BALTIC STATES

REAL ESTATE MARKET REVIEW

ANNUAL REPORT, MARCH 2013

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LATVIA
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LATVIAN REAL ESTATE MARKET IS READY FOR NEW DEVELOPMENT

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Dear Reader,

It is our pleasure to present the Colliers real estate market review for Latvia. We believe that the information in our review will show you a clear picture of the latest statistics, trends and forecasts. But more importantly, it will assist you in making the right decisions and accurately evaluating the risks.

The year of 2012 proved most of our forecasts which were made a year ago — each of the real estate segments saw improvements in major characteristics. The biggest worries regarding the economic problems of old Europe didn't influence plans announced by major real estate players of the Baltic region. The activity level remained at similar level as in 2011.

What's next? 2013 should be an interesting year as well. Primarily we expect that investment activity will increase in the real estate market of Latvia. There are several trends that indicate this – the economic situation is improving steadily, the introduction of the Euro in 2014 looks real, current investors didn't fill the pipelines in recent years, thus, new funds are not yet completed and, finally, the quality of prime assets of sale is improving.

This is also a time to seriously consider new development perspectives. The market is beginning to return to the development phase, which mostly affects the residential segment where the majority of activity is dictated by non-residents using favorable Latvian legislation. The commercial real estate segment is lacking serious competition among professional developers, and this is a good opportunity for newcomers, since we expect that a demand for new and qualitative space in Riga will increase in the next 2-3 years.

Statistics from our latest market report will show how quickly things are changing in Latvia. Just three years ago the country was in severe recession with historically high vacancy rates and rent rates at minimal values. Today we witness a completely different picture: during the past three years, the market has absorbed a large share of vacant space, and rental rates are on the rise. We lack quality commercial space in offices and industrial, while vacancy in the top shopping centers are at zero per cent. At the same time, with the negative experiences of the recession still fresh on the mind, new real estate development involves a high degree of risk, which will lead to more built-to-suit projects in the near future.

Executive Summary

Map of Colliers International Office Locations, in the Baltic States, Eastern & Central Europe

RECENT TRENDS

- **Economy**: The Latvian economy continues to increase its growth rate slightly faster than expected, reaching a real GDP growth of almost 5 per cent in 2012. The positive trend is attributed to an increase in Latvian exports, the reduction in Value Added Tax (from 22 to 21 per cent), and a modest increase in employment rates.
- **Investment:** In 2012, the total value of investment transactions in Riga amounted to 168 million EUR. The main investment targets in 2012 continued to be retail and office properties with strong cash-flow and core locations.
- **Offices**: In 2012, the total office stock reached 536,000 sqm; only two new office buildings were commissioned. High risks associated with new development, still low level of rental rates and reluctance of tenants to sign long-term binding pre-lease agreements have resulted in low development activity in Riga. Vacancy rate continued to decrease; as a result, rental rates increased in all office classes by 1-3 EUR/sqm.
- **Industrial**: At the end of 2012, the total supply of industrial space in Latvia reached 744,000 sqm. The vacancy rate fell compared to 2011 and amounted to 4.6 per cent.
- **Retail**: The retail market is one of the most active segments of the commercial real estate market. At the end of 2012, total shopping center stock reached 663,000 sqm, and the vacancy rate in all Riga shopping centers averaged at 3.5 per cent. As of Jan. 2013, retail sales growth yoy reached about 13 per cent, one of the highest in the EU.
- **Hotels**: Riga holds the position as the most affordable city in Europe for travelling. In 2012, the key indicators for the hotel market improved, though less than anticipated. No new hotels were opened in 2012.

MARKET INDICATORS

KEY FIGURES	2012*	2013*
GDP GROWTH	↗	↗
UNEMPLOYMENT	↘	↘
WAGES	→	→
INFLATION	→	→
INVESTMENT VOLUMES	↗	→
OFFICE RENTS	↗	↗
INDUSTRIAL RENTS	→	↗
RETAIL RENTS	→	↗
YIELDS	→	→

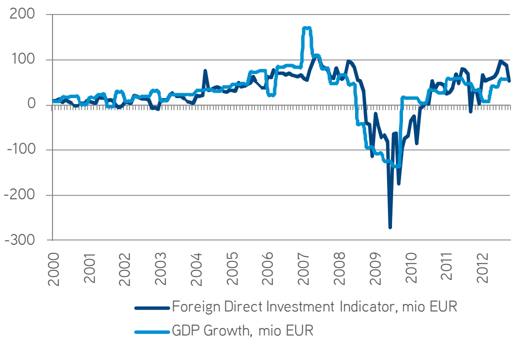
*Compared to the previous year

MARKET FORECAST

- **Economy**: Foreign Direct Investments (FDI) will continue to be the driving force of the Latvian economy; the impact of FDI on the Latvian economy expects to remain favorable.
- **Investment**: Investment volume in 2013 will be at least the same as in 2012. Larger institutional funds may enter the market in case new portfolios a released for sale; also, more bank-related asset management companies may initiate an active sales process. Since large office, retail and industrial premises have filled vacancies and reached a stable cash flow, the market is likely to see several large deals in 2013.
- **Offices**: No new office projects are expected to enter the market in 2013. The gap in development may lead to falling vacancy rates and gradually increasing rental rates. The demand for qualitative office premises is stable.
- **Industrial**: The limited supply of industrial space over 10,000 sqm could lead to new built-to-suit development projects in 2013 and 2014. Rental rates will slightly increase. Due to decreasing vacancy and market stabilization, there is a potential for investment transactions in 2013.
- **Retail**: Supply of new shopping centers will remain scarce in 2013/2014, but additions to the supply of retail space will be filled by new grocery stores and hypermarkets. 2013 expects to see an increase in demand from international brands. Retail vacancy rate will show positive dynamics and is expected to decrease in 2013.
- **Hotels**: Riga will be the European Capital of Culture in 2014, thus the tourism and hotel industries will likely experience positive improvements in the number of tourists, hotel visitors, hotel occupancy and room rates. During 2013, the supply of rooms in 3- and 4-star hotels will increase by 183 rooms.

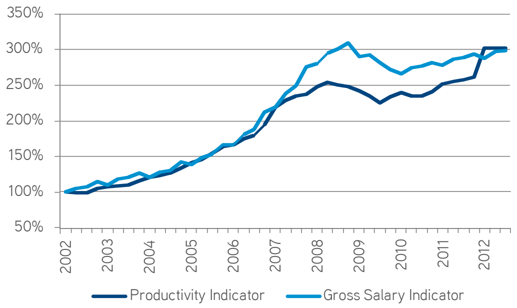
Economic Overview

FOREIGN DIRECT INVESTMENT AND GDP GROWTH



Source: Colliers International; Central Statistical Bureau

PRODUCTIVITY AND GROSS SALARY INCOME



Source: Colliers International; Central Statistical Bureau

SUMMARY

The recovery of the Latvian economy in 2012 was confirmed by most economists. According to the Central Statistical Bureau of Latvia, Real GDP Growth in Q3 2012 was 5.9 per cent yoy and is expected to exceed 4.0 per cent in Q4 2012. After 3 years of severe recession of 2008-2010, the Latvian economy continues to improve its growth rate slightly faster than expected. Reaching almost 5 per cent GDP growth, Latvia has exceeded GDP growth of countries such as Germany, France, Sweden, and Norway. The more rapid growth of Latvia against the backdrop of the general European economic slowdown is explained by a recovery of the domestic economy capabilities, which were deprived during the recession.

Encouraging signs of Latvian economic recovery include the following: Latvian export growth results, Value Added Tax reduction (from 22 to 21 per cent), and modest increase in employment. Further, the all-time largest decrease in Consumer Price Index, in tandem with the reduction of the Value Added Tax, should increase Household Net Income.

Most economists identify export as the prime mover of the Latvian economy. However, the realization of the full potential of Latvian exports depends on the European macroeconomic climate. Due to a shrinkage of markets, European manufacturers can direct attention to foreign markets, resulting in increased competition among exporters and a reduction in Latvian export revenues potential.

The Consumer Price Index (CPI) in November 2012 was about 2.5 per cent and continues to show sluggish growth, going hand in hand with Latvian debt market rates.

The weighted average of Latvian long term loan rate in November 2012 was 6.5 per cent, but the weighted average of Latvian short term loan rate was 5.5 per cent. The weighted average of long term and short term deposit rates continue to be lower than CPI, but despite this, the volume of deposits in Latvian banks continues to grow steadily.

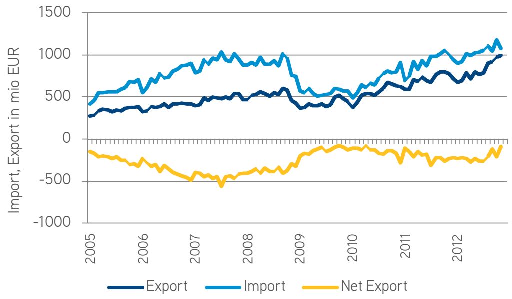
In general, the situation in the banking sector has improved substantially. The Loan Coverage Indicator (total loans vs total deposits) has significantly improved and currently is slightly

KEY MARKET INDICATORS/ YEAR

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F
GDP Current Prices, bio EUR	8.1	9.1	10.6	12.8	15.8	20.9	22.9	18.6	18.2	20.3	21.3	22.7	24.0
GDP Growth (Real), % yoy	7.2	7.6	8.9	10.1	11.2	9.6	-3.3	-17.7	-0.9	5.5	4.0	3.5	5.2
Industrial Production, % yoy	8.4	9.1	8.9	5.6	4.8	-1.0	-8.3	-17.7	14.0	11.5	7.5	6.5	n/a
Share of Unemployed to the Active Population (%)	12	10.6	10	8.7	6.8	6	7.5	16.9	18.7	16.2	15.5	13.7	11.5
Total Central Government Debt, % of GDP	13	15	15	12	11	9	20	37	44	42.6	40.2	37.6	34.3
PPI, % yoy	0.4	3.4	8.1	7.9	10.2	16.1	11.8	-4.7	3.1	7.7	2.5	2.5	3.5
CPI, % yoy	1.9	0.9	6.2	6.7	6.5	10.1	15.4	3.5	-1.1	4.4	2.5	2.1	2.0
Fiscal Deficit, % of GDP	-2.3	-1.6	-1	-0.4	-0.5	-0.3	-4.2	-9.7	-8.1	-3.5	-1.9	-1.2	-0.7
Export Change, % yoy	12.13	17.2	30.3	34.3	14	22.7	9.6	-18.7	30.3	27.8	15.3	n/a	n/a
Import Change, % yoy	13.4	19.7	27.3	27.9	31.1	22	-3.2	-37.4	25.5	30.6	12.9	n/a	n/a
Current Account, % of GDP	-6.7	-8.2	-12.9	-12.6	-22.6	-22.4	-13.1	8.6	2.9	-2.2	0	n/a	n/a
FDI Indicator, mio EUR	93.80	176.50	411.80	524.10	810.50	955.20	408.30	-1089.70	79.40	486.20	841.70	n/a	n/a
LVL/EUR, aop	0.58	0.65	0.67	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
LVL/USD, aop	0.62	0.57	0.54	0.56	0.56	0.51	0.48	0.51	0.53	0.50	0.55	n/a	n/a

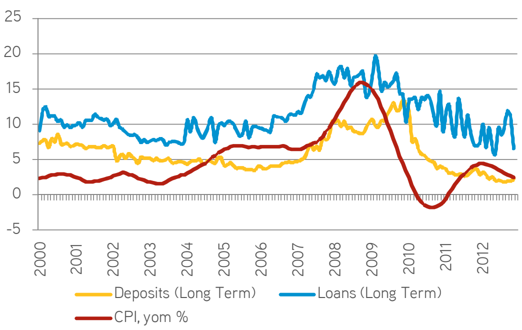
Source: Colliers International; Central Statistical Bureau

EXPORT, IMPORT AND NET EXPORT INDICATORS



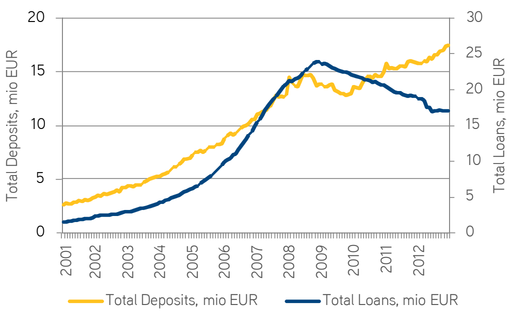
Source: Colliers International; Central Statistical Bureau

DEPOSIT, LOAN RATES AND CPI



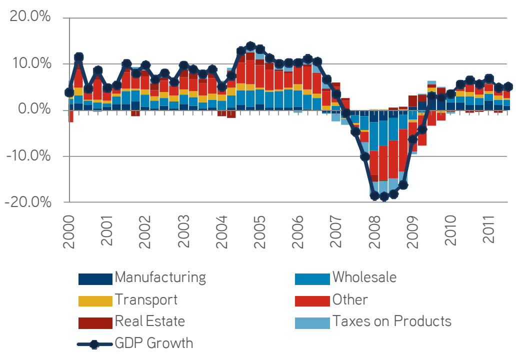
Source: Colliers International; Central Statistical Bureau

TOTAL LOANS AND TOTAL DEPOSITS



Source: Colliers International; Central Statistical Bureau

GROSS DOMESTIC PRODUCT GROWTH, yoy %



Source: Colliers International; Central Statistical Bureau

greater than one. During the financial crisis from 2007 to 2009, total loans decreased slowly in tandem with deposit volumes. After 2009 the dynamics of total loans and total deposits diverge: total deposits began a slow steady growth, while total loans pursued slowed down. This diverging movement of indicators has improved the loan coverage indicator. At present, the Latvian Loan Coverage Indicator has achieved its historical value of 2006; consequently, Latvian banks currently are able to offer total loans at similar levels as in 2006, due to maintaining stable loan coverage with deposits. A problematic aspect of loan creation is the improving but still generally high rate of the overdue loan indicator.

During 2012 the unemployment rate improved slightly, and at the moment it is about 12 per cent. By reducing the percentage of unemployment, the capacity of the Latvian economy has increased slightly. However, the labor market situation remains tense because the percentage of active population who are unemployed is about 15.5 per cent. Improving but still high unemployment continues to be a significant difficulty to economic growth. Simultaneously, redoubled central government debt can become a restraint to rapid economic development in forthcoming years.

Colliers International recognizes Foreign Direct Investments (FDI) as the driving force of the Latvian economy. After the financial crisis in 2007, the domestic economy had no positive impact on bank loan portfolios, while the FDI flow has contributed significantly to economic growth. There is a positive medium-term dynamics of FDI, which is slightly changed with little short-term decrease. Colliers International considers medium-term dynamics of FDI to be perennialized, while in the short term may lead to insignificant fluctuations. The impact of FDI on Latvian economy is expected to remain favorable.

In 2012 Latvian productivity in relation to gross salary income has improved significantly. For the first time since 2006, the ratio of productivity and income has leveled off, making Latvian economy more competitive and attractive to investors. This indicator shows the efficiency of the personnel costs. Latvian competitiveness growth lays the groundwork for steady investment inflow, while domestic savings formation provides stability in case of economic disturbances.

TENDENCIES AND FORECASTS

- Real GDP Growth in Q3 2012 was 5.9 per cent yoy and expected to exceed 4.0 per cent in Q4 2012. After 3 years of severe recession of 2008-2010, the Latvian economy continues to increase its growth rate slightly faster than expected, reaching almost 5 per cent.
- The positive trend in the Latvian economy is attributed to: Latvian export growth results, Value Added Tax reduction (from 22 to 21 per cent), modest increase in employment.
- Foreign Direct Investments (FDI) are the driving force of the Latvian economy. Medium-term dynamics of FDI tend to be perennialized. The impact of FDI on the Latvian economy expects to remain favorable.
- The situation in the banking sector over the years has improved substantially. At the present time, the Latvian loan coverage indicator has achieved its historical value of 2006. Consequently nowadays Latvian banks are able to increase total loans to similar levels as 2006, maintaining stable loan coverage with deposits.
- In 2012 Latvian productivity in relation to gross salary income has improved significantly. For the first time since 2006, the ratio of productivity and income has levelled off, making Latvian economy more competitive and attractive to investors.

Investment Market

INVESTMENT VOLUMES

The greatest investment activity in Latvia is concentrated in Riga and the Riga region. In 2012, the total value of investment transactions in Riga has amounted to 168 million EUR, which is 20 per cent less in comparison to 2011 when 209 million EUR were invested into Riga real estate market. Despite this fact, investment activity in 2012 was at the same level as in the previous year.

The main difference is that 2011 was fruitful with large single investment deals, such as the sale of Hotel Riga for an estimated 30 million EUR and the sale of the residential project on Kaivas Street with more than 360 apartments at the price exceeding 15 million EUR. In comparison, the largest single transaction in 2012 was around 10 million EUR. 55 per cent of all the transactions in Riga were below the one million EUR threshold and only 9 per cent were above the five million EUR, indicating that in 2012 the market provided greater opportunities for smaller players to invest into small size liquid real estate assets.

The main investment targets in 2012 continued to be retail and office properties with strong cash-flow and core locations, although the greater activity continued to be “price per square meter” decision-based rather than yield-based due to absence of suitable objects.

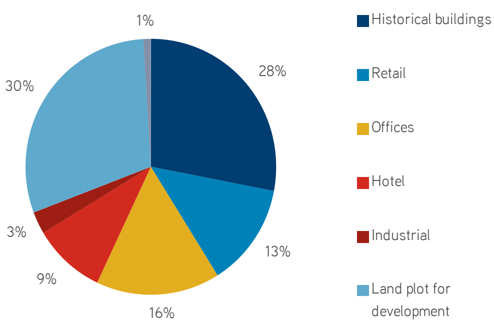
INVESTMENTS BY PROPERTY TYPE

The distribution of the transaction numbers between different property types shows that the number of deals with land plots for development has increased by 26 per cent, reaching a total of 30 per cent of all transactions. Half of them corresponded to the residential segment where the number of potential developers grew last year, mainly because of rather stable activity within Riga prime residential market. One such example is the acquisition of a 2.5ha development site in the Quiet centre of Riga by Larix Property, part of Inter IKEA group.

Office deals, which accounted for 34 per cent of all the transactions in 2011, now amount to only 16 per cent. This can be explained by the lack of office premises that match investment criteria. The largest deal was the acquisition of a historical office building at Kalku St. 15 in Riga. The buyer was an Italian company, Baltic Re Group, who purchased the property from the BPT Secura real estate fund.

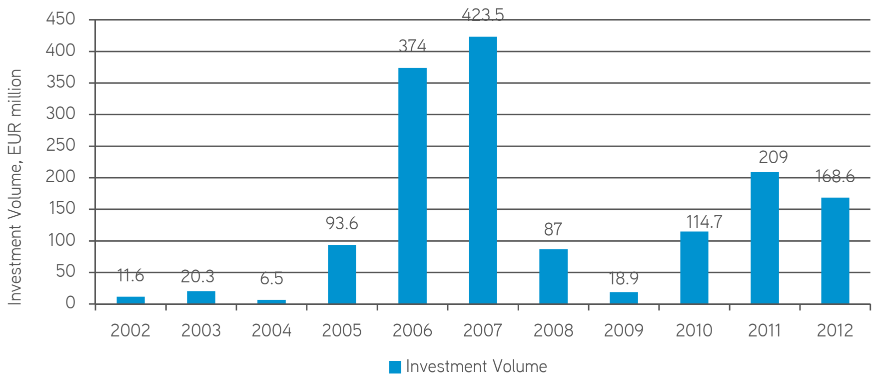
Total investment in the retail real estate market in Riga amounted to an estimated 19 million EUR in 2012, which is almost the same as in 2011. This segment is targeted by most real estate funds seeking stable cash flows and yields around 8 per cent. One of most significant deals in 2012 was the acquisition of SKY shopping centre at Bikernieku Street. The new owner of the property is BPT Baltic Opportunity Fund.

DISTRIBUTION OF THE TRANSACTION NUMBERS BETWEEN DIFFERENT PROPERTY TYPES FOR RIGA (IN PER CENT)



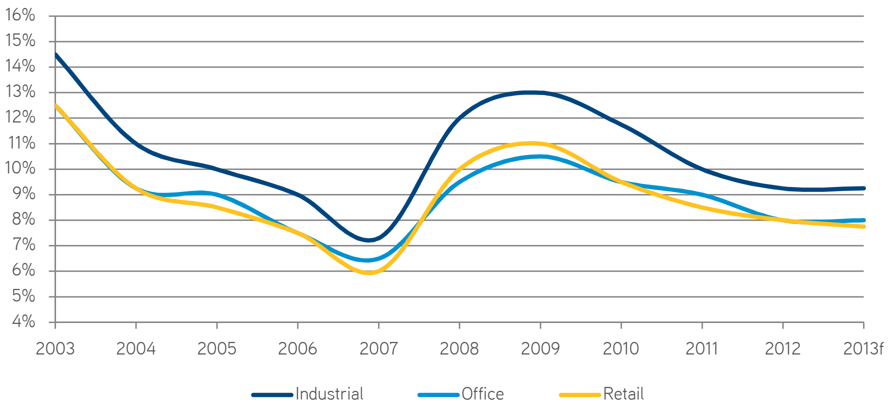
Source: Colliers International

INVESTMENT VOLUMES IN RIGA



Source: Colliers International

YIELD DYNAMICS IN RIGA



Source: Colliers International

As was mentioned in earlier reports, the hotel investment market was untypically active in Riga during 2011. This trend continued in 2012 with 9 hotel deals in Riga and 2 deals in Jurmala. Hotel investment volume will most likely decrease in 2013, due to lack of reasonably priced investment opportunities at good locations.

In spite of a fairly high number of investment deals in the hospitality sector, the total value of the investment was slightly lower than in 2011 and amounted to 49 million EUR for Latvia (35,5 million EUR in Riga). The average price per key (room) in 2012 was below 70 thousands EUR.

The most noticeable deals were the purchase of the Hotel Lielupe in Jurmala as well as the disposal of the Elefant Hotel in Riga.

INVESTOR PROFILES

The lack of qualitative assets in the Riga market prevented the accumulation in Latvia in 2012 of several specialized real estate funds targeting the Baltic market. 2013 looks promising because historical players, such as Baltic Property Trust and East Capital (which already some time ago announced its readiness to make large investments into the Baltic countries, including Latvia), are looking for new opportunities, and because there is more activity coming forth from local Baltic players, such as Lords LB and Eften Capital. Private investment groups from Nordic countries, such as Nordic and Baltic Property Group, are also seeking new opportunities. 2013 can switch the focus of some asset management companies who were active in Estonia in recent years towards the rest of the Baltics, e.g. Capital Mill, who is focused on increasing their portfolio further.

Activity from investors from the Commonwealth of Independent States (CIS)* remains stable in Latvia. These players have a more flexible approach to investment decisions and often they find the right approach for property owners in good locations and/or historical value. Comparing to previous years when the greatest interest was for hotels in Riga and Jurmala as well as for residential development projects, 2012 attracted some positive interest towards the office and industrial segments.

In general, international investors became more favorable to the Baltic countries. While first targeting Estonia, they now are looking to expand also in Latvia and Lithuania. This is partially due to both, the market similarities between Estonia and the other Baltic countries as well as the current lack of suitable assets in Estonia where investment activity restarted earlier.

OWNERS PERSPECTIVES

A major change in 2012 was that some banks' asset management companies started an active sales process of the properties taken over during previous years. The largest such organization, Ektornet, owns more than 190 million EUR worth of assets in Latvia, 45 million EUR in Lithuania and 40 million EUR in Estonia. They are not only the owners of the largest portfolio in the Baltics, but also the holders of the leading position in sales volumes. In 2012

Ektornet sold properties worth millions of Euros, and their aim is to increase this number in 2013.

In addition, a number of funds are moving towards starting exit procedures. The largest portfolio that already appeared on the market is BPT Secura with 10 properties in the Baltics. There are other asset management companies operating in Latvia with funds with soon ending terms, such as East Capital, that potentially can make decision on exit strategy. Properties offered by these players are more structured. Therefore, these transactions might shape the market towards a yield-based investment approach.

Local market players are still unable to recover from the significant rent and occupancy drop caused by the recession. In most cases, their properties are not able to provide sufficient cash flow in order to cover bank liabilities. Therefore prices have not fallen, resulting in stagnation in local market.

YIELDS

Most transactions in the Latvian market continue to be "price per square meter" based. Despite a strong interest from the investors' side, there is a very limited amount of yield-based deals. Large institutional investors who prefer to make their investment decisions based on this parameter continue to look into the office and retail sectors, targeting prime properties.

The main reason for the lack of such type of transactions is that investor target yields for prime office and retail properties are close to 8 per cent. At the same time, property owners are still adhering to the pre-crisis prices, which given the significant rent rate drop, results in offered yields between 6 to 7 per cent or even less.

This market situation is primarily caused by the fact that property values dropped significantly and are still far below those indicated in valuations made in 2006-2007. At the same time, financing for these projects was acquired based on those large values. As a result, remaining bank loans in many cases are still higher than the market price of the properties detaining price adjustment.

Number of deals in Latvia will increase in case owners will reduce properties' prices and cope with loses or buyers will evaluate potential future cash flow rather than current figures. Otherwise, both parties will have to wait until the rent rates increase high enough to provide sufficient return to the investors given current price expectations of the owners.

FORECASTS

- Investment volume in 2013 will be at least the same as in 2012;
- Larger institutional funds may enter the market in case new portfolios are released for sale;
- More bank-related asset management companies may also initiate an active sales process;
- Since large office, retail and industrial premises are now filling the vacancies and having stable cash flow, the market is likely to see several large deals in 2013;
- Hotel investment volume will most likely decrease in 2013 due to a lack of reasonably priced investment opportunities at good locations;
- More deals will begin to occur, if owners consider reducing property prices, or if buyers evaluate potential future cash flow rather than current figures.

Office Market

KEY FIGURES

Total Stock (Spec and BTS)	536,000 sqm
Vacancy	9.3%
Prime Headline Rent for A Class Premises	14 EUR/sqm/month

Source: Colliers International

OVERVIEW

The dynamics of the Riga office market remain largely stable. Business activity in the office segment shows a reserved optimism rather than a cautious pessimism, as confirmed by such factors as decreasing vacancy rates, slight growth in rental rates and healthy absorption of new stock additions. At the same time, positive business activity from a macroeconomic point of view is confirmed by 5 per cent GDP growth rate last year, productivity improvement corresponding to gross salary and increased Foreign Direct Investment inflow.

However, uncertainty about Latvian economic growth in the future, due to the general European economic slowdown, high unemployment rate and high government debt as well as still low level of rental rates and reluctance of tenants to sign pre-lease binding agreements, does not facilitate new office development. Over the past three years there were no significant additions to A and B class office stock in Riga, which will most likely change the market dictating position from the tenants' market to the landlords'.

SUPPLY

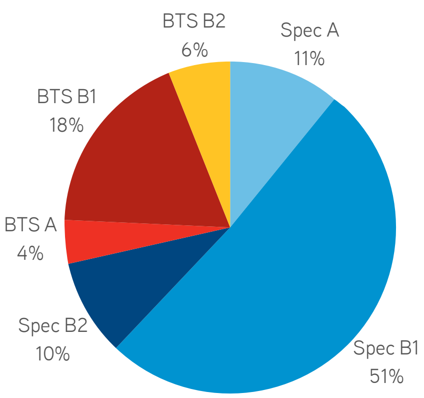
The total stock of office premises in Riga is estimated at 536,000 sqm. Speculative stock dominates with 385,000 sqm or 72 per cent, while build-to-suit (BTS) office buildings make 151,000 sqm or 28 per cent.

It is interesting to note that just 35 thousand sqm or 6.5 per cent of the total stock was added during the past three years from 2010 and 2012. High risks associated with new office development, still low levels of rental rates and reluctance of tenants to sign long-term binding pre-lease agreements result in such low development activity.

During 2012 two new office buildings were commissioned: the Jupiter Centre, located on Skanstes St. 7, Riga and Energoefektiva Biroju Eka (EBE) as part of Riga Industrial Park, located on Dzelzavas St. 120. Both properties have supplemented the total stock by 8,400 sqm, with the Jupiter center alone adding ~7,300 sqm.

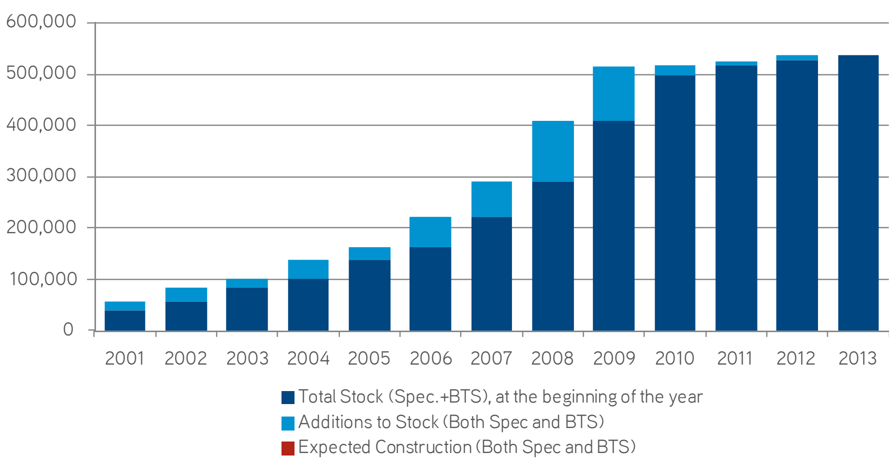
However, the situation may change in the next 2-3 years, when such important built-to-suit projects as the headquarters of the Latvian State Revenue Service (total GLA: 43,000 sqm) and AB.LV bank (total leasable area: 16,300 sqm) will be commissioned. In the future, the majority of significant office development projects may be realized on the built-to-suit basis. Such development scheme minimizes risks for developers and debt providers.

