

1. Green Hall, 2nd, 3rd stages
2. Zveryno Verslo Fabrikas
3. Pentagon
4. Narbuto 5
5. Park Town, 1st stage
6. Duetto, 1st stage
7. B Nordic 26
8. Link
9. S7, 1st stage
10. Eleven
11. 3 Bures, expansion
12. Asqaard Keys
13. Domus, 3rd stage

Retail Market

General Overview

> The Lithuanian retail market was active in 2016, although most of the new development was either completion of projects initiated last year or concerned expansion and reconstruction of existing objects.

> Grocery chain Lidl made a successful entry to the retail market across the country, bringing significant changes to the dynamics of the grocery segment.

> E-commerce further strengthened its position in the Lithuanian market, including online sales platforms launched by well-known brands, such as Apranga Group and H&M.

> Vacancy in shopping centres in major Lithuanian cities has stayed at low levels, creating favourable conditions for a slight increase in rent rates.

Supply

In 2016, the retail market in Vilnius was quite dynamic with several developments finished during the year. These included Unideco SC, Nordika SC (2nd stage) and Domus PRO SC (2nd stage) which are oriented towards household goods. Furthermore, the reconstruction of Outlet Park SC was completed, enlarging its leasable area by more than 4,500 sqm. Consequently, retail space stock grew to GLA of 629,890 sqm, indicating a 5.6% increase compared to 2015.

The retail market in Kaunas experienced an active end of year, too. In particular, Mega SC finished its expansion, strengthening its position as the largest shopping centre in the city. Thus, total retail space stock in Kaunas increased to GLA of 320,040 sqm, recording 7.9% growth compared to the previous year. In addition, Molas SC also underwent renovation, although its leasable area saw only a minor increase.

The retail market in Klaipeda also showed some activity in 2016, after rather stagnant previous years. The first Depo DIY store in Lithuania was opened in Klaipeda, increasing total retail stock to GLA of 220,640 sqm. Additionally, the Latvian retailer intends to open four more stores in Vilnius, Kaunas and Panevezys in the coming years.

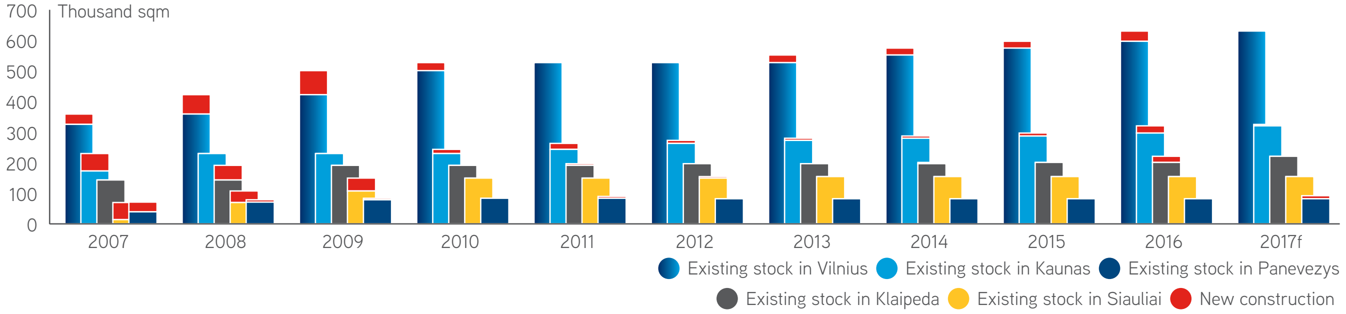
Grocery retailers remained the key drivers behind retail market development in Lithuania. The German grocery chain Lidl successfully opened 22 stores across the country, causing established players to review their activities in order to stay competitive with the opening of new grocery stores and the renovation of existing ones.

In addition, major news appeared about RIMI's acquisition of retail chain IKI, meaning the possible presence of a more substantial competitor for current market leader Maxima. However, the deal still has to be approved by the Competition Council, thus, further changes in the Lithuanian retail market are awaited later on.

In 2017, new shopping centres in the Vilnius retail market are not anticipated, despite the existing potential for retail development in the southern part of Vilnius next to IKEA and Nordika SC. IKEA itself is expected to complete the expansion of its store during 2017. In other cities, larger retail projects are not foreseen either, mainly due to negative demographic trends and the impact of e-commerce.

E-commerce has further strengthened its position in the Lithuanian market. A new online grocery store Zzz.lt was launched, disrupting the monopolistic standing of Barbora, which was formed after the closure of the grocery retailer Fresh Market in 2015. In addition, e-commerce platforms were launched by fashion retailers H&M as well as Apranga Group.

Dynamics of Retail Space in Major Cities of Lithuania



f - forecast
Source: Colliers International

Completed Retail Projects in Vilnius, Kaunas and Klaipeda in 2016

CITY	PROJECT NAME	ADDRESS	DEVELOPER	ANCHOR TENANTS
Vilnius	Unideco SC	Verkiu St. 44	MC Grupe	Unideco
	Nordika SC, 2nd stage	Vikingu St. 3	VPH	Senukai
	Domus PRO SC, 2nd stage	Bieliunu St. 1	TK Development Lietuva	Fitus
	Outlet Park SC, expansion	Verkiu St. 29	Ogmios Centras	Maxima
Kaunas	Mega SC, expansion	Islandijos Av. 32	Baltic RED	VS-Fitness, Peek & Cloppenburg
	Molas SC, renovation	K. Barsausko St. 66A	Top Architects	Maxima, H&M
Klaipeda	Depo DIY	Silutes Rd. 28	Pajurio Investiciju Grupe	Depo DIY
TOTAL GLA, SQM			**76,840**	

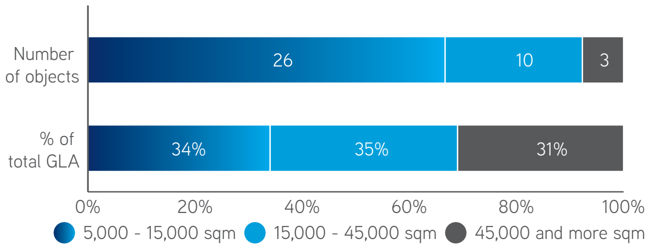
Source: Colliers International

New Retail Projects Under Construction in Vilnius and Kaunas

CITY	PROJECT NAME	ADDRESS	DEVELOPER	ANCHOR TENANTS	OPENING YEAR
Vilnius	IKEA, expansion	Vikingu St. 1	FE Real Estate	IKEA	2017
Kaunas	Bus station shopping arcade	Vytauto Av. 24	Kautros Nekilnojamasis Turtas	RIMI Hypermarket	
TOTAL GLA, SQM				**8,290**	

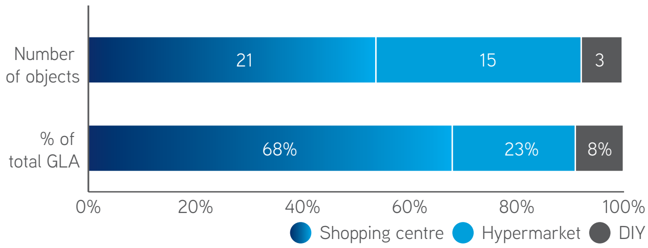
Source: Colliers International

Distribution of Retail Space in Vilnius by Size in 2016



Source: Colliers International

Distribution of Retail Space in Vilnius by Type in 2016



Source: Colliers International

Demand

In general, 2016 demonstrated consistent growth in domestic consumption throughout the year. This was fuelled by a positive situation in the labour market, primarily, increasing average wages. In addition, the steadily growing number of international visitors also added to growth in total retail trade turnover. However, emigration continued to remain a major factor that negatively affects the economy and the retail market likewise.

In 2016, an active and healthy lifestyle was a strong trend, influencing product assortment in stores as well as menu options in restaurants. A focus on wellness also had an impact on the development of the fitness sector. The first People fitness club will open at Panorama SC in Vilnius, Lemon Gym will expand by opening a new gym at Banginis SC in Vilnius, while VS-Fitness will open a sports and wellness centre at Mega SC in Kaunas. Consequently, this is leading to a consistent demand for sports goods. For instance, a Sports Direct store was opened at Nordika SC in Vilnius, while Sizeer opened a store at Panorama SC in Vilnius.

Following changes in consumer behaviour, shopping centres are increasingly willing to allocate shopping areas to restaurants and leisure amenities. Likewise, this allows an increase in dwell time and consumer spending. Thus, several new restaurants opened in shopping centres.

It is worth mentioning that consumer demand for convenience has also stimulated the development of retail space in and near business centres. For instance, the newly opened Quadrum BC offers a variety of restaurants and services, comprising sports facilities, dry cleaning, laundry and tailoring.

Lately, consumers highlight convenience and speed as top priorities, forcing retailers to continuously invest in the introduction of innovative technologies, such as contactless payment systems and new cash management solutions. Likewise, this fosters development of e-commerce, which is expected to gain a considerable share of the retail market in the future.

Rent Rates and Vacancy

The growth of rent rates continued in the Lithuanian retail market to a varying degree, depending on the city and the type of premises. The largest increase, as usual, was recorded in the capital city due to high demand for retail premises. In 2016, rent rates for small and medium retail units in shopping centres as well as retail streets grew by about 4% on average compared to the previous year. A slightly slower growth pace was registered in Kaunas and Klaipeda, where rent rates for small and medium retail units in shopping centres grew by ca 2% on average compared to the previous year. Anchor tenants secured favourable terms, retaining stable rent rates across the major cities with no increases forecast in the coming years, while rent rates for other tenants are expected to maintain an upward trend.

Rent Rates* for 2016 in Vilnius, Kaunas, Klaipeda and Trends for 2017

CLASS	VILNIUS		KAUNAS		KLAIPEDA	
	2016	TRENDS FOR 2017	2016	TRENDS FOR 2017	2016	TRENDS FOR 2017
Large retail unit (anchor tenant)	6.0 - 11.0	→→	6.0 - 11.0	→→	5.8 - 8.5	→→
Medium retail unit (150 - 350 sqm)	14.0 - 24.0	→↗	10.0 - 22.0	→↗	8.5 - 18.0	→↗
Small retail unit (up to 100 sqm)	23.0 - 44.0	→↗	18.0 - 30.0	→↗	17.5 - 30.0	→↗
Retail streets	15.0 - 60.0	→↗	8.0 - 19.0	→↗	6.0 - 12.0	→→

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

In 2016, vacancy in major shopping centres remained at low levels, reaching below 2% in major Lithuanian cities. This is primarily associated with the moderate development of shopping centres, which results in a limited selection of retail space. As major shopping centre projects are not foreseen in the short term, landlord dominance will persist in the Lithuanian retail market.

Tendencies and Forecasts

› Shopping centres will continue to improve the tenant mix, allocating more space to restaurants and leisure amenities.

› The grocery retail segment will remain the most dynamic due to fierce competition and strategic changes among major market players.

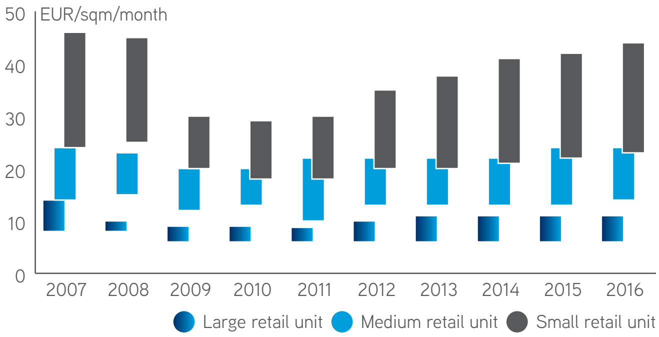
› A booming residential market will continue to stimulate development of the DIY segment with new store openings anticipated in the next few years.

› The lack of new shopping centres in the pipeline will maintain low vacancy levels and, in turn, the growth of rent rates, mostly for small and medium retail units.

› Due to changes in consumer behaviour, retailers will continue to invest in the synergy between traditional and e-commerce as well as the introduction of innovative technologies.

› Wage changes, emigration and the development of e-commerce will continue to shape the retail market, along with general economic tendencies in the country and in the global context.

Dynamics of Rent Rates* in Major Shopping Centres in Vilnius



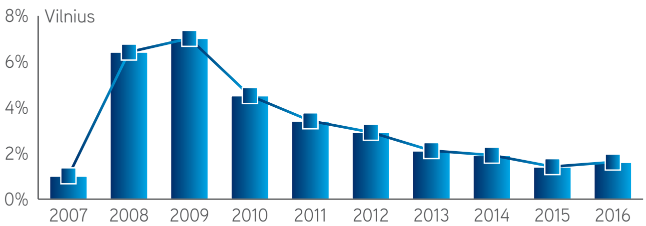
* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
Source: Colliers International

Vacancy Rates for 2016 in Vilnius, Kaunas, Klaipeda and Trends for 2017

CITY	2016	TRENDS FOR 2017
Vilnius	1.6%	→→
Kaunas	1.4%	→→
Klaipeda	1.8%	→→

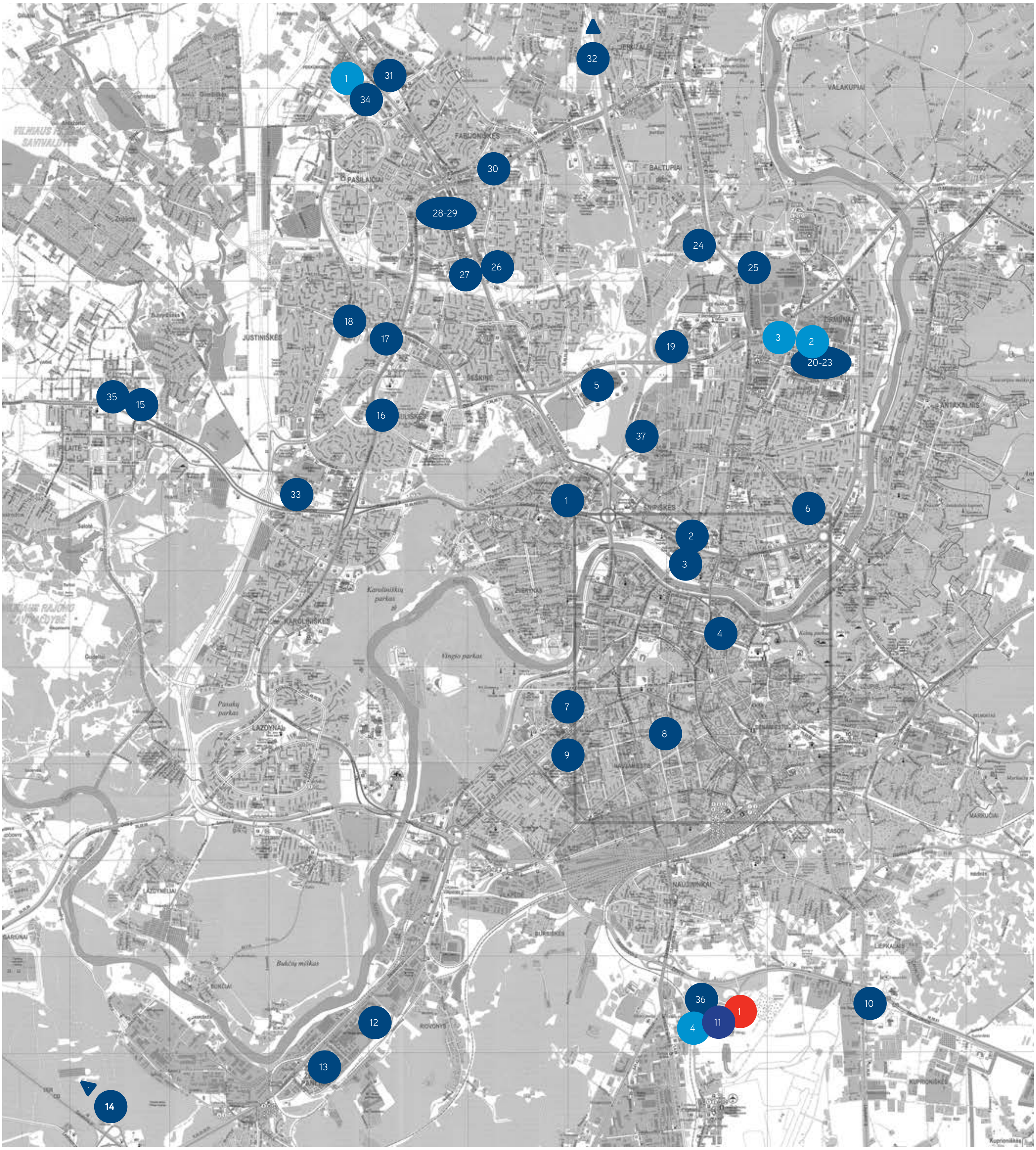
→→ - stable
Source: Colliers International

Dynamics of Vacancy Rates in Major Shopping Centres in Vilnius



Source: Colliers International

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. Baldai Namams
14. Maxima-Baze XXX
15. Pupa
16. MADA
17. Audejo Baldu Centras
18. Norfa XL
19. Ozas
20. RIMI Hypermarket
21. Domus Galerija
22. Banginis
23. Outlet Park
24. Norfa XXL
25. Hyper Norfa
26. IKI Fabijoniskes
27. Senukai
28. Berry
29. Maxima XXX
30. Mandarinas
31. BIG
32. Link Moletu
33. Prisma
34. Domus PRO, 1st stage
35. Norfa XXL
36. Nordika, 1st stage
37. RIMI Hypermarket

Completed in 2016

1. Domus PRO, 2nd stage
2. Outlet Park, expansion
3. Unideco
4. Nordika, 2nd stage

Under Construction

1. IKEA, expansion

Industrial Market

General Overview

> In 2016, the industrial* market remained active, with new warehouse space amounting to GBA of 36,600 sqm offered across the largest cities: Vilnius, Kaunas and Klaipeda.

> The limited availability of quality warehouse space that meets modern requirements prompted the development of new warehouse objects, totalling GBA of 109,000 sqm under construction in Vilnius and Kaunas.

> Although Vilnius and Kaunas secured the leading positions in terms of new warehouse projects, other regions of Lithuania continued to capture the interest of international companies for development of various production facilities.

> The lack of modern warehouse space reinforced the growth of rent rates by ca 2% on average in major cities.

> Vacancy decreased in Vilnius and Kaunas regions due to limited supply, but increased in Klaipeda after a new large warehouse project supplemented the market.

Supply

The major part of modern warehouse space in Lithuania is concentrated in the industrial territories of the largest cities, primarily, Vilnius, Kaunas and Klaipeda, as well as close to main highways. In 2016, the Vilnius industrial market was supplemented by two modern warehouses (Titnago LC (1st, 2nd stages), and Entafarma warehouse (2nd stage)), increasing stock to GBA of 529,670 sqm, i.e. 2% growth compared to the previous year. Despite the growing popularity of built-to-suit projects, speculative objects continued to dominate the market, forming 76% of total supply in Vilnius. 2017 is expected to be more active, with over 67,000 sqm under construction.