DISTRIBUTION OF TOTAL OFFICE SPACE IN RIGA BY CLASS



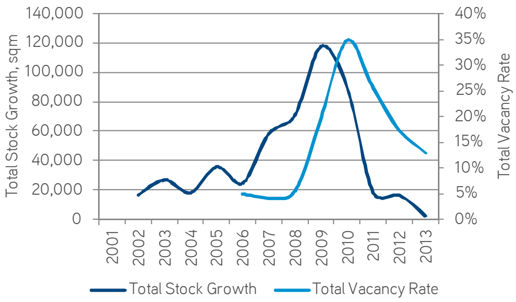
Source: Colliers International

DYNAMICS OF OFFICE SPACE IN RIGA



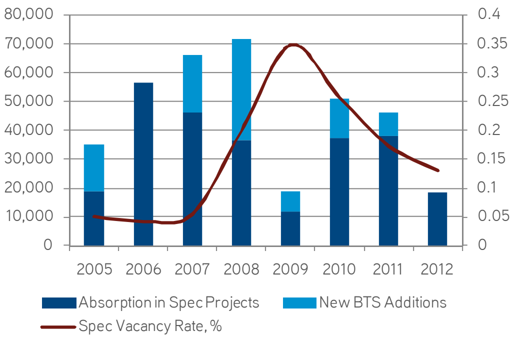
Source: Colliers International

TOTAL STOCK GROWTH AND VACANCY



Source: Colliers International

ABSORBTION OF TOTAL STOCK

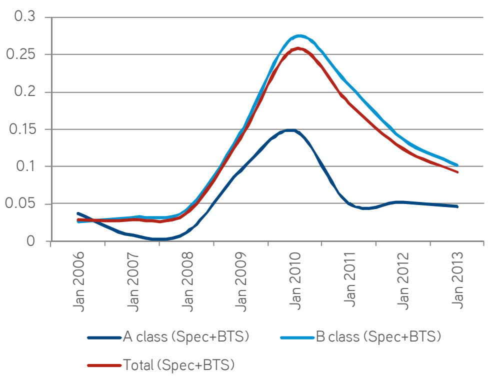


Source: Colliers International

VACANCY RATES AND TENDENCIES IN RIGA			
CLASS	JAN 2012	JAN 2013	TENDENCIES FOR 2013
Class A	4.9%	4.6%	→ ↓
Class B1	12%	10.3%	→ ↓
Class B2	13%	9.7%	→ ↓

Source: Colliers International

VACANCY RATE



Source: Colliers International

The most realistic speculative office centre that may enter the market in 2012/2013 is Braslas Centrs. However, this is a C class reconstruction project (total GLA: 18,000 sqm), and will not affect the high class office segment. There is a vacant office centre in G.Astras 1c St (total GLA: 7,000 sqm), which cannot be officially added to the stock for several years, as it does not have internal finishing works done, requires significant additional investments, and waits to be sold and/or leased for large tenants.

Speculative office stock may increase in 2015/2016 when an A class office centre with a total estimated leasable area of 16,500 sqm will be commissioned, as the first development phase of the large scale development scheme New Hanza City, located in the heart of future Riga CBD between Hanzas, Skanstes and Pulkveza Brieza Streets.

Thus, slow development activity in the past three years is changing the market dictating position from the tenants' market back to the landlords', as it was during the economic "boom" period of 2006-2008. Landlords are taking advantage of falling vacancy rates by trying to improve their tenant mix and by renegotiating lease contracts for longer periods with higher rent rates. The period of lease contracts with discounted terms, negotiated during economic recession, is ending, and rental rates are forecasted to gradually go up.

DEMAND

According to Colliers data, absorption of total office space in 2012 was 24,500 sqm; by comparison, in 2011, 39,000 sqm were absorbed by the market. This is explained by a decrease in vacant office stock and fewer choices of quality premises for potential tenants.

In 2012 the most active tenants in the market were insurance, IT, medical and pharmaceutical companies. It is expected that these companies will continue to be active players in the Riga office market in the future.

TOP 10 OFFICE LEASE TRANSACTIONS OF 2012			
TENANT	INDUSTRY	OBJECT/ ADDRESS	AREA, SQM
Ergo	Insurance	SWH BC	2,000
IF P&C Insurance	Insurance	Citadele HQ	1,836
Statoil	Fuel and Retail	Duntes Biroji	1,600
MFD Veselības Grupa	Medicine	Buļļu St. 9	1,500
Adidas/Reebok	Sports Goods	Toma 4	1,164
PWC	Audit Services	Valdemara 21	1,129
Datakom	IT	Unity	1,111
AGE Com	Advertising	Stabu 10	1,000
Intrum Justitia Software Development Centre	IT	Brīvības gatve 214	800
GlaxoSmithKline Latvia	Pharmacy	Duntes Nami	750

VACANCY

Vacancy rate continues to fall for three consecutive years since it peaked in the end of 2009/beginning of 2010. Total vacancy rate for both speculative and built-to-suit projects in Jan. 2013 comprised 9.3 percent (Jan. 2012: 11.2 per cent). Vacancy calculated only for speculative office buildings is 13.0 per cent (Jan. 2012: 15.8 per cent).

In the A class office segment, the vacancy rate as of Jan. 2013 is 4.6 per cent (Jan. 2012: 4.9 per cent). This equates to 4,000 sqm of vacant space, a negligible amount for Riga. At the same time, though insolvency of Snoras and Krajbanka Banks did not have a material impact on the 2012 vacancy rate, and Krajbanka continues to occupy its headquarter building on J.Dalina St. (total GLA: 9,000 sqm), the situation may change. In case this property is sold and/or is available for lease, it may impact the A class segment vacancy rate.

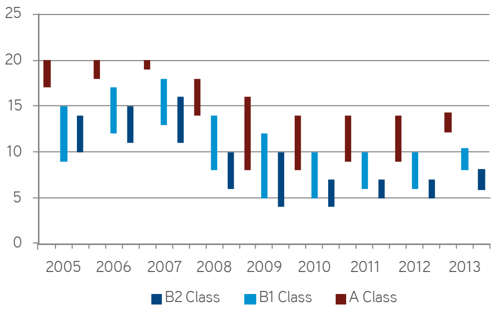
The vacancy rate for all B class office buildings is estimated at 10 per cent (Jan. 2012: 12.4 per cent). As no significant additions to the office stock are expected in 2013, vacancy rate is projected to continue to decrease, unless Latvia is impacted by the second wave of economic recession in the EU or other external shocks.

RENT RATES* AND TENDENCIES IN RIGA

CLASS	JAN 2012	JAN 2013	TENDENCIES FOR 2013
Class A	9 - 14	12 - 14	→ ↑
Class B1	6 - 10	8 - 10	→ ↑
Class B2	5 - 7	6 - 8	→ ↑

*asking rental rates, EUR
Source: Colliers International

DYNAMICS OF RENTAL RATES* IN RIGA



*asking rental rates, EUR
Source: Colliers International

RENTAL RATES

Current market conditions in the office segment are changing in favor of landlords rather than tenants. Falling vacancy rate, no significant additions to the speculative office stock and improving economic environment in the country make landlords more reluctant to prolong favorable lease term agreements, provide lease discounts and be flexible towards the needs of the tenants.

As a result office rental rates are gradually picking up. The most significant increase in rental rates is observed in the A class segment, which also has the lowest vacancy rate of 4.6 per cent. Increase in rental rates for A class premises is up by 30 per cent: lower rental rate bound growth has increased from 9 to 12 EUR/sqm. The higher rental bound for A class offices has remained at the level of 14 EUR/sqm.

Rental rates increased in all office classes by 1-2 EUR/sqm. Rental rates for A class premises are about 12-14 EUR/sqm; for B1 class office premises, 8-10 EUR/sqm; and for B2 premises, 6-8 EUR/sqm. Lower rental rate bound growth is also seen in B1 class premises, which increased from 6 to 8 EUR/sqm, as well as B2 class premises, which increased from 5 to 6 EUR/sqm. This may continue to be a tendency in 2013 for the office rental market.

LIST OF NEW SPECULATIVE PROJECTS UNDER CONSTRUCTION IN RIGA (2012)

PROJECT NAME	ADDRESS	GLA, SQM	CLASS FOR SPEC/ BTS	DEVELOPER	BLDG. STATUS	EXPECTED YEAR OF COMMISSION
HQ of State Revenue Service of Latvia	Talajas 1, Riga	43,000	BTS	Biroju Centrs Ezerparks, Ltd.	Under construction	2014
Braslas Centrs	Braslas St. 29a	18,000	C	Braslas Centrs, Ltd.	Under re-construction	2013/2014
New Hanza City, 1st Stage	Pulkveza Brieza St. 24	16,300 (BTS), 16,500 (Spec)	A/BTS	New Hanza City, Ltd	Technical design	2015/Q1 2016
Gunara Astras 1c	G.Astras St. 1c	7,000	B2	Ektornet	Existing property, not com-missioned*	n/a
TOTAL:		100,800				

*Gunara Astras 1c is frozen, and the developer is ready to commission the building as soon as the market is ready to absorb new projects.

TRENDS AND FORECASTS

◊ High risks associated with new office development, still low levels of rental rates and reluctance of tenants to sign long-term binding pre-lease agreements result in low development activity in Riga;

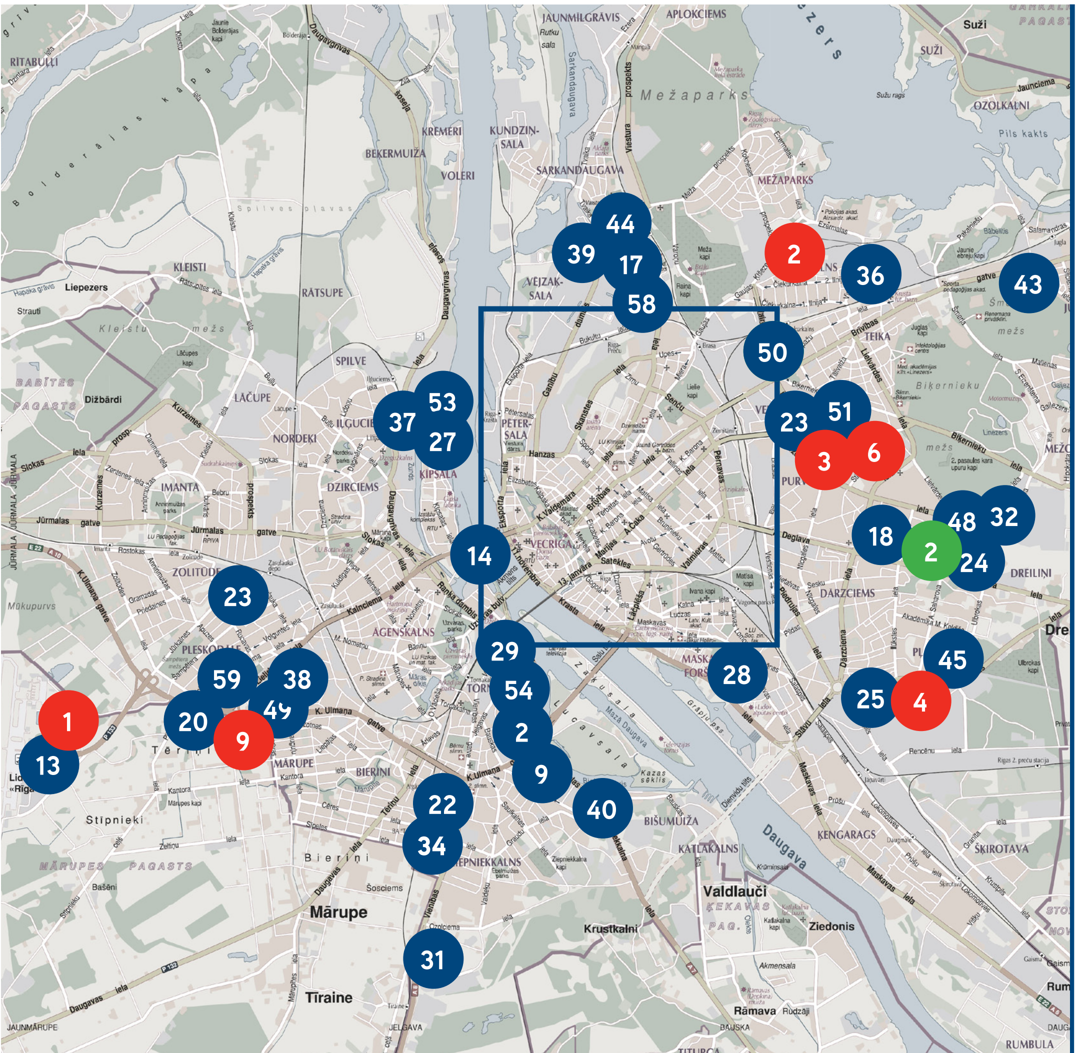
◊ During 2012, two new ofice buildings were commissioned with a total gross leaseable area of 8,400 sqm; no new office projects are expected to enter the market in 2013;

◊ Office development gap is leading to falling vacancy rates and gradual increase of rental rates. The demand for qualitative office premises is stable, though tenants are reluctant toward rental rate increases;

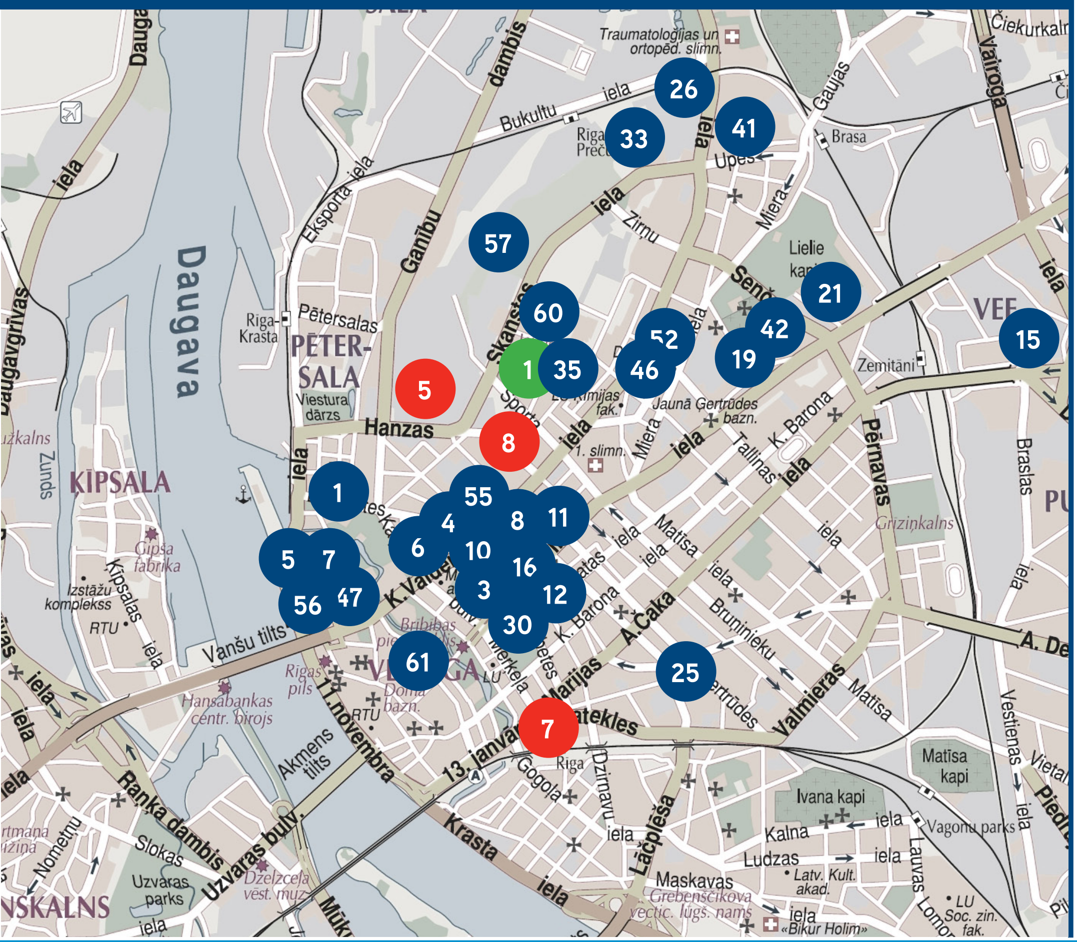
◊ The most active tenants in 2012 were IT and insurance companies, as well as medical and pharmaceutical businesses;

◊ Vacancy rate continues to decrease for three consecutive years across all segments of the Riga office market. The critical level of vacancy at 4.5 per cent has been reached in the Class A segment;

◊ Consequently, rental rates have increased in all office classes by 1-3 EUR/sqm. The most significant increase in rental rates was observed for Class A premises, where the lower bound of rental rates went up from 9 to 12 EUR/sqm/month.



HIGH CLASS SPECULATIVE AND BUILT-TO-SUIT OFFICE CENTRES IN RIGA



Existing Developments

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

Completed in 2012

1. Jupiter
2. Energoefektiva Biroju Eka

Potential Development Pipeline in Riga

1. RIX Port
2. HQ of State Revenue Service of Latvia
3. Braslas Centrs
4. Katlakalna 9 BC
5. New Hanza City, 1st Stage
6. Gunara Astras 1c
7. Origo Retail and Business Centre
8. Hanzas 2a
9. Business Garden Latvija 1st Stage

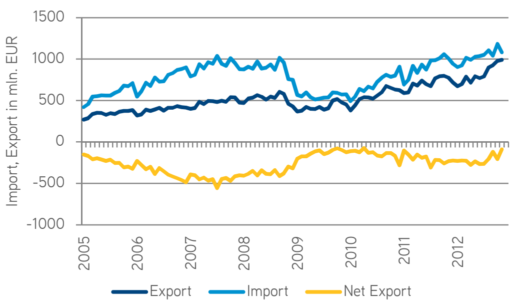
Industrial Market

KEY FIGURES

KEY FIGURES	
Total Stock	744,000 sqm
Absorption	24,500 sqm
Vacancy for Total Stock	4.6%
Prime Headline Rent for A Class Warehouse Premises	4.5 EUR/sqm/month

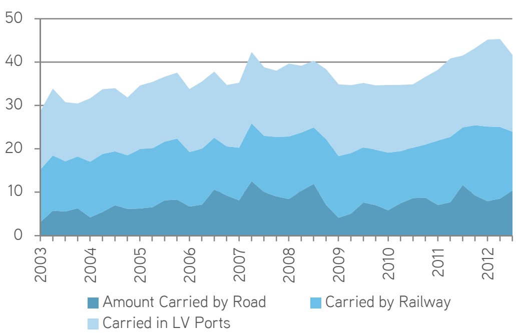
Source: Colliers International

EXPORT, IMPORT, NET EXPORT INDICATORS



Source: Colliers International

AMOUNT OF FREIGHT CARRIED, MIO TONS



Source: Colliers International

OVERVIEW

Amid Latvia's export and import growth, logistics operators have increased their volumes, which in turn has led to an increased demand for industrial and warehouse premises. In Dec 2012, yoy growth of freight carried by Latvian transport has reached about 12 per cent. The volume of industrial production has been growing since 2010. Positive tendencies in freight volumes and industrial growth are improving the overall situation in the industrial and warehouse markets in Latvia.

During 2012, end-users were actively searching for qualitative premises; this led to a healthy take up of space, resulting in a decrease in vacancies and a slight increase in rental rates. As of Mar. 2013, there is a lack of A and B class industrial and warehouse premises in the market. The deficiency in qualitative space of 10,000 sqm or more has prompted end-users to discuss with developers the possibility of new build-to-suit projects, which could lead to new constructions in 2013. Only one newly build industrial property with a gross leasable area of 2,400 sqm entered the market in 2012, leaving other previously announced projects on hold for the time being. Other addition to stock in 2012 was a reconstruction of existing building at Katlakalna 9.

SUPPLY

At the beginning of 2013, Colliers International's commercial real estate database for the industrial and warehouse segment was revised and updated with refurbished, newly constructed and delivered into commission projects, whereupon total stock corrections were made. As of Jan. 2013, according to Colliers International database, the total stock of A and B class industrial and warehouse space is 729,000 sqm. From this, 576,500 sqm are speculative and 152,500 sqm are build-to-suit. Around 40 per cent of the total stock is located within the Riga city limits. The other 60 per cent is located around the Riga Ring Road (near Kekava, Olaine, Marupe, Salaspils and Jelgava). Due to three major lease transactions that were closed in 2012, the supply of qualitative stock over 10,000 sqm became very limited. Colliers forecasts that this situation will lead to the construction of new built-to-suit projects in the near future. The potential development pipeline for 2013/2014 could include two projects: Baltic Cargo Solutions who plans to build a 23,000 sqm premises for own and speculative use, and Sanitex who has development plans for a 30,000 sqm, A class warehouse.

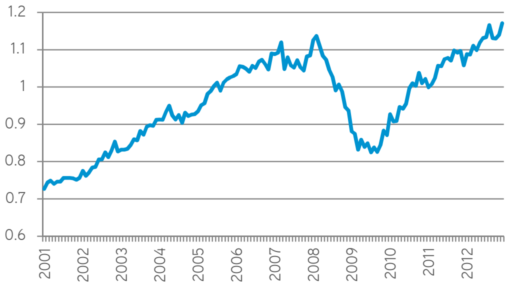
COMPLETED INDUSTRIAL PROJECTS IN 2012

PROJECT NAME	ADDRESS	DESCRIPTION	GLA, SQM	DEVELOPER
BLRT Industrial Building	Katlakalna 9, Riga	Built-to-suit, Reconstruction	~20,000	BLRT Invest Latvia
Veju Roze Building	Meldru St. 3, Riga Freeport	Built-to-suit	~2,400	Magnat Group

DEVELOPMENT PROJECTS IN 2013/2014

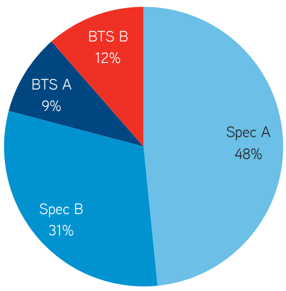
PROJECT NAME	ADDRESS	DESCRIPTION	GLA, SQM	DEVELOPER
Baltic Cargo Solutions	n/a	Speculative/ Build-to-suit	~23,000	Baltic Cargo Solutions
Sanitex	n/a	Build-to-suit	~30,000	Sanitex

VOLUME INDICES OF INDUSTRIAL PRODUCTION



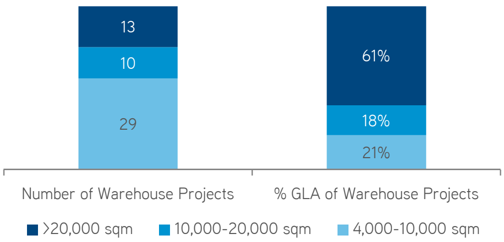
Source: Colliers International

DISTRIBUTION OF TOTAL INDUSTRIAL SPACE IN RIGA BY CLASS



Source: Colliers International

DISTRIBUTION OF A AND B CLASS WAREHOUSE SPACE IN THE RIGA REGION



Source: Colliers International

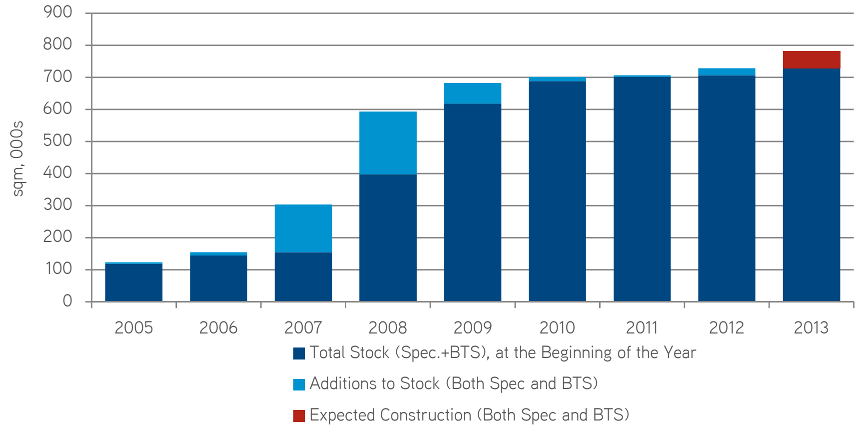
VACANCY RATES AND TENDENCIES IN RIGA

CLASS	JAN 2012*	JAN 2013	TENDENCIES FOR 2013
Class A	15.4%	4.1%	→ ↓
Class B	10.0%	5.2%	→ ↓
Total	13.4%	4.6%	→ ↓
Spec	14.9%	5.2%	→ ↓

*recalculated after stock additions

Source: Colliers International

TOTAL INDUSTRIAL STOCK AT THE BEGINNING OF THE YEAR



Source: Colliers International

Additions to the stock in 2012 have amounted to 22,400 sqm and are comprised of BLRT Industrial building, located at Katlakalna 9 (ca 20,000 sqm) and a B class buildings of Veju roze, located at Meldru St. 3, in Riga Freeport territory (building B class ca 2,400 sqm).

DEMAND

In 2012, existing market players were actively searching for qualitative warehouse premises; the demand was primarily coming from logistics operators, distribution and retail companies. For example, Rimi Baltic, with the help of Colliers International, leased 7,000 sqm of A class warehouse in Kekava. Besides existing market players, few new names appeared on the market showing an interest in either doing business in Latvia or using its territory as a platform for operations in other markets. For example, one logistic company, NTG Latvia, has increased competitiveness within the 3PL segment as the result of entering the Latvian market.

Another trend that has been observed since 2010 is the presence of trading and retail companies from Russia who use logistics operators' warehouses and services located in Latvia as a trading platform between the EU, Russia, and China. The main advantages for such cooperation schemes include lower overhead and operational costs for real estate and logistics services in comparison to Russia, especially Moscow and its vicinity.

Companies in search of industrial and production facilities were very active during 2012. Typically these companies require premises with areas from 500 to 1,000 sqm. For instance, Felzer, a Latvian company owned by foreign (Russian) investors that specializes in the manufacture of refrigeration and air-conditioning systems, has chosen NP Properties owned premises. Colliers forecasts that foreign investors in the production and manufacturing segment will continue to be active players in industrial real estate market in Latvia.

VACANCY

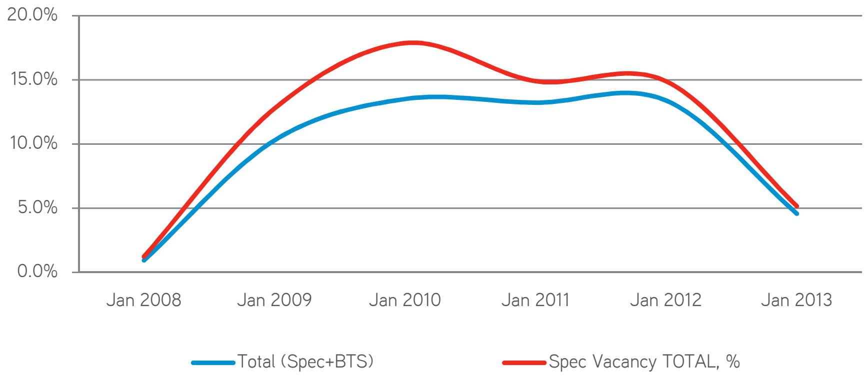
The vacancy rate for total industrial stock (including both speculative and BTS objects) decreased by 8.8 percentage points, reaching 4.6 per cent. Vacancy for speculative projects decreased from 14.9 to 5.2 per cent, equal to 29,800 sqm. The distribution of vacant space among industrial objects is highly irregular; some objects have 15-25 per cent vacancy and others have zero vacancy. The performance and vacancy levels in industrial properties in Latvia depend on location, management and construction quality.

RENT RATES* AND TENDENCIES IN RIGA, EUR/SQ M

CLASS	JAN 2012	JAN 2013	TENDENCIES FOR 2013
A	3.0 - 4.0	3.0 - 4.5	→ ↑
B	1.5 - 3.6	2.0 - 3.6	→ ↑

*asking rental rates, EUR/sqm
Source: Colliers International

INDUSTRIAL VACANCY RATES IN RIGA



Source: Colliers International

RENT RATES

Rental rates for A class warehouse and industrial premises increased slightly in 2013; for A class industrial premises, rental rates range from 3.0 to 4.5 EUR/sqm, while for B class premises, the lower bound of rental rates has increased in comparison with 2012 and are around 2.0 to 3.6 EUR/sqm on average.

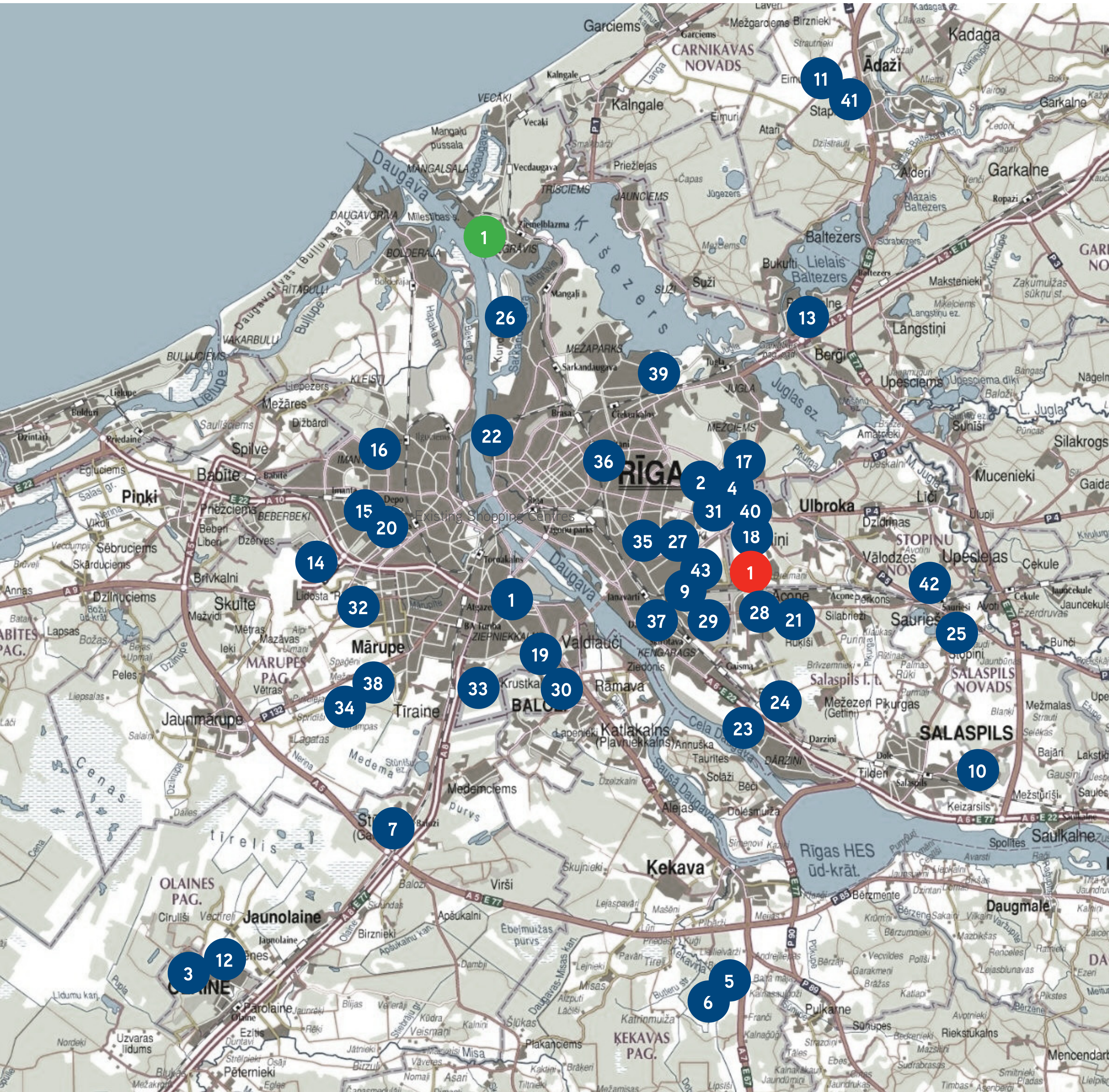
TENDENCIES AND FORECASTS

- The limited supply of industrial space over 10,000 sqm could lead to new built-to-suit development projects in 2013 and 2014, prompted by either developers' initiatives or the end-users themselves;
- Land plots that specify an allowed function for industrial and warehouse development could become objects of interest for end-users;
- Retailers and trade companies from Russia will continue exploring options to outsource local logistics companies for goods transit and storage in Latvia. If no major changes appear in legislation or customs control, this trend will likely continue to increase;
- Rental rates will slightly increase, mainly due to the expiration of existing lease agreements signed in 2009-2010, where terms were in favor of the tenants;
- Due to decreasing vacancy and market stabilization, there is a potential for investment transactions in 2013.