* Industrial space includes all modern warehouse buildings built after 2000 with GLA of over 5,000 sqm.

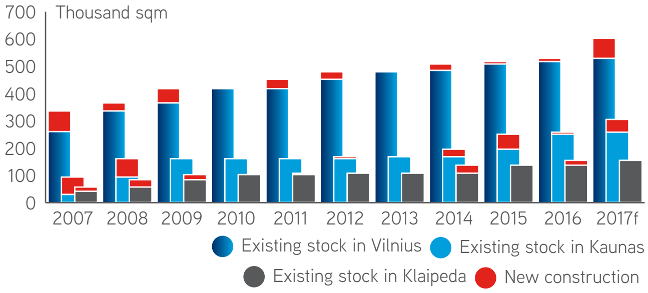
During 2016, the Kaunas industrial market was calmer in comparison to the previous year. In particular, only one built-to-suit project (Volfas Engelman) was completed, increasing stock to GBA of 257,630 sqm. Nevertheless, activity is foreseen to recover next year with over 41,000 sqm under construction in the Kaunas region.

Meanwhile, the Klaipeda industrial market was supplemented with a VPA Logistics warehouse, expanding modern warehouse space stock to GBA of 154,120 sqm. However, next year is expected to be more tranquil, with no new large developments awaited.

Demand

In 2016, industrial properties emerged as one of the most favoured investment directions among commercial real estate segments. Developers also took note of high demand for such properties. However, new supply remained carefully measured and new projects continued to be developed on the back of signed pre-lease agreements. Thus, lack of modern quality objects with sufficient warehouse space fostered development of built-to-suit properties in strategic locations.

Dynamics of Industrial Space in Major Cities of Lithuania



f - forecast
Source: Colliers International

Completed Industrial Projects in Vilnius, Kaunas and Klaipeda in 2016

REGION	PROJECT	ADDRESS	TYPE	DEVELOPER
Vilnius	Titnago LC, 1st, 2nd stages	Titnago St. 19	Speculative	Woodline
	Entafarma Warehouse, 2nd stage	Klonenu St. 1, Sirvintos district	Built-to-suit	Entafarma
Kaunas	Volfas Engelman Warehouse	Kaunakiemio St. 2	Built-to-suit	Volfas Engelman
Klaipeda	VPA Logistics Warehouse	Stariskes St. 29, Laistai village	Speculative	V. Paulius & Associates Real Estate
TOTAL GBA, SQM			**36,600**	

Source: Colliers International

New Industrial Projects Under Construction in Vilnius, Kaunas and Klaipeda

REGION	PROJECT	ADDRESS	TYPE	DEVELOPER	OPENING YEAR
Vilnius	BSP LC	Meteliu St.	Built-to-suit	Baltic Sea Property	2017
	AD REM LC	J. Dobkeviciaus St. 7	Built-to-suit	AD REM	
	Airport Business Park, expansion	Dariaus ir Gireno St.	Built-to-suit	Ogmios Group	
	Apranga LC	Ukmerges St. 362	Built-to-suit	MG Valda	
	Arvydo Paslaugos Warehouse	Terminalo St. 5, Kuprioniskes village	Speculative	Arvydo Paslaugos	
	Liepkalnio Industrial Park, 1st stage	Liepkalnio St. 172 M	Speculative	SIRIN Development	
	Titnago LC, 3rd stage	Titnago St. 19	Speculative	Woodline	
Kaunas	Baltic Logistic Solutions LC, expansion	Alsenu St. 8, Kampiskes village	Built-to-suit	Sanitex	
	Joldija Warehouse, expansion	Verslo St. 2, Kumpiai village	Built-to-suit	YIT Kausta	
	Aibe LC	Kaunas FEZ	Built-to-suit	Alliance Aibe	
	Hansa Flex Hidraulika Warehouse	Taikos Ave. 17F	Built-to-suit	Conresta	
	Business Cottages	Islandijos Rd. 217	Speculative	EPRO Group	
TOTAL GBA, SQM				**109,000**	

Source: Colliers International

Warehouse operators as well as companies engaged in logistics and retail continued to occupy the major part of speculative warehouse space. The highest concentration of warehouse space is found next to highways in and around Vilnius and Kaunas due to a well-developed transport infrastructure and a favourable geographical position. Nevertheless, companies, including international companies, maintained interest in developing industrial facilities in other regions of Lithuania, in large part being attracted by competitive costs as well as an affordable and qualified labour force. However, a threat exists to the sufficiency of the qualified labour pool due to emigration in the future.

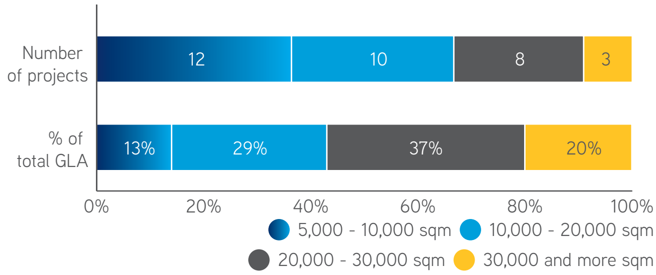
The Russian import ban has been a major challenge to the transportation sector in the past few years. Nevertheless, activities were successfully oriented towards Western countries, which together with retail trade growth allowed achievement of sustainable performance. The continuous growth of e-commerce made a significant impact not only on the retail market but also on the industrial market, leading to increased demand for small and medium industrial units in convenient locations.

Rent Rates and Vacancy

In 2016, rent rates increased by up to 2% on average in major cities of Lithuania due to limited alternatives for lease and overall economic growth in the country. Next year, however, rent rates in Vilnius and Kaunas are expected to fluctuate within a similar range due to anticipated new supply that has increased competition among real estate developers. Meanwhile, rent rates in Klaipeda will remain stable as no significant changes in supply are expected in the market.

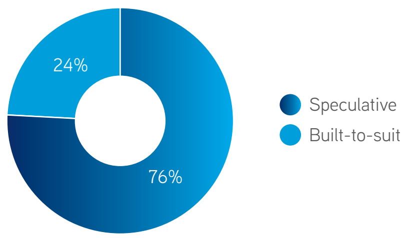
Vacancy rates decreased in both Vilnius and Kaunas regions, reaching 2.3% and 1.5% respectively, mainly due to high demand for warehouse space and a carefully planned supply. Despite anticipated plentiful new warehouse developments in 2017, vacancy is expected to increase to a moderate extent as new objects are mainly built-to-suit or implemented on the back of signed pre-lease agreements. In contrast, the Klaipeda region experienced a significant increase in vacancy up to 12.8% due to a large new development. As a result, the industrial market is expected to balance in a downward direction next year as no large projects are foreseen.

Distribution of Industrial Space by Size in Vilnius Region in 2016



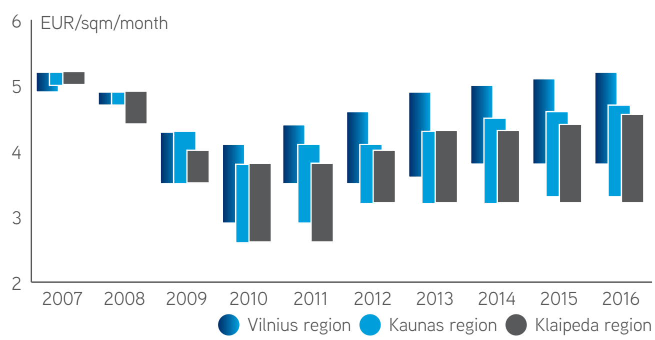
Source: Colliers International

Distribution of Industrial Space by Type in Vilnius Region in 2016



Source: Colliers International

Dynamics of Rent Rates* in Major Cities of Lithuania



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

Rent Rates* for 2016 in Vilnius, Kaunas, Klaipeda and Trends for 2017

REGION	2016	TRENDS FOR 2017
Vilnius	3.8 - 5.2	→→
Kaunas	3.3 - 4.7	→→
Klaipeda	3.2 - 4.5	→→

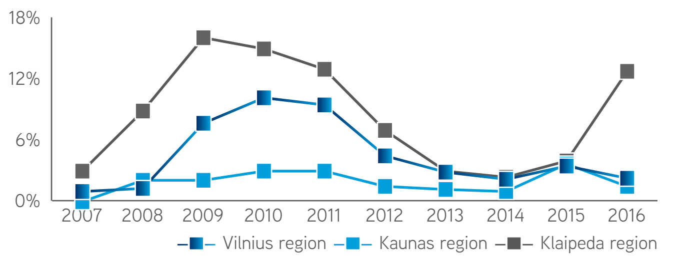
* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable
Source: Colliers International

Vacancy Rates for 2016 and Trends for 2017

REGION	2016	TRENDS FOR 2017
Vilnius	2.3%	→↗
Kaunas	1.5%	→↗
Klaipeda	12.8%	→↘

→↗ - slight increase, →↘ - slight decrease
Source: Colliers International

Dynamics of Vacancy Rates in Major Cities of Lithuania



Source: Colliers International

Tendencies and Forecasts

› The development of built-to-suit objects will continue to prevail in the industrial market as a way to manage the risk of oversupply and meet specific needs of companies.

› Demand for warehouse space will be supported by a continuously improving business environment, a positive economic outlook as well as geographical export diversification, following changes in trade relations with Russia.

› International companies will continue to invest in the establishment of production facilities with storage space in smaller cities due to competitive costs and unexploited potential.

› Rent rates are likely to remain stable in Vilnius and Kaunas due to the anticipated large new supply of warehouse space that will prevent the growth of rent rates.

› Next year, vacancy is expected to increase in Vilnius and Kaunas regions following a wave of new supply, although pre-lease agreements will limit growth.

Hotel Market

General Overview

- The Lithuanian tourism sector experienced one more successful year in 2016, demonstrating robust growth in terms of both tourists accommodated and overnight stays (an increase of 10.7% and 7% respectively compared with Q1 - Q3 2015).
- In contrast to 2015, which was dominated by domestic tourists, in Q1 - Q3 2016 this demand faded, with the focus moving to foreigners. In addition, nearly half of the foreigners (49%) visiting Lithuania chose accommodation in hotels in Vilnius.
- International hotel operators remained very active in search of expansion opportunities in the country. This proved to be effective as virtually every new hotel will upon completion start operating under one of the brands (including Hilton and Marriott).
- Despite economic woes and geopolitical tensions, the period Q1 - Q3 2016 saw further growth of the occupancy rate in hotels across the country, with the strongest growth recorded in the resort cities of Druskininkai and Palanga (8.6% and 6.5% growth respectively).
- In 2016, a strong demand for accommodation services along with rising standards of living maintained a moderate upward trend in hotel prices.

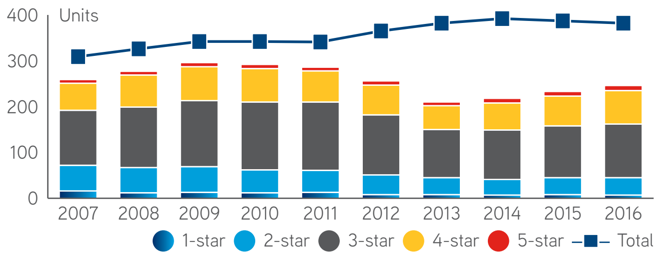
Supply

In 2016, the supply of hotels in Lithuania stood at 382 units, of which only 246 hotels were classified (5.6% growth y-o-y) with the domination of 3-star and 4-star hotels. In the context of political events, the Lithuanian hotel market continued to demonstrate sustainable and balanced growth.

Changes in the hotel supply structure underwent certain adjustments. However, these were more of a qualitative than a quantitative nature (refurbishment, reconstruction, reclassification). This is especially related to hotels in Vilnius, which were strengthening their competitive position in preparation for an upcoming hotel construction outbreak. In addition, a few new hotel openings were recorded in the market, bringing a total of 105 new rooms to major cities throughout the country. Moreover, particularly high activity was observed in the wellness and spa segment of resort cities (the newly opened Atostogu Parkas wellness centre in Palanga, the Upa rehabilitation centre in Druskininkai and the spa centre Vytautas Mineral SPA in Birstonas), which is expected to lead to lower seasonality in these cities along with significant tourism and leisure infrastructure improvements.

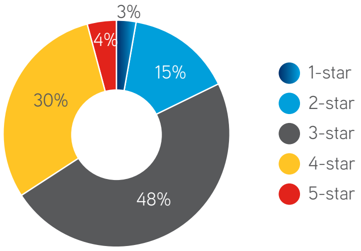
Future prospects for the Lithuanian hotel market in the coming years are promising due to a steadily growing number of tourists, expanding tourist geography and increasing hotel occupancy rates.

Dynamics of Number of Hotels in Lithuania



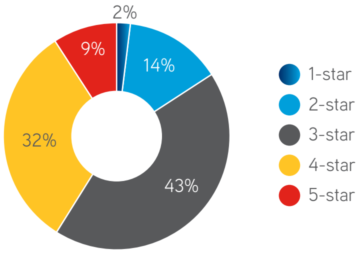
* - including classified and not classified hotels
Source: The Lithuanian Department of Statistics, the Lithuanian Association of Hotels and Restaurants

Distribution of Hotels by Number of Stars in Lithuania in Q3 2016



Source: The Lithuanian Association of Hotels and Restaurants

Distribution of Hotels by Number of Stars in Vilnius in Q3 2016



Source: The Lithuanian Association of Hotels and Restaurants

Number of Classified Hotels and Rooms in Major Cities and Resorts in 2016

STARS	VILNIUS		KAUNAS		KLAIPEDA		SEASIDE RESORT (PALANGA)		WELLNESS RESORT (DRUSKININKAI)	
	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS
5-star	6	557	-	-	-	-	3	186	-	-
4-star	21	1,622	12	720	7	518	8	323	7	439
3-star	28	1,673	8	274	12	353	16	518	12	600
2-star	9	580	3	183	1	144	3	220	1	100
1-star	1	30	-	-	1	22	-	-	-	-
TOTAL	**65**	**4,462**	**23**	**1,177**	**21**	**1,037**	**30**	**1,247**	**20**	**1,139**

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 2016

CITY	STARS	PROJECT NAME	ADDRESS	NUMBER OF ROOMS	OPERATOR
Vilnius	3-star plus	15th Avenue	Gedimino Av. 15/2a	15	Independent
	Not-classified	Artagonist Art Hotel	Pilies St. 34/36	34	Independent
Klaipeda	4-star plus	Michaelson Boutique Hotel	Zveju St. 18A	16	Independent
	3-star	Smiltyne Yacht Club Hotel	Smiltynes St. 25	40	Independent
TOTAL				**105**	

Source: Colliers International

In the next few years, the Vilnius hotel market is expected to experience the highest ever growth. Although 2017 will not bring any big surprises for the market (the budget class 92-room Loop Hotel and the luxury 105-room Archer Mansion Hotel are scheduled for completion), subsequent years will stand out with an impressive number of new hotel openings (completion of some 10 new hotels with over 1,400 rooms is planned, representing market growth of more than a third).

Hotel market development in Kaunas will remain measured, with great growth potential in the future due to the generally improving business climate of Kaunas city. Currently, one hotel project is under development - the economy class 53-room Airhotel next to Kaunas Airport - and numerous new ones are expected in subsequent years along with the rapidly evolving office market. Meanwhile, expansion of the 3-star Smiltynes Yacht Club hotel in Klaipeda with an additional 25 guest apartments will likely bring to the market one more year of stable growth.

Existing international hotel operators will have every opportunity to expand, and new ones to enter the market, including the resort cities (planned Radisson Blu Hotel & Spa Nida Marina in Nida, Marriott brand Hotel & Spa in Palanga).

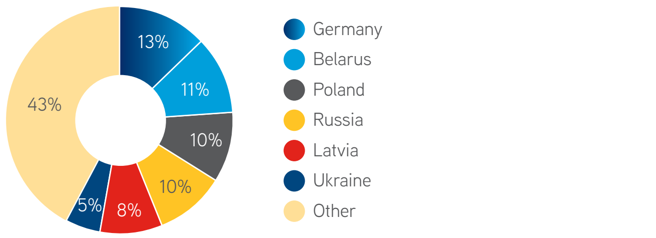
Demand

During Q1 - Q3 2016, the number of tourists accommodated in Lithuanian hotels amounted to 1.6 million, i.e. an 8.4% increase compared with the same period in 2015. Among major cities, Kaunas showed the greatest growth in tourist flow (a 14.7% increase). Vilnius stood out with sustainable growth (a 5% increase), mainly supported by growth in the number of foreigners, while Klaipeda managed to restore tourism growth (a 4.5 increase) fuelled by strong growth in domestic demand.

In Q1 - Q3 2016, the length of foreigners' stay in Lithuanian hotels remained unchanged and was still longer (1.92 days) compared to Lithuanians (1.75 days), whose stay per year has shrunk even more.

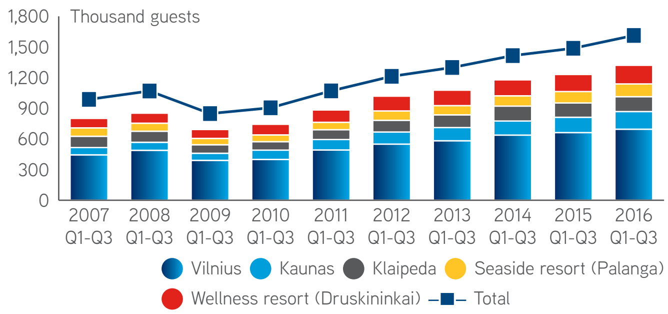
The top five countries in terms of the highest number of tourists visiting Lithuania during Q1 - Q3 2016 remained the same, though lined up in the following sequence: Germany - 156.5 thousand (+2.9%), Belarus - 128.0 thousand (+8.2%), Poland - 122.5 thousand (+19.2%), Russia - 116.5 thousand (-1.3%) and Latvia - 103.2 thousand (+16.5%). Travel from Russia continued to maintain a downward trend. However, the economic situation in Russia has not been getting worse after a deep recession the previous year with devaluation of the rouble and low oil prices, which is considered to be positive as it allows an expectation of a stabilized number of Russian tourists in the short-term.

Distribution of Foreign Visitors by Country in Hotels in Lithuania in Q3 2016



Source: The Lithuanian Department of Statistics

Dynamics of Visitors in Hotels of Major Cities and Resorts



Source: The Lithuanian Department of Statistics

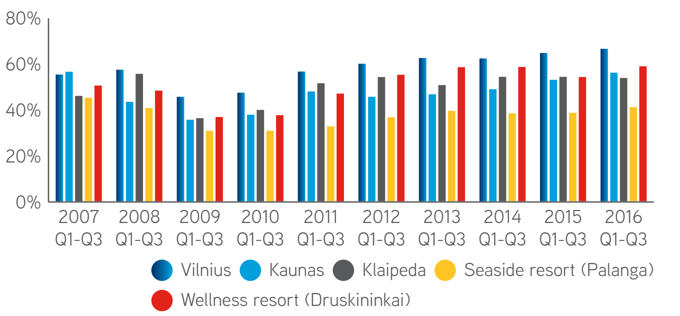
Prices and Occupancy

Although the situation globally remained vague due to Brexit, which increased uncertainty at the European level and may slow down the Eurozone economy in the coming years, hotels in Lithuania demonstrated sustainable growth.