GLOSSARY OF TERMS

BTS: refers to built-to-suit development projects

Spec: refers to speculative development projects



SPECULATIVE AND BUILT-TO-SUIT PROJECTS IN RIGA DISTRICT OVER 5'000 SQ.M

Existing Developments

1. Valdo Logistikas Komplekss
2. Riga Industrial Park
3. Nordic Industrial Park in Olaine
4. PBLC Bussines Center
5. Dominante Park
6. Roņu ielēja 2
7. Dommo biznesa parks
8. Eirkel Bussines Park
9. Rolands S Warehouse Complex
10. Wellman Logistics Center
11. Lauki Warehouse Complex, new building
12. Olaines Logistic Park
13. Logistics Center Bergi
14. Elipse-BLC
15. Nordic Technology Park
16. Biznesa parks ABAVA
17. Ulbrokas 38 warehousec complex
18. Izoterms
19. DLW
20. NP Business Center
21. LE/ROM Business Center
22. Man Tess
23. Baltkors, 1st and 2nd phases
24. Avers Centrs logistic park
25. Maykel Business Park
26. System Logistics
27. Atlas Logistic Center
28. Granitu Industrial Park
29. DSV
30. Maxima Latvia Logistic complex
31. Rimi Administrative and warehouse complex
32. DHL Logistic centre
33. Sanistal retail and logistic centre
34. Beweship Latvija warehouse in Marupe
35. Baltijas Industrialais Parks
36. Kroni
37. BLRT
38. Kreiss Transport
39. Reaton
40. Coca Cola warehouse
41. Glaskek Industrial and warehouse bulding
42. Vollers Riga
43. DB Schenker Logistic Center

Completed in 2012

1. Veju Roze

Declared for Completion in 2013

1. Baltic Cargo Solutions

Retail Market

OVERVIEW

The Latvian retail market is one of the most dynamic segments of the commercial real estate market. Latvian retail market indicators, such as consumer confidence, retail sales, and consumer spending, continued to improve in 2012, along with the general economic recovery following the deep recession of 2008-2010. As of Jan. 2013, retail sales growth yoy reached about 13 per cent, which is one of the highest in the EU.

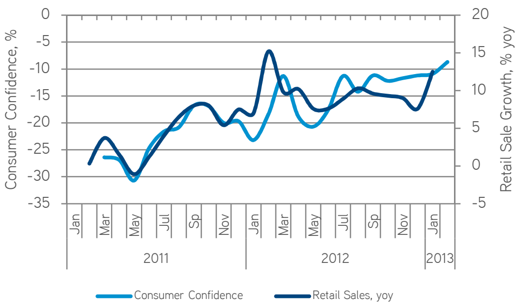
As a result of such positive tendencies, tenant interest for top street retail locations and prime shopping centers continues to be high. Vacancy rates at the top shopping centers are at zero per cent; at less popular ones, the vacancy rates are higher, reaching up to 12-15 per cent. Supply for new shopping centers is scarce, due to this relatively high vacancy rate, as well as other high economic and market risks associated with the development of new retail projects.

SUPPLY

During 2012, Colliers International's commercial real estate database for the retail segment was revised, whereupon total stock corrections were made. The total stock amount of retail premises in Riga is estimated at 662,000 sqm; this is split between shopping centers (63 per cent or 417,500 sqm), department stores (5 per cent or 32,000 sqm) and big-box stores (32 per cent or 212,500 sqm in absolute value). Most of the big-box stores are hypermarkets or do-it-yourself stores.

Aggressive competition among grocery chains continued in 2012, leading to the opening of three new grocery stores, supplementing Riga retail stock by ca 23,600 sqm. This includes

CONSUMER CONFIDENCE INDEX, RETAIL SALES GROWTH



Source: Colliers International

KEY FIGURES

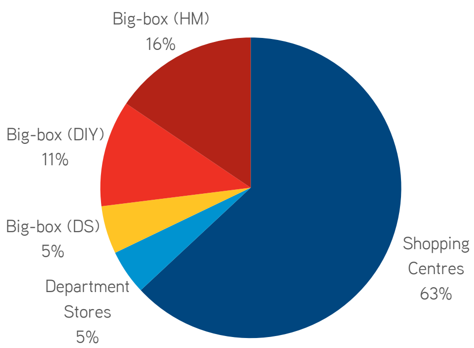
Shopping Centre Stock	662,000 sqm
Prime Headline Shopping Center Rent	50 EUR/sqm/month
Prime Headline High Street Rent	45 EUR/sqm/month

Source: Colliers International

COMPLETED RETAIL PROJECTS IN RIGA IN 2012

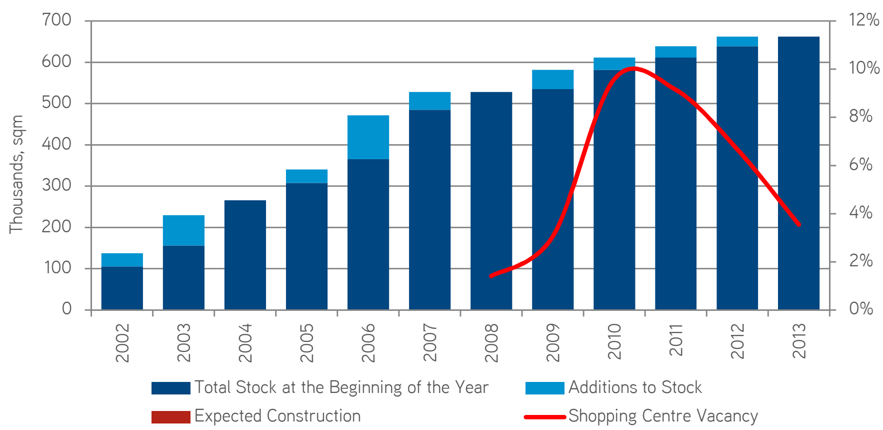
PROJECT NAME	ADDRESS	RETAIL GLA, SQM	DEVELOPER
RIMI Hypermarket	Riga, Mezciems, Bikerinieku 160	app. 4,000	RIMI Baltic, Ltd.
Prisma Deglava	Riga, Plavnieki, A. Saharova 30	11,500	VCA Baltic Retail Fund
Prisma Sporta	Riga, Skanste, Grostonas 1	8,100	Irbis A, Ltd.
Total:		23,600	

DISTRIBUTION OF TOTAL RETAIL SPACE IN RIGA BY TYPE



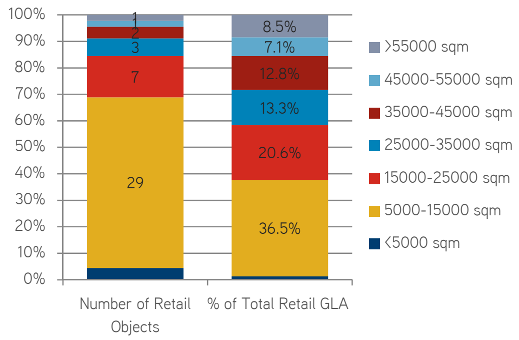
*HM = hypermarket, DIY = do-it-yourself, DS = department store
Source: Colliers International

TOTAL STOCK AND VACANCY RATE



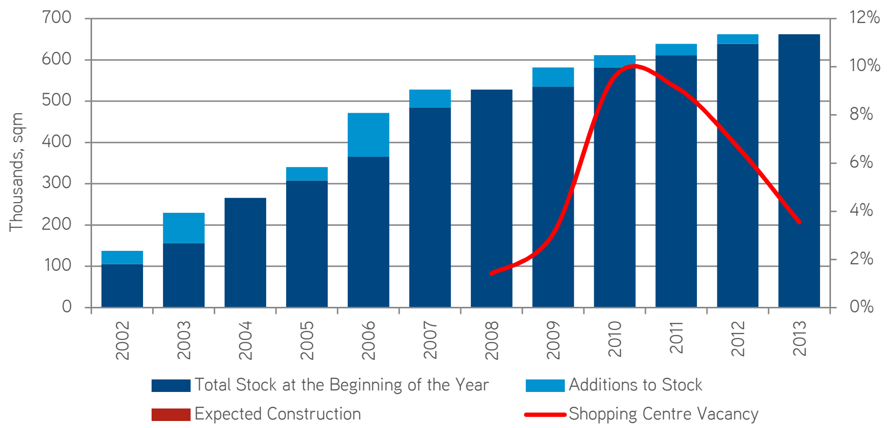
Source: Colliers International

DISTRIBUTION OF RETAIL PROJECTS IN RIGA BY SIZE



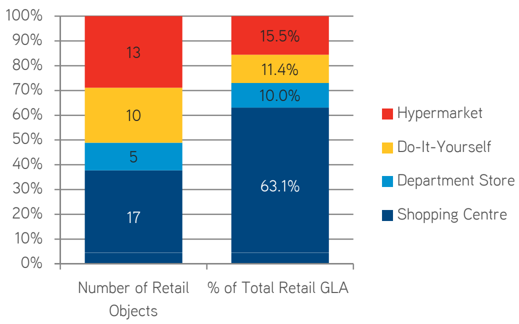
Source: Colliers International

TOTAL RETAIL STOCK BY TYPE, AT THE BEGINNING OF THE YEAR



Source: Colliers International

DISTRIBUTION OF RETAIL PROJECTS IN RIGA BY TYPE



Source: Colliers International

a new RIMI hypermarket, located on Bikernieku St. 160 and two new Prisma hypermarkets, located at A. Saharova 30 St. and Grostonas 1 St. Prisma has announced that it will continue its expansion and is actively looking for new locations in Riga. According to Colliers information, Prisma will next open stores located in Paudaugava. Rimi and Maxima are also not lagging behind with new stores planning to be opened not only in Riga but also in other Latvian cities. Maxima will have five new smaller shops in Latvia, three of which in Riga, while RIMI will be an anchor tenant in A7 shopping centre in Kekava, with total leasable area of 5,075 sqm, which is under construction as of spring 2013.

Imanta Retail Park might open its second stage in 2013 with approximate GLA of 6,000 sqm, though the plans might be postponed for later.

Regarding the potential development pipeline for larger shopping centers, the outlook is rather empty for 2013-2014.

One of the most active market players in the retail segment, Linstow Centre Management, has three potential development projects: Origo and Alfa expansion projects, as well as the Riga Retail Park. Out of these three, the most realistic to enter the market is the expansion of the already successful shopping centre Alfa. The estimated timescale for this project is 2015/2016, when additional retail premises in the amount of ca 25,000 sqm can be commissioned. Linstow also intends to improve the landscaping around the shopping center by adding a children's playground, green zone and small public parks.

The next project to follow would be the expansion of the Origo shopping center, which may enter the market in 2017/2018. The proposed building will be 6-7 floors, with retail premises totaling 20,000 sqm on the first three floors and offices on higher floors.

The Riga Retail Park is a large-scale development project planned on the Riga-Jurmala highway in Saliena with more than 150 thousand sqm of potential retail space; this project has been in the news for many years now. Realization of this project depends on the attraction of strong anchor tenants, such as Ikea or Bauhaus, but is unlikely to happen in the next 3-5 years.

ELL, another major retail market player in Riga, is also considering potential expansion of its own shopping center Spice, though no clear development schedule has been announced yet. NCH continues with design work on Kaivas Retail Park in Riga, though again, there is no precise timeline of the development, which depends on the attraction of large and strong anchor tenants.

Akropolis may start development of its project in Maksavas St. in the next two-three years.

EXPECTED RETAIL DEVELOPMENT PROJECTS IN RIGA IN 2013/2014

PROJECT NAME	ADDRESS	RETAIL GLA, SQM	DEVELOPER
Imanta Retail Park (2nd stage)	Kurzemes Ave. 3	app. 6,000	Imanta Retail Park Ltd

RENT RATES* AND TENDENCIES IN RIGA, EUR/SQ M

CLASS	2011	2012	TENDENCIES FOR 2013
Large Retail Unit (anchor tenant)	4 - 9	4 - 9	→ ↑
Medium Retail Unit (150-350 sqm)	15 - 25	15 - 30	→ ↑
Small Retail Unit (up to 100 sqm)	20 - 40	25 - 50	→ ↑

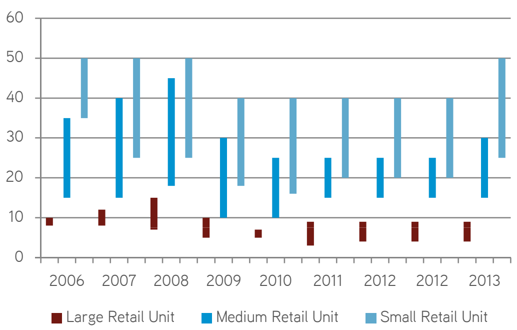
*asking rental rates, EUR/sqm
Source: Colliers International

STREET RENTAL RATES AND TENDENCIES, EUR/SQ M

CLASS	2011	2012	TENDENCIES FOR 2013
Kr. Barona, Raina Boulevard, Brivibas St., Gertrudes St.	12-30	15-35	→ ↑
Old Riga	10-25	20-45	→ ↑

*asking rental rates, EUR/sqm
Source: Colliers International

DYNAMICS OF RETAIL RENTAL RATES



Source: Colliers International

DEMAND

2012 for the Riga retail market was remarkable with the entrance of large international fashion brands. Such global brands as H&M, Next, Aldo, Massimo Dutti, and Cortefiel opened stores in Riga in 2012. These brands prefer opening in the shopping centers rather than in street retail locations. They have leased premises in Alfa, Galerija Centrs, Spice and Galleria Riga. Thanks to this, vacancy rates in these shopping centers are steadily decreasing.

In the near future, Debenhams, a large department store, is expected to be opened in Riga. There are negotiations with other world fashion retailers who may enter the Riga market in 2013/2014.

Apranga, a Lithuanian retail operator, continues to play an important role in the Riga luxury retail segment. They have opened a Burberry store in Riga on Elizabetes St. during 2012 and will open a Ermenegildo Zegna shop next to it in the spring of 2013. A cluster of luxury shops is forming on Valnu St. in Riga Old Town and on Elizabetes St. (on the portion between Skolas and Barona Streets). Premises located at Elizabetes St. (from Skolas to Baznicas St., and from Terbates to Kr. Barona St.) are more popular with fashion retail brand shops

In street retail, the most demanded are small premises with areas 50-150 sqm located in the Riga Old Town and the Riga active center; these are typically leased for cafes, restaurants, kebab chains, bakeries and smaller shops. This segment of tenants has been active for several years and drives the demand for street retail premises and rental rates.

VACANCY RATE

As of Jan. 2013, the average vacancy rate in all shopping centers is 3.5 per cent. During 2012 vacancy decreased by 13,000 sqm or by 3.1 percentage points. Vacancy rate dynamics is positive and is expected to decrease in 2013.

Such shopping centers as Riga Plaza and Galleria Riga that had been opened in very bad timing in the beginning/peak of the recession and had experienced large vacancy rates during the first years of operations, have done a great job in attracting tenants and improving financial performance of these properties. The situation in Azur shopping center has also improved significantly after the convenient access from the Southern Bridge was built.

Vacancy rates in the most popular shopping centers Alfa and Spice are at zero percent. The landlords of these shopping centers are working at improving tenant mix by attracting strong international brands.

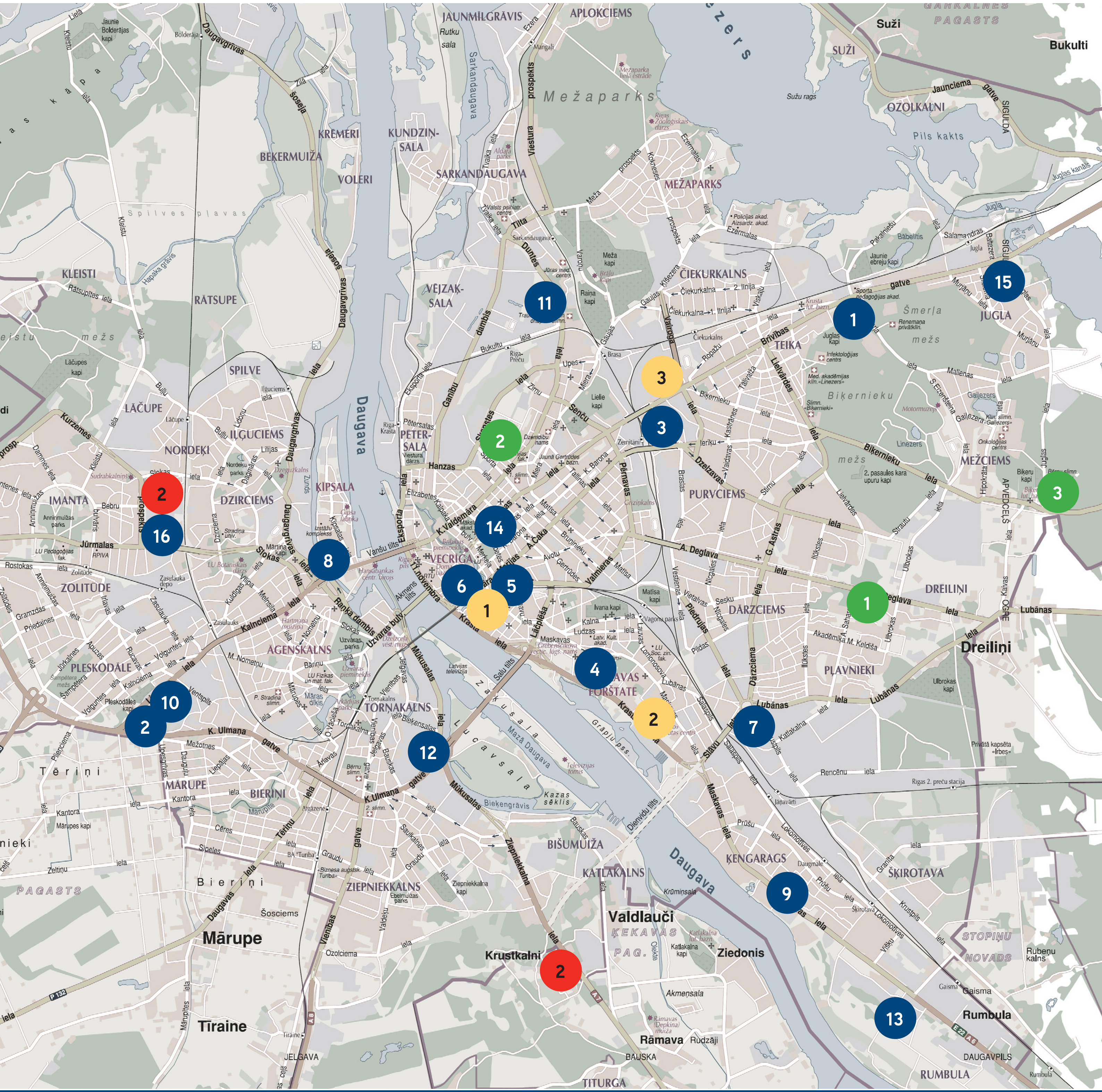
RENT RATES

At the beginning of 2013, rental rates for anchor tenants at shopping centers ranges from 4 to 9 EUR/sqm; for medium-sized retail units (with an estimated area of 150 to 350 sqm), the rental rate is 15-30 EUR/sqm; for smaller-sized retail units (up to 100 sqm), 25-50 EUR/sqm. Prices are increasing slightly due to decreasing vacancy rates and overall improvements in retail key indicators.

Street retail rental rates in the active center range from 15 to 35 EUR/sqm and from 20 to 45 EUR/sqm in the Riga Old Town. High rate deals (up to 50 EUR/sqm) are observed for small retail units (up to 100 sqm) in the active center, especially for premises with high pedestrian flow and good transport connectivity. Such premises are leased typically by restaurants and cafés. The most popular locations for such deals include Kalku, Valnu, Terbates, Kr. Barona (starting from the beginning of the street to the intersection at Lacplesha St.). Premises located at Elizabetes St. (from Skolas to Baznicas St., and from Terbates to Kr. Barona St.) are more popular with fashion retail brand shops.

TENDENCIES AND FORECASTS

- The Latvian retail market is one of the most active segments of the commercial real estate market. Latvian retail market indicators, such as consumer confidence, retail sales, and consumer spending, continued to improve in 2012, along with the general economic recovery following the deep recession of 2008-2010. As of Jan. 2013, retail sales growth yoy reached about 13 per cent, which is one of the highest in the EU.
- For both the past two years and the next two years, the supply of retail space will be mostly filled by the opening of new grocery stores and hypermarkets. Such food retail chains as Prisma, RIMI, and Maxima are competing for the food retail market share, and form the main driver of the development of the retail segment;
- Supply of new shopping centers will remain scarce in 2013/2014. New significant additions to the retail stock could be seen in 2015/2016. Smaller scale retail developments will include grocery stores and hypermarkets.
- Demand for retail space was driven by major world fashion retailers that have entered the market in 2012. This trend is expected to continue in the following years, and more international brands are expected to open stores in Riga;
- Demand for Riga street retail is also strong, particularly from smaller cafes, kebab chains, bakeries, pizza restaurants and more upscale restaurants;
- As of Jan. 2013, the average vacancy rate in all Riga shopping centers is 3.5 per cent. Its dynamics are positive and are expected to decrease in 2013.
- Rental rates for anchor tenants at shopping centers ranges from 4 to 9 EUR/sqm; for medium-sized retail units (with an estimated area of 150 to 350 sqm), the rental rate is 15-30 EUR/sqm; for smaller-sized retail units (up to 100 sqm), 25-50 EUR/sqm. Price dynamics are fairly stable, and the tendency leans toward price increases.



SHOPPING CENTRES IN RIGA

Existing Shopping Centres

1. Alfa
2. Spice
3. Domina Shopping
4. Mols
5. Origo
6. Galerija Centrs
7. Atrium Azur
8. Olimpia
9. Dole
10. Spice Home
11. Sky & More
12. Riga Plaza
13. Zoom
14. Galleria Riga
15. Juglas centrs
16. Damme

Existing Department Stores

1. Stockmann Riga
2. Mc2
3. Podium/Elkor

Completed in 2012

1. Prisma at A.Saharova St. 30
2. Prisma at Grostonas St. 1
3. RIMI at Bikernieku St. 160

Declared for Completion in 2013

1. Imanta Retail Park, 2nd stage
2. Trade Center on A7 near Kekava

Hotel Market

OVERVIEW

Despite the fact that 2012 was a year of global economic uncertainty, it did not have a negative impact on the Latvian hotel and tourism industry, as the key indicators for the hotel market have improved, though less than anticipated. The tourism industry in Latvia in the past three years has demonstrated its ability to adapt to unstable market conditions and hopefully will continue to do so in the following years.

According to the City Cost Barometer, Riga still holds its position as the most affordable city in Europe for travelling, by offering the best prices for accommodation. Despite this, Latvia's growth in hotel occupancy rates of 5 per cent last year is less than throughout Eastern Europe, where occupancy rates grew by 20 per cent on average.

For the second year in a row visitors from the Russian Federation remain the most active guests of hotels; the second and third positions are shared between Germany, Lithuania and Estonia. Latvia is continuing to improve foreign relationships and is planning to lead several international forums to attract neighboring countries.

A decline in the number of flights and destinations occurred with the Riga International Airport; in comparison with 2011, the number of passengers decreased by 7 per cent and reached 4.8 million.

No new hotels were opened in 2012, so the hotel supply remained unchanged. Two hotels will enter the market in 2013, both operated under local management and located in Riga Old Town.

The biggest challenge of the Latvian hospitality market remains seasonality. The Latvian government agency for tourism development is continuing active work with marketing agencies and international travel agencies in order to stimulate travel demand in the low season that will secure regular income for tourism and hotel operators.

SUPPLY

No new hotels were opened during 2012. Two 4-star hotels located in the Riga Old Town are under construction at the moment (with a total number of rooms estimated at 185). The commission date is planned for the 2nd and 3rd quarter of 2013. Both hotels will be managed by local operators.

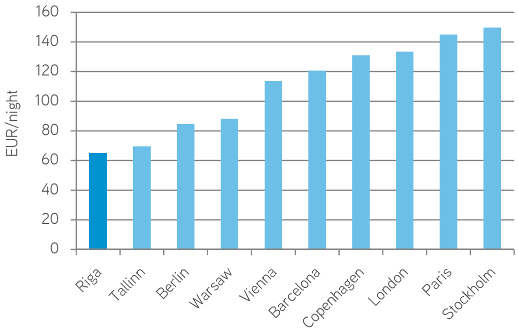
The 4-star Hotel Riga, which was purchased in 2011, is currently under reconstruction; upon completion, it will be open as a 5-star luxury hotel as part of the Kempinski chain. According

NUMBER OF RATED HOTELS AND ROOMS IN LATVIA AND RIGA

STARS	LATVIA		RIGA	
	NUMBER OF HOTELS	NUMBER OF ROOMS	NUMBER OF HOTELS	NUMBER OF ROOMS
5	7	300	6	258
4	32	3424	23	3035
3	67	3128	31	1717
2	4	63	-	-
1	2	45	2	45
Total Certified	112	6960	62	5055
Non-Certified	108	2747	29	1192
Total	**220**	**9707**	**91**	**6247**

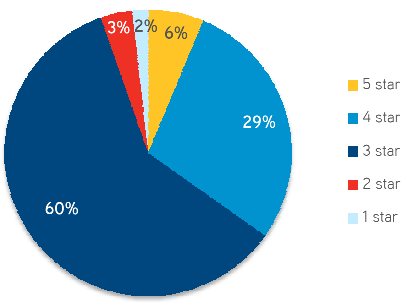
Source: Central Statistical Bureau

PRICES FOR STANDARD DOUBLE HOTEL ROOMS IN 3-STAR HOTELS



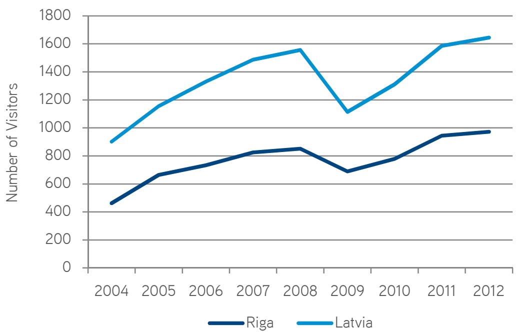
Source: City Cost Barometer

DISTRIBUTION OF HOTELS BY NUMBER OF STARS IN LATVIA



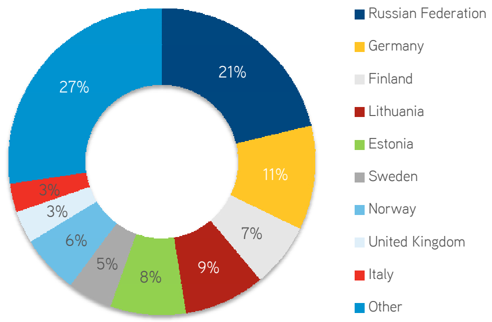
Source: Central Statistical Bureau

DYNAMICS OF VISITORS IN ALL ACCOMODATION ESTABLISHMENTS



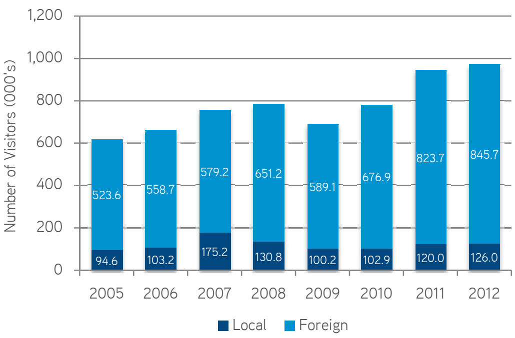
Source: Central Statistical Bureau

DISTRIBUTION OF FOREIGN VISITORS BY COUNTRY IN LATVIAN ACCOMMODATIONS



Source: Central Statistical Bureau

DYNAMICS OF FOREIGN AND LOCAL GUESTS IN HOTELS IN RIGA

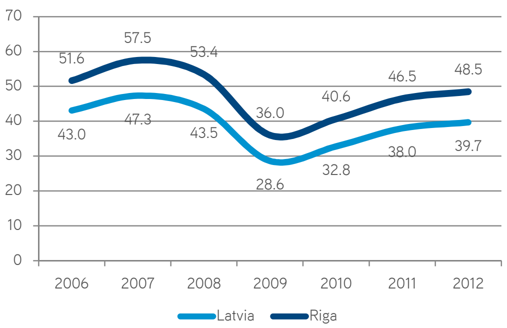


Source: Central Statistical Bureau

ROOM PRICES IN LATVIAN ACCOMMODATIONS		
NUMBER OF STARS	AVG. ROOM RATE RANGE, EUR	MAXIMUM ROOM RATE DURING HIGH SEASON, EUR
5	100-350	2,500
4	50-150	1,000
3	50-130	600

Source: Colliers International

DYNAMICS OF AVERAGE ROOM OCCUPANCY RATE IN ACCOMMODATION ESTABLISHMENTS



Source: Central Statistical Bureau

to official information, the number of rooms will remain the same (232), but additional services will be incorporated, including a SPA, conference hall and restaurants.