In 2016, strong demand for accommodation services in Lithuania along with rising standards of living maintained a moderate upward trend in hotel prices with the most notable changes in the 3 - 4-star hotel segment.

The average occupancy rate in Lithuanian hotels also grew, amounting to 53% in Q1 - Q3 2016 (a 3.5% increase compared with the same period in 2015). As before, the highest occupancy rate was recorded in Vilnius hotels, standing at 67% (a 2.7% increase). Meanwhile, a strong demand for accommodation in the Kaunas hotel market set a new post-crisis record of 56.6% (a 5.8% increase). However, the strongest occupancy growth was recorded in the resort cities of Druskininkai and Palanga (8.6% and 6.5% increase respectively). Tourism growth in these resorts was one of the highest across the country, driven by strong foreign demand.

Occupancy Rate of Rooms in Major Cities and Resorts



Source: The Lithuanian Department of Statistics

Price Range* for Double Standard Hotel Rooms in 2016

STARS	2016			TRENDS FOR 2017
	VILNIUS	KAUNAS	KLAIPEDA	
5-star	85 - 250	-	-	→↗
4-star	70 - 131	50 - 85	52 - 110	→↗
3-star	35 - 103	30 - 52	45 - 65	→↗
2-star	30 - 65	32 - 48	33 - 49	→↗

* - room rate range, EUR
→↗ - slight increase
Source: Colliers International

Tendencies and Forecasts

› Despite the ongoing recovery of the Eurozone economy, decreased oil prices and favourable exchange rates that encourage travel in Europe, issues of tourism safety and tourism security will raise serious concerns, influencing tourism development in the region in the coming years.

› The growth of foreign tourists due to turmoil in Turkey, Egypt, and other countries, constantly improving accessibility by air transport as well as further growth of the conference market and actively executed marketing activities will remain the main factors determining the growth of tourism in Lithuania over the next few years.

› In the coming years, the Vilnius hotel market will experience its biggest ever market growth, supported by 10 or more new hotel developments (over 1,600 rooms). Existing international hotel operators will have every opportunity to expand, and new ones to enter the market.

› Based on the country's macroeconomic forecasts, country-related specifics (sports and other entertainment events, an improving business climate) and tourism development prospects, we expect the general dynamics of the occupancy rate in hotels as well as hotel room prices in Lithuania to remain flat or to grow slightly in 2017.

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 event 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 sale-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 (eg, property co-owners, if any) the opportunity to acquire the property under their right of first refusal (pre-emptive right) by exercising that right under the same conditions as agreed with the potential buyer.

3. In the event of price settlement through a notary or bank escrow (deposit) account, simultaneously with concluding the final sale-purchase agreement, the parties also 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 the real estate to be acquired in the future.

5. The parties sign the asset sale-purchase agreement, which must be certificated by a notary public. Non-compliance with this requirement of form makes an asset transfer deal invalid.

6. After signature and notarisation of the sale-purchase agreement, title to the property transferred should be registered with the Real Estate Register in the new owner's name. Registration is carried out through the notary public who certified the transaction. The costs of notarisation and registration of an asset transfer deal with the Real Estate Register are paid additionally and marginally increase the transaction costs.

7. According to existing practice, notary public 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 Real Estate Register.

A regular asset 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 - 4 months.

The notary fee amounts to 0.45% of the real estate transaction value, capped at EUR 5,792 for transactions that involve one real estate object and at EUR 14,481 for transactions involving two or more real estate objects.

State duty for registration of title to real estate is calculated separately for each real estate object transferred or acquired and depends on the average market value of the real estate. State duty varies from EUR 3 to EUR 1,448 per object.

Key Issues Involved

› Asset deals from 2015 stopped being much more expensive than share deals, as share deals now also involve notary public and additional related fees;

› Lithuanian law entitles a tenant of the property to terminate the lease on change of ownership of leased property; in practice this issue is tackled by collecting termination 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 the 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 asset of the target; moreover, asset deals are more tax-transparent from the due diligence perspective;

› When concluding asset deals, potential VAT liabilities, including both taxation of the transfer itself and the potential obligation to adjust historical VAT liabilities, should be carefully considered.

Share Transfer Deals

Main Steps

1. In the event of a larger transaction, a letter of intent, preliminary sale-purchase agreement or similar pre-contractual arrangement is entered into before signing the main share sale-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 sale-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 sale-purchase agreement, although before completion of the transaction.

3. It should be noted that a share sale-purchase agreement needs to be notarised when more than 25% 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 non-mandatory only if the accounting of shares is performed following the rules and procedures of Lithuanian law on the securities market. Currently, investors circumvent the notarial form requirement by switching to 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.

Costs of switching to a double-tier accounting of shares are not fixed by law but are slightly lower than notarial fees.

5. Once the parties reach agreement on the transaction, the share sale-purchase agreement is signed and certified by a public notary (when applicable). The notarial fee for certifying

share sale-purchase agreement amounts to 0.4 - 0.5% of transaction value and is capped at EUR 5,792. For transactions involving transfer of shares of two or more companies, the notarial fee (when applicable) is capped at EUR 14,481.

6. When less than 100% of shares is acquired, waivers from the other shareholders (ie, those not selling their shares) regarding their right of first refusal (pre-emptive right) to acquire the shares to be sold by the selling shareholder have to be obtained. These waivers are collected before signing the share sale-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% 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 sale-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 (for non-certificated shares). If certificated shares are transferred, then entries evidencing the transfer (endorsements) are made on the share certificates. A new list of shareholders should be filed with the Register of Legal Entities.

Issues to Consider

- A share deal, if notarial certification is applicable, involves notarial fees, but no 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. A 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.
- A share subscription agreement must also be in written form and certified by a notary public 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 may apply.
- 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 if it is to 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. The rules and requirements for registration of data with the Real Estate Register are the same throughout Lithuania. An application for registration of real estate and related rights should be filed by the acquirer. The application should be accompanied by documents evidencing transfer of the title to the real estate, such as a notarised sale-purchase agreement or donation agreement.

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. If the seller does not own the land plot on which the building stands, the seller may sell the building only with prior consent of the land owner.

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

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

Share transfer transactions must also be in written form. Share transfer transactions require notarial form only in certain cases, such as when more than 25% of shares is transferred or the price of the share transfer exceeds EUR 14,500 (for possible exemption please see above).

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 public or registration with the public register, it must be also in Lithuanian and the Lithuanian language document as a rule prevails.

Due Diligence

Legal due diligence of target real estate is strongly recommended. This includes, eg, title, encumbrances, third party rights, zoning and planning issues, existing lease agreements - all information including material facts related to real estate. 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 allocation, verification of purchase price, plus 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 a 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.

As a general principle, if a seller of real estate fails to comply with an existing right of first refusal, the person who enjoyed the right of first refusal may apply to the court for an order transferring the rights and obligations of the buyer within the statutory limitation period.

Typical Purchase Price Arrangements

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, inland/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% of votes) hold more than 25% of the votes in an entity; (iii) legal persons in which the same person has more than 25% of the votes. Besides the 500 ha limit, for acquisition of agricultural land additional conditions apply (eg, three years' experience in agriculture, declaration of agricultural land and crops).

If the European and Transatlantic Integration criteria stipulated in Constitutional Law are met, investments in land (including agricultural, forestry and inland waters) for foreign natural or legal persons 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.

If these criteria are not met, foreign entities are not entitled to acquire land, inland waters and forest as owners; they are entitled to use and possess such real estate on some other basis, eg, rent.

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 (for foreign entities - received from the Lithuanian market) 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 (for foreign entities - received from the Lithuanian market) is more than EUR 1.45 million for the financial year preceding concentration.

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. These encumbrances should be taken into consideration when using or constructing real estate.

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 it has to be notarised. A mortgage contract comes into effect between the parties at the moment of signing, unless otherwise specified in the mortgage contract. The mortgage contract may be invoked against third parties only upon its subsequent registration with the Mortgage Register.

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

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

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 aspects and lease terms. A 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 a standard for "A" class offices.

Aušra Mudėnaitė

Partner, Co-Head of Real Estate & Construction Team
Sorainen Lithuania
Jogailos Street 4, LT-01116 Vilnius, Lithuania
Phone +370 52 430 566
ausra.mudenaite@sorainen.com

Kęstutis Adamonis

Partner, Head of Real Estate & Construction Team in the Baltics and Belarus
Sorainen Lithuania
Jogailos Street 4, LT-01116 Vilnius, Lithuania
Phone +370 52 649 320
kestutis.adamonis@sorainen.com

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.

Corporate Income Tax System

The standard 15% 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. Nonresident 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% 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%, 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% 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% 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% 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%.

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

Personal Income Tax (PIT): For local and foreign individuals income from rent of real estate located in Lithuania is subject to 15% PIT on gross income. 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 straightforward. Separate tax aspects applicable to a direct disposal of real estate are described below.

Value Added Tax (VAT): According to the general rule, sale of new buildings (in use for less than 24 months after their completion), unfinished buildings, building land or land with new buildings is subject to VAT at the standard rate of 21%. Sale of buildings 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 organizations 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% 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% WHT. A foreign entity may submit a specific request to the Lithuanian Tax Authority and achieve re-calculation of WHT on the capital gains only (instead of on total sales proceeds).

Personal Income Tax (PIT): For local and foreign individuals sale of real estate located in Lithuania is subject to 15% PIT, unless certain exemptions apply. 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 recalculation of tax to the Lithuanian Tax Authority, since initially the tax is calculated on the gross proceeds).

Land Lease Tax

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

Real Estate Tax

Real Estate Tax (RET) applies on buildings/premises owned by companies and individuals. The tax rate may vary from 0.3% to 3% depending on municipalities. In Vilnius, the RET rate established for 2017 is 1%. Residential and other personal premises of individuals are exempt from tax where the total ownership value of EUR 220,000 is not exceeded, whereas the excess value is subject to 0.5% RET. 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%.

Donatas Kapitanovas

Senior Manager, Tax Services
Ernst & Young Baltic UAB
Subaciaus Street 7, LT-01302 Vilnius, Lithuania
Phone +370 5 274 2200
Donatas.Kapitanovas@lt.ey.com
http://www.ey.com

Estonia Market Overview

Refresh the Lessons Learned

Avo Roomussaar

Managing Partner
avo.roomussaar@colliers.com

For the sixth year in succession, we at Colliers International, mark positive changes in the commercial real estate market in Estonia. All sectors continued to show positive results in 2016, seeing high development activity and buoyant demand.

The number of completed projects as well as projects under construction continued to trend upwards in 2016. Compared to 2015, total retail and office stock increased by 7 per cent and 8 per cent respectively, while industrial stock saw a 15 per cent increase. New industrial supply delivered to the market in 2016 almost approached the record established in 2007.

The investment market, one of the major indicators of the health of the real estate market, remained active in 2016 after a record-breaking 2015, with investment volume exceeding EUR 420 million (second best result so far) and yields remaining under a continuous compression.

Although the appetite for new space has been strong so far, with new buildings enjoying a pretty good occupancy rate, signs of possible market saturation and oversupply are starting to become noticeable - the number of enquiries for commercial space showed a somewhat downward trend in 2016. Upward movement in vacancy levels was noted in older office buildings and smaller shopping centres. The gap between the lower and upper margins of asking rents continued to widen throughout the year, a trend expected to continue in 2017.

Additionally, modest economic growth in Estonia together with high supply of new commercial space and thus tightening competition in all segments continue also to dampen property market. Tenants decisions about new openings are taking longer and requiring more thought before acting.

In 2017, signs of possible market saturation and oversupply may start to become even more noticeable due to plenty of quality commercial accommodation on the market and a high development pipeline. The market needs a considerable share of new demand coming from outside to avoid a growing supply-demand imbalance.

The current fast pace of development completions puts tenants (mostly lager ones) in a more powerful negotiating position. Occupants are much more aware of market trends and therefore more self-confident in expressing their needs and negotiating rent prices.

We expect market players to approach the market in 2017 in a rational and realistic manner to ensure maximum chance of sustainable success. In 2017, it will become more important for landlords to keep current tenants and be flexible on pricing.

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 2017.

Sincerely,

Avo Roomussaar

Economic Overview

Summary

2016 saw a slow but steady growth of the GDP by 1.6% y-o-y. In 2016, Estonian GDP growth was most influenced by value added generated in the economic activities of trade, information and communication as well as transportation.

Private consumption expenditure increased annually by 4% in 2016 as higher real wages and low inflation continued to support consumption.

In 2016, retail sales continued to grow in Estonia compared with the corresponding period in the previous year. The turnover of retail trade enterprises reached EUR 6.3 billion in 2016, equivalent to growth of 4% at constant prices compared with 2015.

Foreign trade increased again after three years of decline. In 2016, exports (EUR 11.9 billion) increased by 2.7% and imports (EUR 13.5 billion) by 3% compared to 2015. Export growth was most influenced by increased exports of mechanical machinery, electrical equipment and wood and articles of wood.

In 2016, production of industrial enterprises rose by 2.3% compared to 2015, while manufacturing showed a 2.1% increase during the same period.

Falling prices in the first half of the year meant that average inflation (CPI) in Estonia remained close to zero at 0.1% in 2016. After a decline over more than two years, consumer prices in Estonia turned to increase in August 2016, driven by higher excise rates and disappearance of the impact of the large drop in energy prices.

In 2016, the unemployment rate averaged 6.8% in Estonia. In 2016, the unemployment rate was higher than in 2015 (when it was 6.2%) as the labour market participation rate rose due to work ability reform, while the employment rate fell.

Improvements in the economic climate, GDP and employment in 2011 - 2016 inflated consumption and growth in gross wages. In 2016, the average monthly gross wage reached EUR 1,146, indicating a 7.6% y-o-y increase, while real wages increased 7.5% during the same period (real wages increased for the twenty-second quarter in succession).

Forecasts

- Due to gradual improvement in foreign demand, Estonian economic growth is expected to accelerate modestly in the future, up to 2.6% in 2017 and 3% in 2018 respectively, according to Bank of Estonia forecasts.
- Private consumption is expected to continue growing by ca 2.7 - 3.1% in 2017 - 2018. The private consumption expenditure levels of 2007 are expected to be met once more by 2017.
- Consumer price growth is expected to remain moderate in Estonia in the coming years, although growing up to 2.8 - 3% in 2017 and 2018, according to the Ministry of Finance and Bank of Estonia.
- According to a Bank of Estonia forecast, the unemployment rate will stay above 8% in 2017, even growing to 9.8% in 2018.
- According to Ministry of Finance forecasts, average nominal monthly gross wages and salaries in Estonia will continue to grow by more than 5% per annum on average during 2017 - 2018.

Key Economic Indicators of Estonia

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F
GDP Current Prices, EUR billion	16.2	16.5	14.1	14.7	16.7	17.9	18.9	19.8	20.3	20.9	21.7
GDP Growth (real), % yoy	7.7	-5.4	-14.7	2.3	7.6	4.3	1.4	2.8	1.4	1.6	2.6
Industrial Production, % yoy	6.4	-4.6	-24.0	22.7	19.8	1.5	2.9	1.9	-2.2	2.3	2.2
Unemployment Rate, % avg	4.6	5.4	13.6	16.7	12.3	10.0	8.6	7.4	6.2	6.8	7.6
Average Monthly Gross Wages Growth, %	20.6	13.8	-5.0	1.1	5.9	5.7	7.0	5.9	6.0	7.6	5.0
Total Central Government Debt, % of GDP	3.7	4.5	7.0	6.6	6.1	9.7	10.2	10.7	10.1	9.4	10.3
HICP, % yoy	6.7	10.6	0.2	2.7	5.1	4.2	3.2	0.5	0.1	0.8	2.9
CPI, % yoy	6.6	10.4	-0.1	3.0	5.0	3.9	2.8	-0.1	-0.5	0.1	1.6
Fiscal Deficit, % of GDP	2.7	-2.7	-2.2	0.2	1.2	-0.3	-0.1	0.7	0.1	0.3	-0.4
Export, EUR billion	8.0	8.5	6.5	8.7	12.0	12.5	12.3	12.0	11.6	11.9	12.2
Import, EUR billion	11.4	10.9	7.3	9.3	12.7	14.1	13.9	13.8	13.1	13.5	13.8
Current Account, % of GDP	-15.1	-8.7	2.5	1.8	1.3	-2.4	-0.1	1.0	2.2	2.2	1.5
FDI, EUR billion	1.69	1.25	1.32	1.14	0.72	1.22	0.56	0.46	0.12	0.41	n/a

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

Investment Market

General Overview

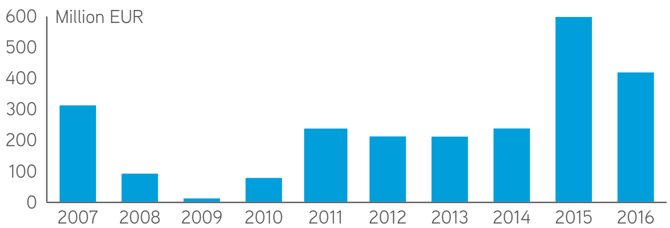
- Total investment volume in 2016 amounted to EUR 420 million.
- Investment activity in 2016 was driven by several large single deals and portfolio sales.
- The office segment remained the most favoured choice by investors, attracting 38% of total volume in 2016, followed by the retail segment (32%).
- Mostly the same players continued to dominate the Estonian investment market in 2016.
- Yield compression of 15 - 25 bps was recorded in Estonia in 2016.

Investment Volumes

Total investment volume in 2016 amounted to EUR 420 million. Investment activity in 2016 was driven by several large single deals and portfolio sales, including the acquisition of Mustamäe Centre, the Vesse retail park, the Magistral shopping centre, the Hilton Hotel, the EU office building and Estconde office buildings and purchase of the Geneba portfolio and the DSV logistics centres portfolio.

Mostly the same players continued to dominate the Estonian investment market in 2016. Nordic capital was responsible for almost one third of acquisitions, while foreign capital in total was behind more than 65% of invested volume in 2016. Domestic spend was responsible for almost one third of acquisitions in 2016. The share of TOP3 investors - East Capital, EfTEN Capital, Northern Horizon - amounted to almost half of total investment volume in 2016.

Dynamics of Investment Volume in Estonia



Source: Colliers International

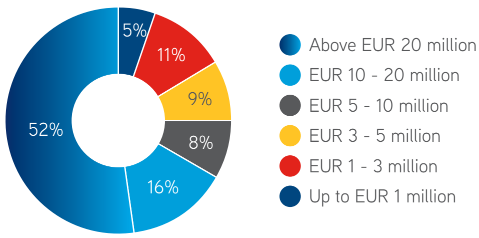
Average transaction size across the market as a whole was EUR 4.6 million in 2016 (compared with EUR 6.2 million in 2015). Ca 67% of total volume in 2016 consisted of deals above the EUR 10 million threshold. At the same time, approx 82% of the total number of transactions in 2016 in Estonia were deals of less than EUR 5 million.

Investment Properties

Investment activity in Estonia remained quite intense during the first half of 2016, driven by investment activity in the retail segment. The most notable deals in Estonia at the beginning of the year included the sale of the newly constructed Mustamäe Centre for EUR 27.5 million and yield estimated around 8% and Vesse retail park for EUR 30.9 million to East Capital. In February, EfTEN Capital acquired Magistral shopping centre in Tallinn from Citycon for EUR 24 million and yield estimated around 8%.

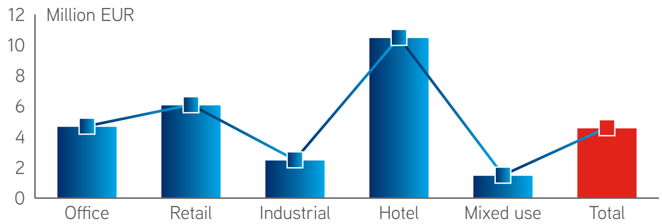
In December, Northern Horizon Capital acquired the newly reconstructed Pirita shopping centre in Tallinn priced at EUR 12.2 million and yield estimated at approx 7.4%. Overall, investment in retail property accounted for approx 32% of transaction volume in Estonia in 2016.

Investment Turnover by Size in 2016



Source: Colliers International

Average Transaction Size by Sector in 2016



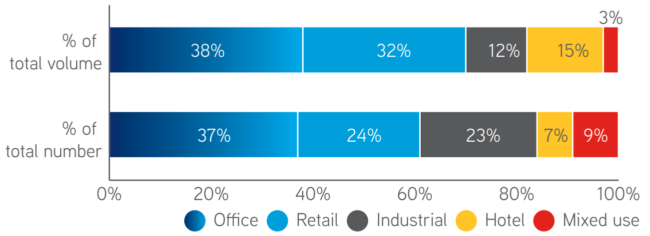
Source: Colliers International

Top 5 Investment Deals in Estonia in 2016

NO.	PROPERTY NAME	SECTOR	GBA, SQM	INVESTOR
1.	Hilton Hotel	Hotel	23,450	East Capital
2.	Geneba portfolio	Office	30,160	Laurus
3.	Vesse Retail Park	Retail	23,800	East Capital
4.	EU House	Office	12,300	Lords LB
5.	Mustamäe Centre	Retail	19,500	East Capital

Source: Colliers International

Investment Turnover by Sector in 2016



Source: Colliers International

Although in 2016 all asset classes remained in the focus of interest, the office segment attracted the biggest share of investment (38%), up from 29% in 2015, being the main investment activity driver in the second half of the year. In March, Laurus, a joint venture established between Partners Group and Northern Horizon Capital, acquired from Geneba a portfolio of 42 commercial properties located across all three Baltic States. In Estonia, the Geneba portfolio comprises nine assets across the country, including the SEB bank HQ in Tallinn.

In November, Lords LB acquired the EU House office building (9,670 sqm) located in the centre of Tallinn at a price of over EUR 30 million. In December, Kawe bought from Estconde two office buildings with a car park (24,360 sqm in total) located at Pärnu Road 158 in Tallinn. Other notable deals in the office segment in 2HY 2016 included the sale of the G4S HQ to Baltic Horizon with yield estimated around 7.5% and the sale of the Scala City business centre and Metalli Maja office building in Tallinn to Italian investors.

At EUR 52 million, investment in the industrial/warehouse property segment accounted for 12% of total volume (up from 9% in 2015). One of the most notable deals in the industrial segment in 2016 was acquisition with a sale-and-leaseback transaction of three DSV logistics centres in Tallinn, Riga and Vilnius by EfTEN Capital. In Estonia, EfTEN acquired ca 16,000 sqm of logistic, terminal and office space from DSV. Additionally, Q2 2016 saw the sale of two assets in Tänassilma Industrial Park and two StockOffice projects in Tallinn, while in November, United Real Estate Fund acquired DPD logistics centre in Rae municipality.

The share of total volume invested in hotels amounted to 15% in 2016. In July, East Capital acquired the Hilton Hotel for EUR 48 million (the largest single deal of the year). The Hilton Tallinn Park Hotel and Olympic Park Casino opened in June 2016.

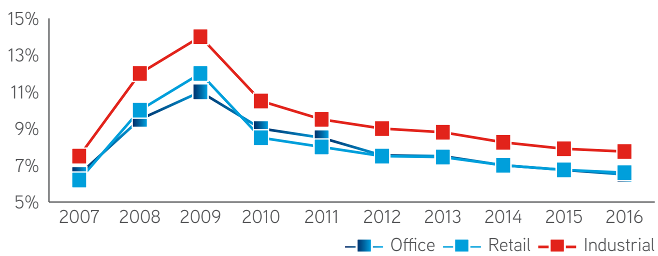
Investment Yields

Prime yields remain under pressure as supply of assets remains scarce. By end-2016, prime office yield compressed by 15 - 25 bps, while prime retail and industrial yield compressed by 5 - 15 bps. At the beginning of 2017, prime office yields and retail yields for best in class products are expected to produce 6.4 - 6.6%, while truly prime warehouse asset yields are expected to produce 7.75 - 7.8%.

As a result of low interest rates and a large amount of equity capital available, pressure for additional yield compression remains. However, together with lowering yields, risks related to exit strategy have become higher, resulting in prolongation of the holding period. As rent income growth is expected to be rather modest during upcoming years, not much room remains for additional yield compression.

Several larger investors have announced that they will not go along with the yield rally and will look for alternative investment options instead.

Prime Yield Dynamics in Tallinn



Source: Colliers International

Tendencies and Forecasts

> In 2017, the investment market is expected to remain active as most investors have capital available and are constantly looking for good quality cash flow properties.

> After a record-breaking 2015 and active 2016, Colliers foresees transaction volume in 2017 amounting to EUR 350 - 400 million in total and thus, almost reaching figures comparable to the previous year's results.

> Total investment volume in 2017 will heavily depend on the number of large lot size deals. Closing of two-three deals above the EUR 30 million threshold will make a notable contribution to the year's sales volumes.

> Smaller local players have capital available and are continuously searching for possibilities to invest, making the total number of market participants remarkably higher.

> Sector-wise, the office and retail sectors will remain the most favoured by investors, international and local alike.

> Compressing yields in the office and retail segments may enhance the attractiveness of industrial/logistic real estate for investors.

> Prime yields remain under pressure as supply of assets remains scarce. At the same time, prime yields are not expected to compress during 2017 as much as in 2016.

> Several larger investors have announced that they will not go along with the yield rally and will look for alternative investment options instead.

> Bank lending rates are expected to remain continually low over the next two years.

> Larger investors will continue to look for alternative investment options in the development segment plus suitable investment opportunities in Latvia and Lithuania as well as outside the Baltic region.

Office Market

General Overview

- The office market has continued to demonstrate consistent activity in Tallinn during the last four years, resulting in buoyant demand and high development activity.
- By end-2016, estimated total stock (speculative + built-to-suit) of modern office facilities was approx 810,000 sqm. New total supply delivered to the market in 2016 reached 48,400 sqm.
- In 2016, rent rates for properties in good locations remained more or less stable compared to 2015, although the gap between the lower and upper margins of asking rents continued to widen throughout the year.
- In 2016, vacancy in the CBD area as well as in Class A office buildings somewhat increased as quite a few larger premises remained available for lease throughout the year. The vacancy rate in Tallinn also showed a somewhat upward trend in Class B1 office buildings, driven by increasing supply.
- Although demand continued to remain stable, the number of enquiries for office space showed a somewhat downward trend.

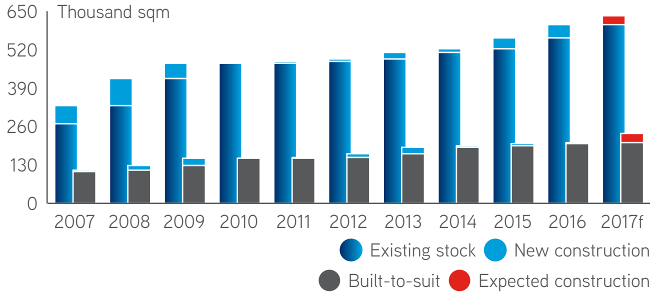
Supply

Approximately 45,000 sqm of new speculative office space was delivered to the market in 2016, bringing total speculative office stock to 604,500 sqm. The number of completed projects as well as projects under construction continued to trend upwards in 2016. Thus, compared to the previous year, the volume of completions increased by 22%.

The office development market continued its positive momentum throughout 2016. Q1 2016 saw the completion of Explorer, a 6-storey office building with a floor area of approximately 5,000 sqm in Tallinn harbour area.

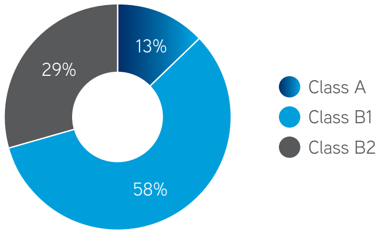
Overall, the year saw completion of several new office development projects in Tallinn. These includes the Öpik Building with GLA 14,755 sqm in Ülemiste City, Novira Plaza (4,300 sqm), Büroo 83 Office Building (4,300 sqm), Pärnu 18 Business Centre and expansion of Ülemiste BC (+4,300 sqm), while development of R2 and R14 projects added ca 5,500 sqm of office space to the market in Rotermann Quarter. The majority of new supply entered the market in Q4 2016.

Dynamics of Office Space in Tallinn



f - forecast
Source: Colliers International

Distribution of Speculative Office Space in Tallinn by Class in 2016



Source: Colliers International

In addition, several refurbishment and retrofitting projects (e.g. the Kompassi Maja at Tartu road 13 and the Centennial Business Centre at Endla 15) were completed in 2016, resulting in additional growth in the choice and quality of office space in Tallinn.

As seen from the number of cranes on the horizon, office development remains in full swing in Tallinn with a total area of approx 124,000 sqm of speculative and built-to-suit space under construction as of the beginning of 2017.

2017 will see the completion of several new speculative and built-to-suit office development projects started in 2015 and 2016, including a 14-storey office building for Telia Eesti at Mustamäe tee 3; Lutheri Business House (redevelopment project in the City Centre) that will host Äripäev, the business newspaper; Töökoja 2 Office Building in City Centre that will be occupied by companies providing healthcare services; and Tehnopol2kv Office Building with GLA 7,340 sqm located in Tallinn Science Park Tehnopol.

Completed Office Projects in Tallinn in 2016

PROJECT	ADDRESS	TYPE	DEVELOPER
Explorer Office Building	Kai 1	Speculative, A	Capital Mill
R14, Rotermann Quarter	Rotermanni 6a/14/16	Speculative, A	Dollimar Invest
R2, Rotermann Quarter	Rotermanni 2/4	Speculative, B1	Gastorfa
Novira Plaza	Tartu Road 25	Speculative, A	Novira Capital
Büroo 83 Office Building	Tartu Road 83	Speculative, B1	Novira Capital
Centennial, redevelopment	Endla 15	Speculative, B1	Numeral Endla
Öpik Building	Valukoja 8, Ülemiste City	Speculative, B1	Mainor Ülemiste
Ülemiste Business Centre, expansion	Peterburi tee 2f	Speculative, B1	Ülemiste Ärimaja
Kompassi Maja, redevelopment	Tartu Road 13	Speculative, B1	Tartu Invest
Tiskre Business Centre	Rannamõisa tee 38d	Speculative, B1	Tiskre Ärimaja
TOTAL GLA, SQM		**45,000**	

Source: Colliers International

New Office Projects Under Construction in Tallinn

PROJECT	ADDRESS	TYPE	DEVELOPER	OPENING YEAR
Telia Eesti Office Building	Mustamäe tee 3	Built-to-suit	Polaria Kinnisvara	2017
Lutheri Business House	Vana-Lõuna 39	Built-to-suit/Speculative	Lutheri Ärimaja	
Töökoja 2 Office Building	Töökoja 2	Built-to-suit/Speculative	Veerenni Tervisekeskus	
Tehnopol2kv Office Building	Mäealuse 2/2	Built-to-suit/Speculative	Tehnopol	
R18, Rotermann Quarter	Rotermanni 18	Speculative	Dollimar Invest	
Zenith Business Centre	Narva Road 7b	Speculative	NG Eesti	2017/2018
Laev	Paldiski 96	Speculative	Al Mare Estate	2017
Roseni 11	Roseni 11	Built-to-suit/Speculative	Lugosta	
Joint Four-Ministry Building	Suur-Ameerika 1	Built-to-suit	RKAS (State Real Estate Ltd)	
Järvevana 7b Office Building	Järvevana 7b	Speculative	Hepsor	
Flora Maja, C	Tulika 19	Speculative	Lumi Capital	
Maakri Quarter	Maakri 19/21	Speculative	Maakri Kvartal	2018
Pärnu Rd 22 Business House	Pärnu Road 22/24	Speculative	Pärnu Maantee 22	
Tallinn Court House	Lubja 4	Built-to-suit	RKAS (State Real Estate Ltd)	
Lõõtsa 12 Office Building	Lõõtsa 12, Ülemiste City	Speculative	Technopolis Ülemiste	
Öpik Building, 2nd stage	Valukoja 8, Ülemiste City	Speculative	Mainor Ülemiste	
TOTAL GLA, SQM			**123,800**	

Source: Colliers International

Technopolis Ülemiste started construction works on the Lõõtsa 12 Office Building in Ülemiste City at the end of 2016. The 13-storey building, which will house 9,000 sqm of office premises, is due for completion in 2018. Mainor Ülemiste is also planning to start construction work on the Öpik B Building in Ülemiste City in 2017.

The supply of office premises will grow considerably in CBD in the coming years. For example, NG Eesti started construction works on an eight-storey commercial and office building at Narva Rd 7b, with planned completion at the end of 2017, while development of a new commercial-residential complex in Rotermann Quarter will add ca 1,600 sqm of office space to CBD in fall 2017. Additionally, planned expansion of Rävala 2 Office Building by 2,400 sqm should start in spring 2017 in CBD and is due for completion by end-2017.

Positive sentiment in the office market encouraged developers to initiate new projects, including some large-scale developments. Thus, 2016 saw the start of the Maakri 19/21 Office Building - large-scale project with approx 18,300 sqm of Class A office space. The project is due for completion in CBD in 2018.

By the end of 2016, Class A premises accounted for approx 13% (77,540 sqm) of the total stock of speculative (not built-to-suit) office buildings in Tallinn, Class B1 for 58% (350,260 sqm), and Class B2 for 29% (176,700 sqm) of total stock.

Demand

Leasing activity remained reasonably active in 2016. The highest contribution to take-up volume in 2016 came from the professional, scientific and technical services sector (23%, including ABB SSC) followed by the finance and insurance sector (15%), the wholesale and retail trade sector (15%) and companies in the information (IT and High Tech companies) and communications sector (15%).

In 2016, Swiss multinational industrial group ABB became the anchor tenant in the newly constructed Öpik Building in Ülemiste City. The new ABB Shared Service Centre will provide financial and accounting services to ABB's Northern European clients.

The finance and insurance sector also made a notable contribution in take-up in 2016. For example, Compensa Vienna Insurance Group occupied approx 1,200 sqm in the new Kadriorg Business Centre, Versobank moved to a new location in June, occupying two floors in Eesti Loto Maja, while Pohjola Bank is moving to new premises in Maakri Quarter in 2018.

Smaller office premises with area up to 100 sqm were continuously in high demand in 2016, while interest in larger Class B2 premises remained modest. Most new buildings are occupied either by IT-related companies needing additional space or notaries, lawyers and accounting companies looking for 100 - 150 sqm premises and more contemporary solutions.

Although quite many tenants are indicating interest in relocation and looking for new premises, monitoring alternative potential options can rather be used as a market reference for getting better lease terms for renewing existing agreements.

Rent Rates and Vacancy

In 2016, rent rates for properties in a good location remained more or less stable compared to 2015 (13.0 - 16.2 EUR/sqm/month for Class A premises and 8.5 - 13.0 EUR/sqm/month for Class B1 premises), although the gap between the lower and upper margins of asking rents continued to widen.

Thus, 1HY 2016 saw a slight decrease in the lower margin of rent rates for Class B1 premises. At the same time, the upper margin of asking rents for Class A premises showed an upward trend in Q2 - Q3 2016.

Very good offers were and will be continuously made for large tenants occupying an area around 1,000 sqm or more, while smaller companies get better rental offers rather in somewhat older office buildings.

Although the appetite for new space has been strong so far, with new office buildings enjoying a pretty good occupancy rate, signs of possible market saturation and oversupply are starting to become noticeable. Occupants are much more aware of market trends and therefore more self-confident in expressing their needs and negotiating rent prices.

In 2016, vacancy in CBD area office buildings as well as in Class A office buildings has somewhat increased as quite a few larger premises were available for lease in the first half of the year. The vacancy rate in Tallinn also showed a somewhat upward trend in Class B1 office buildings, driven by increasing supply.

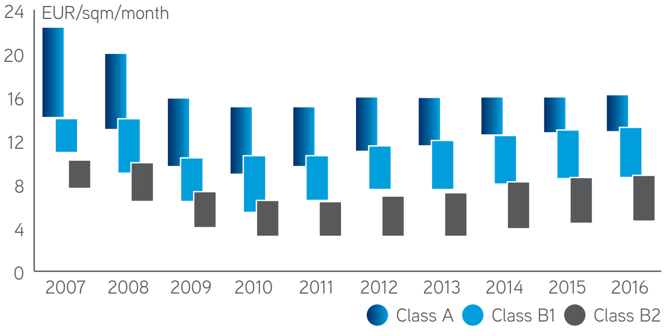
By end-2016, the vacancy rate of Class A buildings is estimated at 4.8% in Tallinn. The vacancy rate for Class B1 buildings stays around 7% in Tallinn, and the corresponding number for Class B2 offices remains slightly above 11%.

Rent Rates* for 2016 in Tallinn and Trends for 2017

CLASS	2016	TRENDS FOR 2017
A	13.0 - 16.2, up to 19.0	→↗
B1	8.0 - 13.5	→→
B2	4.5 - 8.8	→→

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

Dynamics of Rent Rates* in Tallinn



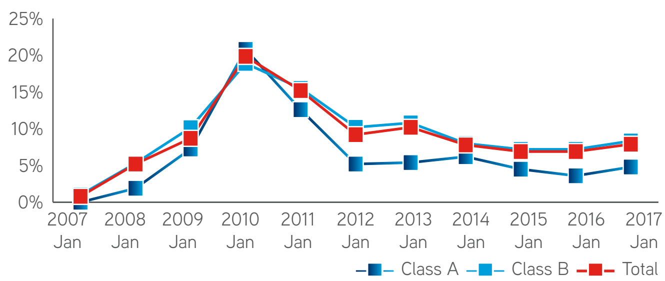
* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
Source: Colliers International

Some noticeable increase in vacancy rates observed in older office buildings occurred due to high new supply and existing occupiers moving within the market (relocation to better premises).