The ambitious plans of the hotel developers who were planning to attract international hotel brands Marriott and Sheraton are under a big question mark at the moment. Z Towers project is reconsidering its concept, and the hotel function under Sheraton brand may be excluded. Landowners of the future Mariott Hotel are also reconsidering the future plans regarding this project.

DEMAND

During the years of the global economic recession, the Latvian tourism market learned how to attract more visitors and encourage tourism development as a way to improve the economic situation. For three consecutive years, since the end of recession, the number of visitors staying in all Latvian hotel accommodations has been growing. However, a worrisome factor is that in 2012, Latvia experienced a slight growth of only 4 per cent in the number of visitors in hotels, with the total amount of hotel customers increased by 60 thousand, reaching 1.645 million. It is the slowest increase in growth since 2009; at the same time,it is the record year in number of hotel guests since Latvian independence.

Tourists from the Russian Federation comprise the majority of visitors in Latvia, which is mostly due to changes in migration laws that occurred in 2010. The breakdown of visitors' country of origin remains more or less the same for two consecutive years with Germany taking the second place with a total of 120 thousand visitors.

AVERAGE DAILY RATES

According to the annual survey conducted by the City Costs Barometer, Riga is the cheapest of 23 city break destinations for the second year in a row; this survey evaluates the running total for meals and drinks, sightseeing, travel and hotel accommodation. The average price for 3-star accommodations in Riga is 64.97 EUR/night, compared to Paris and Berlin at 146.18 EUR and 84.69 EUR/night respectively.

Room prices in Latvian accommodations depend on seasonality and international events. In 2012 rates for 3- and 4-star hotels have not significantly changed. At the same time, the prices for upscale 5-star hotels increased by at least 20 per cent. There proved to be a demand from high-end customers that, in turn, encouraged hotel owners to increase prices.

OCCUPANCY

Occupancy rates are still one of the most fluctuating figures, which constantly depend on seasonality and popular events. In comparison with 2011, the average room occupancy rate increased by 4 per cent per cent in Riga and 5 per cent in Latvia, and amounted to a total of 48.5 and 39.7 per cent correspondingly (in 2011: 46.5 and 38 per cent correspondingly). According to Eurostat data (March-October), the average bed occupancy in Latvia was 39.3 per cent, which placed Riga at the leading position in Eastern Europe. The peak of room occupancy rate in Riga hotels during 2012 was in August, when it reached 65.4 per cent.

TENDENCIES AND FORECASTS

- ◊ Riga will be the European Capital of Culture in 2014, and thus the tourism and hotel industries are preparing for the year-long celebration and expected influx of visitors. Hopefully it will lead to increased number of tourists, hotel visitors, hotel occupancy and room rates;
- ◊ During 2013, the supply of rooms in 3- and 4-star hotels will increase by 183 rooms.
- ◊ No new international hotel operators are expected to come before 2015, when Riga Hotel will be reconstructed under the Kempinski brand.
- ◊ There remains a strong interest in the hotel segment from potential investors, but the hotel investment volume will most likely decrease in 2013, due to lack of investment opportunities in this segment at attractive prices.

Legal Overview

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

ASSET TRANSFER DEALS

Main Steps

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

1. The parties sign a single purchase agreement.
2. Sometimes, in the case of a larger real estate transaction, prior to the final purchase agreement another agreement (letter of intent or preliminary purchase agreement) is concluded. The preliminary agreement sets out the main terms of the deal (e.g. purchase price, payment mechanism, main deadlines to complete due diligence of the real estate and sign the final agreement).
3. The seller offers the municipality or third parties the chance to exercise their right of first refusal to acquire the property on the same conditions as agreed in the signed purchase agreement. The municipality has up to 26 days to do so, but the term for third parties can be different.
4. If a party with a right of first refusal acquires the property, then the purchase agreement signed between the parties terminates in respect of real estate acquired by third parties.
5. Simultaneously with the purchase agreement, the parties negotiate and conclude an agreement with a bank on opening and maintaining an escrow account at the bank.
6. The seller notifies the buyer on receipt of refusals from all third parties with a right of first refusal to acquire the real estate or alternatively the seller confirms that third parties have not replied to the offer to exercise their right within the given term.
7. If third parties (e.g. the municipality) do not exercise their right of first refusal, the buyer transfers the purchase price (100%) to the escrow account.
8. After transfer of the purchase price the parties in the presence of a notary public sign the application to the Land Book for registration of the buyer's title to the real estate. The buyer pays state and stamp duties.
9. The seller files the documents with the Land Book and performs other acts in order to register the buyer's title with the Land Book.
10. After the buyer's title is registered with the Land Book, the bank transfers the purchase price to the seller.

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

Main Advantages and Drawbacks

◊ Registration of title and thus payment of notary fees as well as state and stamp duty is required;

◊ Limited scope of due diligence investigation is required since the review concerns the target asset only;

◊ Agreements on supply of utilities and other services concluded by the seller must be assigned to the buyer or new agreements must be signed with utility and service providers;

◊ An asset transaction may in some cases be treated as sale of the entire company, in which case all obligations associated with the company may be transferred from the seller to the buyer.

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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 (e.g. 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 e.g. 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 e.g. 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 Enterprise Register.

   Depending on the form of company (e.g. private limited liability company, public limited liability company, partnership), certain registration procedures must be carried out in the Latvian Enterprise Register.

   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.

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Issues to Take Into an Account

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 Registry of Enterprises, depending on the agreement. Registration of ownership of shares usually takes a few days.
- 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 transfer as the entire company (with all its rights and liabilities irrespective of whether they were known to the buyer at the time of concluding the agreement) is transferred, as opposed to transfer of the target real estate only.
- Applicability of financial assistance rules.
- Deferred tax issues.

TITLE TO REAL ESTATE, LAND BOOK

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

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

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

General

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

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

Change of Ownership

Transfer of title to real estate may be restricted by a number of factors, including restrictions on foreign ownership of land, rights of first refusal as well as encumbrances registered with the Land Book, e.g., mortgages and prohibition notes. Moreover, before the 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.

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FORM OF AGREEMENTS

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

LANGUAGE REQUIREMENTS

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

DUE DILIGENCE

Before carrying out any real estate transaction, it is advisable to research the legal status of the real estate, e.g., 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.

RIGHTS 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 to exercise this right in writing or the term for using these rights has expired may the purchase agreement and the buyer's title be registered with the Land Book.

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

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

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

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RESTRICTIONS

Restrictions on Acquisition of Real Estate

Certain restrictions exist as to foreign ownership of land, while there are no such restrictions regarding 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.

Companies registered in Latvia or in another European Union (EU) Member State may acquire land in cities of Latvia, provided that:

◊ More than 50% of the company's share capital is owned by citizens of Latvia and/or citizens of another EU Member State, and/or Latvian state or local government; or

◊ More than 50% of the company's share capital is owned by individuals and/or legal entities from countries with whom Latvia has concluded an agreement on mutual protection of investments (Latvia has signed such agreements with most EU countries, Canada and the USA); or

◊ The company is a publicly traded joint stock company on the Latvian stock exchange.

Other companies may request a permit from local government to acquire particular real estate, which may or may not be granted. However, these companies are not entitled to acquire land in certain specific areas, eg, state border territories, special protection zones, agricultural and forest land pursuant to local territorial planning.

An additional requirement applicable to companies wishing to acquire land in rural areas is that companies registered in an EU Member State other than Latvia may not acquire agricultural or forest land. However, as of 1 May 2014 (expiry of the transitional period), companies registered in any EU Member State will be entitled to acquire land in the above mentioned areas on the same conditions as companies registered in Latvia.

Merger Control

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

◊ Aggregate turnover of the companies involved in the transaction exceeds LVL 25 million (approx. EUR 35.6 million) for the financial year preceding the merger; or

◊ Joint market share of the companies exceeds 40% of the relevant market.

However, notification of a merger to the LCA is not necessary if there are only two parties (the seller and the buyer) to the transaction and the turnover of at least one of them does not exceed LVL 1.5 million (approx. EUR 2.13 million).

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

ENCUMBRANCES

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

PROPERTY MANAGEMENT

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

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LEASE AGREEMENTS

General

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

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

Duration and Expiry of Lease Agreement

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

Lease Payment and Accessory 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 performed 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 performed by auction and is regulated by the Insolvency Law and Civil Procedure Law.

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Tax Summary

RENTAL INCOME

For Latvian corporate income tax, a flat rate of 15% applies to worldwide income, including rental income, earned by a taxable corporation or Latvian permanent establishment. Taxable income is based on annual financial profit or loss adjusted for taxation purposes. Individuals who earn rental income are subject to 24% personal income tax on their rental profit. However, individuals who have no or immaterial expenses can pay 10% on the gross rental income.

THIN CAPITALISATION

Latvian law has thin capitalisation rules that can reduce the amount of tax-deductible interest. Two calculations are performed, with the highest amount of excess interest being non-deductible. The first calculation is based on a 4:1 debt-to-equity calculation, while the second compares the interest rate paid with a rate of 1.2 times the statistical average of short-term loans by Latvian banks in the last month of the taxation period. Any excess interest calculated under either method is not deductible, and if both methods result in non-deductible interest, the higher amount is non-deductible. Non-deductible interest cannot be carried forward and is lost as a deduction. Financial and insurance institutions are not subject to thin capitalisation rules.

DEPRECIATION

For taxation purposes, land is not depreciable. Buildings and constructions are depreciated at a specified taxation rate of 10% using the reducing balance method.

TAXATION LOSSES

Taxation losses which arose prior to and including the 2007 tax year can be used for the following eight years. Tax losses arising in the 2008 and later tax years now have no limit as to when they can be used. Taxpayers registered in Special Economic Zones or Free Ports with losses that arose before 2005 may carry them forward for up to ten years, and losses that arose after 2005 may be carried forward indefinitely. Losses can be transferred between qualifying Group companies.

WITHHOLDING TAX

Latvia imposes withholding taxes on certain payments to non-residents, as follows:

- Dividends – from 1 January 2013, all outgoing and incoming dividends will be exempt from Latvian tax unless associated with “black listed“ jurisdictions;
- Interest – 0% – on payments to unrelated parties; 10% – on payments to related parties; 5% – on payments to related EU residents (up to 30 June 2013, thereafter – 0%); from 1 January 2014, there will be no withholding tax on any outgoing interest payments unless paid to “Black list“ jurisdictions;
- Management and consulting fees – 10%, can be reduced to 0% under a tax treaty;
- Royalties – 15% on literature or art; 5% in other cases; from 1 January 2014, there will be no withholding tax on any outgoing royalty payments unless paid to “black listed“ jurisdictions;
- Rental fees – on use of property located in Latvia (5%);
- Total sale price of real estate located in Latvia or shares in “real estate companies” (2%); (a “real estate company” is a company more than 50% of whose assets comprise real estate directly or indirectly owned within Latvia). Latvia’s Double Taxation Treaties can reduce or eliminate payment of these withholding taxes, including that of 2% tax on transfer of shares in a “real estate company”.
- Most payments to “black listed” jurisdictions (15%), though the tax authorities may grant relief;
- 0% for all payments to Lithuania.

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CAPITAL GAINS

Personal income tax and corporate income tax on capital gains applies to individual taxpayers and corporate taxpayers respectively, both being subject to a 15% rate. From 1 January 2013, there will be no corporate income tax on capital gains from sale of shares held by a Latvian company, unless held in a "black listed" jurisdiction.

PROPERTY TAX

Property tax is payable by corporate owners or entities having legal ownership or control over the use of Latvian real estate. Individuals, who were previously only liable for real estate tax on land, from 1 January 2010 commenced paying real estate tax on their residential homes and apartments.

Real estate tax applies at a rate of 1.5% of the real estate's cadastral value. A 1.5% rate is applicable to engineering structures and a 1.5% rate is also applied to uncultivated land usable for agriculture. Subject to municipal regulations, derelict or unsafe buildings may be subject to a 3% tax.

From 1 January 2013, local municipalities will be able to impose property tax ranging from 0.2% to 3% in accordance with regulations that must be issued by the municipality no later than 1 October of the prior tax year. If this is not done the rates of tax will remain as they are currently in the law.

Individual property owners pay the following progressive rates on their residential homes and apartments. A LVL 5 (approx EUR 7) minimum is payable for each registered piece of real estate.

◊ 0.2% – for cadastral value not exceeding LVL 40,000 (approx EUR 56,900);

◊ 0.4% – for cadastral value from LVL 40,000 to LVL 75,000 (approx EUR 106,700);

◊ 0.6% – for cadastral value exceeding LVL 75,000.

Local municipalities can set the tax rate ranging from 0.2% to 3% in regulations to be issued no later than 1 October of the preceding tax year. If this is not done, the default tax rates apply. Local municipalities also have power to grant taxation reductions to specific categories of individual

VALUE ADDED TAX

Sale of land is VAT-exempt, as is the sale of real estate in use. However, sale of unused real estate (buildings and constructions) and development land (land granted a building permit) is subject to VAT of 21%. The combined sale of unused real estate and all or part of the underlying land cannot be separated for VAT. Acquisition of real estate that has been subject to VAT should be registered with the taxation authorities and over the next ten years deducted input VAT corrections are made, if there are changes to the original percentage of taxable use of the property. Rental of residential premises to individuals is VAT-exempt, whereas rental payments for commercial property are subject to 21% VAT.

REAL ESTATE TRANSACTION RELATED COSTS

Typical costs incurred related to real estate transactions include: brokerage fees, bank fees, fees for legal due diligence and reviewing sale and security agreements, notary fees and state duty. Sharing transaction costs is a matter for agreement between the parties. Usually, the buyer pays state and stamp duties, whilst notary fees are shared equally between the parties. Notary fees for drafting the Land Book registration application and approving the parties' signatures generally amount to LVL 65 (approx. EUR 92).

STATE AND TRANSFER STAMP DUTIES

For registration of title to real estate, a stamp duty of 2% (of either the real estate purchase price or the cadastral value of the real estate, whichever is higher) normally applies to the sale price on transfer of title to real estate. Duty is capped at LVL 30,000 (approx EUR 42,700). The duty does not apply to mergers and other restructurings. A 1% duty applies to investments in kind of real estate in the share capital of a company; the duty is capped at LVL 1,000 (approx EUR 1,400). The duty for registering a mortgage is 0.1% of the loan amount and is capped at LVL 1,000. The stamp duty costs LVL 15 (approx. EUR 21) for registration of title and issue of a Land Book certificate.

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LITHUANIA
REAL ESTATE MARKET REVIEW

ANNUAL REPORT, 2013

Accelerating success.

COMMERCIAL REAL ESTATE MARKET MOVES STEADILY FORWARD

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In 2012 the Baltic countries maintained a position of the fastest growing economies among EU states. The impact of the Euro zone debt problems was not as crucial as it was expected. Moreover, growth of exports and increase in domestic demand had a positive impact on further recovery of the Lithuanian RE market. The slight growth of rent rates, the increase of demand for commercial space and decrease in vacancy were recorded in all, without exception, commercial RE sectors.

During 2012 the Lithuanian RE market witnessed stability. RE market players became more professional, and new developments have been carried out reasonably and judiciously. Operating efficiency and improvement of investment attractiveness of RE objects were the major tasks which were tackled in 2012, especially in the retail market. For instance, grocery chains actively renovated their network of stores, stronger tenants replaced weaker and new international brands were attracted to the country.

The situation in the warehouse market at the end of 2012 became even tense due to a shortage of large and modern warehouse space in all regions of Lithuania. However, developers are still carefully evaluating the situation in the market, and new projects are being developed primarily on the built-to-suit basis due to the lack of attractive investment returns.

The year of 2013 is expected to maintain the previous trend. However, implementation of new developments will be mostly determinant by pessimistic moods, which were dominating in the middle of 2012, when the impact of Euro zone debt problems was increasing. So, only a moderate growth of new supply of commercial objects is predicted. Moreover, qualitative changes in the RE market will become even more important, as the demand for high quality commercial objects is constantly increasing.

Economic Overview

SUMMARY

The Lithuanian economy demonstrated further recovery in 2012, although it was not as rapid as in 2011. The impact of the Euro zone debt problems for the Lithuanian economy was not as crucial as it was expected, so the further growth of exports and increase in domestic demand were recorded. As macroeconomic conditions in Lithuania are consistently improving, repeated strong recession in Lithuania is not expected.

According to preliminary data from the Lithuanian Department of Statistics, the GDP growth in 2012, compared to 2011, was 3.6 per cent, and was by 2.3 per cent lower than in 2011. It mainly was caused by the unstable situation in the Euro zone and recession fear in the region. The growth in value added was recorded in all economic activities except construction, which decreased by 2.9 per cent y-o-y. The biggest impact on GDP growth had improving indicators in agricultural (by 8.6 per cent y-o-y), industrial (by 4.3 per cent y-o-y) and service (by 3.7 per cent y-o-y) activities.

The economic development prospects for GDP growth for the period of 2013 are quite cautious due to economic instability in the Euro zone and amount to 3 per cent y-o-y.

As the Lithuanian Department of Statistics announced, average annual change in consumer prices in December of 2012 stood at 3.1 per cent y-o-y and dropped by 1 per cent, compared with the end of 2011. Moreover, during the last three months of 2012, a deflation of 0.1 - 0.2 per cent, compared to the previous month, was recorded. It was mostly influenced by a decrease in prices for transport goods and services, clothing and footwear, furnishings, household equipment and routine maintenance of the house group of goods and services.

Despite the significant decline of the inflation rate during 2012, future forecasts are not very optimistic due to overall growth of energy and fuel prices. The forecast for HCPI growth in coming years is higher than 3 per cent y-o-y.

KEY ECONOMIC INDICATORS OF LITHUANIA

	2005	2006	2007	2008	2009	2010	2011	2012	2013F
Nominal GDP, EUR billion	20.9	24.1	28.7	32.4	26.6	27.6	30.8	32.6	34.6
GDP at Chain-linked Volume, EUR billion	20.9	22.6	24.8	25.5	21.8	22.1	23.4	24.2	24.9
GDP Growth, % yoy	7.8	7.8	9.8	2.9	-14.8	1.5	5.9	3.6	3.0
Industrial Production, % yoy	7.0	6.5	2.4	5.5	-14.6	6.6	7.4	4.5	n/a
Unemployment Rate, % avg	8.3	5.6	4.3	5.8	13.7	17.8	15.3	13.3	11.5
Growth of Average Monthly Gross Earnings, %	11.0	17.2	20.5	19.4	-4.4	-3.3	2.9	4.5	3.4
Total Public Debt, % GDP	18.3	17.9	16.8	15.5	29.5	38.5	39.4	40.6	n/a
HCPI avg., % yoy	2.7	3.8	5.8	11.1	4.2	1.2	4.1	3.2	3.0
CIPI avg., % yoy	7.6	9.8	13.8	9.5	-10.6	-4.3	3.9	3.7	n/a
Fiscal Balance, % GDP	-0.5	-0.4	-1.0	-3.3	-9.5	-7.2	-5.5	-9.0	n/a
Export, EUR billion	9.5	11.3	12.5	16.1	11.8	15.7	20.2	23.0	n/a
Import, EUR billion	12.5	15.4	17.8	21.1	13.1	17.7	22.8	25.1	n/a
C/A Balance, EUR billion	-1.5	-2.6	-4.1	-4.2	1.0	0.0	-1.2	n/a	n/a
C/A Balance, % GDP	-7.1	-10.6	-14.4	-12.9	3.7	0.1	-3.7	n/a	n/a
Cumulative FDI, EUR billion	6.9	8.4	10.3	9.2	9.2	10.0	11.0	n/a	n/a
LTL/USD aop	2.7746	2.7513	2.5230	2.3569	2.4828	2.6099	2.4822	2.6060	n/a
LTL/EUR aop	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528

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Source: The Lithuanian Department of Statistics; Ministry of Finance; Bank of Lithuania; SEB; Swedbank

According to preliminary data from the Lithuanian Department of Statistics, the unemployment rate in 2012 was 13.3 per cent and dropped by 2 per cent compared to 2011. Despite that, youth unemployment was still one of the highest in Europe and reached 26.4 per cent in 2012. Nevertheless, it is expected that the unemployment rate in the near future will gradually decrease and in 2015 will be lower than 10 per cent.

The average monthly gross earnings in 2012 grew by 4.5 per cent, compared to 2011, and stood at 619 EUR. However, real earnings grew only by 1.1 per cent y-o-y due to inflation processes. The enlargement of minimum wage by 14.5 EUR, which was implemented since August of 2012, did not have a significant impact on situation in the labor market. However, after the election of a new Parliament, the government decided to increase the minimum wage more significantly starting at the beginning of 2013. So, it is expected, that it will have more of an impact on the labor market in the coming years.

In 2012 the growth of export was 14.5 per cent, compared with 2011, and it was almost twice lower than in 2011. The biggest impact on exports growth was an increase in exports of boilers, machinery and mechanical appliances and parts by 33 per cent and petroleum products – by 8.2 per cent. Furthermore, significant growth of cereals exports by more than two times, also made a great contribution to an annual growth of exports. It is expected, that export will continue to stimulate the Lithuanian economy, and in 2013 its growth will be close to the annual average.

TENDENCIES AND FORECASTS

◊ Future trends of the Lithuanian economy will still highly depend on the international environment, as its growth is mainly driven by exporting industries. As only moderate economic growth in both developed and emerging counties is forecasted, the Lithuanian economy will mostly rely on a well diversified structure of exports.

◊ Despite the slow down of economic growth in Lithuania during 2012, the future forecasts are quite positive as countries of the Baltic Region, including Lithuania, will further be the fastest growing in EU.

◊ The inflation rate will continue to be one of the obstacles of entering the Euro zone as overall growth of energy and fuel prices will maintain HCPI higher than 3 per cent.

◊ The situation in the labor market will meet some positive changes due to a moderate decrease of unemployment rate and gradual growth of wages. However, there is still not a clear picture of how the increase in minimum wages, which was implemented at the beginning of 2013, will affect the Lithuanian labor market and the small and medium-sized business sector.

Office Market

OVERVIEW

Although at the beginning of 2012 pessimistic moods were emerging due to the unstable situation in the Euro zone, the whole year of 2012 was not bad for the RE market. The recovery of the economic situation in Lithuania, the growth of rent rates and the decrease in vacancy, encouraged developers to start construction of projects, which were postponed during the crisis. This was especially seen in the capital city Vilnius, where conditions for new projects were the most favorable.

SUPPLY

In 2012 Vilnius had clear leadership in both supply and demand over other cities, as 6 new business centres were opened, offering 19,600 sqm of new office space. So, during the last year, the office space supply in Vilnius grew by almost 5.5 per cent y-o-y, and at the end of 2012 stood at 376,450 sqm. Class A office space accounted for approx 33 per cent of the total office market, class B - approx 67 per cent.

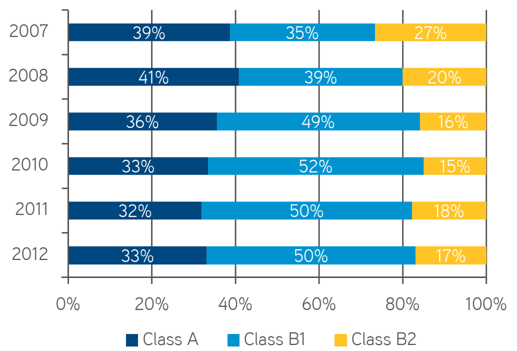
However, Kaunas and Klaipeda were still not popular among developers due to the instability of the regional economic situation in Lithuania and low level of investments into those cities. In addition, Klaipeda was still struggling with oversupply of office space. During 2012 no new projects were added to Kaunas and Klaipeda market, leaving the supply at the same level as in 2011 - 36,100 sqm and 69,100 sqm respectively.

Future expectations for the development of the office space market are optimistic as further economic and RE market recovery are forecasted. During 2013 developers are further considering to provide new, better quality projects. Therefore, 4 business centres (total GLA of 18,400 sqm) are planned for completion in Vilnius in 2013. Moreover, some large and high quality business centres (Baltic Hearts (stage III), Grand Office BC, Narbuto BC, Lords LB BC, Business Centre at Gostauto St. and Quadrum Business City) are planned to be constructed during 2014-2015, which will offer about 80,000 sqm of new office space.

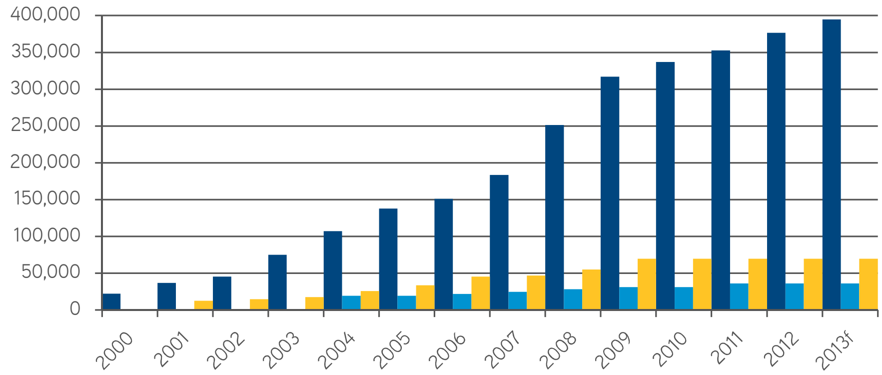
Some new office space is also planned to be introduced to Kaunas in the near future. The completion of a built-to-suit office building for Senukai (total area of 17,000 sqm) is planned in the spring of 2013. After that, the former administrative building of Senukai will be transformed into a business centre (GLA of 3,000 sqm) and offered to the market in 2014.

There are no plans for the development of new office space in Klaipeda in 2013, as current supply significantly exceeds the demand due to inappropriate development of office space before the crisis.

DISTRIBUTION OF SPECULATIVE OFFICE SPACE IN VILNIUS BY CLASS



DYNAMICS OF SPECULATIVE OFFICE SPACE IN LITHUANIAN CITIES



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COMPLETED SPECULATIVE PROJECTS IN VILNIUS IN 2012				
PROJECT	CLASS	ADDRESS	GLA, SQM	DEVELOPER
Merchants Club	A	Gedimino Ave. 35	4,790	Pirkliu klubas
Vytenio 46	B1	Vytenio St. 46	2,000	Realinija
BC 12	B1	Jasinskio St. 10	2,200	Transmeda
Trapecija	B1	Pilaites Ave. 16	2,500	Intractus
Baltic Hearts (Stage I)	A	Ukmerges St. 120	3,300	ZVC
Ulonu BC	B1	Verkiu 25C/J. Galvydzio St. 1	4,800	PST investicijos
Total			**19,590**	

LIST OF NEW SPECULATIVE PROJECTS TO BE CONSTRUCTED IN VILNIUS IN 2013				
PROJECT	CLASS	ADDRESS	GLA, SQM	DEVELOPER
Gama	B1	Ozo St. 14	10,045	Realco
Baltic Hearts (Stage II)	A	Ukmerges St. 120	3,300	ZVC
Santariskiu BC	B1	P.Baublio St. 2	2,000	Realinija
Sostena BC	B1	Ukmerges St. 280	3,000	Sostena Auto
Total			**18,345**	

DEMAND

The office market in Lithuania continued to be the tenants' market in 2012. The growing supply of new office space led tenants to have a greater choice of premises and present higher requirements for landlords. The highest demand had class B1 office space located in the CBD and close to the city centre. The major requirements for office space were easy access and a sufficient number of parking spaces, as well as high-quality and comfortable premises at an affordable price.

During 2012 several large deals were completed in Lithuania, with new players entering the market. In Vilnius Lietuvos Pastas signed a contract with RE developer MG Valda for 5,000 sqm office space in the office complex Business Triangle. In Kaunas, a UK IT company Callcredit Information Group leased ca 2,000 sqm of office space in Kaunas Zalgirio Arena.

Besides that, newly constructed business centres in Vilnius also managed to attract several larger tenants. For instance, Microsoft Lietuva opened its modern office in the class A business centre Baltic Hearts, occupying about 800 sqm. The Embassy of Azerbaijan relocated its headquarter to another class A business centre Merchants Club, which also managed to attract the international RE company Sotheby's Realty Baltic, focusing on luxury residential sales, which opened its first branch in Lithuania.

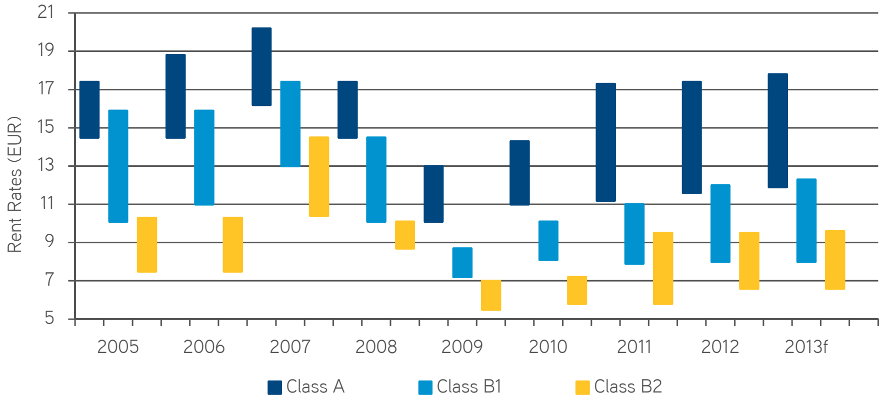
In addition to this, the expectations for the future demand of office space are quite optimistic. International companies are further looking for opportunities to relocate their back office services to less expensive countries. For instance, Danish bank Danske Bank already announced that it is planning to open its IT service centre in Vilnius in 2013 with up to 50 new workplaces. On the other hand, the majority of new projects are developed only after finding anchor tenants (DNB bank will occupy about 10,000 sqm of leasable area in the Quadrum Business City; YIT Kausta will be the anchor tenant in the Grand Office BC). So, it is likely that absorption of new office space should not take long.

RENT RATES

The instability in the Euro zone and deterioration of the forecast of Lithuanian economic recovery, as well as the rapid growth of office space supply had an impact on the slow down of rent rates' growth during 2012. As a result, the rent rates of Vilnius office space grew by 4 per cent y-o-y in 2012, compared with 10-15 per cent in 2011. The biggest growth of rent rates (almost by 6 per cent y-o-y) was observed in class B1 office buildings located in attractive locations.

In 2012 the rent rates in Kaunas and Klaipeda remained at the same level as in 2011 due to the inactive office market in these cities.

DYNAMICS OF RENT RATES* IN VILNIUS



* asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
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RENT RATES FOR 2012 IN VILNIUS, KAUNAS, KLAIPEDA AND TRENDS FOR 2013

CLASS	VILNIUS		KAUNAS		KLAIPEDA	
	RATES*	TRENDS	RATES*	TRENDS	RATES*	TRENDS
A existing	11.6–17.4	→↗	8.7–10.0	→→	8.7–9.3	→→
B1 existing	8.0–12.0	→↗	7.2–10.1	→→	5.8–8.7	→→
B2 existing	6.6–9.5	→↗	5.2–7.2	→→	4.3–6.3	→→

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

VACANCY RATES FOR 2012 IN VILNIUS, KAUNAS, KLAIPEDA AND TRENDS FOR 2013

CITY	RATES	TENDENCIES FOR 2013
Vilnius	12.5 %	→↘
Kaunas	3.5 %	→→
Klaipeda	19.0 %	→↘

DYNAMICS OF VACANCY RATES IN VILNIUS

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VACANCY

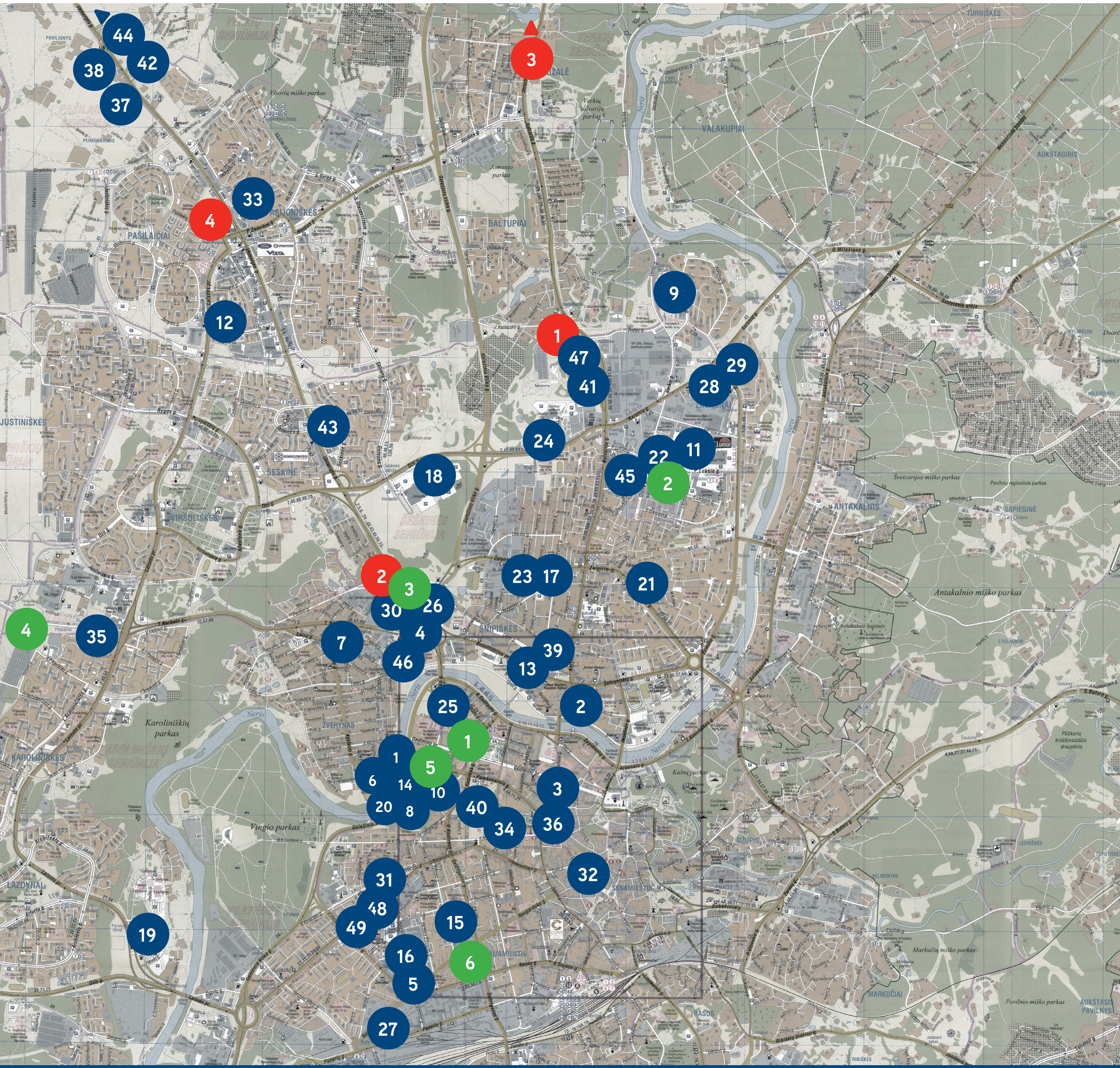
During 2012 minor fluctuations of vacancy rate in Vilnius business centres were observed. Despite the fact that the growth of supply of new office space and relocation of tenants were quite active in Vilnius, at the end of 2012 the vacancy rate remained at the similar level as in 2011 and accounted for about 12.5 per cent. Vacancy rate in class A business centres was the lowest and stood at 5.5 per cent. In class B business centres it was higher and accounted for about 16 per cent.

In Kaunas the vacancy rate in modern business centres was the lowest among major cities of Lithuania. However, the demand for office space in Kaunas is quite low, so any new project can significantly enlarge the amount of free space.

Klaipeda was in the worst position in the context of free office space. Due to an inappropriate development of new business centres before the crisis, Klaipeda was still struggling with high vacancy rate, and at the end of 2012 it stood at almost 19 per cent.

TRENDS AND FORECASTS

- ◊ Vilnius will maintain the leader position among other cities of Lithuania in the context of office market recovery in the coming years.
- ◊ During 2013 the expansion of Vilnius office space supply will continue as more than 18,000 sqm will be offered to the market. Class B1 projects located in residential districts will dominate in new supply.
- ◊ Although developers are further considering to provide new, better quality projects, the construction will depend on how successfully the anchor tenants will be found.
- ◊ The rent rates are expected to remain quite stable during 2013. Only in Vilnius a slight growth by 2-4 per cent is forecasted.
- ◊ It is expected that during 2013 the vacancy rate of office space will remain at a similar level as in 2012 or slightly decrease due to the quite active expansion of supply and slow recovery of the Lithuanian economy.



BUSINESS CENTRES IN VILNIUS

Existing Developments

1. BPT BC
2. IBC BC
3. BC 2000
4. Hanner BC
5. Skraja BC
6. MG Baltic BC
7. Marenta BC
8. Baltic Center
9. Zirmunu BC
10. Eika BC
11. Domus Centre
12. Commercial & Administrative Building
13. Europa
14. Office Plius
15. Vilbra BC
16. Smolensko BC
17. Zalgiris BC
18. Akropolis BC
19. L3 BC
20. Victoria
21. Tuskulenai BC
22. Danola BC
23. Kernave BC
24. Ozo BC
25. Vertas
26. Business Centre, Saltoniskiu St.
27. Skraidenis BC
28. Business-Residential Complex, Zirmunu St.
29. Business-Commercial Centre, Zirmunu St.
30. Saltoniskiu Trikampis
31. Helios City
32. VIH
33. Unimodus BC
34. Administrative Building, Roziu St.
35. Jin & Jan
36. Plaza 31/1
37. MB Projects BC
38. Trio BC
39. Vilnius Business Harbour
40. Taurakalnis BC
41. Alfa BC
42. Kamane BC
43. Evolution
44. Orange Office BC
45. North Star
46. Green Hall
47. Beta BC
48. Evita
49. LJB BC

Completed in 2012

1. Merchants' Club BC
2. Ulonu BC
3. Baltic Hearts (stage I)
4. Trapecija BC
5. BC12
6. Vytenio 46 BC

Declared for Completion in 2013

1. Gama BC
2. Baltic Hearts (stage II)
3. Santariskiu BC
4. Sostena BC

Retail Market

OVERVIEW

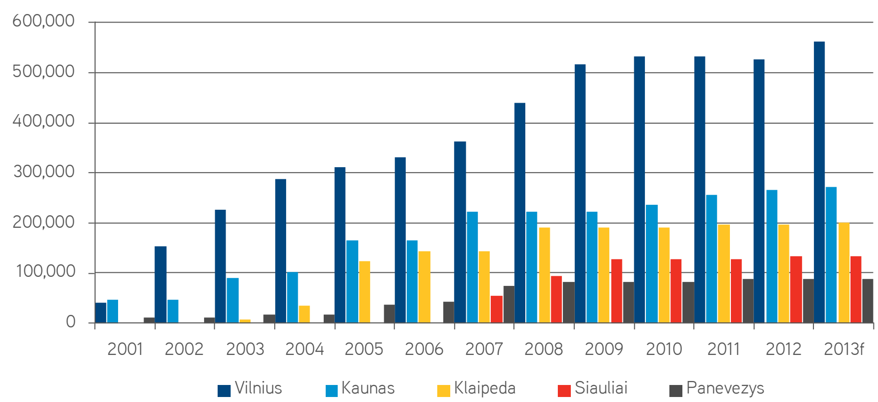
Despite the fact that the growth of the Lithuanian retail market in 2012 slowed down, compared to 2011, positive tendencies remained. In 2012 an active expansion of grocery retail chains continued, as it was forced by further growth of retail turnover (4.5 per cent y-o-y). Moreover, the need for new retail space also grew due to the entrance of new retail brands into the Lithuanian market. This whole situation created a positive view of the Lithuanian retail market and encouraged market players to renew their activities in the retail segment.

SUPPLY

At the end of 2012 the total supply of retail space in Vilnius shopping centres, constructed since the year 2000 and having more than 5,000 sqm of leasable space, was 526,600 sqm. Compared with the end of 2011, this number decreased by 1 per cent due to the SC Flagman (GLA of 5,000 sqm) reconstruction. At the end of 2012 it was reopened as a mixed-use building for administrative and commercial purposes, with GLA of 4,000 sqm and 3,000 sqm respectively.

The Kaunas retail market also saw some changes during 2012. At the beginning of 2012 SC Elektromarkt (GLA of 5,600 sqm) at Pramones Ave. was closed, but free retail space was quickly rented out by SBA furniture gallery. Compared with the end of 2011, Kaunas' retail stock increased by 4 per cent and stood at 269,800 sqm, as new Prisma hypermarket with GLA of approx. 10,000 sqm was opened in December of 2012.

DYNAMICS OF RETAIL SPACE IN LITHUANIA



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NEW PROJECTS IN LITHUANIA, 2013-2014

CITY	YEAR	PROJECT NAME	ADDRESS	GLA, SQM	DEVELOPER	ANCHOR TENANTS
Vilnius	2013	IKEA	Zirniu St.	25,000*	Felit	IKEA
		Prisma	Virsuliskiu St.	10,000	YIT Kausta	Prisma hypermarket
	2014	DomusPro	Ukmerges St.	11,300	TK Development Lietuva	Rimi hypermarket
		Olinda	Pavilioniu St.	14,500	Vicus Group	Prisma hypermarket
Kaunas	2013	Viciunai SC	Siaures Ave./ Ukmerges St.	7,200	Viciunai	Maxima XX
	2014	Mega (expansion)	Islandijos Ave.	22,000	Baltic Shopping Centers	-
		Merkurijus	Laisves Ave.	2,800	Homburg Valda	-
Klaipeda	2013	Luize	Siaures Ave.	4,100	PC Luize	Rimi hypermarket
Total				**96,900**		

* the area for other retailers in retail complex will be approx. 75,000 sqm that will be added to the market in later years

During 2012 one retail object (larger than 5,000 sqm) was opened in Siauliai – the wholesale store Promo Cash&Carry, which enlarged the retail space in this city by 4 per cent to 133,700 sqm.

The retail market in other cities of Lithuania faced qualitative rather than quantitative changes, as interior modernization of shopping centres was implemented and weaker tenants were replaced.

During 2012 the majority of construction for retail property were related to the expansion of retail grocery chains, which were seeking to capture the largest share of the market. Due to this, Maxima, IKI and Norfa chains were actively renewing their net of supermarkets by constructing new ones, renovating old ones and closing those which were working unsuccessfully. Only Rimi retail chain was quite calm with expansion processes, as greater efforts were concentrated in optimization of its performance (for instance, all Supernetto stores were closed, and several of them were reconstructed and reopened as Rimi supermarkets).

In terms of construction of new large shopping centres, currently there are some signs of recovery in this field. In Vilnius IKEA has plans to open its first shopping centre (about 25,000 sqm) in the Baltic region by the end of 2013. Also some community shopping centres such as Prisma store, DomusPro retail park and Olinda shopping centre are expected to open in 2013-2014 if the anchor tenants are found successfully.

In Kaunas the expansion of Mega SC is planned during the period of 2013-2014, after new tenants are found. SC Merkurijus at Laisves Ave., for which reconstruction began in 2011, is also planned to be finished by the end of 2014. Moreover, the construction of new shopping centre by UAB Viciunai, started in 2012, will continue. A new shopping centre with GLA of approx. 7,200 sqm will be occupied by Maxima XX on the ground floor and by offices, cafes and small shops - on the first floor.

Although the Klaipeda retail market is oversupplied by retail space offered for rent, some new retail spaces are also planned to be constructed there (for instance, SC Luize with GLA of 4,100 sqm).

Further development of grocery retail chains will continue in 2013-2014. Rimi already announced that in 2013, it is planning to open 9 new stores in Lithuania. Prisma also plans to expand its retail chain in Vilnius by introducing two new hypermarkets during 2013-2014. Plans of the German low cost retail chain Lidl to come to Lithuanian market are also in pipeline, despite some legal obstacles, which were faced in 2012.

DEMAND

During 2012 flows of local and foreign visitors into shopping centres of Lithuania continued to grow and consumption became bolder. The amount of money spent in shopping centres also increased. It was especially affected by foreign tourists from Russia and Belorussia, who were spending about 2-3 times greater amounts of money than local clients.

During 2012 a significant growth of sales volume of textile goods as well as electrical household appliances was recorded, by 29.6 and 24.5 per cent y-o-y respectively. So, customers were already capable to purchase not only the basic goods for living, but also spent more money on secondary products. Moreover, the demand for e-commerce also grew, as the retail sales via mail or internet increased by 29.4 per cent y-o-y in 2012.

The demand for retail space was further increasing as new international brands were entering the market. For instance, Aldo, NS King, TJ Collection, Mohito, Derhy, Max&Co, Coccinelle, Marella, Karen Millen, Strellson and others were introduced to Lithuania during 2012. The largest demand remained for small and medium retail units in successfully operating shopping centres or in the main retail streets.

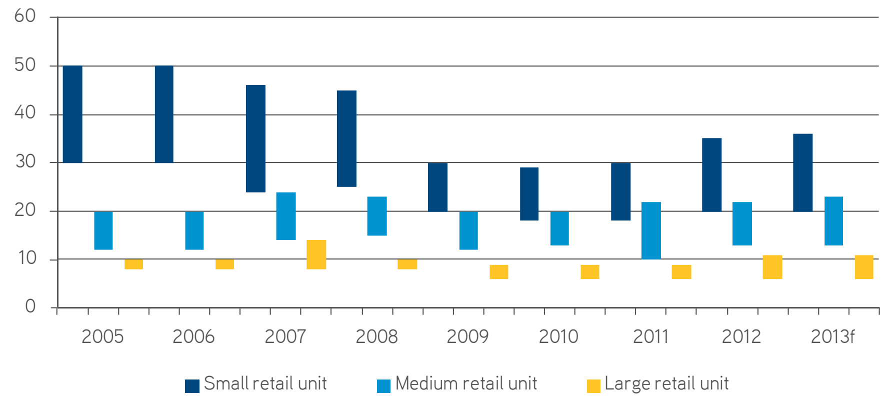
The further entrance of new well-known brands to the Lithuanian market will continue. It is already known that H&M is going to open its first stores in Akropolis SC of Vilnius and Klaipeda in 2013 and in Panorama and Ozas SC in 2014. Moreover, such brands as Burberry, Debenhams, Cortefiel, Desigual also relate their expansion plans with Baltic region, which will enlarge the competition among apparel stores even more.

RENT RATES

During 2012 the growth of rent rates was further recorded. However, changes in rents were observed mainly in Vilnius. Rent rates in successfully operating large shopping centres of Vilnius averagely grew by 12 per cent y-o-y. The biggest growth of rent rates was seen for small retail spaces (less than 100 sqm) with more than 14 per cent y-o-y. Meanwhile, unsuccessfully operating retail projects (for instance, BIG, Mada) were still keeping rent rates at the lowest possible level in order to attract successful tenants or maintain existing ones.

Other cities of Lithuania, such as Kaunas and Klaipeda, maintained stability, as no significant changes were recorded there.

DYNAMICS OF RENT RATES* IN LARGE SHOPPING CENTRES IN VILNIUS



* asking rent rates (EUR/sqm/month) excluding VAT and operating expenses.
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RENT RATES FOR 2012 AND TRENDS FOR 2013 IN LARGE SHOPPING CENTRES AND MAJOR RETAIL STREETS

UNIT SIZE	VILNIUS		KAUNAS		KLAIPEDA	
	RATES*	TRENDS	RATES*	TRENDS	RATES*	TRENDS
Large retail unit (anchor tenant)	6 – 11	→→	6 – 10	→→	5.5 – 8	→→
Medium retail unit (150-350 sqm)	13 – 22	→→	9 – 20	→→	8 – 18	→→
Small retail unit (less 100 sqm)	20 – 35	→↗	17 – 28	→→	17 – 28	→→
Street Retail	13 – 38	→↗	8 – 16	→↗	6 – 10	→→

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

VACANCY

The year of 2012 maintained the tendency of 2011. The vacancy rate further decreased, and it was especially seen in successfully operating shopping centres, as there was practically no free space for rent. Due to this, managers of such shopping centres could change unsuccessfully operating tenants and optimize the performance of them.

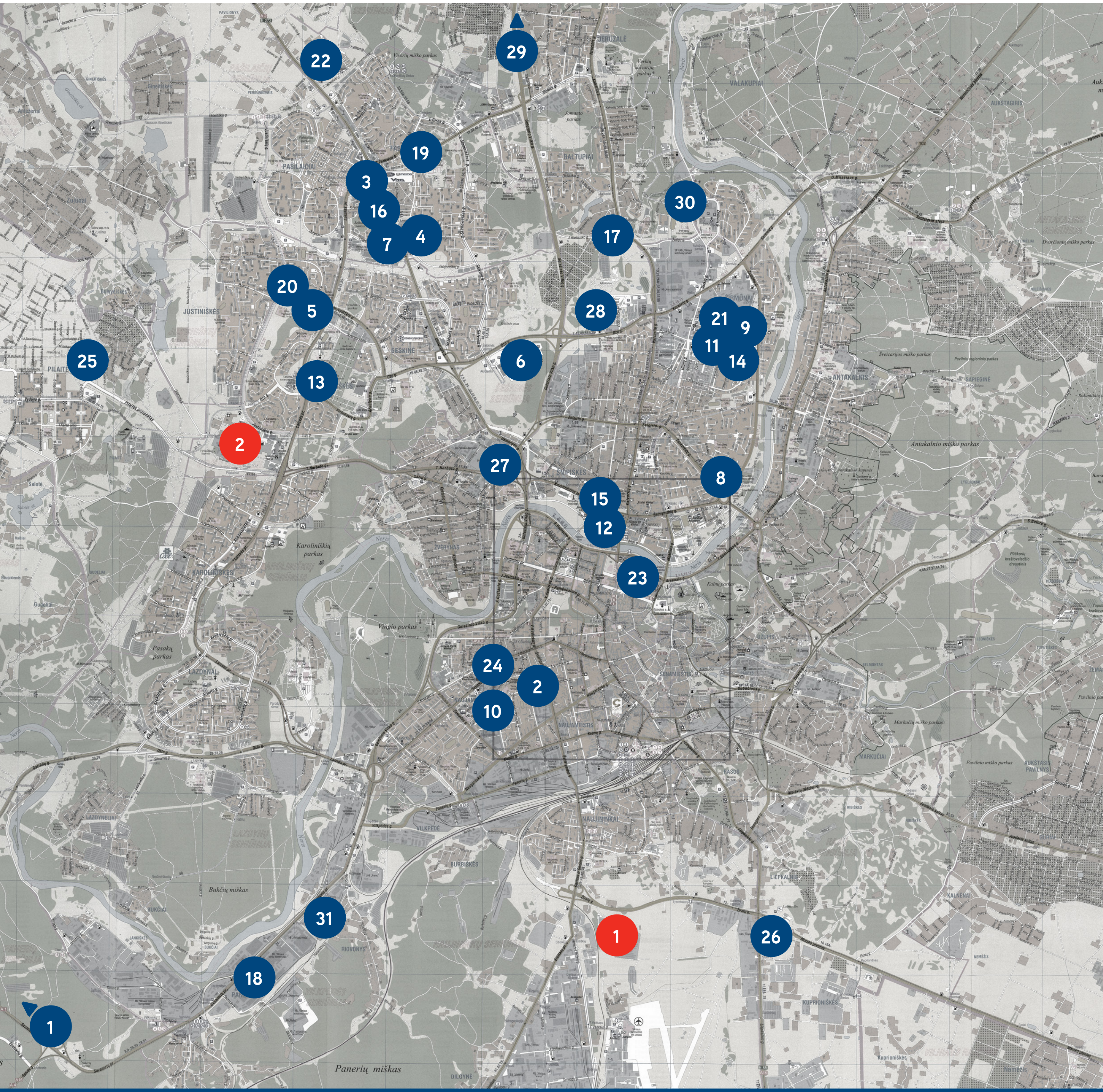
Meanwhile, unsuccessfully operating projects were still having quite high vacancy rates, which fluctuated between 10-15 per cent depending on the object.

VACANCY RATES FOR 2012 AND TRENDS FOR 2013

CITY	RATES	TENDENCIES FOR 2013
Vilnius	3.0%	→→
Kaunas	1.0 %	→→
Klaipeda	3.2%	→→

TENDENCIES AND FORECASTS

- ◊ Grocery retail chains will continue to be the most active in the retail sector as further development of supermarkets is expected. Besides, after several years of stagnation, currently there is some space for new retail projects in Lithuania and several of them are already planned to be opened in 2013.
- ◊ Managers of shopping centres will further invest into the improvement of the property concept by improving their tenant mix in order to strengthen its competitiveness.
- ◊ In the near future the market share of e-commerce will continue to grow, as rapid growth of new technologies will encourage customers to use more convenient way of shopping without leaving the house.
- ◊ It is forecasted that rent rates and vacancy will be quite stable during 2013. Only slight growth of rent rates for small retail space in successfully operating shopping centres is predicted.
- ◊ The gap between rent rates and vacancy in primary and secondary retail projects will remain quite large.



RETAIL PROJECTS IN VILNIUS

Existing Developments

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

Declared for Completion in 2013

1. IKEA
2. Prisma

Warehouse Market

OVERVIEW

After the first signs of economic recovery in 2011, when the significant growth of exports by 28.9 per cent was recorded and industrial production growth reached 7.4 per cent y-o-y, the Lithuanian warehouse market started to go out from stagnation. Besides, the warehouse market changed significantly during the period of 2011-2012, as earlier domination of speculative warehouses was replaced by built-to-suit projects.

SUPPLY

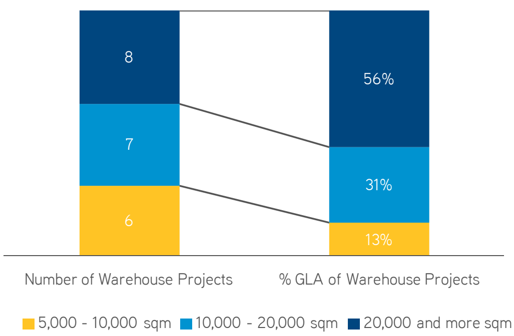
The majority of warehouse space is concentrated in the industrial territories of major cities of Lithuania and close to the main highways. However, the biggest concentration of warehouse space is in the Vilnius region as the capital city attracts the majority of investments. At the end of 2012 the Vilnius region speculative warehouse space supply was 354,000 sqm, and compared with the end of 2011, grew by 2.3 per cent. Stage III of the Airport Business Park with 8,000 sqm of new warehouse space was added to the market. As it had tenants in advance, it was successfully occupied. Transekspedicija finished its warehouse of 6,000 sqm in the Vilnius region, which is used not only for its own needs, but some space is also leased. Moreover, Ogmios Group constructed new warehouse for NPO "Humana People to People Baltic" in Vilijos Business Park.

Kaunas region had some changes in the warehouse market too. Stage II of the logistics centre BLS (former Via Baltica) with 7,000 sqm of built-to-suit premises was opened by Sanitex in 2012.

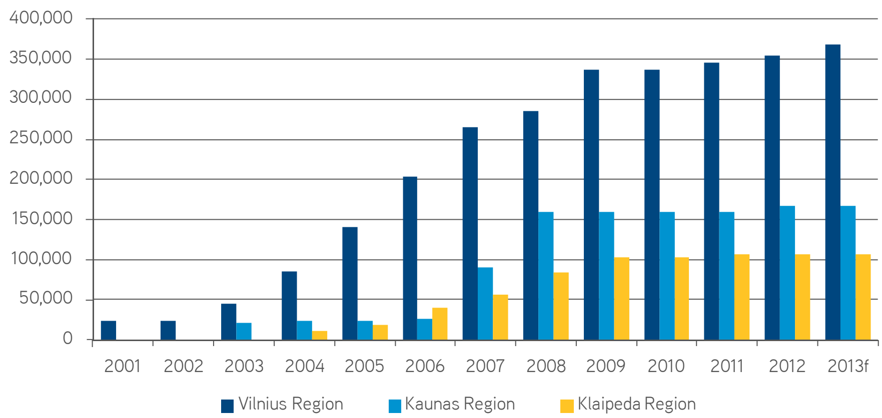
During 2012 no new warehouse projects were implemented in the Klaipeda region, leaving supply at 107,600 sqm.

Despite the fact that the lack of modern warehouse space is recorded across Lithuania, developers still are not in a hurry and are diligently evaluating every opportunity for investment. Due to this, only several intentions for construction of new warehouses will be presented to the market in the coming years. For instance, Transekspedicija is planning the expansion of its newly built warehouse by an additional 14,000 sqm in 2013. The majority of new warehouse will be dedicated for rent. In addition, Lietuvos Pastas has intentions to relocate its mail and parcel centre from Vilnius to Kaunas and is planning the construction of a 10,000 sqm built-to-suit centre near the highway Vilnius – Kaunas in 2014-2015. Moreover, DHL also has plans to construct a new mail terminal in the Vilnius Airport and invest about 3 million EUR. However, those plans are on hold due to an uncertified detailed plan of the Vilnius Airport.

DISTRIBUTION OF SPECULATIVE WAREHOUSE PROJECTS IN VILNIUS BY SIZE



DYNAMICS OF SPECULATIVE WAREHOUSE SPACE



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COMPLETED PROJECTS IN LITHUANIA IN 2012				
REGION	PROJECT	TYPE	GLA, SQM	DEVELOPER
Vilnius	Airport Business Park (stage III)	Spec. basis	8,000	Ogmios Group
	Transekspedicija warehouse	Built-to-suit	6,000	Transekspedicija
	Vilija Business Park (stage II)	Built-to-suit	13,800	Ogmios Group
Kaunas	Baltic Logistics Solutions (BLS) Stage II	Built-to-suit	7,000	Sanitex
Total			34,800	

NEW PROJECTS IN LITHUANIA FOR THE PERIOD OF 2-3 YEARS					
REGION	PROJECT	TYPE	GLA, SQM	DEVELOPER	YEAR
Vilnius	Transekspedicija (expansion)	Spec. basis	14,000	Transekspedicija	2013
Kaunas	Lietuvos Pastas mail centre	Built-to-suit	10,000	Lietuvos Pastas	2014/15
Klaipeda	Logistic Centre (stage I & II)	Spec. basis	11,800	Nikeja	2014
Total			35,800		

In Klaipeda the RE development company Nikeja also has plans for the construction of a new modern logistic centre at Nemuno St. near the Klaipeda Seaport. The construction of a 11,800 sqm logistics centre will be divided into two stages. Firstly, the construction of a 6,000 sqm warehouse with the railway ramp will be implemented. After that, the second stage of a 5,800 sqm warehouse is planned to be constructed.

Apart from private initiative, the state government is also making efforts in the developing of new logistics parks in the biggest cities of Lithuania. Construction of the first stage of a public freight village, Vilnius Logistics Centre (VLC), whose founders are the Lithuanian Railways and Vilnius Municipality, is the most realistic, with construction planned for 2014.

DEMAND

During 2012 the lack of modern and large warehouse space increased even more. A number of tenants were relocating or expanding their business in the local markets and tendency of demand growth continued. The biggest demand for warehouse space was from companies operating in furniture and transport sectors, as well as from companies which work with bio-fuels and metal recycling. In 2012 warehouse operators, logistics companies and retailers remained the main tenants occupying around 90 per cent of the total leased area of speculative warehouses.

During H2 of 2012 tenants searching for large warehouse units faced some difficulties as it was almost impossible to find a large warehousing space in one place. Meanwhile, the newly constructed Airport Business Park (stage III) was rapidly occupied by such companies as VBH-TBM, ACE Logistics, Hellmann Worldwide Logistics, Lietuvos tranzitas and some others due to pre-lease contracts.