Tendencies and Forecasts

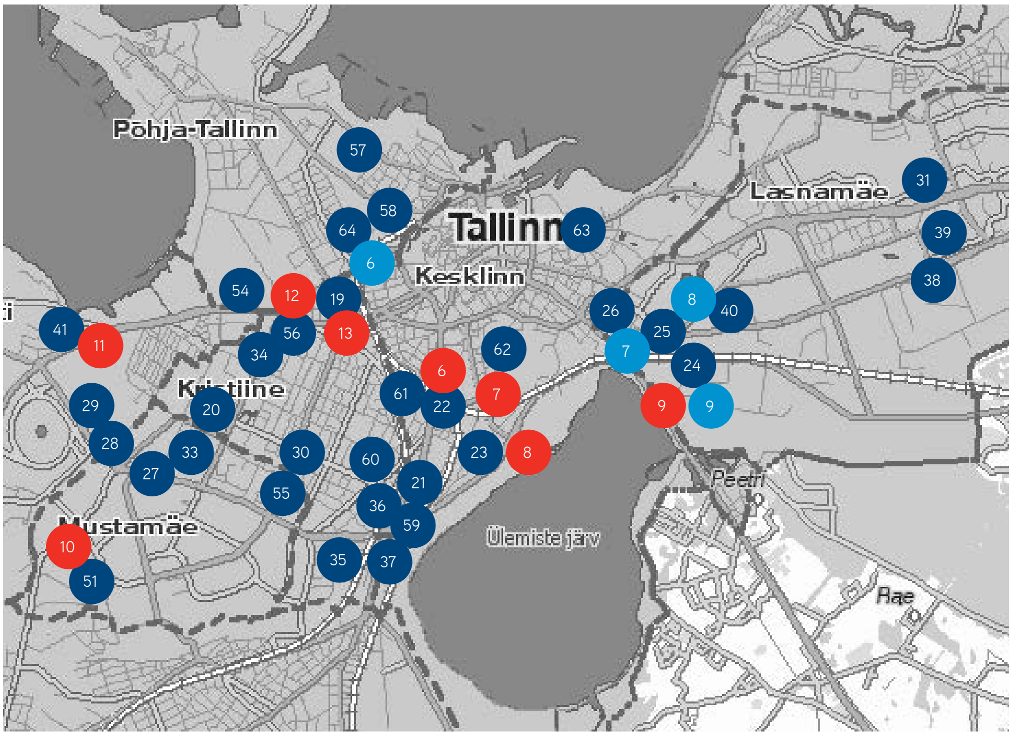
- Approx 150,500 sqm of new speculative and built-to-suit office space is expected to be delivered to the market in 2017 - 2018.
- Approx 30,000 sqm and 81,200 sqm of new speculative office space is expected to be delivered to the market in 2017 and 2018.
- The high level of supply enables tenants either to leave outdated offices or to renegotiate their leases (tenant's market).
- Take-up activity in 2017 is expected to come continually from the wholesale and retail trade and information and communication sectors as well as from the professional, scientific and technical activities sector.
- The office market will continually see relocations of some large space occupiers in 2017.
- The risk of relocations by existing anchor tenants and the risk of potential high vacancy in buildings is putting rents under downward pressure and causing the market to become more tenant-favourable. Developers are ready to make available several discounts and incentives to attract larger tenants.
- Due to increasing competition and the shift from a landlords' to a tenants' market, tenants tend to negotiate shorter lease terms (3- years instead of 5- years).
- Office rent rates are expected to remain stable during 2017. No drastic changes are expected in the nearest future, although the gap between the lower and upper margins of asking rents may continue to widen.
- Downward pressure on rent rates will be observed for office buildings older than 10 - 15 years.
- 2017 may see a somewhat increased vacancy rate, especially in older office buildings as well as in some Class B1 buildings due to construction of new office buildings and movements of tenants from larger to smaller premises to achieve higher cost-efficiency.
- In 2017, signs of possible market saturation and oversupply may start to become noticeable due to plenty of quality commercial accommodation on the market and a high development pipeline. The market needs a considerable share of new demand coming from outside (high new demand) to avoid a growing supply-demand imbalance.

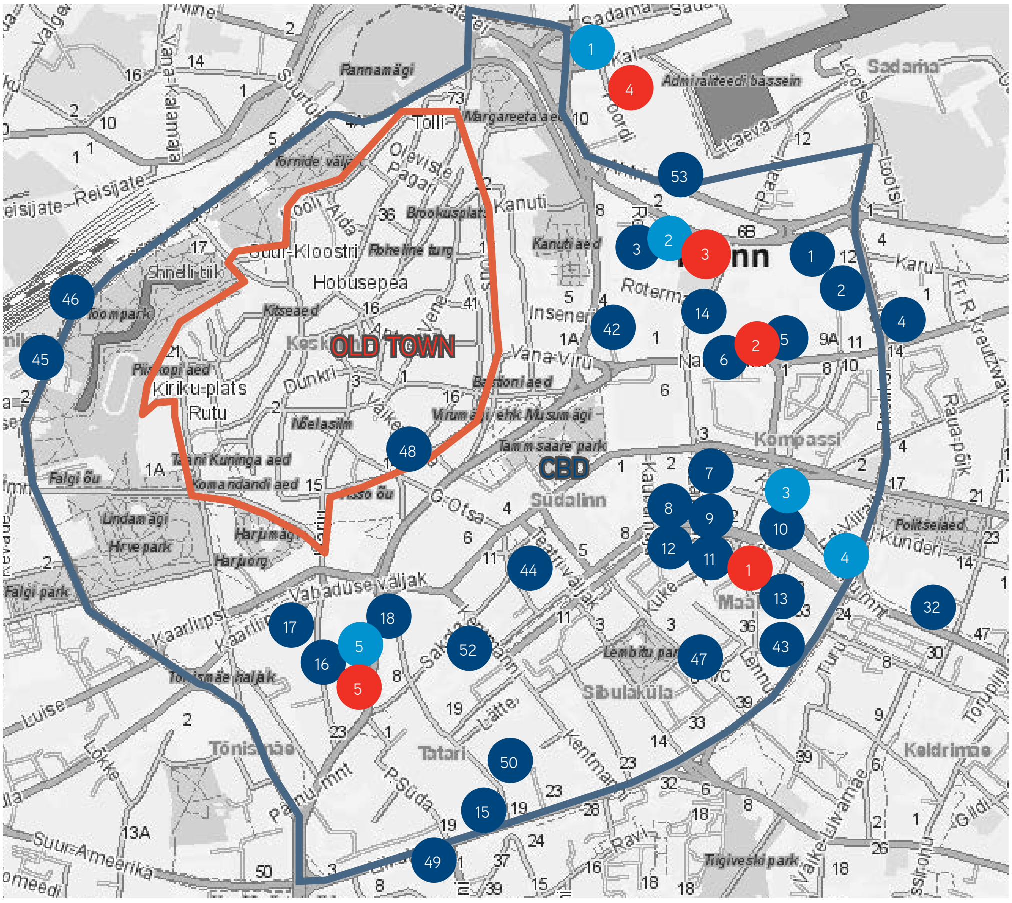
Dynamics of Vacancy Rates in Tallinn



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. 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. Tähesaju Office Building
32. Scala City
33. Tammsaare Business House
34. Marienthali Business Centre
35. Tammsaare Business Centre
36. Kawe Business Centres
37. Delta Plaza
38. Peterburi Road Business Centre
39. Lasnamäe Business Centre
40. Peterburi Business Quarter
41. Al Mare Maja (Audi Maja)
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)
55. Sõpruse 157 Office Building
56. Bliss House and Metalli 3 Office Building
57. Noblessner Quarter (Creative House)
58. ON-Building, Telliskivi 60
59. Järvevana Quarter (Lelle 22, Lelle 24)
60. Eesti Loto Building
61. YIT Business Centre and Pärnu Road 102b Building
62. Baltika Quarter (Norra Building)
63. Kadriorg Business Centre
64. Mayeri Business Centre

Completed in 2016

1. Explorer Office Building, Kai 1
2. Rotermann Quarter - R14 and R2
3. Kompassi Maja
4. Novira Plaza, Tartu Road 25
5. Pärnu 18 Business House
6. Centennial Business Centre
7. Büroo 83 Office Building
8. Ülemiste Business Centre, expansion
9. Õpik Building I

Under Construction

1. Maakri Quarter, Maakri 19/21
2. Zenith Business Centre, Narva road 7b
3. Rotermann Quarter - R18
4. Porto Franco
5. Pärnu 22 Business Centre
6. Lutheri Business Centre
7. Töökoja 2 Office Building
8. Järvevana 7b Office Building
9. Lõõtsa 12 Office Building and Õpik Building II
10. Tehnopol2KV Office Building
11. Laev, Paldiski Road 96a
12. Telia Eesti Office Building
13. Flora Maja Office Building

Retail Market

General Overview

> In 2016, sentiment in the retail sector was continually quite optimistic. The turnover of retail trade enterprises reached EUR 6.3 billion in 2016. Compared to 2015, turnover increased by 4% at constant prices.

> 2016 saw the opening of four shopping centres and one DIY store in Tallinn.

> Local and international brands remained interested in further expanding in 2016. New shopping centres have a considerable share of tenants providing leisure and sporting activities as well as catering.

> Prime shopping centre rents remained stable in 2016, although some downward pressure on rents increased due to intensifying competition within the retail sector.

> Vacancy rates in larger shopping centres remained stable in 2016, although somewhat growing in the first half of the year.

Supply

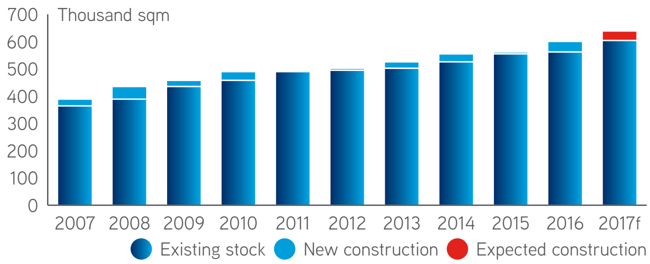
By the end of 2016, the stock of Tallinn retail space (incl. shopping centres, hypermarkets and DIY stores) had increased by approximately 38,770 sqm since the beginning of the year, to a total of 600,300 sqm (1.35 sqm per capita). 2016 saw the opening of four shopping centres and one DIY store in Tallinn.

Q1 2016 saw the opening of Mustamäe Keskus shopping and entertainment centre (13,500 sqm) in Mustamäe city district of Tallinn. The most significant tenants of the centre are Apollo Cinema, Rimi hypermarket, MyFitness fitness club and 2,000 sqm of a variety of restaurants and cafes, the largest of which is Lido with its third, 300-seat restaurant in Tallinn.

A few smaller shopping centre development projects were also seen in the market. April 2016 saw the opening of Kärberi shopping centre (5,500 sqm) in Lasnamäe city district with Selver and MyFitness as anchor tenants. Construction work on Arsenal Centre (redevelopment project with ca 6,000 sqm of retail space, anchor tenant - Selver) started in fall 2015 and completed in October 2016. Redevelopment of Pirita Centre added ca 5,000 sqm of retail space in Pirita city district of Tallinn in November 2016. The most significant leaseholders at the centre are Rimi, MyFitness and different restaurants and cafes.

A frenetic pace of retail development is expected with more than 200,000 sqm of leasable area set to enter the market in the coming years.

Dynamics of Retail Space in Tallinn



f - forecast
Source: Colliers International

In 2015, Capfield (owner of six retail centres in Estonia) announced plans to extend its Norde Centrum twofold and Läsnamäe Centrum by approx 15,000 sqm of leasable space. Refurbishment and extension of Norde Centrum started in summer 2016 with expected completion in 2HY 2017 under a new name - Nautica centre.

Construction work on T1 shopping centre started in 2015 and continued throughout 2016. The gross area of the centre, located at Peterburi tee 2, is ca 130,000 sqm, including over 52,000 sqm of different rental space (retail, catering, multiscreen cinema and entertainment) and the centre should be open for visitors in autumn 2018.

Porto Franco, developer of the Porto Franco Centre, a large-scale commercial development in Tallinn harbour area with a total capacity of 170,000 sqm and retail GLA 43,000 sqm, started some underground work on site and received a building permit for the on-ground part in December 2016. The centre is due for completion in 2018 - 2019.

Additionally, Infortar is planning to start development of its Tallink City project (multifunctional shopping and entertainment centre with GLA 65,200 sqm, including a 6-screen multiplex cinema and family Fun Park with total area of over 10,000 sqm), while Ülemiste Centre, Kristiine and Roca al Mare shopping centres are also planning expansions to offer more entertainment and leisure options in the future. At the same time, completion of all these projects still remains rather questionable due to the fact that the Tallinn shopping centre market is close to saturation.

Activity is also seen in the DIY segment. For example, Decora (a DIY chain widely represented in South Estonia) entered the Tallinn region and opened a store in Viimsi in 2015. A new DIY shopping centre (Decora Maja) in Tallinn opened in April 2016. Additionally, Espak started expansion of its DIY complex in Tallinn City Centre in 2015, while Merko is doing the design and construction work on the second Bauhaus store in Tallinn with planned completion for spring 2017.

Completed Retail Projects in Tallinn in 2016

PROJECT	ADDRESS	DEVELOPER	ANCHOR TENANTS
Mustamäe Centre	Tammsaare tee 104a	Mustamäe Keskus	Rimi, Lido, Apollo Cinema
Decora Maja	Laki 36	Hansa Maakler	Decora
Kärberi Centre	K. Kärberi 20	Megaron Kinnisvara	Selver, MyFitness
Arsenal Centre	Erika 14	Arsenal Centre	Selver
Pirita Centre	Merivälja tee 24	Pirita Center	Rimi, MyFitness
TOTAL GLA, SQM		**38,770**	

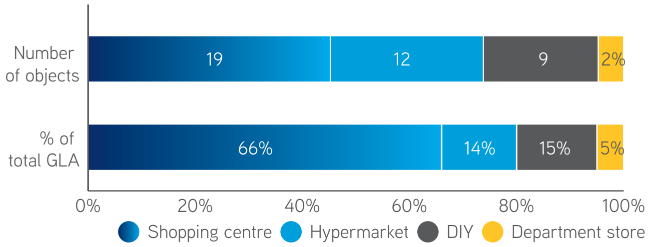
Source: Colliers International

New Retail Projects Under Construction in Tallinn

PROJECT	ADDRESS	DEVELOPER	ANCHOR TENANTS	OPENING YEAR
Espak DIY Store	Veerenni 65	Espak	Espak	2017
Haabersti Bauhaus DIY Store	Kaeravälja 3	Merko	Bauhaus	
Norde Centrum, expansion	Ahtri 9	Capfield	Rimi	
Haabersti Maxima	Ehitajate tee 148	Maxima	Maxima	
T1 Shopping Centre	Peterburi tee 2	Pro Kapital	Selver, fashion stores	2018
TOTAL GLA, SQM			**86,840**	

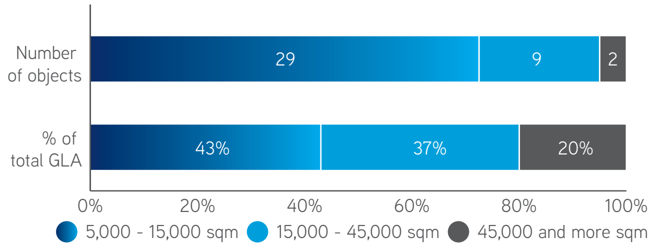
Source: Colliers International

Distribution of Retail Space in Tallinn by Type in 2016



Source: Colliers International

Distribution of Retail Space in Tallinn by Size in 2016



Source: Colliers International

Demand

Several new international brands made their debut by entering the Tallinn retail market in 2014 and expanding further in 2016 - SportsDirect opened its third store (1,400 sqm) in Tallinn Kristiine Centre in summer 2016.

In 2016, Apranga Group (Zara, Bershka, Pull and Bear, Stradivarius, Massimo Dutti stores) finalised the transaction of taking over 5 Karen Millen stores in the three Baltic states, including two stores in Tallinn (in Viru Keskus and Rocca al Mare shopping centres). Additionally, the first Zara Home store (495 sqm) in Estonia was opened by Apranga in Ülemiste Centre in September.

In Q1 2016, Baltika (Monton, Mosaic, Baltman, Bastion, Ivo Nikkolo brands) ended representing Blue Inc London brand in the Baltic States under a franchise agreement due to low sales efficiency and closed four stores in Estonia and Latvia at the beginning of the year. Baltman store was opened as a replacement in one of the sales area in Tallinn Ülemiste Centre.

At the same time, several retailers have decided to close their stores and pull out of Estonia. In April 2016, the fashion store chain NEXT closed three stores in Estonia, including two stores in Tallinn in Kristiine and Ülemiste shopping centres. In November 2016, Marks & Spencer announced that it is going to shut 53 stores across 10 international markets, including two stores in Estonia - in Rocca al Mare and Kristiine shopping centres.

One of the year's leading trends has been a focus on improving the quality of retail space. Several shopping centres (Sikupilli, Solaris, Stockmann Department Store and Lasnamäe Centrum) continued refurbishments, redevelopment, changes in tenant mix and utilisation of unused and common space to increase its GLA in 2016.

For example, Sikupilli SC completed interior refurbishment and changes in tenant mix (incl. extended Jahipaun store, occupying 1,000 sqm and new children's goods store Karupoeg Puhh). Stockmann Department Store opened a completely renovated fifth floor in October.

New shopping centres recently added to the market or currently under construction have a considerable share of tenants providing leisure and sporting activities. For example, MyFitness became one of the anchor tenants in Kärberi Centre, Mustamäe Centre and Pirita Centre. Although customers have more money to spend due to a low interest environment (lower house mortgage payments), deflation and increased salaries, secondary services, such as fitness clubs, are the ones that will be hit first when/if a crisis/recession comes.

Rent Rates and Vacancy

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

Rental values for the shopping centre sector began to improve slightly in 2012 by 3 - 5% on average mostly due to index increments and fewer rental discounts, a trend that continued in 2013 - 2015.

Prime shopping centre rents remained more or less stable in 2016 and are expected to remain so in 2017. Some downward pressure on rents has increased in the last two years due to intensifying competition within the retail sector and even long-term agreements are becoming difficult to extend at current rental levels. Some shopping centre owners have already made some corrections in rents to avoid potential larger problems in the future. Turnover rents and more flexible leasing arrangements are becoming increasingly common, a trend expected to continue in 2017.

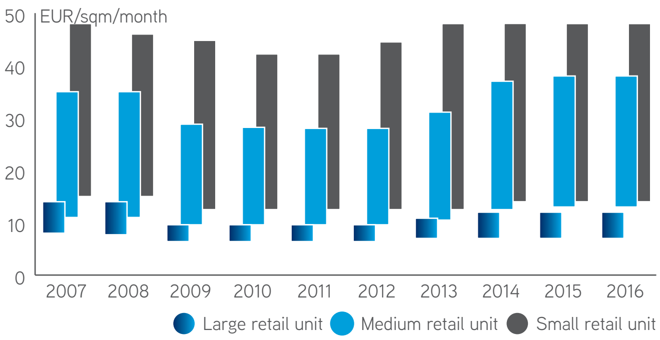
Vacancy rates in larger shopping centres remained effectively zero in 2016, although growing somewhat in the first half of the year. Community shopping centres suffered the most as quite a few smaller tenants were facing problems and were even forced to close their stores.

While previously owners of shopping centres had a queue of prospective tenants waiting behind their doors, currently constant development activity and saturation of the market has resulted in a shortage of potential tenants and lack of new brand names, indicating that the market is also shifting towards a tenant market in the retail segment.

Tendencies and Forecasts

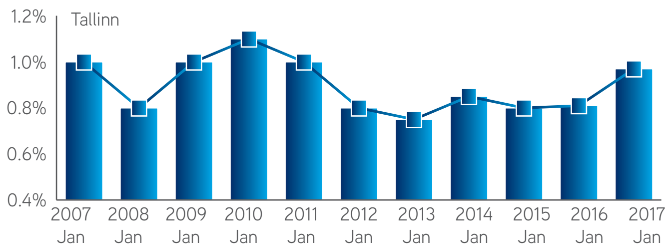
- Approx 34,840 sqm of new retail space is expected to be delivered to the market in 2017.
- A significant amount of retail space (incl. T1 shopping centre, Porto Franco complex and Tallink City project) is expected to enter the market in Tallinn over the next three years.
- Several grocery retailers (e.g. Selver, Maxima, Rimi, Coop) continue to seek possibilities for further expansion and opening of new stores in Tallinn and its suburbs, although plans and ambitions of grocery chains are becoming more thought-out and cautious. Selver grocery chain will remain aggressive, opening four new stores in Tallinn in 2017.
- Vacancy rates in larger shopping centres will remain low in 2017, although growing somewhat due to intensified competition in the sector. Upward movement in vacancy levels could be especially expected in smaller shopping centres.
- In 2017, rent rates are expected to remain more or less stable. There is some pressure and expected decrease in rent rates for tenants occupying medium retail units (up to 350 sqm) and large retail units, although rent rates for anchor tenants are expected to remain stable throughout the year.
- Turnover rents and more flexible leasing arrangements will become increasingly common in 2017.
- Tallinn retail market is close to saturation. The emergence and development of any new shopping centre will signify and sharpen the growing redistribution of existing consumers and will definitely affect profitability of retailers.

Dynamics of Rent Rates* in Major Shopping Centres in Tallinn



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

Dynamics of Vacancy Rate in Major Shopping Centres in Tallinn



Source: Colliers International

Rent Rates* for 2016 in Shopping Centres in Tallinn and Trends for 2017

CLASS	2016	TRENDS FOR 2017
Large retail unit (anchor tenants)	7.0 - 12.0	→→
Medium retail unit (150 - 350 sqm)	10.5 - 38.0	→→
Small retail unit (up to 100 sqm)	13.5 - 48.0, up to 100	→→

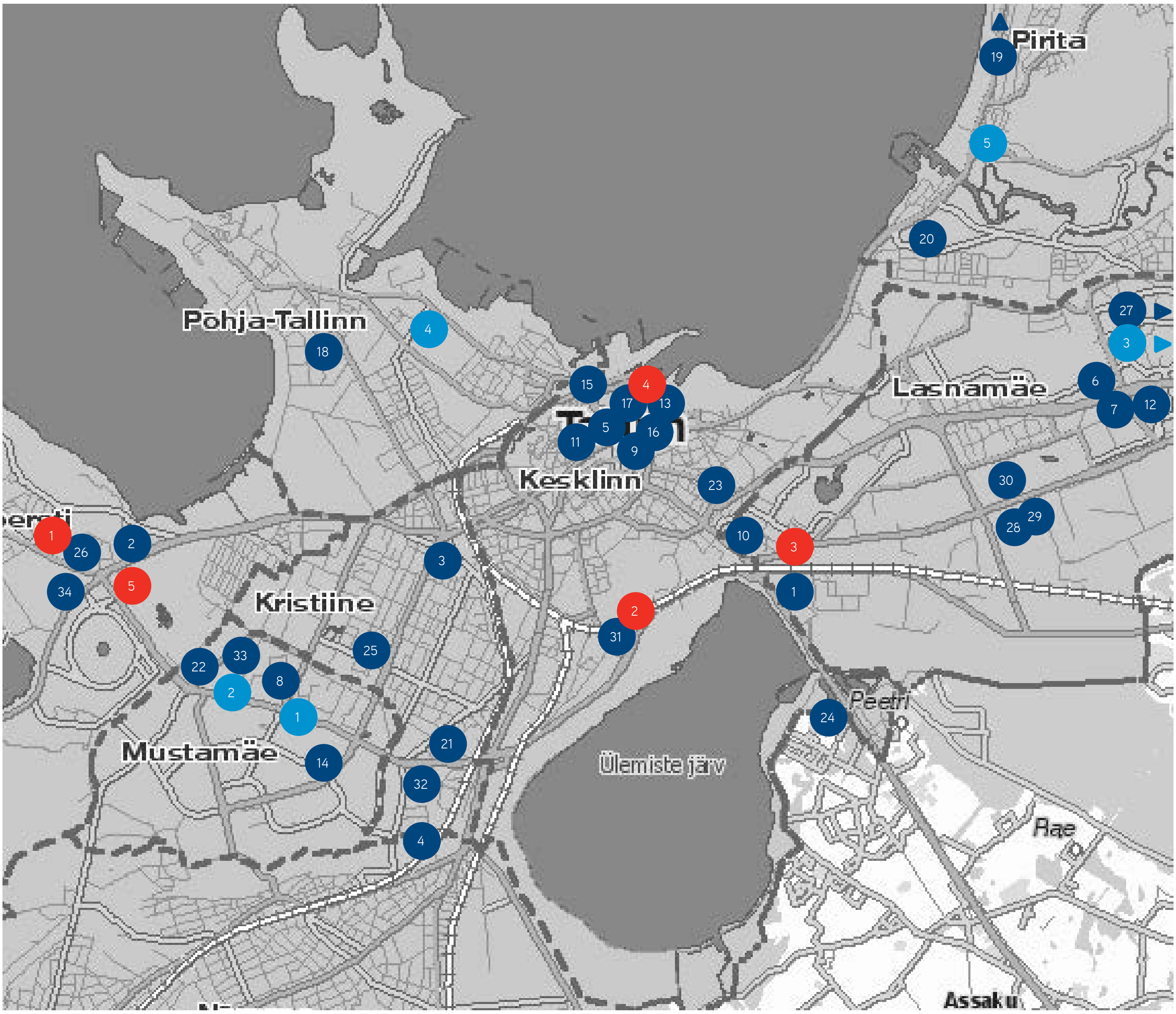
* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable
Source: Colliers International

Vacancy in Shopping Centres in Tallinn and Trends for 2017

CLASS	2016	TRENDS FOR 2017
Major shopping centres	0.8 - 1.5	→→

→→ - stable
Source: Colliers International

Shopping Centres, Hypermarkets and DIY Hypermarkets 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. Stroomi Centre
19. Viimsi Centre and Viimsi Market
20. Pirita Selver Hypermarket
21. Tondi Selver Hypermarket
22. Kadaka Selver Hypermarket
23. Torupilli Selver Hypermarket
24. Peetri Selver Hypermarket
25. Sõpruse Rimi Hypermarket
26. Haabersti Rimi Hypermarket
27. Maxima Hypermarket
28. Lasnamäe Maksimarket
29. Smuuli Bauhof
30. Lasnamäe Ehituse ABC
31. Espak
32. Tondi K-rauta
33. Kadaka Ehituse ABC
34. Haabersti K-rauta

Completed in 2016

1. Mustamäe Centre
2. Decora Maja
3. Kärberi Centre
4. Arsenal Centre
5. Pirita Centre

Under Construction

1. Bauhaus Haabersti
2. Espak, expansion
3. T1 Shopping Centre
4. Porto Franco and Norde Centrum, expansion
5. Maxima Hypermarket

Industrial Market

General Overview

› The warehouse and industrial property market continued to remain active in 2016 in terms of new developments and buoyant demand for modern quality space.

› By the beginning of 2017, estimated total stock of modern industrial facilities amounts to approx 1,265,100 sqm. New supply delivered to the market reached 162,220 sqm in 2016, almost approaching the record established in 2007.

› Speculative development in Tallinn and its suburbs also remained active in 2016, largely driven by StockOffice projects.

› In 2016, demand was highest among businesses from the production and manufacturing sectors, followed by wholesale and retail companies, while logistics companies remained less active in the leasing market compared with 2015.

› In 2016, rent rates largely remained at the 2015 level, although some downward pressure on rent rates intensified. Development of several large-scale projects during 2014 - 2016 has resulted in consolidation of different units in one location, vacating some previously occupied premises, thus pushing vacancy rates up.

Supply

By the beginning of 2017, estimated total stock* of modern industrial facilities was approx 1,265,100 sqm (458,830 sqm of generic facilities plus 806,270 sqm of built-to-suit facilities) in Tallinn and Tallinn region. New supply delivered to the market reached 162,220 sqm (+31% compared to 2015) since the beginning of the year, almost approaching the record established 2007. Compared to 2015, total stock increased by 15%.

1HY 2016 saw the completion of Tallink Logistics Centre (14,350 sqm) in Maardu, the Karia cold storage warehouse (6,040 sqm) in Jüri Industrial Park, expansion of the Nordnet Logistics warehouse building by 3,500 sqm in Tallinn and the start of construction work on 2nd stage of the logistics centre for Smarten (12,800 sqm) in Rae municipality and the new Favor office and industrial building (13,520 sqm) in Loovälja next to Tallinn city border. Additionally, summer 2016 saw completion of the Sanitex (BLS) logistics centre in Sõpruse Business Park, the Freselle building (9,270 sqm) in Nehatu logistics park and several Stock Office projects in Tallinn and its suburbs.

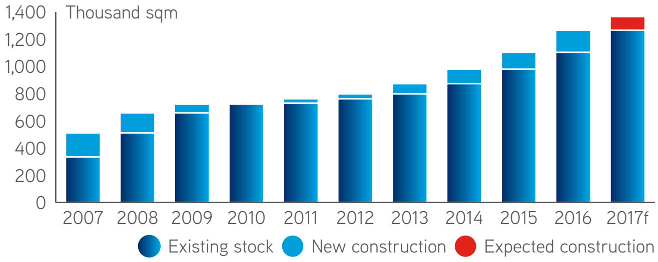
* Total stock includes all modern industrial and logistics properties located in industrial parks in Tallinn and Harju County and largest detached warehouse/logistics properties of a size and quality commensurate with the needs of local occupiers.

2HY 2016 saw the opening of logistics centre for the Coop grocery chain (41,330 sqm), while the mattress manufacturer Hilding Anders Baltic opened a 7,500 sqm extension of its plant in Rae Industrial Park.

Overall, 2016 saw completion of 10 new buildings plus expansion of 5 warehouse and industrial buildings in industrial and logistics parks in Harju County with total GLA 65,480 sqm.

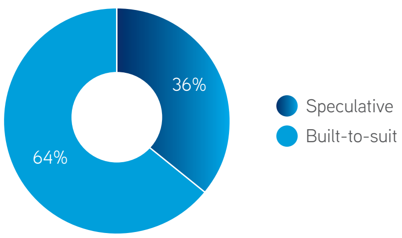
2016 saw completion of several Stock Office projects (e.g. Priisle business park, Mõigu Maja, Laagri Stock Office, Hausers Stock Office, Järveotsa 50a Stock Office, Järveotsa 50c Stock Office) with total area of approx 22,780 sqm. A Stock Office is a building that combines a store, an office and a warehouse and is seen as a multifunctional solution perfect for small businesses, although the asking rent rate for such premises is somewhat higher, varying in the range between 5.0 - 6.5 EUR/sqm (up to 7.5 EUR/sqm) on average. Planned completion of eight Stock Office projects will make available an additional 20,300 sqm of new commercial and warehouse space to the market in 2017, while more than 22,100 sqm of new Stock Office space remains in the pipeline.

Dynamics of Industrial Space in Tallinn and Harju County



f - forecast
Source: Colliers International

Distribution of Industrial Space by Type in Tallinn and Harju County in 2016



Source: Colliers International

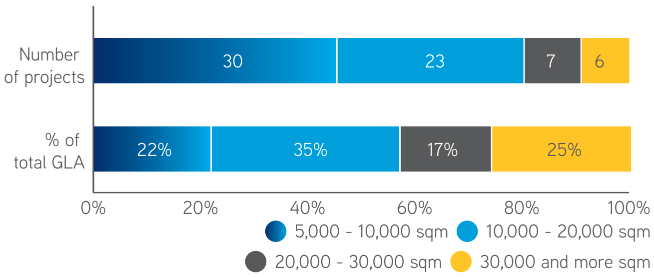
Completed Industrial Projects in Tallinn and Harju County with GBA over 5,000 sqm in 2016				
REGION	**PROJECT**	**ADDRESS**	**TYPE**	**DEVELOPER**
Rae	BLS Central Warehouse	Graniidi tee 1, Sõpruse Business Park	Built-to-suit	Sanitex
Rae	Coop Central Warehouse	Laaneaia, Soodevahe village	Built-to-suit	Coop
Maardu	Tallink Logistics	Vana-Narva 5b	Built-to-suit	Infortar
Jõelähtme	Freselle Logistics Warehouse	Nehatu Logistics Park	Built-to-suit/Speculative	Nehatu Tehnopark
Rae	Karia Cold Storage Warehouse	Jüri Industrial Park	Built-to-suit	Karia
Rae	Hilding Industrial Building, expansion	Rae Industrial Park	Built-to-suit	Kawe
Rae	Taevavärava Warehouse	Põrguvälja Industrial Park	Built-to-suit	Taevavärava Arenduse
Tallinn	Liiva Logistics	Liivalao 14	Speculative	RRK
TOTAL GBA, SQM			**124,800**	

Source: Colliers International

New Industrial Projects Under Construction in Tallinn and Harju County with GBA over 5,000 sqm				
REGION	**PROJECT**	**ADDRESS**	**TYPE**	**DEVELOPER**
Jõelähtme	VGP Park Nehatu, V	Nehatu Logistics Park	Speculative	VGP
Rae	Smarten Logistics, II	Rukki tee 1, Lehmja village	Built-to-suit	Nordassets
Jõelähtme	Favor Office and Industrial Building	Loovälja tee 11, Liivamäe village	Built-to-suit	Maru
Rae	Lookivi Logistics	Kõrtsi tee 7, Lehmja village	Speculative	Bohmann
TOTAL GBA, SQM			**45,420**	

Source: Colliers International

Distribution of Industrial Space by Size in Tallinn and Harju County in 2016



Source: Colliers International

Current existing stock comprises thirteen industrial and warehouse projects with a GLA of over 20,000 sqm per project and a total area of 389,660 sqm. Most of the existing stock (70% of total numbers) consists of industrial and warehouse projects with a GLA up to 5,000 sqm per project.

Demand

At the beginning of 2016, demand/enquiries for new lettable space came mostly from manufacturing companies, while logistics companies remained less active on the leasing market compared with 2015.

In 2016, demand was highest among businesses from the production and manufacturing sectors with a share in total take-up volume of almost 40%, followed by wholesale and retail companies with around 30%. Development of numerous Stock Office projects in Tallinn and Harju County resulted in a significant share of retailers in total take-up.

Roughly two-thirds of total speculative take-up volume in 2016 was taken up in the areas surrounding Tallinn. More than half of this activity was focused on the area to the west of Tallinn (Jõelähtme municipality - Nehatu area), whith more than one third registered in Rae municipality area.

The share of take-up generated within city limits amounted to a 34% share in 2016. This can particularly be attributed to the active development of Stock Office projects in Tallinn and the fact that small-scale, city-based logistics remained increasingly popular and in demand.

Overall, despite the large number of new development projects, demand for industrial and logistics facilities remained buoyant in 2016, seeing constant demand for both, built-to-suit and speculative facilities. In 2016, tenants were particularly interested in space encompassing up to 1,000 sqm. This segment accounts for around 60% of total number of leases signed in 2016, up from 45% in 2015.

Rent Rates and Vacancy

In 2016, rent rates largely remained at the 2015 level, although some downward pressure on rent rates intensified due to growing competition within the sector.

As in previous years, tenants were particularly interested in contemporary space going for between 4.0 - 5.0 EUR/sqm/month, with this segment generating a market share of almost 50% in 2016.

Space in the price segment of over 5.0 EUR/sqm/month continued to increase its share, driven mostly by absorption of Stock Office space (newbuild Stock Office projects within the city are even going for 7.5 EUR/sqm/month). At the same time, this is an indication that many tenants are still ready to pay higher prices for commercial and logistics space despite the tension in the market (high supply).

By the beginning of 2017, rental levels for new premises stand at around 4.0 - 4.5 EUR/sqm/month, while somewhat older contemporary warehouse and logistics premises (ca 10 - 15 years) in good locations could be rented out with a lease price of around 3.5 - 4.0 EUR/sqm/month.

During the four-year period since the beginning of 2012, the vacancy rate has continued to decline and stood still below the 6% level until the first half of 2016. Development of several large-scale development projects during 2014 - 2016 (e.g. the

Logistika Pluss, Via3L, Smarten, Maxima, Sanitex and Coop logistics centres), have resulted in consolidation of different units in one location, vacating some previously occupied premises, thus pushing vacancy rates up to the 7% level by the end of 2016.

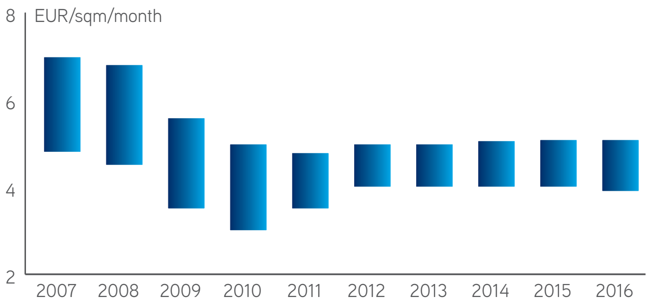
Additionally, relocation of the above-mentioned large-scale tenants to new built-to-suit premises intensified pressure on rent prices in the second half of 2016, a trend expected to continue in 2017.