WAREHOUSE RENT RATES FOR 2012 AND TRENDS FOR 2013		
CITY	RATES	TENDENCIES FOR 2013
Vilnius	3.5-4.6	→↗
Kaunas	3.2-4.1	→↗
Klaipeda	3.2-4.0	→↗

* asking rent rates (EUR/sqm/month) excluding VAT and operating expenses.
→↗- slight increase

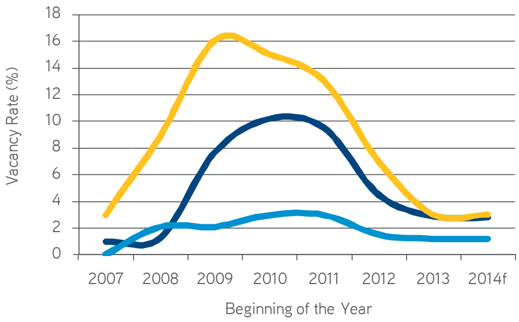
RENT RATES

Improving economic conditions encouraged companies to look for new larger warehouse space, which eventually moved up the warehouse market from stagnation in 2011. During 2012, the same tendencies continued. The decrease in vacancy was recorded in all major cities of Lithuania which eventually caused a slight growth of rent rates by 3-5 per cent y-o-y. Higher rent rates were asked from tenants with exceptional requirements for premises. Also higher rent rates were asked for those premises which where previously rented at a lower rate than the market level.

VACANCY

Market recovery, expansion of existing tenants and tenants relocating from old to new premises had a direct positive impact on the vacancy rate during 2012. Due to this, it became difficult to find large warehouse space in all major cities of Lithuania. During 2012 vacancy rates in Vilnius and Klaipeda fluctuated between 3-4 per cent, in Kaunas it was

DYNAMICS OF VACANCY RATES



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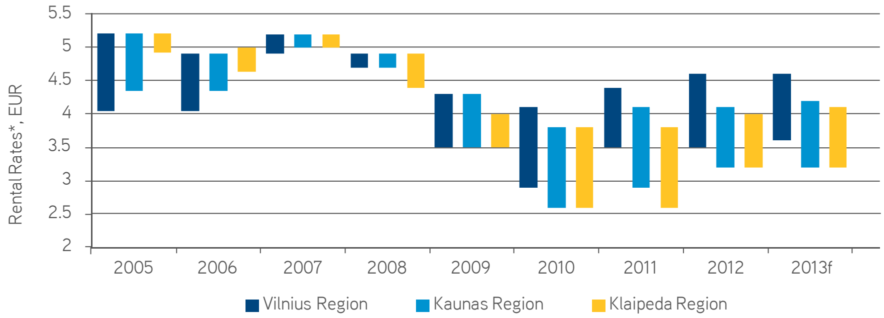
DYNAMICS OF SPECULATIVE WAREHOUSE SPACE



* asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
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VACANCY RATES FOR 2012 AND TRENDS FOR F 2013

CITY	RATES	TENDENCIES FOR 2013
Vilnius	2.9%	→↘
Kaunas	1.2%	→↘
Klaipeda	3%	→↘

→↘- slight decrease

even lower and reached 1.2 per cent. Despite that, developers are still careful with investment into the new projects as relatively low rent rates of warehouse space and growing construction costs do not create favorable conditions for new development.

TENDENCIES AND FORECASTS

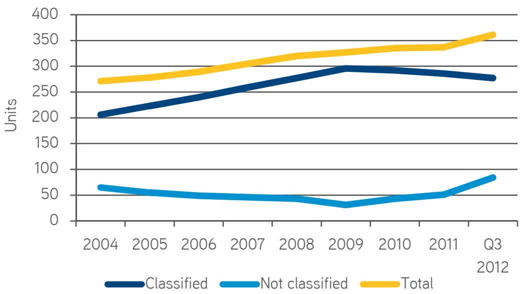
- Despite the fact that the lack of modern and large warehouse space will be observed in all major cities of Lithuania, new warehousing projects will be developed only on a built-to-suit basis or after finding tenants, as rent rates will remain too low to cover the costs of construction.
- The growth of demand for warehousing space is further predicted as economic situation in Lithuania will further improve due to good export situation, growth of industrial production and recovery of domestic consumption.
- It is expected that in 2013 the rent rates will continue to grow at similar rates as in previous year; vacancy rates will remain quite stable or will decline slightly.
- Although the warehouse sector shows signs of recovery, rapid growth is not forecasted since global economic events do not create favorable conditions for sustainable growth.

Hotel Market

OVERVIEW

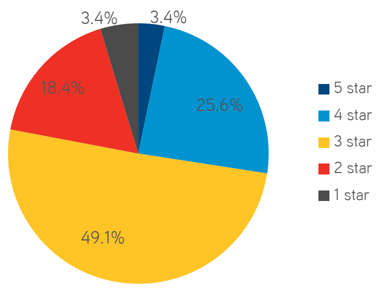
Despite the current economic difficulties in the Euro zone, the Lithuanian accommodation sector further demonstrated good results in 2012. The number of tourists increased, new hotels were establishing and the average room occupancy rate grew. Besides, the abolishment of the VAT exemption for hotels at the beginning of 2012 did not have a dramatic effect on accommodation sector as it had been expected.

HOTELS AND GUESTHOUSES IN LITHUANIA



Source: The Lithuanian Department of Statistics

DISTRIBUTION OF HOTELS BY NUMBER OF STARS IN LITHUANIA



Source: The Lithuanian Department of Statistics

SUPPLY

During the period of nine months of 2012 the total amount of hotels and guesthouses in Lithuania grew by 7 per cent comparing with the end of 2011 and showed further recovery of the accommodation sector.

However, due to the change of Lithuanian law on tourism in 2011 (guesthouses are not required to be classified), the supply of classified hotels and guesthouses in Lithuania dropped by 3 per cent in Q3 of 2012, compared to the end of 2011. According to the Lithuanian Department of Statistics, there were 277 classified hotels and guesthouses in Lithuania. In terms of the number of hotels and the number of rooms, 3-star hotels remained in a dominant position in the Lithuanian market – 49.1 and 41.5 per cent respectively.

The Lithuanian accommodation sector started to recover in 2011 and a positive trend continued in 2012. The significant growth of the exhibition market by 10 per cent was also recorded in 2012, and it had a positive impact on the Lithuanian hotel market too. Moreover, the first international business-to-business two-day event, "CONVENE" an industry meeting organized for the Baltic countries, took place in Vilnius in February of 2013. It is expected that this event will become continuous and will create a sustainable value added for the further development of the exhibition and accommodation sectors in Lithuania.

As Lithuania together with Ireland was appointed for presidency to the Council of the EU in 2013, it is expected that the demand for services of hotels, restaurants, conference centres will enlarge. As a result, the supply of the Vilnius hotel market expanded by two new hotels in 2012. This includes the 3-star, 200 rooms Comfort Hotel near Vilnius Old Town and the 5-star Kempinski Hotel Cathedral Square Vilnius. The latter was finally opened after a long delay. The 96-room hotel, located in Vilnius Old Town, is the first hotel of the Kempinski hotel chain in the Baltic States.

Other major cities of Lithuania also had some changes in the hotel market during 2012. For instance, in May of 2012, after reconstruction, the 2-star Ibis Kaunas Centre hotel with 125 rooms belonging to the Accor hotel chain was opened near the bus station in Kaunas.

NUMBER OF CLASSIFIED HOTELS AND ROOMS IN 2012

STARS	LITHUANIA		VILNIUS		KAUNAS		KLAIPEDA	
	HOTELS AND GUESTHOUSES	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS	HOTELS	ROOMS
5-star	9	741	6	557	-	-	-	-
4-star	67	3,677	15	1,333	8	537	7	533
3-star	140	4,816	27	1,760	4	164	11	344
2-star	48	1,741	8	434	3	213	-	-
1-star	13	271	1	30	-	-	1	22
Total	277	11,246	57	4,114	15	914	19	899

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

CONSTRUCTED OR RENOVATED PROJECTS IN MAJOR CITIES AND RESORTS OF LITHUANIA IN 2012

CITY	STARS	PROJECT NAME	ADDRESS	# OF ROOMS	OPERATOR
Vilnius	5-star	Kempinski Hotel Cathedral Square	Universiteto St. 14	96	Kempinski Hotels
	3-star	Comfort Hotel	Mindaugo St. 27	200	Nordic Choice Hotels
Kaunas	2-star	Hotel Ibis Kaunas Centre	Vytauto Ave. 28	125	Accor Hotels
	3-star	Babilonas	Zalioji St. 38A / Raseiniu St. 25	24	Independent
Klaipeda	3-star	Memel Hotel	Bangu St. 4	50	Independent
Palanga	5-star	Auska Hotel	Vytauto St. 11	28	Independent
	3-star	Zilvinas Hotel	Kestucio St. 26	32	Independent
Druskininkai	4-star	Hotel Dzukija	V. Kudirkos St. 47	16	Independent
Total				571	

NEW PROJECTS IN MAJOR CITIES OF LITHUANIA IN 2013

CITY	EXPECTED COMPLETION	EXPECTED STARS	PROJECT NAME	# OF ROOMS	STATUS	OPERATOR
Vilnius	2013	Economy class	Campanile Hotel	90	Construction phase	Louvre Hotels Group
Klaipeda	2013	3-star	Europa City Aurora	144	Completion phase	Europa Group Hotels
	2013	3-star	Hotel Michaelson	16	Reconstruction phase	Independent
Total				250		

Furthermore, economy class hotel Babilonas, located near the Kaunas city centre, was renovated and expanded, offering 24 rooms. In Klaipeda the 3-star, 50-room Memel Hotel was opened in a reconstructed building near Klaipeda Old Town in April of 2012.

Despite the new fee for the use of the resort's public infrastructure, introduced in major resort cities of Lithuania (in Druskininkai from 2011, in Palanga and Birstonas from 2012), last year was still quite active for the resort cities. Tourist flows were growing, the amount of money spent was increasing and the construction of new hotels and renovation of old ones was implemented. The 5-star Auska Hotel and the 3-star Zilvinas Hotel in Palanga were reconstructed. Also the construction of the new project Natura Termo SPA and Meguvos Ethno Village in Zibininkai near Palanga, which will offer all year round recreation and SPA procedures, continued in 2012.

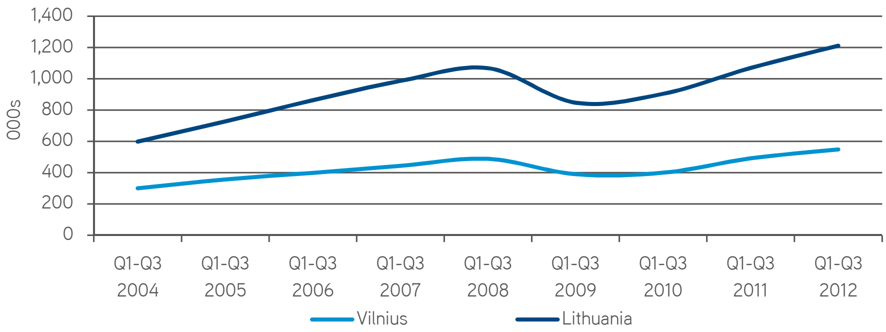
In Druskininkai the 4-star Hotel Dzukija was also opened. It is the third hotel in Grand SPA Lietuva complex, which became the biggest fitness and recreation centre in Druskininkai.

In 2013 the most active in terms of construction of new hotels will be Klaipeda city, as presently three new hotels are under construction there. The 3-star hotel Europa City Aurora built near the second Smiltynes transfer in the reconstructed premises of former cinema theatre and the 3-star Hotel Michaelson established in a reconstructed warehouse nearby Dane river with 16 rooms are planned to be introduced in 2013. Moreover, the reconstruction of the 4-star hotel Viktorija, located in the city centre, which began in 2012, is planned to be finished in the coming years.

In Vilnius the entrance of new international operator is planned. The Louvre Hotels Group has intentions to open its first 90-room Campanile Hotel in Lithuania in 2013.

Kaunas will maintain a status quo position during the next year, as no new hotels are planned to be introduced there.

DYNAMICS OF VISITORS IN HOTELS AND GUESTHOUSES



Source: The Lithuanian Department of Statistics

DEMAND

After uncertainty in the EU hotel market, which emerged in H2 of 2011, the year of 2012 showed a slow improvement of the situation as some global cities such as London and Paris looked positively. Although the rates of growth of the EU hotel market were slowing, the risks were decreasing.

The Lithuanian hotel market also showed good results. During the first nine months of 2012, 1.2 million visitors (of which 66 per cent were foreigners) stayed in hotels and guesthouses of Lithuania. It is 13.3 per cent more than in Q1-Q3 of 2011, which shows the continuous increase of demand in Lithuanian hotels and guesthouses. According to the Lithuanian Department of Statistics, during Q1-Q3 of 2012 most visitors were accommodated in Vilnius hotels and guesthouses – 549.1 thousands visitors or 11.6 per cent more, compared to the first nine months of 2011, of which 84.2 per cent were foreigners.

Kaunas and Klaipeda also saw the growth of visitors. Despite the fact, that Ryanair (low-cost airlines) relocated a significant part of cheap flights from Kaunas to Vilnius, the drop of flows of visitors to Kaunas was not recorded. On the contrary, a growth was observed of visitors staying in hotels and guesthouses by 16 per cent, during nine months of 2012, compared to the same period of 2011. In Klaipeda the growth of visitors staying in hotels and guesthouses was even higher and reached 19 per cent during Q1-Q3 of 2012, compared to Q1-Q3 of 2011

During Q1-Q3 of 2012 a significant growth of visitors, compared to the same period of 2011, was recorded in Lithuanian resorts, as nearly a third of visitors stayed in the hotels and guesthouses of Palanga (growth of 26 per cent), Druskininkai (growth of 20 per cent), Birstonas (growth of 18.4 per cent) and Neringa (growth of 6 per cent). Besides, Lithuanian resorts became very popular among Russian and Belarusian tourists due to high class services, which were offered at lower prices than in their countries of origin.

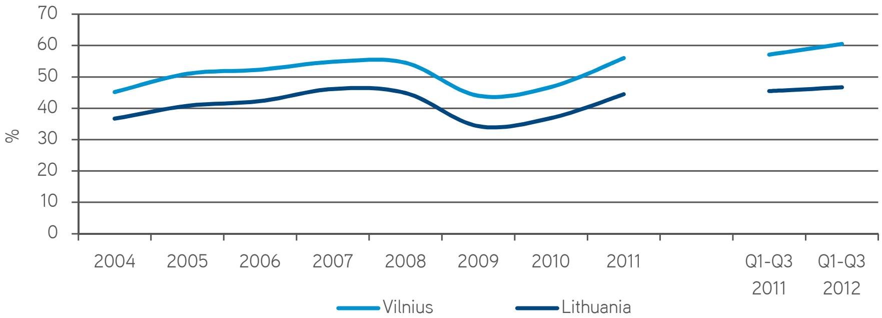
During nine months of 2012, the majority of visitors to Lithuania arrived from Russia – 162 thousand (growth of 43 per cent), Germany – 131 thousand (growth of 15 per cent), Poland – 107 thousand (decrease of 8.5 per cent), Belarus – 80 thousand (growth of 18 per cent) and Latvia – 58 thousand (growth of 19 per cent). So, compared to 2011, the top five countries remained unchanged.

OCCUPANCY

The further increase of the occupancy rate in Lithuanian hotels and guesthouses continued in 2012. During the first nine months of 2012, the average occupancy rate in Lithuania was 46.7 per cent and grew by 2.6 per cent compared to the same period of 2011. Capital city Vilnius continued to have the highest rate of occupancy among other cities – averagely 60.5 per cent during Q1-Q3 of 2012, and it grew by almost 6 per cent, compared to Q1-Q3 of 2011.

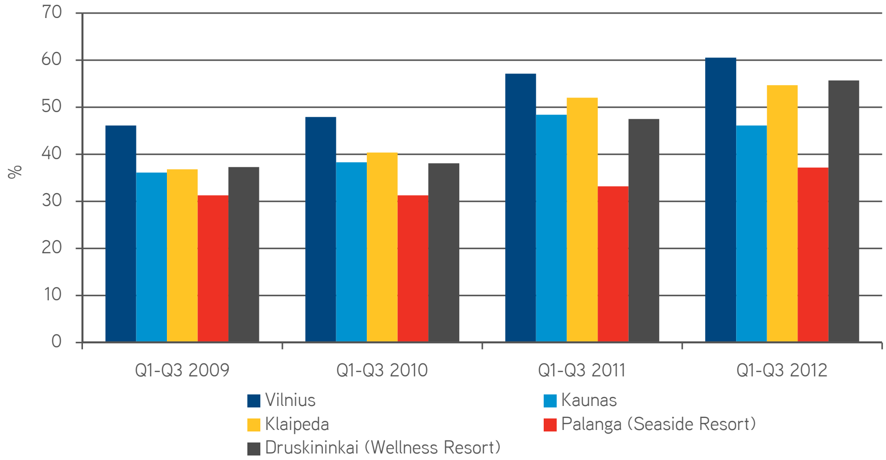
A slight decrease of average occupancy rate of hotels and guesthouses in Kaunas (by 4.8 per cent) was recorded during the first nine months of 2012, compared to the same period of 2011. In Klaipeda, a stable growth of occupancy rate in hotels and guesthouses by 5.2 per cent was observed.

DYNAMICS OF AVERAGE ROOM OCCUPANCY RATE IN HOTELS AND GUESTHOUSES



Source: The Lithuanian Department of Statistics

OCCUPANCY RATE OF ROOMS IN MAJOR CITIES AND RESORTS



Source: The Lithuanian Department of Statistics

In Q1-Q3 of 2012 the average occupancy rate in hotels and guesthouses of Druskininkai reached 55.7 per cent and grew by 17.3 per cent, compared to Q1-Q3 of 2011. Such increase was mostly stimulated by the active development of wellness and entertainment infrastructure in Druskininkai for several years. The hotels and guesthouses in Palanga also demonstrated good performance during nine months of 2012, as the average occupancy rate grew by 12 per cent, compared to Q1-Q3 of 2011.

PRICES

Despite the fact that the temporary VAT exemption of 9 per cent for hotels at the beginning of 2012 was abolished, according to the Lithuanian Department of Statistics, prices of accommodation services in 2012 grew only by 2.1 per cent y-o-y. The majority of the tax burden was taken by hotels in order to remain competitive among other countries.

PRICE RANGE FOR DOUBLE STANDARD HOTEL ROOMS IN 2012

NUMBER OF STARS	VILNIUS	KAUNAS	KLAIPEDA	FORECAST FOR 2013
5-star	90-190	-	-	→→
4-star	60-140	49-95	55-97	→→
3-star	40-105	46-55	41-81	→→
2-star	35-80	42-48	-	→→

* rack rate, EUR

TENDENCIES AND FORECASTS

◊ After the quite active year of 2012, in terms of construction of new hotels in Lithuania, in 2013 the supply growth of new hotels will continue, but at a much slower pace. The majority of them will be implemented in the western part of the country.

◊ International operators will further search for possibilities to establish themselves in the Lithuanian hotel market during 2013, as the growing tourism sector of Lithuania, including the exhibition and conference segments, creates favorable conditions for entrance of new brands.

◊ Due to the Lithuanian presidency to the Council of the EU in 2013 and the further growth of the exhibition market in Lithuania, it is expected that during 2013 the demand for services of hotels, restaurants and conference centres will continuously increase.

◊ It is forecasted that the dynamics of incoming tourist flows to Lithuania in 2013 will remain positive and will continue to maintain growth trends as the Tourism Department will further implement an active promotion of Lithuania in the markets of neighboring countries.

◊ We anticipate that in 2013 prices of hotel rooms will maintain a stable position with minor fluctuations as the accommodation sector is still trying to recover from the crisis and significant growth of prices would be inappropriate.

◊ The forecast for the growth of occupancy rate in 2013 is quite optimistic due to positive tendencies in the tourism sector.

◊ Lithuanian international airports will further invest into the development and operational effectiveness of themselves in order to improve the country's accessibility by air transport. Besides that, the negotiations regarding a direct flight from Vilnius to Stockholm finally succeeded, and starting in April 2013, a new direct flight will be offered for customers.

Legal Overview

LEGAL

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

ASSET TRANSFER DEALS

Main Steps

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

1. In the case of a larger real estate transaction, before signing the final sale-purchase agreement the parties usually conclude preliminary documents (e.g. letter of intent or preliminary purchase agreement) setting out the main terms of the deal (e.g. purchase price, payment mechanism, main deadlines 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 to exercise their right of first refusal to acquire the property (if such rights exist) on the same conditions as agreed with the buyer.
3. In the case of price settlement through a notary's or bank escrow (deposit) account simultaneously with conclusion of the final sale-purchase agreement, the parties negotiate and conclude an agreement on the terms of use of the escrow account.
4. If purchase of real estate is financed by a third party (e.g. 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.
5. The parties sign a single purchase agreement, which must be certificated by a notary. Non-compliance with requirements of form makes the contract ineffective.
6. After signing and notarisation of the purchase agreement, title to the property transferred should be registered with the Real Estate Register in the new owner's name. Registration is usually done through the notary who certified the transaction.
7. According to existing practice, the notary's fees and costs related to certification of the transaction are covered by the buyer or shared between the parties. The buyer also pays state and stamp duties for registration of title in its name with the public register.

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

Key Issues Involved

◊ Asset deals may be more expensive than share deals, as an asset deal involves notary fees and stamp duties;

◊ Lithuanian law entitles a tenant of the property to terminate the lease on change of ownership of the leased property;

◊ Under certain circumstances an asset deal may be treated as a sale of the entire company, in which case the buyer may be exposed to additional risks related to validity of the transaction and liability to creditors and employees of the company which owned the target real estate;

◊ The scope of due diligence investigation is limited as it covers only the target asset.

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SHARE TRANSFER DEALS

Share Transfer Deals Include These Main Steps:

1. Especially in the event of a larger transaction, a letter of intent, preliminary purchase agreement or similar pre-contractual arrangement is entered into before signing the main share purchase agreement. The letter of intent, preliminary agreement or similar document sets out the main terms of the transaction (e.g. purchase price, payment mechanism, main deadlines to complete due diligence and sign the final agreement, exclusivity period).
2. Usually a due diligence (e.g. legal, tax, financial) is performed before concluding the main share purchase agreement. Before examining the documents of the target company the purchaser and its advisors sign confidentiality/non-disclosure obligations. In certain situations due diligence may occur after signing the share purchase agreement but before completion of the transaction.
3. Once the parties reach agreement on the transaction, the share purchase agreement is signed.
4. When less than 100% of shares are acquired, waivers have to be obtained from other shareholders (i.e. those not selling their shares) of their right of first refusal (pre-emptive right) to acquire the shares to be sold by the selling shareholder. These waivers are collected before signing the purchase agreement or before completion of the transaction (in that case obtaining waivers is included as a condition precedent for closing). In addition, when less than 100% shares are acquired, a shareholders' agreement may be concluded between the buyer and the seller and/or other shareholders.
5. Merger control and other regulatory filings are generally carried out before closing and are included in the transaction documents as conditions precedent for completion.
6. Title to the shares is transferred as set in the share purchase agreement (e.g. on signing, after payment of the purchase price). Transfer of title is evidenced by making entries in the securities' accounts opened in the name of the seller and the buyer (in the event of non-certificated shares). If certificated shares are transferred, then entries evidencing the transfer (endorsements) are made on the share certificates.
7. The new list of shareholders should be filed with the Register of Legal Entities.

Key Issues to Take into Account

◊ A share deal does not involve notary fees and state duty for registration of real estate;

◊ The buyer takes over the entire company (assets and liabilities) including matters and risks occurring before change of ownership;

◊ Due diligence investigations are more extensive as a share deal is about transfer of the entire company, as opposed to real estate only;

◊ Deferred corporate income tax as well as other tax issues;

◊ Existing management structure, employees, and contractual obligations of the company may be not in line with the buyer's expectations.

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

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

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

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

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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 (e.g. 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 the land plot may not be approved by a notary and, even if certified, is still ineffective.

Change of Ownership

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

FORM OF AGREEMENTS

Share transfer transactions require simple written form, whereas real estate transactions must also be certified by a notary. Failure to notarise a real estate transfer agreement makes the agreement ineffective.

LANGUAGE REQUIREMENTS

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

DUE DILIGENCE

Legal due diligence of target real estate is recommended. This includes, e.g., title, encumbrances, third party rights, zoning and planning issues, existing lease agreements. Due diligence analysis may provide the buyer with certainty and information relevant to the transaction.

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, e.g., national and regional parks, or state reservations. In addition, if a building and its land plot have different owners, the owner of the building situated on a land plot to be sold enjoys a right of first refusal to acquire the land plot.

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

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RESTRICTIONS

Restrictions on Acquisition of Real Estate

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

Under the Lithuanian Constitution, the Lithuanian state is the exclusive owner of the subsoil, internal waters, forests, parks, roads, historical, archaeological and cultural objects of national significance. In other cases Lithuanian citizens and legal persons with offices registered in Lithuania may acquire title to land and forest unrestrictedly.

Foreign legal and natural persons may acquire title to land provided they comply with European and Transatlantic criteria. 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.

Note: even if natural or legal persons comply with these criteria, they may not acquire agricultural and forestry land, except:

◊ Foreign natural persons who permanently reside and are engaged in agricultural business in Lithuania for at least three years; and

◊ Foreign legal persons and other foreign organisations which have established representative or branch offices in Lithuania.

The restriction on acquiring agricultural and forestry land was due to cease on 1 May 2011 but was extended until 30 April 2014 with permission of the European Commission.

Concentration Control

Acquisition or taking possession (e.g. lease) of real estate may be subject to prior approval by the Lithuanian competition authorities. An intended concentration must be notified to the Lithuanian Competition Council, whose permission is required where the combined aggregate income of the undertakings concerned is more than LTL 50 million (approx. EUR 14.5 million) for the financial year preceding concentration and the aggregate income of each of at least two undertakings concerned is more than LTL 5 million (approx. EUR 1.4 million) for the financial year preceding concentration. Note: if a Lithuanian undertaking participates in a concentration, its worldwide income will be taken into account. This does not apply when determining aggregate turnover of a foreign undertaking (i.e. not incorporated in Lithuania) participating in a concentration, where only income received from sales in Lithuanian product markets is taken into account.

ENCUMBRANCES

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

MORTGAGE

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

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

As of July 2012, amendments to the Civil Code simplified execution and foreclosure of mortgages. A contractual mortgage only requires approval of a notary. Mortgage registration became an administrative process (rather than a judicial one, as it used to be).

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

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

General

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

Duration and Expiry of Lease Agreement

A lease agreement may be concluded for either an indefinite or fixed term, but in all cases the term may not exceed 100 years. If the 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 consumer price indices.

Payments for maintenance of leased real estate and other utility costs (e.g. water, heating, gas, electricity) are, as a rule, made on top of rent. The landlord may also require a deposit, guarantee, surety or other similar instrument securing payment obligations of the tenant.

DISTRESSED ASSETS PURCHASE

A potential buyer of a distressed asset should consider the importance of a full scope due diligence investigation of the asset, including a valuation of future asset performance and the seller's solvency in view of the risk of a real estate transaction being revoked in later insolvency proceedings for, e.g., violating the rights of the seller's creditors.

Foreclosure on mortgaged property is initiated by the creditor by applying to a notary for an enforcement record. As laid down by the Civil Code and Civil Procedure Code the issued enforcement record may be given to the bailiff for execution. Usually during enforcement procedures the mortgaged asset is sold at public auction. A public auction of real estate is announced at least one month in advance. A potential buyer should consider the need for swift action, which limits the time for more thorough due diligence investigations.

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Tax Summary

RENTAL INCOME

Net income received by corporate taxpayers is taxable at the general Corporate Income Tax rate of 15% (a reduced 5% rate may be applicable to small companies with income lower than LTL 1 million (approx EUR 289,620) in one calendar year and less than ten employees). Generally, all expenses incurred by companies for the purpose of earning income are deductible for Corporate Income Tax purposes. However, Lithuanian Corporate Income Tax Law sets an exhaustive list of expenses not deductible for tax purposes, regardless of whether they are borne with these purposes or not, such as fines and money penalties, dividends, or gifts.

THIN CAPITALISATION

Interest and currency exchange losses on debt in excess of a debt/equity ratio of 4:1 are non-deductible for corporate income tax purposes. (Note: these rules apply even if withholding tax on interest is paid). This applies in respect of debt capital provided by a creditor who: (i) directly or indirectly holds more than 50% of shares or rights (options) to dividends; or (ii) together with related parties, holds more than 50% of shares or rights (options) to dividends, and the holding of that creditor is not less than 10%. This rule does not apply if a taxpayer proves that the same loan could exist between unrelated parties. Financial institutions providing leasing services are not affected by this rule.

Note: under Lithuanian Company Law, the interest rate on shareholders' loans may not exceed the average bank interest rate current in the location of the lender's business.

DEPRECIATION

Accounting depreciation procedures are similar to European standards. However, differences may arise between accounting and tax-deductible depreciation. The straight-line method is normally used for depreciation or amortisation of fixed business assets. Alternatively, the double-declining balance method is allowed for certain groups of fixed assets. New buildings and constructions, dwelling houses, and other buildings are depreciated, while land is not depreciated for tax purposes.

LOSS CARRY FORWARD

Tax losses can be carried forward for an unlimited number of years as long as they are set off against income from the same type of activity. This does not apply to losses from disposal of securities, which can be carried forward for five years. As of 2010, the possibility to transfer losses within a group of companies for tax purposes is introduced, subject to specific requirements

WITHHOLDING TAX

Dividends

Dividends distributed by a resident company to another resident company are subject to 15% corporate income tax, which is withheld by the distributing company unless the participation exemption applies. The company may credit tax withheld against its corporate income tax liability. Dividends paid by a Lithuanian company to a foreign company holding at least 10% of the shares granting the same percentage of votes for at least 12 months are tax-free, except dividends paid to tax haven countries and (except for companies in free economic zones) dividends paid from profit not subject to corporate income tax due to corporate income tax incentives.