Rent Rents* for 2016 in Tallinn and Harju County and Trends for 2017

CLASS	2016	TRENDS FOR 2017
New and renovated buildings	3.9 - 5.0	→↘
Older buildings	1.3 - 3.3	→→

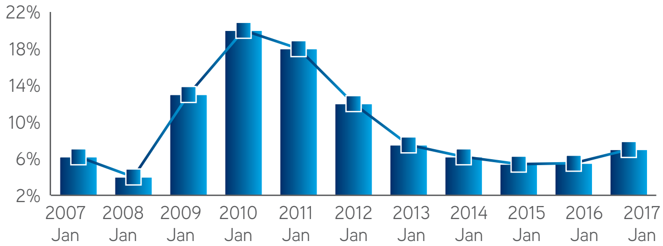
* - asking rent rate (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable, →↘ - slight decrease
Source: Colliers International

Dynamics of Rent Rates* in Tallinn and Harju County



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

Dynamics of Vacancy Rates in Tallinn and Harju County



Source: Colliers International

Tendencies and Forecasts

› With around 1.27 million sqm of modern logistics and industrial space currently in stock, at least 100,080 sqm of new-build space is expected during 2017 - 57% of it on a built-to-suit basis and 43% on a speculative basis.

› Almost half of new supply in 2017 will come in Rae municipality, with one third expected to enter the market in Jõelähtme.

› A new trendy product on the market is the StockOffice project, combining retail, office and warehouse space. Planned completion of eight Stock Office projects will make available an additional 20,300 sqm of new commercial and warehouse space to the market in 2017, with more than 23,600 sqm of new StockOffice space remaining in the pipeline.

› Companies from manufacturing sectors are expected to remain among the most active in seeking and leasing industrial/warehouse premises in the coming years. The retail trade oriented distribution sector is expected to become more modest in the warehouse leasing market.

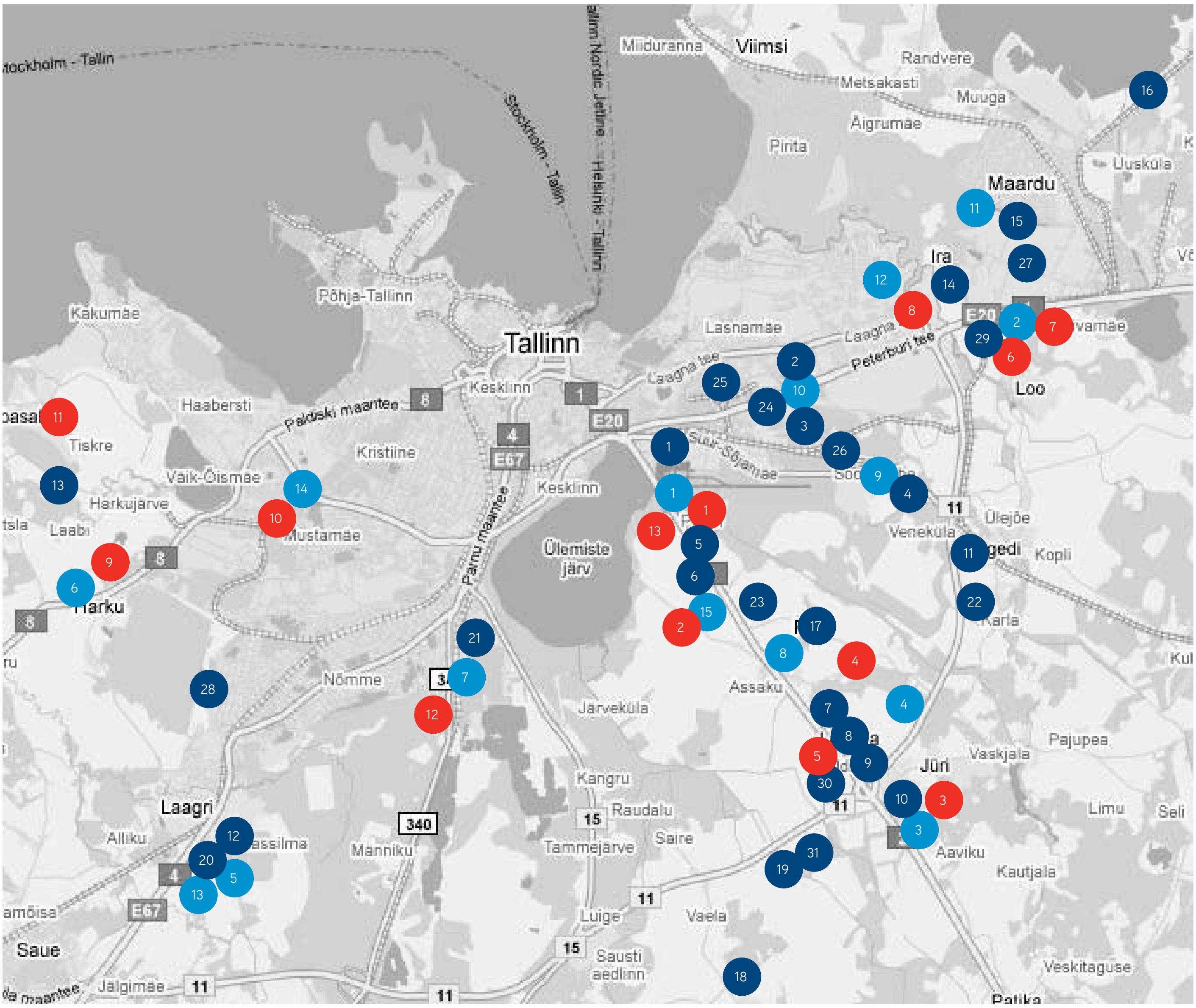
› No drastic changes are expected in the nearest future, although the gap between the lower and upper margins of asking rents may continue to widen.

› Location as well as total costs related to premises in addition to actual rent are becoming increasingly important, giving advantages to more contemporary and energy-efficient premises in good locations.

› Many warehouse and logistic premises that were initially built for specific tenants have remained or will remain vacant in 2017. Increase in vacancy rates will therefore create some additional downward pressure on rent rates in 2017.

› The frenetic pace of warehousing development together with steady rather than spectacular occupier demand (logistics segment) is expected to result in a growing supply-demand imbalance.

Industrial and Logistics Parks in Tallinn and Harju County



Existing Developments

1. Ülemiste City
2. Tondiraba Industrial Park
3. Betooni Industrial Park
4. Suur-Sõjamäe Industrial Park
5. Mõigu Industrial Park
6. Peetri Business Park
7. Sinikivi Industrial Park
8. Rae Industrial Park
9. Põrguvälja Industrial Park
10. Jüri Industrial Park
11. Killustiku Industrial Park
12. Tänassilma Industrial Park
13. Tabasalu Industrial Park
14. Iru and Nurmevälja Industrial Parks
15. Maardu Industrial Park
16. Muuga Industrial Park
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. Coop Logistics Centre (Kalda 7c)
29. Nehatu Logistics Park
30. Smarten Logistics Centre
31. Maxima Logistics Centre

Completed in 2016

1. Mõigu Industrial Park
2. Nehatu Logistics Park
3. Jüri Industrial Park
4. Rae and Põrguvälja Industrial Parks
5. Tänassilma Industrial Park
6. Allika Industrial Park
7. Liiva Logistics
8. Sanitex (BLS) Logistics Centre
9. Coop/ETK Logistics Centre
10. Nordnet Logistics, expansion
11. Tallink Logistics Centre
12. Priisle Business Park
13. Laagri Stock Office
14. Järveotsa 50a and 50c Stock Offices
15. Reti tee 14a Stock Office

Under Construction

1. Mõigu Industrial Park
2. Peetri Business Park
3. Jüri Industrial Park
4. Rae Industrial Park
5. Rukki Industrial Park and Lookivi Logistics
6. Nehatu Logistics Park
7. Loovälja Park (Favor)
8. Priisle Business Park II
9. Allika Industrial Park
10. Järveotsa 50b Stock Office
11. Lucca Stock Office
12. Männiku tee 104a Stock Office
13. Tuleviku Stock Office

Hotel Market

General Overview

› In 2016, the tourism sector in Estonia posted a very positive start to the year, leading to an overall increase in the number of arrivals and nights spent in accommodation establishments.

› In 2016, the number of tourists increased from all major partner markets, including Finland, Germany, Sweden, Latvia, Lithuania and Russia.

› Domestic tourism in Estonia continued growing in 2016, increasing by 7.2% y-o-y in 2016 and thus positively affecting the hospitality industry.

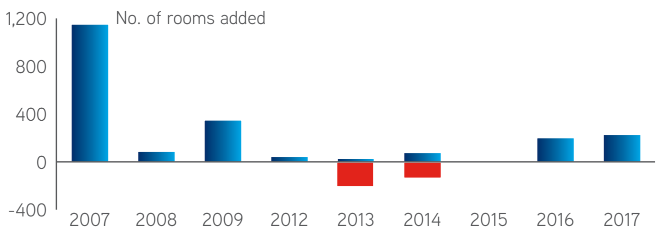
› Hotel revenue per available room (RevPAR) in Estonia saw a moderate increase in 2016 compared with 2015, driven by a slightly rising average daily rate (ADR) and occupancy rate.

› In 2016, the former Meriton Old Town (41 hotel rooms) in Tallinn became the Rixwell Old Town Hotel, indicating the entry of Latvian hotel group Mogotel to the Tallinn hotel market, while the new 202 room Tallinn Hilton luxury hotel with conference centre, spa, restaurant and casino opened in June 2016.

Supply

After 2009, when the Tallinn hotel segment expanded with the opening of two hotels belonging to the Meriton Hotels Chain, no new hotels entered the Tallinn hotel market in 2010 - 2011. 2012 - 2015 saw the opening of one hotel in Old Town and expansion and refurbishment of several hotels (e.g. Hotel L'Ermitage, Palace Hotel, Tallinn Seaport Hotel) in Tallinn.

Number of Hotel Rooms Accrued to the Tallinn Hotel Market



Source: Colliers International, Estonian Hotel and Restaurant Association

In the summer of 2013 Estonian casino operator Olympic Entertainment Group signed a contract with Hilton Worldwide to operate a new hotel in the City Centre. Located at Gonsiori 20/ F.R.Kreutzwaldi 23, a new 13-storey hotel was built in place of the former 8-storey Reval Park Hotel building. The new 202 room Tallinn Hilton luxury hotel with conference centre, spa, restaurant and casino opened in June 2016.

In 2016, Unique Hotels Group announced that it will expand by opening a new 4-star hotel in the centre of Tallinn. Centennial Hotel Tallinn will feature 80 modern hotel rooms and suites, a restaurant with a lounge area for 100 guests, and a cosy conference centre with 3 conference and banqueting rooms to accommodate 80 participants. The 4-storey Centennial Hotel Tallinn, located at Endla 15/Lõkke 2, will be completed by summer 2017.

In 2016, Landeste and Maru Ehitus concluded a contract for construction work on a hotel and office building at Roseni 9 and 11 including extension of Metropol hotel. The 8-storey commercial-residential and hotel building, located in Rotermann Quarter, is due for completion in December 2017.

The hotel market in Tallinn is largely dominated by local hotel chains and operators. Among local hotel chains the biggest is the Tallink Hotels chain, which has 4 hotels with 1,035 hotel rooms in Tallinn.

Since June 2015, the former Meriton Grand Conference & Spa Hotel (465 hotel rooms) in Talllinn became the Park Inn by Radisson Meriton, indicating that the Carlson Rezidor Hotel Group with 2 Radisson Blu Hotels (670 hotel rooms) and two Park Inn Hotels (710 hotel rooms) has become the largest international hotel chain in Tallinn as well as the largest hotel chain in Tallinn. The second largest international hotel chain in Tallinn is Sokos Hotels, the biggest hotel chain in Finland, which has 516 hotel rooms under management in Tallinn.

Number of Hotels and Rooms in Estonia and Tallinn by Stars in 2016

STARS	TALLINN		ESTONIA	
	HOTELS	ROOMS	HOTELS	ROOMS
5-star	5	414	6	438
4-star	27	3,997	49	5,466
3-star	20	1,965	90	5,512
2-star	5	187	41	1,205
TOTAL	**57**	**6,563**	**186**	**12,621**

Source: Colliers International, Estonian Hotel and Restaurant Association

In 2016, the former Meriton Old Town (41 hotel rooms) in Talllinn became the Rixwell Old Town Hotel, indicating the entry of Latvian hotel group Mogotel to the Tallinn hotel market.

While one fourth of all Estonian hotels are 4-star hotels, more than 40% 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 36% 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 52% of Estonia's total hotel room supply.

By the end of 2016, the 4-star segment comprised the largest percentage of Tallinn's available rooms, consisting of 27 hotels with 3,997 rooms, or 61% of all hotel-room stock in Tallinn.

Demand

In 2016, 2.06 million foreign tourists stayed overnight in Estonian accommodation establishments. Their number increased by 6.6% or by 127,362 compared with the previous year. The number of foreign tourists (1.46 million) staying overnight in Tallinn accommodation establishments in 2016 increased by 5.8% y-o-y.

Visits to Tallinn are relatively seasonal in comparison to other European cities and they are also short. The duration of trips shortened in 2013 to 1.79 nights on average and showed some increase during 2014 - 2016: 1.78 in 2014, 1.79 in 2015 and 1.80 in 2016. Seasonality did not change much and the number of visitors remains traditionally the highest in July.

During 2016, the number of tourists from Finland amounted to 951,025 (+4.8% or 43,973 more than a year earlier). In Tallinn, the number of tourists from Finland increased by 4.9% (32,053 more than a year earlier) and the number of nights spent by 6.9% compared to the previous year.

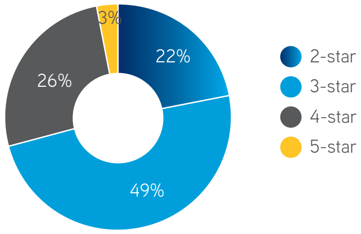
After a significant fall in the number of Russian tourists staying at accommodation establishments during 2015 (the number of tourists decreased by 32.4% y-o-y in Estonia and 35.8% y-o-y in Tallinn respectively), tourism from Russia stared to improve compared to the previous year in 2016.

During 2016, the number of tourists from Russia amounted to 200,972 (+8% or 14,911 more than a year earlier). In Tallinn, the number of tourists from Russia increased by 9.3%, driven by a considerable annual increase in the last four months of the year.

In 2016, 125,942 tourists (+8.5% y-o-y increase) from Germany stayed overnight in Estonian accommodation establishments. The number of tourists from Germany (88,330) staying overnight in Tallinn accommodation establishments in 2016 increased by 7.4% y-o-y.

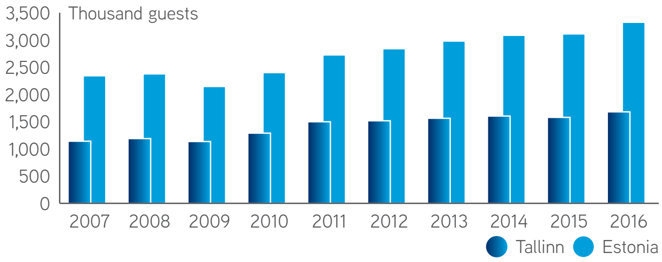
The number of Latvian tourists and their overnights achieved a new record in 2015 and continued to set a new record in 2016. During 2016, 142,043 Latvian tourists stayed at accommodation establishments in Estonia. This was 11.1% more than during the same period of 2015. In Tallinn, the number of tourists from Latvia surpassed the record level achieved in 2015, thus amounting to 54,281 or 3.9% more than a year earlier.

Distribution of Hotels by Number of Stars in Estonia, 2016



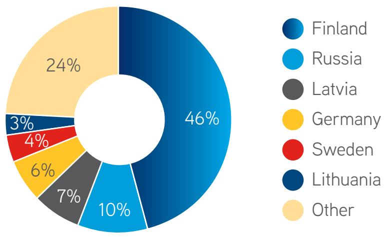
Source: Colliers International, Estonian Hotel and Restaurant Association

Distribution of Visitors in Accommodation Establishments in Estonia



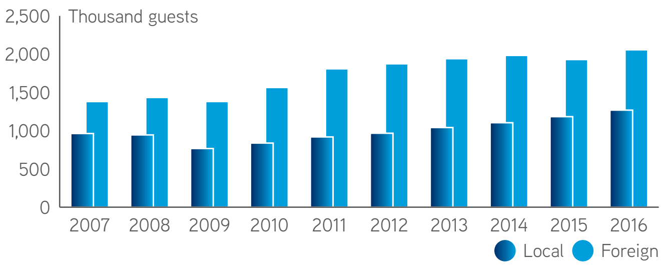
Source: Statistics Estonia

Distribution of Foreign Visitors by Country in Accommodation Establishments in Estonia in 2016



Source: Statistics Estonia

Distribution of Local and Foreign Visitors in Accommodation Establishments in Estonia



Source: Statistics Estonia

After four consecutive years of decrease, 2016 saw an increase in the number of tourists from Sweden. In 2016, 74,415 tourists from Sweden stayed overnight in Estonian accommodation establishments. Their number increased by 4.7% or by 3,328 compared with the previous year. The number of tourists from Sweden (53,481) staying overnight in Tallinn accommodation establishments in 2016 increased by 6.7% y-o-y.

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 7.2% (85,409 more than a year earlier) and the number of overnights by 10% in 2016.

The number of domestic tourists and their overnights in Tallinn also continued to grow in 2016, increasing by 10.2% and 12.9% y-o-y respectively in 2016.

During 2016, 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 10.17 million passengers, an increase of 380,248, or 3.9% more than a year earlier. Approximately 84% of passengers passing through the harbours of the Port of Tallinn travelled on the Tallinn-Helsinki route, 10% on the Stockholm route, 1.6% on the St. Petersburg route, while 5% were cruise passengers. The Port of Tallinn expects the number of passengers to continue growing in 2017 to reach 10.5 million, thus surpassing the record level of 2016 by approx 3%.

In 2016, the number of passengers (including both arrivals and departures) at Tallinn Airport increased by 2.5% to 2.22 million passengers compared to 2.17 million passengers in 2015. Tallinn Airport expects the number of passengers to continue growing by at least 5% in 2017 to reach 2.33 million due to the Estonian presidency of the Council of EU and new connections with London and Hamburg.

Prices and Occupancy

After the slowdown in foreign visitors' expenditure on goods and services in Estonia in 2015 (5.8% less than in 2014), foreign visitors' expenditure in Estonia turned again to growth in 2016. Foreign visitors consumed around EUR 1.08 billion of goods and services in Estonia in Q1 - Q3 2016 (6.7% more than in Q1 - Q3 2015). Fare receipts (foreign visitors' payments to Estonian transport companies) amounted to EUR 277 million or 3% more than a year earlier.

In 2016, the average price for a night in accommodation establishments in Estonia was EUR 35.1 and EUR 41.5 in Tallinn, indicating a y-o-y increase of 1.4% in Estonia and 0.6% in Tallinn respectively, according to Statistics Estonia.

During 2016, the average room occupancy rate in Estonia was 44.8% and 65.3% in Tallinn, indicating moderate growth in the room occupancy rate both in Estonia and Tallinn.