Interest and royalties

As of 2010, interest paid to foreign taxable entities registered or otherwise organised in a state of the European Economic Area or in a state with which a treaty for the avoidance of double taxation has been concluded and applied

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are not taxable. In other cases, withholding tax of 10% is applied, except established exemptions that apply to interest on government securities issued in the international markets, deposit interest, and interest on subordinated loans meeting the criteria prescribed by the Bank of Lithuania.

Under the domestic law implementing the EC Interest and Royalties Directive (2003/49/EC, as amended), which precludes taxation on interest and royalty payments to associated EU companies, the rate of withholding tax on qualifying royalty payments is reduced to 0% as of 1 July 2011..Royalties paid to other foreign companies are subject to a 10% withholding tax.

CAPITAL GAINS

Capital gains earned by Lithuanian entities are included in general taxable income for income tax purposes.

Capital gains from sale of shares in entities registered or otherwise organised in a state of the European Economic Area or in a state with which a treaty for the avoidance of double taxation has been concluded and applied is exempt from tax if at least 25% of the shares in the entity were held for a period of not less than two years.

REAL ESTATE TAX

Real estate, other than land, located in Lithuania is subject to real estate tax. Real estate tax is payable by Lithuanian and foreign legal entities and organisations, as well as by Lithuanian and foreign individuals owning real estate located in Lithuania.

As of 2012, residential real estate owned by individuals, the value of which exceeds LTL 1 million (approx EUR 289,620), is subject to 1% real estate tax. For the purpose of calculating the value of real estate owned by taxpayers, spouses and children under 18 will be regarded as one taxable person. Tax will have to be paid before 15 November of the tax year concerned.

Real estate owned by legal entities as well as commercial real estate owned by individuals is subject to real estate tax the rate of which varies from 0.3% to 3% of the taxable value of the real estate. Municipalities are entitled to establish a precise rate for each year.

Land tax, payable by the owners of private land, amounts to 1.5% of the taxable value of the land. Land tax does not apply to forest land, roads in common usage, and land owned by embassies.

Legal and private persons leasing state- or municipality-owned land must pay a land lease tax, which is not less than 0.1% and not higher than 4% of the land value. A precise tariff for land lease tax is established by the local municipality for each individual case.

REAL ESTATE TRANSFER PAYMENTS / VAT

Sale of land and buildings is normally exempt from VAT with the following exceptions: (i) sale of land for construction; (ii) sale of land with new buildings; and (iii) sale of new buildings. Buildings are regarded as new if they were started to be used or were critically improved less than 24 months before the sale (uncompleted buildings are also regarded as new buildings).

VAT is not applicable to income from the lease of real estate except the lease of dwelling houses.

However, the Lithuanian VAT payer has the option to tax the sale of real estate, including land, or rental of real estate if the real estate is sold or rented to another Lithuanian VAT payer who is a tax payer performing a business activity or to diplomatic missions, consular offices, EU institutions, international organisations and their offices. This option applies for a period of not less than 24 months.

REAL ESTATE TRANSACTION RELATED COSTS

Typical costs incurred related to real estate transactions include: brokerage fees, real estate valuation fee, bank fees, fees for legal due diligence, notary fees and state duty. It is up to the parties to agree how they will bear the transaction costs. Usually, the buyer pays for state and stamp duties, whilst notary fees are shared equally between the parties.

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BALTIC LAW FIRM OF THE YEAR
Awarded by:
Financial Times & Mergermarket
International Financial Law Review
International Tax Review

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STATE AND TRANSFER STAMP DUTIES

Duty for registration of transfer 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. Duty varies from LTL 10 (approx. EUR 3) to LTL 5,000 (approx. EUR 1,448) per object.. There is no stamp duty.

NOTARY FEES

The notary fee amounts to 0.45% of the real estate transaction value, capped at LTL 20,000 (approx. EUR 5,792) for transactions that involve one real estate object and at LTL 50,000 (approx. EUR 14,481) for transactions involving two or more real estate objects.

MORTGAGE

Purchase of real estate is often financed by banks, which require a mortgage over real estate. As with all encumbrances on real estate, a mortgage agreement must be registered with the Land Book. State duty for registration amounts to 0.1% of the loan amount, capped at LVL 1,000 (approx. EUR 1,423). Stamp duty and notary fees are the same as for title registration.

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ESTONIA
REAL ESTATE MARKET REVIEW

ANNUAL REPORT, 2013

Accelerating success.

POST RECOVERY – REALISTIC EXPECTATIONS WILL ASSURE THE SUCCESS!

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The economic growth in Estonia continued during 2012 supported by gradual domestic demand recovery and growth in consumption, thus stimulating demand and development activity in the Estonian commercial real estate market.

In 2012, retail was continually one of the most active sectors of the Estonian commercial real estate market in terms of demand, planned expansions, investment and new developments across Estonia. At the same time, the office and industrial sectors remain to be strongly related to capital region (Tallinn and Harju County) in terms of development and investment activity.

Positive developments in the Tallinn office sector during the last two years made developers feel more confident about the market's prospects. The Tallinn office sector surprised market observers with development activity; in addition to several on-going fully or partly built-to-suit projects two new completely speculative development projects were started in 2012.

The positive development of logistics companies in 2012, supported by increased consumption and improved retail sales numbers, resulted in growing demand for quality warehouse space. The volume of new industrial and warehouse premises, expected to accrue to the market in 2013, will exceed the level of 2008.

Rents and vacancy rates in most sectors finally stabilised and showed moderate changes and improvement throughout the year. The market is shifting to post-recovery stage.

The Investment market, one of the major indicators of the healf of the real estate market, continued to be active throughout 2012. The total investment volume in 2012 remained more or less on the same level as in 2011 – up to EUR 240 million. Y-o-y 2012 produced higher number of transactions and therefore lower average transaction price. At the same time, there were also more high volume deals that signal the growing activities of large scale investor groups (e.g. funds).

In 2013 commercial real estate market in Estonia is expected to be "positively boring", showing stability and modest growth. Economic growth as well as private consumption expenditure is expected to slow in 2013 compared to 2012, driven by a weaker external demand and more cautious consumer behaviour. Occupiers caution will hamper rental level growth possibilities, thus limiting development market perspectives. As a result of already increased rent rates the amount of additional costs concerning the premises will become an increasingly important factor for tenants in the decision making process.

At the same time, further market perspectives in the mid-term will be determined by increased demand for quality space from larger space occupiers as well as expected construction of new large-scale retail development projects in Tallinn. Realistic expectations will assure the success!

We, at Colliers International believe that the following comprehensive market review, prepared by our best experts will provide you with useful information and insights to assist you in your business decision making in Estonia in 2013.

Economic Overview

SUMMARY

The economic growth in Estonia continued during 2012 supported by gradual domestic demand recovery and growth in consumption. The annual GDP growth in 2012 was 3.2 per cent compared to the previous year. The economic activities in the domestic market were the main contributers to GDP growth in Estonia, while construction contributed the most to the economic growth during the first three quarters of 2012. The Bank of Estonia forecasts that economic growth in 2013 will be 3.0 per cent and about 4.0 per cent in 2014, depending on both the recovery of the surrounding region (especially the Nordic countries) as well as the ability of households to increase their consumption levels.

In 2012 the production of industrial enterprises remained at the same level as the previous year (in 2011 production of Estonian industrial enterprises grew 17 per cent compared to 2010). More than 70 per cent of the whole production of manufacturing was sold on the external market. Export sales of the manufacturing production grew 3 per cent in 2012 compared to 2011, but domestic sales were down 2 per cent from the same period a year ago.

The consumer price index in Estonia increased 3.9 per cent in 2012 compared to the average of 2011. This increase was driven by the 11.4 per cent price increase of electricity, heat energy and fuel. Inflation in Estonia started to slow in the last quarter of 2012 and is expected to slow down further in 2013, but will remain above 3.5 per cent in the first half of the year.

According to preliminary data, the retail sales of retail trade enterprises were almost 4.4 billion EUR in 2012, and compared to 2011 the retail sales increased 7 per cent at constant prices. Throughout the year, retail sales have shown stable growth compared to the same month of the previous year, increasing above the 5 per cent level every month.

In 2012, Estonia's exports of goods at current prices increased 4 per cent and imports 9 per cent compared to 2011. In 2012, the annual growth of exports and imports was slower than in the previous year when both exports and imports grew by 37 per cent. Real export

KEY MARKET INDICATORS/ YEAR

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*	2013*
GDP Current Prices, bio EUR	8.7	9.7	11.2	13.4	16.1	16.3	13.8	14.3	16.0	17.0	18.2
GDP Growth (Real), % yoy	7.8	6.3	8.9	10.1	7.5	-4.2	-14.1	3.3	8.3	3.2	3.0
Industrial Production, % yoy	11.5	9.6	11.0	10.2	6.4	-4.6	-23.9	22.7	19.8	0.3	1.0
Share of Unemployed to the Active Population (%)	10.0	9.7	7.9	5.9	4.7	5.5	13.8	16.9	12.5	10.2	9.4
Total Central Government Debt, % of GDP	5.6	5.0	4.6	4.4	3.7	4.6	7.2	6.7	6.1	10.1	12.0
PPI, % yoy	0.2	2.9	2.1	4.5	8.3	7.1	-0.5	3.3	4.4	2.3	2.5
CPI, % yoy	1.3	3.0	4.1	4.4	6.6	10.4	-0.1	3.0	5.0	3.9	3.6
Fiscal Deficit, % of GDP	1.7	1.7	1.6	2.3	2.6	-2.8	-1.7	0.2	1.1	-0.2	-0.5
Export Change, % yoy	4.0	4.8	6.2	7.7	8.0	8.5	6.5	8.7	12.0	12.6	13.0
Import Change, % yoy	5.7	6.7	8.2	10.7	11.4	10.9	7.3	9.3	12.7	13.8	14.2
Current Account, billion EUR	-1.0	-1.1	-1.1	-2.1	-2.6	-1.5	0.5	0.4	0.3	-0.2	-0.4
Current Account, % of GDP	-11.3	-11.3	-10.0	-15.3	-15.9	-9.1	3.4	2.9	2.1	-1.	-2.1
FDI Indicator, mio EUR	822.2	770.8	2,307.3	1,431.9	1,985.0	1,181.8	1,324.5	1,207.3	185.0	1,144.4	n/a
EUR/USD, aop	1.13	1.24	1.24	1.26	1.37	1.47	1.39	1.33	1.39	1.28	1.28

*forecast data

Source: Statistics Estonia, Bank of Estonia, Ministry of Finance of the Republic of Estonia, Swedbank growth is expected to be 3.7 per cent in 2013 and 5.4 per cent in 2014, respectively.

In Q4 2012, the average monthly gross wage reached EUR 916, indicating a 5.9 per cent yoy increase; real wages increased 2.1 per cent during the same period. Average real gross monthly wages are expected to grow moderately in 2013-14 by 2-3 per cent yearly.

Labour market developments have been favourable in 2012, with employment rising and unemployment falling continuously. The unemployment rate was 9.3 per cent in the Q4 2012, which is less than the previous quarter as well as the same quarter of the previous year, when the unemployment rate was 9.7 per cent and 11.4 per cent, respectively. The unemployment rate was 10.2 per cent in 2012, which was the lowest in the last four years.

TENDENCIES AND FORECASTS

◊ Deterioration in the external environment at the end of the summer created more negative outlook for further Estonian economic growth resulting in declining Estonian companies' expectations of future demand. The Economy is expected to grow by 2-4 per cent yearly during 2013-2015.

◊ According to Bank of Estonia, the financial circumstances of households are expected to improve in future as wages and employment both continue to grow, though the pace of growth will slow down.

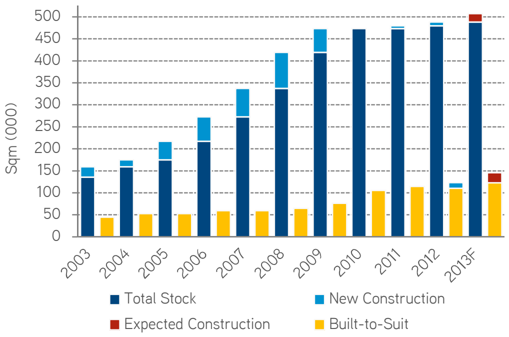
◊ Growth in private consumption expenditure is expected to slow compared to 2012, driven by weaker external demand and more cautious consumer behaviour. Despite improved confidence in retail sector and among consumers at the end of the year, private consumption growth is expected to slow in 2013 due to continuing rise in prices boosted by the opening of the electricity market in January 2013 and very high reference base of the previous year.

Office Market

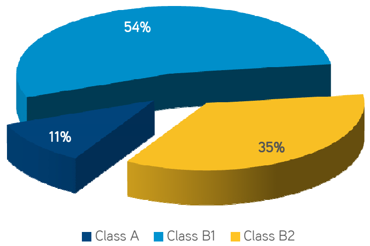
KEY FIGURES

Total Stock (Spec)	488,150 sqm
Vacancy for Class A Premises	5.0%
Prime Headline Rent for A Class Premises	16.0 EUR/sqm/month

DYNAMICS OF OFFICE SPACE IN TALLINN



DISTRIBUTION OF SPECULATIVE OFFICE SPACE IN TALLINN BY CLASS



OVERVIEW

Although at the beginning of 2011 no remarkable changes were expected, by the end of the year the office sector had surprised market observers with a relatively low vacancy rate and increasing rental rates in modern office buildings. 2012 showed continued positive trends in net absorption, vacancy rates, rents, investment volumes and construction activity, making developers feel more confident about the Tallinn office market's prospects.

SUPPLY

Approximately 20,700 sqm of new speculative and built-to-suit office stock were delivered to the market in 2012, bringing the total speculative office stock to 488,150 sqm.

By the beginning of 2013, the total stock of office space in the CBD area accounted for 44 per cent of total Tallinn stock, while the total stock of office space in the Kesklinn, Lasnamäe, and Kristiine districts comprised 19 per cent, 16 per cent, and 11 per cent of total Tallinn stock respectively. New supply in 2012 came into the market in the Mustamäe city district.

The volume of occupancy permissions issued for office and administration buildings in Tallinn increased from 14,197 sqm in 2011 to 18,325 sqm in 2012, indicating moderately growing construction activity in 2012. The volume of building permissions issued for office and administrative buildings in Tallinn in 2012 comprised 82,623 sqm, while in 2011 the number stood at 61,973 sqm. The volume of building permissions issued for office and administrative buildings in Tallinn during 2012 remained slightly above the 2008-2009 level (70,068 sqm in 2009 and 70,565sqm in 2008 respectively).

By the end of 2012, Class A premises accounted for approx 11 per cent (52,650 sqm) of the total stock of speculative (not built-to-suit) office buildings in Tallinn, Class B1 for 54 per cent (262,300 sqm), and Class B2 for 35 per cent (173,200 sqm) of total stock.

In 2012 the Tallinn office sector continued to surprise market observers with development activity – in addition to several on-going fully or partly built-to-suit projects (e.g. office building in Technopolis Ülemiste with an area of approx 24,000 sqm, 48 per cent of which will be occupied by Estonian Tax and Customs Board, Statistical Office of Estonia's office building at Tatari street with an area of approx 4,800 sqm and Technomedicum and Centre of Mechatronics' buildings in Tallinn Science Park Tehnopol), two speculative development projects in the CBD area were started in 2012.

The first speculative project, located on the corner of Kentmanni and Sakala Streets, with GLA 3,100 sqm is developed by Selvaag Sakala OÜ, a subsidiary of the Norwegian real estate group Selvaag Gruppen; the other is at Laeva Str 2 with GLA 5,100 sqm, developed by local investment company Capital Mill. Planned completion time of the construction works is 3Q and 4Q 2013 respectively. Both projects combined total ca 8,200 sqm of new speculative office space that will enter the Tallinn office market in 2013. New speculative office spaces planned for commissioning in 2013 belong to Class A premises.

The completion of Technomedicum (the office and laboratory building oriented for medicine and biotechnology companies) with an area of approx 8,000 sqm and the Centre of Mechatronics (the office and laboratory building oriented for electronics and engineering companies) with an area of over 8,360 sqm in the Tallinn Science Park Tehnopol area in the second half of 2012 simultaneously added ca 8,150 sqm of new speculative office space in the Mustamäe city district.

Decentralization of the Tallinn office market continues: 72 per cent of new speculative space supply in 2012-2013 is located outside the city centre. On the other hand, quality offices in the city centre and CBD remain in demand.

LIST OF NEW SPECULATIVE AND BUILT-TO-SUIT PROJECTS IN TALLINN IN 2012

PROJECT	ADDRESS	GLA (SQM)	DEVELOPER
Tehnopolis III	Akadeemia 15a	4,500	Tehnopolis Kinnisvara
Technomedicum Office Building	Akadeemia 21G	8,000	Tehnopol / Astlanda Ehitus
Mehhatroonikum Office Building	Teaduspargi 6/2	8,360	Tehnopol / YIT Ehitus
Total:		20,860	

LIST OF NEW BUILT-TO-SUIT AND SPECULATIVE BUILDINGS UNDER CONSTRUCTION IN TALLINN FOR 2013-2014

YEAR	PROJECT	ADDRESS	GLA (SQM)	DEVELOPER
2013	Paldiski 80 Office building	Paldiski Road 80	7,200	Wilson Kinnisvara
2013	Lõõtsa 8	Lõõtsa 8	24,000	Technopolis Ülemiste
2013	Statistics Department	Tatari 51	4,800	Kaamos
2013	Navigator	Laeva 2	5,130	Capital Mill
2013	Sakala 10/Kentmanni 4 Business House	Sakala 10 / Kentmanni 4	3,100	Selvaag Sakala
2014	Sõpruse 157 Office Building	Sõpruse 157	2,460	Siili Ärimaja
2014	Eesti Energia Office Building	Pärnu Road 139e	7,500	Raldon Arendus
	Total:		54,190	

Recent large scale office premise inquiries (If, Pohjola, Eesti Energia, Eesti Loto) indicate that there is plenty of development potential on the market. Office property developers, inspired by the increased demand for office space, have intensified their efforts to implement new projects. There are several office projects planned for construction in the short term perspective in different parts of Tallinn (Sõpruse 157 in the Mustamäe city district, Hallivanamehe 4 in the Central city district, Peterburi Road 47 in the Lasnamäe city district, Maakri 19/21 in the CBD), although realization of projects is limited by high construction costs (especially for suburb areas, which makes the feasibility of many of the potential developments questionable); in addition, there is a necessity to find an anchor tenant prior to the development of new premises.

Overall, although developers are in a position to construct new office buildings in the CBD area as well as outside the CBD, the asking rental level of such projects (EUR 14-15 /sqm/month) remains too high for the majority of potential tenants.

DEMAND

While during the first half of 2009, the Tallinn office market witnessed more tenants moving out of space than tenants moving in, it experienced positive absorption in 2010-2011.

In general, 2012 continued the trend of positive office space absorption. Several companies expanded or upgraded their office premises. In addition to the improved economic results of local companies and their need for additional space, quite a significant amount of foreign companies relocated their back offices to Estonia for cost-saving purpose – a trend that will continue also in 2013.

In 2012, companies looking for modern, well-located premises had to consider that the market has started to turn from a tenant's market to a landlord's market, with tight availability of premises and considerably higher rental rates than 2-3 years ago.

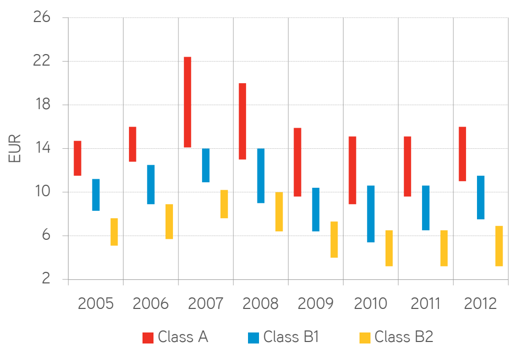
The highest contribution to take-up volume in 2012 came from the finance and insurance sector (17 per cent) and companies in the information (IT and High Tech companies) and communication sector (15 per cent), followed by the professional, scientific and technical services sector (12.5 per cent) and the public sector (9.5 per cent). In particular, financial and insurance service providers, as well as companies from the administrative and support service sector, were more active in the office rental market than in 2011.

RENTAL RATES AND TRENDS IN TALLINN

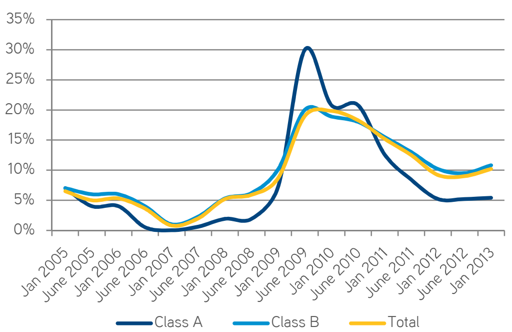
CLASS	JAN 2013	TENDENCIES FOR 2013
A existing	11.0-16.0	→→
B1 existing	8.0-11.5	→↗
B2 existing	3.2-7.0	→→

*asking rental rate (EUR/sqm/month) excluding VAT and operating expenses
→→- stable, →↘- slight decrease, →↗- slight increase

DYNAMICS OF RENTAL RATES IN TALLINN



DYNAMICS OF VACANCY RATE IN TALLINN



The quite high leasing activity of companies from the logistics and transportation sector indicates that increased consumption and improved retail sales numbers were one of the main factors supporting logistics companies' positive development and increased demand for office space in 2012. In contrast, the activity of companies from information and communication sector, the industrial and construction sectors and the healthcare-related sector decreased in 2012 compared with the previous year.

In coming years, a continual demand can be expected in the CBD area in Class A and Class B1 buildings due to good location and new supply. Other potentially realistic and attractive locations are highly developed concept areas (e.g. Ülemiste City, Pärnu Rd area).

Demand for contemporary large scale premises constantly exists, which promises to result in a notable take-up volume in 2013. Take-up activity in 2013 is expected to come from finance and insurance sector as well as from energy, logistics and entertainment sectors.

RENT RATES

The lower level of Class A and Class B1 office buildings continued to grow in 2012 as a shortage of existing contemporary large scale premises created an opportunity for landlords to increase somewhat the lower end prices, especially for well-located Class B1 premises.

Compared with 2011, rental rates increased in 2012 driven by the increase in rent rates for Class B1 premises. Rental rates in Class A office buildings and business centres located in the CBD remained stable at 11.0 – 13.0 EUR/sqm/month, which was largely due to accelerated growth of rental rates in the CBD in 2011. In 2012, rental rates for Class B1 properties increased by 9-11 per cent on average from 7.5 – 9.0 EUR/sqm/month at the beginning of 2012 to 8.5 – 10.0 EUR/sqm/month at the beginning of 2013.

Due to a lack of well-located modern office premises, there will be constant pressure on rent increase in the first half of 2013. However Colliers estimates that the increase will be rather modest – up to 5-10 per cent. Maximum rent level for Class A premises will stay around 14-15 EUR/sqm/month and for Class B1 premises 11-12 EUR/sqm/month, with an average around 11-13 EUR/sqm/month and 8.5-10.5 EUR/sqm/month respectively.

While lease incentives, rent-free periods and partial fit-out compensation were already no longer offered to tenants in 2010 compared with the crisis period, the decreasing vacancy rate and shortage of larger premises during the last two years has given the opportunity to property owners to start choosing their potential tenants and increase asking rental rates.

Additionally, as a result of increased rent rates, the level of additional costs concerning the premises has become quite a significant factor for tenants in the decision making process.

A very important factor that will also start to play a more essential role in terms of vacancy and stable rent income is professional property management.

VACANCY RATES

Vacancy in well-located modern office buildings was constantly decreasing in 2011, and the trend continued in the first half of 2012. By mid-2012, the vacancy rate stopped declining and remained stable, indicating that the increasing asking rents had made potential tenants cautious about committing to long-term obligations.

Over the year the vacancy rate of most Class A office buildings remained stable and stood at ca 5 per cent. The vacancy rate of Class B1 buildings stood slightly above 10 per cent, seeing a slight increase in the second half of 2012 due to new supply and on-going relocations of some large space occupiers.

The beginning and end of 2013 are expected to be quite different. At the beginning of the year, landlords are still in a good position for negotiations; by the end of the year, the market may start to turn back from a landlord's to tenant's market, as 2013 is going to be another year of adding a significant amount of new office space to the market.

Vacancy in Class A office premises is expected to somewhat increase in 2013 due to the ending of several lease agreements in the first half of the year and new supply of Class A

premises to the market in the second half of 2013. Although, as of the beginning of 2013, approximately 40-50 per cent of new speculative space supply is said to be already covered with lease agreements (pre-leased), the number is somewhat questionable.

For Class B2 and Class C properties the number of unoccupied premises will continue to increase as the main emphasis is put on better premise quality, effective space usage and cost effectiveness (green buildings will become more popular). 2013 will see the increased vacancy rate in older office buildings due to relocation of the Estonian Tax and Customs Board and the Estonian Statistics Board from older premises to newly constructed buildings.

TRENDS AND FORECASTS

◊ Positive developments in Tallinn office sector during the last two years made developers feel more confident about the market's prospects. Tallinn office sector surprised market observers with development activity, as several on-going built-to-suit projects and two new speculative development projects were started in 2012.

◊ Completion of Technomedicum and the Centre of Mechatronics in the Tallinn Science Park Tehnopol in the second half of 2012 simultaneously added over 8,000 sqm of new speculative office space in Mustamäe city district.

◊ Activity in the office sector has increased among companies looking for offices over 1,000 sqm; office premises below 100 sqm continue to see also strong demand.

◊ The main drivers of office sector demand continue to be from the Finance and Insurance, IT and Communications sectors, as well as providers of professional and corporate services, and companies from the administrative and support service and logistics sectors.

◊ Demand for contemporary large scale premises constantly exists, which promises to result in a notable take-up volume in 2013.

◊ Rental rates continued to strengthen in 2012. Rents increase was driven by Class B1 premises, which increased by 9-11 per cent on average compared to 2011. The increase in rent rates during the last two years is largely caused by gradual recovery from recession of 2008-2009.

◊ The decreased vacancy rate in the most demanded areas created an opportunity for property owners to start choosing their potential tenants and increase asking rental rates. The vacancy rate of Class B1 buildings saw marginal increase in the second half of 2012 due to new supply and on-going relocations of some large space occupiers.

◊ By the end of the year the office market may start to turn back again from landlord's to tenant's market as over a long time 2013 is going to be yet again a year adding a significant amount – up to 44,000 sqm of new speculative and built-to-suit office space to the market.

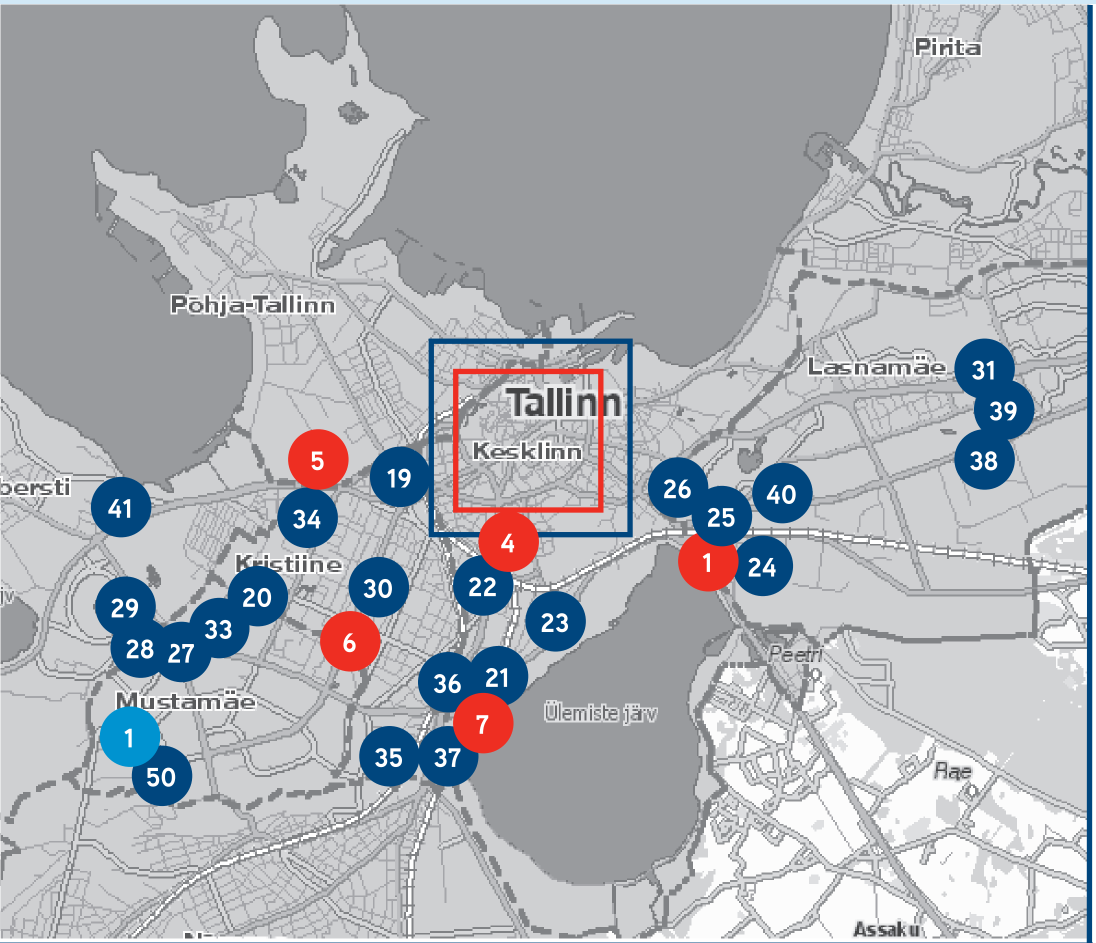
◊ New Class A office buildings will add at least 8,000 sqm of new premises to the market in the CBD area by the end of 2013.

◊ Decentralization of the Tallinn office market continues: 72 per cent of new speculative space supply in 2012-2013 is located outside the city centre. On the other hand, quality offices in the city centre and CBD remain in demand.