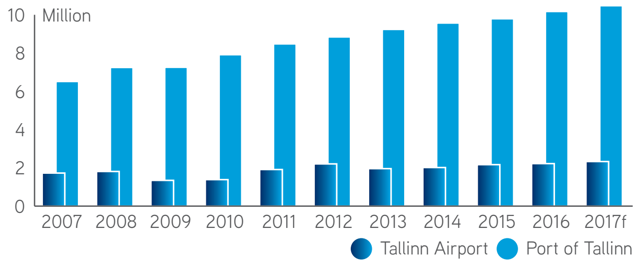
In 2016, hotel revenue per available room (RevPAR) in Estonia saw a minor increase (by 1 - 2% on average) compared with the same period a year earlier, driven by slight rises in both the occupancy rate and the average daily rate (ADR).

Change in Number of Tourists in Estonia

COUNTRY	NO. OF TOURISTS		CHANGE	
	2015	2016	%	ABSOLUTE FIGURES
Finland	907,052	951,025	4.8%	43,973
Russia	186,061	200,972	8.0%	14,911
Germany	116,088	125,942	8.5%	9,854
Sweden	127,864	142,043	11.1%	14,179
Latvia	71,087	74,415	4.7%	3,328
United Kingdom	54,743	61,111	11.6%	6,368
Lithuania	48,061	48,733	1.4%	672
Norway	37,064	37,725	1.8%	661

Source: Statistics Estonia

Total Number of Passengers in Port of Tallinn and Tallinn Airport



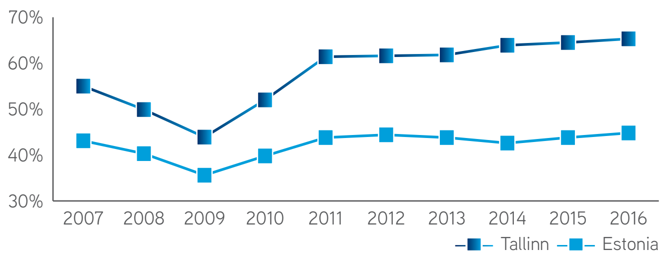
f - forecast
Source: Port of Tallinn, Tallinn Airport

Price Range for Double Standard Hotel Rooms in Tallinn in 2015

NUMBER OF STARS	ROOM RATE RANGE, EUR
5-star	110 - 250
4-star	55 - 150
3-star	45 - 100
2-star	40 - 55

Source: Colliers International

Dynamics of Average Room Occupancy Rate in Accommodation Establishments



Source: Statistics Estonia

Tendencies and Forecasts

› 2016 marked the seventh consecutive year of growth for European tourism. Europe has proved incredibly resilient to safety and security challenges with the majority of European destinations reporting continued growth towards the end of 2016. According to the European Travel Commission, inbound tourism is expected to grow by approximately 2.4% in 2017 and 3.4% in 2018 respectively in Central Europe and the Baltic States.

› In 2017, growth in the number of tourists accommodated in Estonia is expected to remain modest due to a high reference base, increased ADR and external uncertainty. All of these factors put downward pressure on ADR level in 2017.

› The hospitality industry will clearly benefit from the Estonian presidency of the Council of the European Union in the second half of 2017, positively affecting the occupancy level in Tallinn.

› After the fall in the number of Russian tourists staying at accommodation establishments in Estonia in 2014 and 2015, the number of tourists from Russia turned to growth in 2016, a trend expected to continue throughout 2017, albeit from a very low base.

› The Port of Tallinn expects the number of passengers to continue growing in 2016 to reach 10.4 million, thus surpassing the record level of 2016 by more than 3%.

› 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 by at least 5% in 2017 due to the Estonian presidency of the Council of EU and new connections with London and Hamburg.

› The new Tallinn Hilton opened its doors in 2016. In 2017, Unique Hotels Group will open the new 4-star Centennial Hotel in the centre of Tallinn, while Metropol Hotel, located in Rotermann Quarter in CBD, should expand by December 2017. New hotel chains (Accor, Pandox) are expected to enter the Tallinn hotel market in the 2 - 3-year perspective.

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 the shares of the property holding company (share transaction). Both options are widely used. If the asset comes with a revenue stream, the asset transfer basically constitutes 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 related to the business of operating the asset);

> Employees of the business must be notified of the transfer and transferred along with the asset;

> The transferor and transferee share joint and several liability for obligations which arise before transfer of the enterprise and which fall due by the time of the transfer or will fall due within five years after 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 or heads of terms (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. If an LOI or HOT sets out only the parties' obligation not to negotiate with third parties (so-called exclusivity), this agreement is considered valid and binding even without notarisation. 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 agreed 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 real right agreement to transfer the title with the Land Register.

6. Registration of the new owner and other pertinent changes (eg, new mortgages) at the Land Register (within one month as of filing at the latest). In some cases, transfer of title is a precondition for payment of the purchase price, ie the purchase price is paid by the buyer after the buyer has been registered with 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, although sale agreements in English are becoming more common.

> 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, ie agreements transfer to the purchaser.

> Agreements on supply of utilities and other services must be assigned or concluded anew.

> An 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

The shares of a public limited liability company 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 made 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 share(s) 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. DVP transfer links transfer payment with the share transfer so that one does not happen without the other. The payment must be from a bank account in Estonia linked to the securities account to the seller' similar account.

7. FOP transfer delinks payment from the share transfer.

8. 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). A share transaction is void if it fails to comply with the format set by law.

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 a max of one month (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 Register

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

The Land Register is a public register and everyone may access registered information. The register is maintained 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 with the Land Register, not on signing the agreement. Ownership is usually registered within 2 - 4 weeks as of filing an application with the Land Register 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 Register is maintained in Estonian, any documents in foreign languages must be filed with the Land Register with a notarised translation into Estonian.

Due Diligence

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. Performing sufficient due diligence is also the obligation of a prudent management board member.

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 of the real estate.

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

Typical Purchase Price Arrangements

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 Register provided that no other applications have been filed with the Land Register, which 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 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, if:

> turnover in Estonia of the participants to the concentration (target undertaking and buyer) exceeds EUR 6,000,000; and

> turnover in Estonia of at least two participants to the concentration exceeds EUR 2,000,000 each.

Turnover considered in deciding if concentration control applies is turnover of sales in or to Estonia in the last financial year. If the buyer has no business in Estonia (on first purchase), concentration control does not apply.

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 Register, 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 Register under notarised agreements to secure the interest of the parties, third persons, or neighbouring real estate owners.

The Land Register 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 law. The new act will enter into force in 2018.

Under the Estonian Building Code, owner supervision of real estate includes the obligation to control compatibility of construction with the regulations set by law and contract.

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 Register.

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.

Landlord's Lien

A right of security of landlord can encumber real estate. The landlord of an immovable has the right of security over movables located on the leased immovable and, upon lease of a room, over movables which form part of furnishings or are used together with the room in order to secure claims arising from a lease contract even if the movables are not in the possession of the landlord. Claims for rent of the current year and the previous year and claims for compensation should be secured by a pledge.

Lease Payment and Accessory Expenses (Utilities)

Rent is usually paid once a month to the bank account of the landlord. Rent is typically indexed (eg, changes in local CPI may be capped at, eg, 3 - 5% 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, the process may be time consuming and costly.

Pekka Puolakka
Head of the Real Estate & Construction Team
Sorainen Estonia
Pärnu mnt 15, 10141 Tallinn, Estonia
Phone +372 6 400 927
pekka.puolakka@sorainen.com

Tax Summary

Corporate Income Tax System

General Overview

The corporate tax system in Estonia differs from that used by many countries, in that corporate income is taxable only upon distribution. The profits earned and retained by a company are not subject to taxation. The income tax rate for 2017 on gross dividends is 20%. To calculate the corporate income tax, the tax rate is applied to the net amount of dividends divided by 0.8. Thus a company not distributing profit is not obliged to pay income tax. Taxable expenses and payments are also taxed at the rate of 20% based on the same formula.

There is no separate tax on capital gains, but proceeds from the disposal of fixed assets and intangibles are added to the taxpayer's regular business income, so that corporate income is taxable only upon distribution in the form of a dividend.

A non-resident is obliged to pay income tax on income derived from the transfer of real estate if it is located in Estonia. In addition, income from the transfer of a shareholding in a real estate company or of the right of claim or real right related to real estate located in Estonia is subject to taxation.

Tax Depreciation

Estonian companies pay income tax upon distribution of profit determined by the financial accounting principles, including depreciation rules. Corporate income tax rules do not establish different depreciation principles in Estonia.

Tax Losses

Tax losses are not recognised nor do they have any effect on corporate taxation.

Thin Capitalisation

There are currently no thin capitalisation regulations in Estonia.

Withholding Tax

Dividends

There is no withholding tax (WHT) on dividends.

Intangible Services

A 20% WHT rate applies to rental payments made to non-residents and resident individuals.

Real Estate Tax

The only property tax imposed in Estonia is land tax. Taxable persons are the owners or, in specific circumstances, the users of land. Tax is levied on the value of all land unless specific exemptions apply. The tax rate is established by the municipal council and may vary between 0.1% and 2.5% of the taxable value of the land. Land beneath or directly around a domestic residence is tax exempt.

Tax On Civil Law Transactions (PCC, Transfer Tax)

Transactions involving immovable property are subject to a state fee the amount of which depends on the value of the transaction. For transactions of more than EUR 639,120, the fee is fixed at 0.16% of the value, up to a maximum fee of EUR 2,560.

Value Added Tax (VAT)

General Provisions Regarding Real Estate

The sale of immovable property and the leasing or letting of immovable property or parts thereof are generally tax exempt. Tax exemption does not apply for the supply before the first occupation of buildings or their parts or for significantly renovated buildings or their parts or for plots if there are no construction works on such plots.

However, the taxpayer can opt to charge/pay VAT, except in the cases of residential housing, provided the tax authorities have been notified in writing beforehand. The notice regarding optional taxation of the leasing or letting of immovable property or parts thereof is binding for two years. The standard VAT rate in Estonia is 20% (for land and building sales) and 9% (for accommodation services).

Place of Supply

Generally, the place of supply of services to a taxpayer registered for VAT purposes in another EU country is the place where the purchaser is registered.

However, in the case of services that are regarded as services related to real estate, the place of supply of such services is where the real estate is situated. Also, the supply of immovable property is taxable in the country where the real estate is situated.

Value Added Tax Returns

Estonian VAT payers submit VAT returns monthly. VAT returns should be filed by the 20th day of the following month. Any tax payable is due by the same date.

VAT Refunding under Domestic Law

If VAT calculated by the Estonian taxpayer during a taxable period is less than the amount of deductible input VAT in the same period, the overpaid amount of VAT is refundable to the taxpayer. The standard refund period is 30 days.

The tax authority may, in connection with checking a claim for refund, extend the term for fulfilment of the claim by a reasoned decision for up to 90 calendar days if there is reason to believe that it may be impossible to reclaim the sum paid upon satisfaction of the claim for refund. The term for fulfilling a claim for refund may be extended by up to 30 calendar days at a time.

Personal Income Tax (PIT)

General Overview

Estonia has a flat standard PIT rate of 20%.

Sale of Real Estate

In general, the gain from the transfer of immovable property is subject to income tax.

Gains from the sale of real estate are not subject to income tax if:

- The property is a dwelling which was used by the taxpayer as his or her place of residence until transfer.
- The property is a residential property, which was acquired by the taxpayer through restitution of unlawfully expropriated property.
- The property is a residential property, which was acquired by the taxpayer through privatisation with the right of pre-emption, and the size of the registered immovable property does not exceed 2 hectares.
- A summer cottage or garden house has been in the taxpayer's ownership for more than two years and the size of the land does not exceed 0.25 hectares.

If the tax exemptions specified in the previous paragraph are based on the use of the dwelling as the taxpayer's residence, the tax exemption is not applied to more than one transfer in two years.

Rental Income

Income tax is charged on income from the hire or lease of immovable or movable property.

However, since 20% of the rental income related to the residential property is deductible, the actual base for income tax liability is 80% of the whole rental income from residential property.

Ranno Tingas

Partner, Tax & Legal Services
Ernst & Young Baltic AS
Rävala 4, 10143 Tallinn, Estonia
Phone +372 611 4578
Ranno.Tingas@ee.ey.com
http://www.ey.com

Notes

CONTACTS

www.sorainen.com

SORAINEN

EUROPEAN LAW FIRM OF THE YEAR
Awarded by The Lawyer

Sorainen is a leading regional business law firm with fully integrated offices in Estonia, Latvia, Lithuania and Belarus. Established in 1995, today Sorainen numbers more than 180 lawyers and tax consultants advising international and local clients on all business law issues involving the Baltics and Belarus.

LATVIA
LEGAL OVERVIEW

Lelde Laviņa

Head of the Real Estate & Construction Team
Sorainen Latvia
Kr. Valdemāra Street 21, LV-1010 Riga, Latvia
Phone + 371 67 365 000
lelde.lavina@sorainen.com

LITHUANIA
LEGAL OVERVIEW

Aušra Mudėnaitė

Partner, Co-Head of Real Estate & Construction Team
Sorainen Lithuania
Jogailos Street 4, LT-01116 Vilnius, Lithuania
Phone +370 52 430 566
ausra.mudenaite@sorainen.com

Kęstutis Adamonis

Partner, Head of Real Estate & Construction Team
in the Baltics and Belarus
Sorainen Lithuania
Jogailos Street 4, LT-01116 Vilnius, Lithuania
Phone +370 52 649 320
kestutis.adamonis@sorainen.com

ESTONIA
LEGAL OVERVIEW

Pekka Puolakka

Head of the Real Estate & Construction Team
Sorainen Estonia
Pärnu mnt 15, 10141 Tallinn, Estonia
Phone +372 6 400 927
pekka.puolakka@sorainen.com

ESTONIA
Pärnu mnt 15
10141 Tallinn
phone +372 6 400 900
estonia@sorainen.com

LATVIA
Kr. Valdemāra iela 21
LV-1010 Riga
phone +371 67 365 000
latvia@sorainen.com

LITHUANIA
Jogailos 4
LT-01116 Vilnius
phone +370 52 685 040
lithuania@sorainen.com

BELARUS
ul Internatsionalnaya 36-1
220030 Minsk
phone +375 17 306 2102
belarus@sorainen.com

NOTEWORTHY SORAINEN REAL ESTATE TRANSACTIONS

www.sorainen.com

SORAINEN

EUROPEAN LAW FIRM OF THE YEAR
Awarded by The Lawyer

Sorainen is a leading regional business law firm with fully integrated offices in Estonia, Latvia, Lithuania and Belarus. Established in 1995, today Sorainen numbers more than 180 lawyers and tax consultants advising international and local clients on all business law issues involving the Baltics and Belarus.

University of Latvia Development, management, lease, disposal and construction of real estate 2016 Legal Adviser	**MG Valda** Acquisition of land at former Skaiteks factory from Panevėžio keliai: one of the biggest real estate development transactions in Lithuania in 2016 2016 Buyer's Legal Adviser	**DNB Bank ASA (Norway)** Grant of loan to Norwegian real estate development group Schage for development of the Quadrum business centre in Vilnius, Lithuania Total project value approx EUR 100 million 2016 Legal Adviser	**Lords LB Baltic Fund IV** Acquisition of "EU House" office building in central Tallinn 2016 Buyer's Legal Adviser
AJ Produkti Extension of office and warehouse in Latvia Total project value approx EUR 1.2 million 2016 Legal Adviser	**Estectus** Sale of Scala City office building in Tallinn city centre Gross lettable area of over 5,000 m² 2016 Seller's Legal Adviser	**Dobrovolės logistikos centras II** Sale and transfer under a lease agreement of landlord's rights to logistics building in Vilnius Area 10,000 m² 2016 Seller's Legal Adviser	**Baltic Horizon** Acquisition of Upmalas Biroji office building in Riga Net leasable area of over 10,500 m² 2016 Buyer's Legal Adviser
Estonian Technical Regulatory Authority Jointly with the Estonian Centre for Applied Research, analysing possibilities for compensating potential adverse effects of Rail Baltica construction on affected landowners 2015 Legal Adviser	**CPA:17 – Global** Acquisition of Class-A logistics facility in Kaunas and signing long-term lease agreement with Kesko Senukai Total project value approx EUR 60 million 2016 Buyer's Legal Adviser	**Hesburger** Acquisition and development of sites to develop five new restaurants Total investment over EUR 1 million 2016 Legal Adviser	**Vilbra** Sale of business centre comprising 3 office buildings and a 6-storey car park, located on two leased state-owned land plots Total area approx 14,000 m² 2016 Seller's Legal Adviser
East Capital Baltic Property Fund II Acquisition of Mustamäe Keskus shopping centre in Tallinn, Estonia Total area 21,000 m² 2015 Buyer's Legal Adviser	**Lords LB Special Fund I** Concluding contract with international hotel operator Carlson Rezidor Hotel Group in Vilnius, Lithuania 2016 Legal Adviser	**Rosner Consulting** Purchase of shares in Nordika prekybos slėnis, owner of NORDIKA retail centre, and subsequent sale to a third party investor Gross leasable area 35,000 m² 2016 Buyer's Legal Adviser	**Linstow group** Extension of Alfa and ORIGO shopping centres in Latvia Total project value exceeds EUR 50 million 2015/2016 Legal Adviser

ESTONIA
Pärnu mnt 15
10141 Tallinn
phone +372 6 400 900
estonia@sorainen.com

LATVIA
Kr. Valdemāra iela 21
LV-1010 Riga
phone +371 67 365 000
latvia@sorainen.com

LITHUANIA
Jogailos 4
LT-01116 Vilnius
phone +370 52 685 040
lithuania@sorainen.com

BELARUS
ul Internatsionalnaya 36-1
220030 Minsk
phone +375 17 306 2102
belarus@sorainen.com

554 offices in 66 countries on 6 continents

United States: **153**
Canada: **34**
Latin America: **24**
Asia Pacific: **131**
EMEA: **112**

€2.3
billion in
annual revenue

185
million square meters
under management

16,000
professionals
and staff

Authors:

Deniss Kairans | Partner, Managing Director
Colliers International Advisors | Latvia Office

K. Valdemara Street 21
Riga | Latvia
Phone +371 6778 3333
Fax +371 6778 3334
E-mail colliers.latvia@colliers.com
www.colliers.com

Ramune Askiniene | Partner, Managing Director
Colliers International Advisors | Lithuania Office

A. Gostauto Street 40B
Vilnius | Lithuania
Phone +370 5 249 1212
Fax +370 5 249 1211
E-mail colliers.lithuania@colliers.com
www.colliers.com

Avo Roomussaar | Managing Partner
Colliers International Advisors | Estonia Office

Lootsa 2a
Tallinn | Estonia
Phone +372 6160 777
Fax +372 6160 771
E-mail colliers.estonia@colliers.com
www.colliers.com

About Colliers International

Colliers International is a global leader in commercial real estate services, with 16,000 professionals operating out of more than 550 offices in 66 countries. A subsidiary of First Service Corporation, Colliers International delivers a full range of services to real estate users, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services, mortgage banking and insightful research. The latest annual survey by the Lipsey Company ranked Colliers International as the second-most recognized commercial real estate firm in the world.

colliers.com

Colliers INTERNATIONAL

Accelerating success.