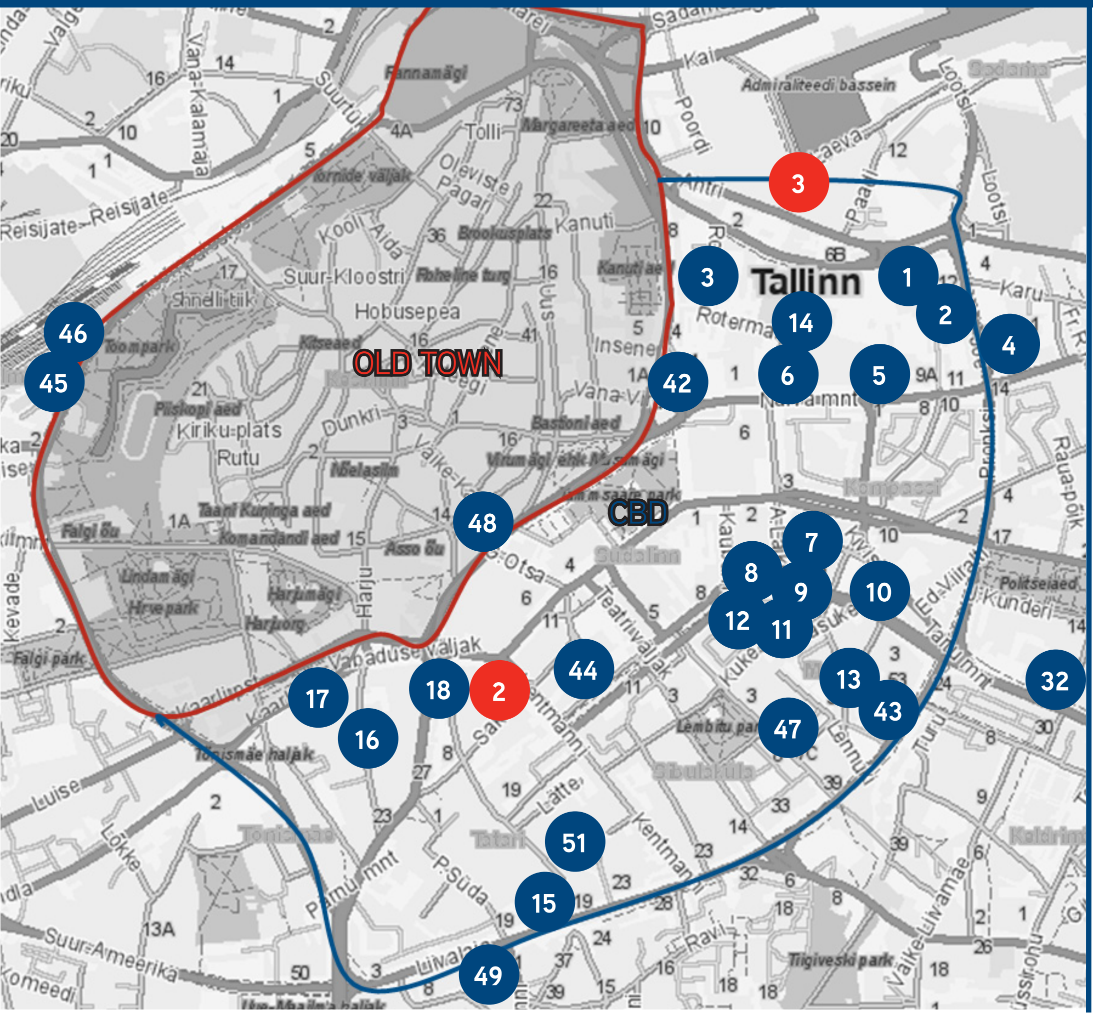
◊ The market has a development potential, and developers are ready to build new office buildings. However, the key factor is high construction price and the asking rental level.

◊ The estimated rental rate increase can be up to 5-8 per cent in 2013. At the same time, no drastic changes are expected in the nearest future due to the wider macroeconomic uncertainty hanging over the region.

◊ The Investment market continued to be active in 2012. In the office sector at least 42,000 sqm of office space changed ownership, resulting in EUR 39 million of market volume (approx 18 per cent of the total investment market). Colliers expects to see relatively active upcoming years (2013-2014) with rental flows slightly growing. Prime yield is expected to remain stable. Capital value growth will be more likely as result of improving net operating income.



SPECULATIVE 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. Eurox Business Centre
16. Swiss House
17. Roosikrantsi 2 Office Centre
18. Kawe Plaza
19. Tulika 15/17 Business House
20. Tetris Office Centre
21. Kalev Business Quarter (Lincona, Catweesi)
22. YIT Business Centre and Ärimaja Office Centre
23. Veerenni Business Centre
24. Ülemiste City
25. Ülemiste Business Centre
26. Valge Maja Office Building
27. Laki 34 Office Building
28. Ehitajate tee 114 and Ehitajate tee 108 Office Centres
29. Office building - Meistri 22
30. Sõpruse pst 145 and Sõpruse pst 151 Office Centres
31. Tähesaja 14 Office Building
32. Scala City
33. Tammsaare Business House
34. Marienthali Business Centre
35. Tammsaare Business Centre
36. Estconde Business Centres
37. Delta Plaza
38. Peterburi Road Business Centre
39. Lasnamäe Business Centre
40. Peterburi Business Quarter, phase I
41. Rocca al Mare Tivoli
42. Metro Plaza
43. Nordea Building
44. Solaris
45. Toompuiestee Office Building
46. Shnelli Business Centre
47. Lauteri 5 Office Building
48. Saarineni Business House
49. EKE Invest Business Centre
50. Tallinn Science Park Tehnopol
51. Tatari 23/25 Business House

Completed in 2012

1. Technomedicum and Mechatronicum

Declared for Completion in 2013-14

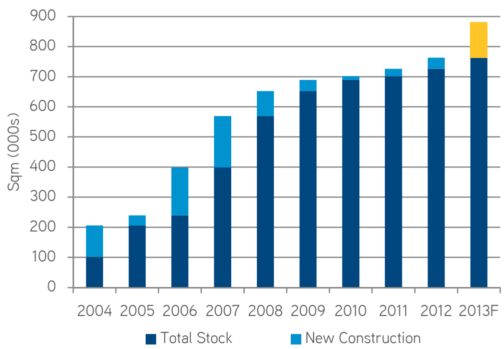
1. Lõõtsa 8
2. Sakala 10/Kentmanni 4 Business House
3. Laeva 2, Navigator
4. Office building of the Statistical Office of Estonia
5. Paldiski 80 Office Buiding
6. Sõpruse 157 Office Building
7. Eesti Energia Office Building

Industrial Market

KEY FIGURES

Total Stock	763,300 sqm
Vacancy for Total Stock	7.5%
Prime Headline Rent for A Class Warehouse Premises	5.2 EUR/sqm/ month

DYNAMICS OF WAREHOUSE SPACE IN TALLINN AND HARJU COUNTY



OVERVIEW

For six quarters since 2Q 2010, GDP growth in Estonia was mainly driven by manufacturing, supporting 7.6 per cent yoy GDP growth in 2011. Although the decrease in the value added of manufacturing inhibited GDP growth in the first half of 2012, the production of computers, electronic and optical products upheld the growth in 3Q 2012, thus contributing positively to economic growth once again. Overall, economic growth in Estonia depends considerably on foreign demand, whereas the main exporters are manufacturing enterprises.

While in 2011 an increase in export figures (Estonian industrial enterprise production grew 17 per cent y-o-y in 2011, while more than 70 per cent of all manufacturing production was sold on the external market) improved industrial companies' future outlook, and therefore increased demand mainly for industrial space, in 2012 the focus was largely on warehouse and logistics companies, who were expanding and looking for larger premises.

SUPPLY

By the beginning of 2013, the estimated total stock of industrial facilities was approx 763,300 sqm (approx 213,100 sqm of generic facilities plus 550,200 sqm of built-to-suit facilities).

During recent years the most intensive development of new industrial and warehouse facilities has been concentrated in Tallinn's suburbs and nearby municipalities. The most developed logistics areas lie in the eastern and south-eastern part of the city. Development of manufacturing facilities and warehouses is concentrated in three main areas of Tallinn and its suburbs.

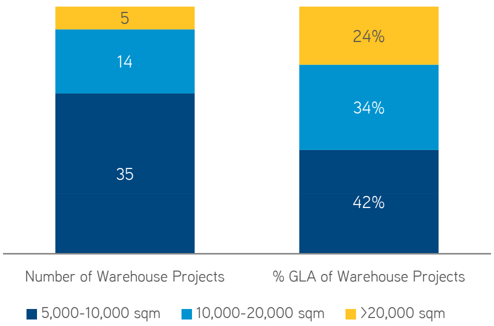
Since the second half of 2010, when the warehouse and industrial development market became more active than previously, it continued to strengthen during the last two and a half years and is expected to remain so. According to the Estonian Building Register, the amount of occupancy permits issued in 2012 for new industrial and warehouse buildings in Tallinn and Harju County reached 57,210 sqm, which is more than two times higher than in 2011. At the same time, the amount of building permits issued for new industrial and warehouse buildings in Tallinn and Harju County increased from 83,826 sqm in 2011 to 136,219 sqm in 2012, indicating increased development activity in 2012, especially in the warehouse sector, as the amount of building permits issued for new warehouse buildings increased ca six times in 2012 compared with previous year.

Several companies owning or renting premises in industrial parks in Harju County have announced expansion plans and moved actively into development phase in 2011. In the beginning of 2012, DPD Eesti opened its new logistics centre (parcel terminal) with GLA 2,860 sqm in Rae Industrial Park; Nefab, a global packaging company, completed its factory expansion (located close to Tallinn ring road) by 4,500 sqm in spring 2012. Two new warehouse and industrial buildings with total GLA exceeding 3,800 sqm were completed in Mõigu Industrial Park and two new warehouse and industrial buildings with total GLA ca 3,300 sqm were completed in Tänassilma Industrial Park later in 2012.

One of the factors supporting logistics companies' positive development in 2012 is increased consumption and improved retail sales numbers. In the end of 2012, the development of a new logistics centre with an area ca 9,500 sqm by Kawe Group was completed in Rae municipality, 10 km away from Tallinn. The main tenant of the new logistics centre is Dunkri Kaubandus, a leading importer and distributer of alcoholic beverages in Estonia. Since January 2013, Smarten Logistics, the largest third party logistics provider (3PL) in Estonia, became another tenant in the building.

Another example of recent developments in the warehouse and industrial market due to improved retail sales and increased domestic demand is the construction of new premises

DISTRIBUTION OF WAREHOUSE SPACE IN TALLINN



COMPLETED DEVELOPMENT PROJECTS IN HARJU COUNTY IN 2012

CITY / MUNICIPALITY	CITY DISTRICT / INDUSTRIAL PARK	PROJECT	TYPE
Rae	Killustiku Industrial Park	Nefab expansion	B-t-S*
Rae	Rae Industrial Park	DPD Eesti logistics centre	B-t-S
Rae	Mõigu Industrial Park	MT Varahalduse warehouse and business building	B-t-S
Rae	Mõigu Industrial Park	CLE Baltic warehouse building	B-t-S
Tallinn	Tondiraba Industrial Park	Mascot industrial building	B-t-S
Rae	Detached	Kawe warehouse building	B-t-S/S**
Rae	Rae Industrial Park	TerasToorik industrial building	B-t-S
Tabasalu	Tabasalu Industrial Park	Metek industrial building	B-t-S
Saku	Tänassilma Industrial Park	Solarbalt industrial building	B-t-S
Saku	Tänassilma Industrial Park	Warehouse and business building	B-t-S
Keila	Keila Industrial Park	Saajos industrial building	B-t-S
Total GLA (sqm):			37,300

COMPLETED DEVELOPMENT PROJECTS IN HARJU COUNTY IN 2012

CITY / MUNICIPALITY	CITY DISTRICT / INDUSTRIAL PARK	PROJECT	TYPE
Saue	Detached	Bake-off factory	B-t-S
Rae	Detached	ABB industrial and office building	B-t-S
Rae	Mõigu Industrial Park	Industrial building	B-t-S
Rae	Mõigu Industrial Park	Warehouse building	B-t-S
Rae	Mõigu Industrial Park	Warehouse building	B-t-S
Rae	Mõigu Industrial Park	Warehouse building	B-t-S
Rae	Sinikivi Industrial Park	Warehouse building	B-t-S
Rae	Detached, next to Rae Industrial Park	Industrial building	B-t-S
Tabasalu	Detached, next to Tabasalu Industrial Park	Production building	B-t-S
Jõelähtme	Detached	VGP Park Nehatu	S
Jõelähtme	Detached, Muuga Harbour	Logistics Centre	B-t-S
Jõelähtme	Detached, Muuga Harbour	Logistics Centre	B-t-S
Jõelähtme	Detached, next to Iru Industrial Park	Warehouse, Logistics Centre	B-t-S
Total GLA (sqm):			118,470

* B-t-S: refers to "built-to-suit" development projects
** S or Spec: refers to speculative development projects

for Estonian poultry company Tallegg with an area ca 6,500 sqm.

In 2012 the industrial and warehouse market was also largely driven by foreign companies who were relocating their business activities for cost saving and/or logistical purposes to Estonia – a trend that is expected to continue in 2013. One of the examples is a new bake-off factory for Vaasan Baltic developed by SRV (7,300 sqm) in Saue town. The completion of construction is scheduled in April 2013 and due to production move to Estonia, the company's Bake-Off production sites in Sweden will be closed down.

Additionally, Norwegian company Mascot, manufacturer of power supplies and battery chargers, completed its new plant (3,200 sqm) in Tondiraba Industrial Park in Lasnamäe city district of Tallinn and a new 4,800 sqm production complex for Finnish company Saajos, manufacturer of fire-proof safety doors, was built in Keila Industrial Park in 2012.

In 2012 several developers announced that they would like to continue with large development projects. Large-scale built-to-suit developments projects include the new industrial and office building for ABB (12,900 sqm), one of the largest engineering companies, and the first phase of the KTN Tallinn Logistics Centre in the Muuga Harbour developed by the one of the world's leading logistics companies Katoen Natie. The first phase of the storage and distribution centre with an area of 20,800 sqm is scheduled to become operational in the first quarter 2013. An additional 40 000 sqm warehouse is expected to be added in the second stage. The new logistics centre will service the transportation of various product groups in the Baltic Sea region, especially cocoa products, consumer goods, plastic goods, etc.

In addition, at the end of August 2012 a Swedish company Hydroscand bought a land plot in Lookivi Logistics Park near Tallinn with the purpose to build a regional sales centre together with central warehouse for servicing clients in Eastern Europe. Total volume of the planned construction is 8,200 sqm.

In 2013 built-to-suit projects continue to account for the majority of new development projects in Tallinn and Harju County, followed by a few speculative projects, indicating developers' confidence and certainty that there is enough demand for good quality warehouse/industrial premises. In 2011, VGP Estonia started to expand with the construction of a speculative warehouse with GLA approx 13,500 sqm in VGP Park in Saku municipality; further, their new speculative project VGP Park Nehatu located near Lasnamäe city district next to Peterburi Road, will bring ca 20,000 sqm of new warehouse/logistics space to the market by the end of 2013, thus adding considerable volume of speculative warehouse premises to the market. Total volume of the project is ca 50,000 sqm.

There are five industrial and warehouse projects with a GLA of over 20,000 sqm per project and a total area of 128,000 sqm in current existing stock. Most of the existing stock consists of industrial and warehouse projects with a GLA of 5,000 -10,000 sqm per project.

Since 2009 the volume of new supply in the industrial and warehouse market in Harju County remained largely stable and far below the record-high years in 2006-2007. At the same time, planned volume of new constructions in 2013 will surpass the level of 2008.

Geographical distribution of new construction in 2013 will experience slight changes. While the majority of new supply of warehouse premises that came into the market in 2012 was constructed in Rae municipality, only one fourth of the new supply in 2013 will be constructed in Rae municipality and more than 60 per cent of new volume in 2013 will be located in Jõelähtme municipality (the Peterburi road and Muuga Harbour areas).

DEMAND

An increase in export figures in 2010-2011 improved companies' future outlook and increased demand for industrial and warehouse space during the last two years. With growing confidence and economic improvement, the number of industrial companies planning to expand or move their business to a better location in the future and therefore looking for additional or new premises started to increase.

While in 2011 companies expanding their activities and demanding more warehouse / industrial space were primarily export-oriented businesses, then in 2012 saw increasing demand for warehouse space due to growing domestic consumption. Lower rent and land prices, as well as cheaper operating costs, continually attract Swedish and Finnish logistics and industrial companies' to Estonia. Activity in this segment can be seen mainly among companies whose core business is within the industrial sector.

Majority of the requests for warehouse space in Harju County in 2012 came from retail operators, distributors and FMCG companies. At the same time, logistics companies were active in the market as well (Smarten Logistics, Via3L). Quite significant number of the transactions in 2012 was also concluded by companies from manufacture and wholesale of fabricated metal products industry, as well as from manufacture and wholesale of electronic products industry.

Together with export growth, export-oriented companies have started to group and expand around harbour areas, with the aim of saving on logistics costs (Katoen Natie, Tridens).

In general, the demand for large industrial units (approx 2,000 sqm and more) has been

WAREHOUSE AND INDUSTRIAL SPACE VACANCY RATES AND TENDENCIES IN TALLINN AND HARJU COUNTY

CLASS	JAN 2013	TENDENCIES FOR 2013
New and renovated buildings	7-9%	→↘
Older buildings	10-13%	→→

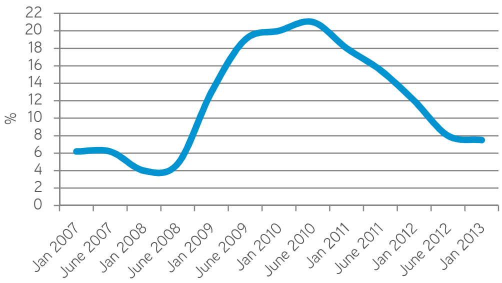
→→- stable, →↘- slight decrease, →↗- slight increase

WAREHOUSE AND INDUSTRIAL SPACE RENT RATES* AND TENDENCIES IN TALLINN AND HARJU COUNTY, EUR/SQ M

CLASS	JAN 2013	TENDENCIES FOR 2013
New and renovated buildings	4.0–5.2	→→
Older buildings	1.3 – 3.2	→↘

*asking rental rate (EUR/sqm/month) excluding VAT and operating expenses
→→- stable, →↘- slight decrease, →↗- slight increase

DYNAMICS OF VACANCY RATES IN TALLINN



consistent (especially from logistics companies and metal products manufacturers). The most favoured are premises close to Tallinn with good public transport connections, which is very important in the context of labour force and business communication. Favourable locations were and continue to be Peterburi road and Tartu-Tallinn road areas, where demand exceeds supply. The most developed logistics areas lie in the eastern and south-eastern parts of the city.

Overall, in 2012 the industrial and warehouse sector continued to be reasonably active and the trend is expected to continue in 2013, driven by constant demand for high-quality modern logistics premises. However, as the process of finding a suitable property is time consuming and complicated, conclusion of lease contracts or transactions continues to occur with some lag time.

Demand from investors for high-quality logistics premises in Estonia reflects the confidence in the market. The largest single-object real estate deal over EUR 20 million in 2012 was done by East Capital, which completed the acquisition of a 40,000 sqm VGP warehouse park in Tänassilma Industrial Park near Tallinn with the transaction price of EUR 24 million in May 2012.

The number of built-to-suit projects is and will continually predominate among new projects although the proportion of speculative industrial projects is expected to increase (VGP Park Nehatu). Colliers believes that room exists for good quality speculative development warehouse premises on the market.

RENT AND VACANCY RATES

Due to a sharp increase in construction costs, average asking rental prices also started to increase in 2011. In 2012 average rental costs for modern logistics warehouses remained largely stable and stood at between EUR 4.5-5.2 per sqm/month. In most demand are modern premises with a rental rate between EUR 4-4.5 /sqm/month in the direction of Peterburi Road, Tartu-Tallinn Road and Tänassilma area.

To meet the need for premises with specific parameters (e.g. cranes, telphers) older industrial premises are also often considered or preferred due to high development costs of new premises.

Average rental rates for old logistics warehouses range between EUR 1.3 -3.2 per sqm/month. Historically, rental rates in the industrial sector are relatively stable, more recently showing a small increase and then decrease of 4-5 per cent in boom and post-boom periods respectively. However, as the asking rates are directly related to the development cost, which has increased significantly over the past few years, the actual asking rents of warehouse/industrial premises are expected to stay between 4.5 – 5.0 EUR/sqm/month.

Improved demand together with increased construction costs led to vacancy decline during the last two years below 10 per cent level to approx. 8 per cent.

TENDENCIES AND FORECASTS

- While in 2011 an increase in export figures improved industrial companies' future outlook and therefore increased demand mainly for industrial space, then in 2012 the focus was largely on warehouse and logistics companies, which were expanding and looking for larger premises.
- Development of industrial properties has concentrated in the area of Tallinn and Harju County. The obvious reasons for this are location (for example, proximity of main ports such as Muuga and Paldiski), built-up infrastructure and economic activity in that area.
- Since 2009 the volume of new supply in the industrial and warehouse market in Harju County remained largely stable and far below the record-high years in 2006-2007. However, planned volume of new constructions in 2013 will surpass the level of 2008.
- The amount of building permits issued for new warehouse buildings increased ca six times in 2012 compared with previous year.
- In 2012 the industrial and warehouse sector continued to be reasonably active. At the

beginning of 2012 there was a shortage of large good quality competitive stock on the warehouse market, thus giving room for good quality speculative development warehouse premises.

◊ Majority of the requests for warehouse space in Harju County in 2012 came from retail operators, distributors and FMCG companies. At the same time, logistics companies were rather active in the market as well.

◊ One of the factors supporting logistics companies' positive development was definitely increased consumption and improved retail sales numbers. In 2012 the industrial and warehouse market was largely driven also by foreign companies who were relocating their business activities for cost saving and/or logistical purposes to Estonia – a trend that is expected to continue.

◊ Modern premises located in the area of Peterburi road and Tartu-Tallinn road area with a rental rate in the range of 4.0 – 4.5 EUR/sqm/month are in most demand.

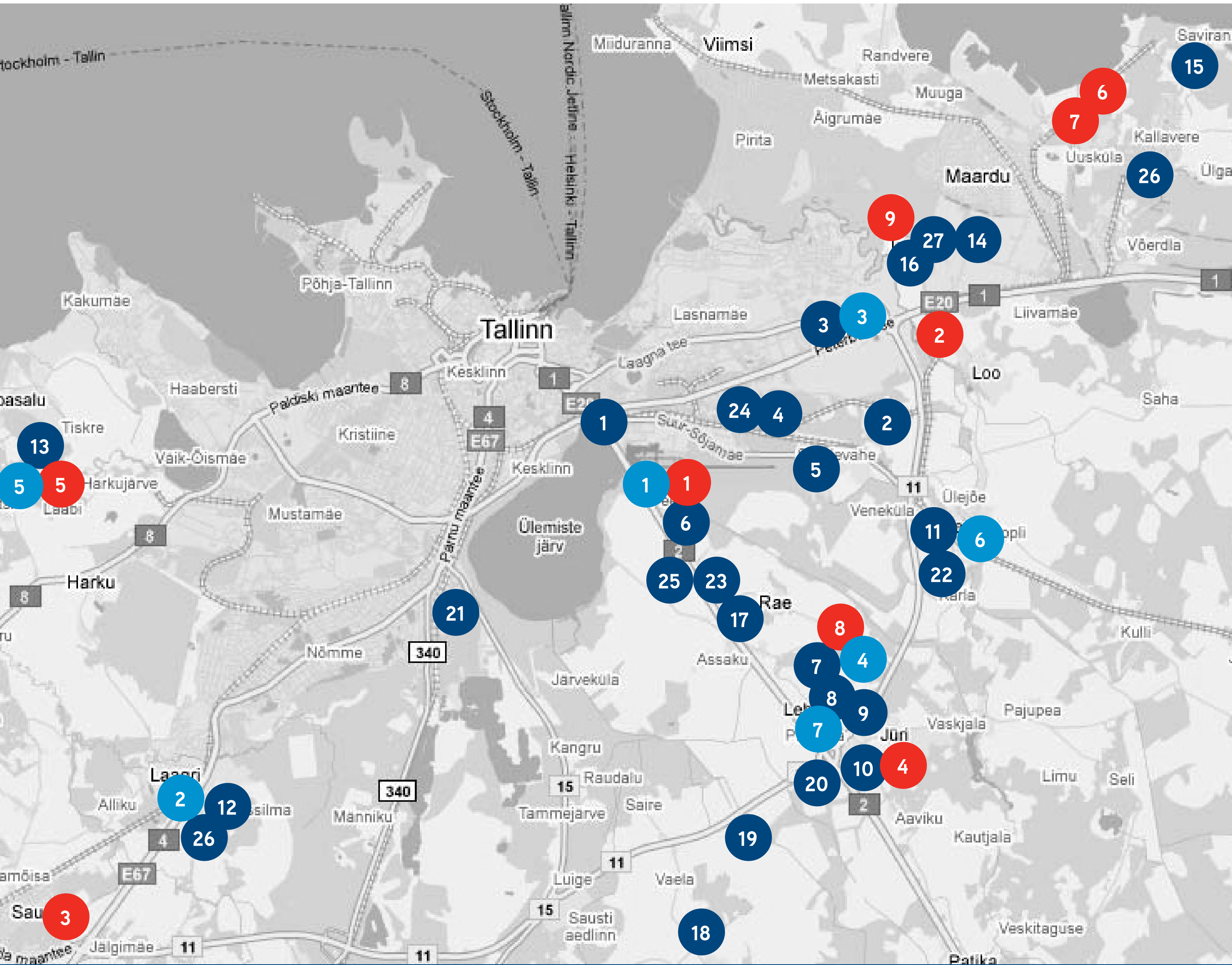
◊ As the process of finding a suitable property is time consuming and complicated, conclusion of lease contracts or transactions will occur with some lag time.

◊ Starting from the end of 2009 foreign investors have turned their attention to the industrial market and continue to seek attractive investment opportunities. East Capital completed the acquisition of a 40,000 sqm warehouse park in Tänassilma Logistics Park near Tallinn with the transaction price of EUR 24 million in May 2012.

◊ Geographical distribution of new construction in 2013 will experience slight changes. While majority of new supply of warehouse premises that came into the market in 2012 was constructed in Rae municipality, then over a 60 per cent of new volume in 2013 will be located in Jõelähtme municipality.

◊ 2013 will probably see a marginal increase in rental rates caused by increased construction costs, the addition of several new built-to-suit buildings and a new speculative project.

◊ In 2013, VGP Estonia will start to expand with construction of VGP Park Nehatu (a speculative project with GLA approx 20,000 sqm), thus adding a considerable volume of speculative warehouse premises to the market. Total volume of the project is ca 50,000 sqm.



INDUSTRIAL AND LOGISTICS PARKS IN TALLINN AND HARJU COUNTY

Existing Developments

1. Ülemiste City
2. Tallinn Industrial Park
3. Tondiraba Industrial Park
4. Betooni Industrial Park
5. Suur-Sõjamäe Industrial Park
6. Mõigu Industrial Park
7. Sinikivi Industrial Park
8. Rae Industrial Park
9. Sweet Valley Industrial Park
10. Jüri Industrial Park
11. Killustiku Industrial Park
12. Tänassilma Industrial Park
13. Tabasalu Industrial Park
14. Maardu Industrial Park
15. Muuga Industrial Park
16. Iru Industrial Park
17. Sõpruse Business Park
18. Kiili Industrial Park
19. Rebasepõllu Industrial Park
20. American Corner Retail and Logistics Park
21. Liiva Logistics Park
22. Via3L Logistics
23. Smarten Logistics
24. DHL Logistics Centre
25. VGP Park Tallinn
26. Maardu Logistics Centre
27. Vana- Narva road Logistics Park

Completed in 2012

1. Mõigu Industrial Park
2. Tänassilma Industrial Park
3. Tondiraba Industrial Park
4. Rae Industrial Park
5. Tabasalu Industrial Park
6. Killustiku Industrial Park
7. Kawe Warehous

Declared for Completion in 2013

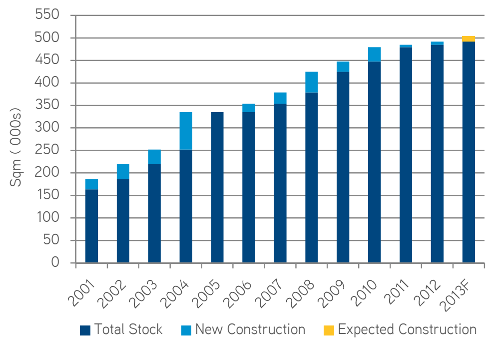
1. Mõigu Industrial Park
2. VGP Park Nehatu
3. Vaasan Baltic
4. ABB industrial and office building
5. Tabasalu Industrial Park
6. KTN Tallinn Logistics Centre
7. Tridens Logistics Centre
8. Sinikivi Industrial Park
9. Logistika Pluss Logistics Centre

Retail Market

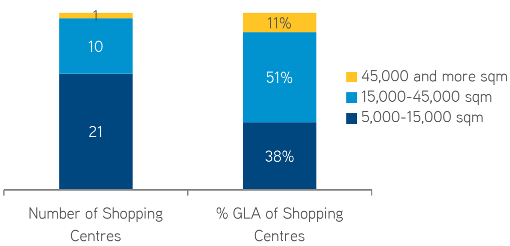
KEY FIGURES

Retail Stock	491,800 sqm
Prime Headline Shopping Center Rent	45 EUR/sqm/month
Prime Headline High Street Rent	40 EUR/sqm/month

DYNAMICS OF RETAIL SPACE IN TALLINN AND FORECASTED VOLUME, 2001-2013



DISTRIBUTION OF RETAIL SPACE IN TALLINN BY SIZE



OVERVIEW

Positive labour market developments (decreasing unemployment and households' moderate income growth) together with low banks deposits and interest rates have supported an increase in spending in 2012. According to preliminary data the retail sales of retail trade enterprises were almost EUR 4.4 billion in 2012 and compared to 2011 the retail sales increased 7 per cent at constant prices.

The surprisingly good sales numbers were continually supported by foreign tourists, who visited Estonia in record numbers in 2012. Foreign visitors' expenditures in Estonia in 2012 set new all-time record and increased by 6 per cent compared to the previous year.

While 2011 saw the largest single investment deal the Estonian market has ever seen (the acquisition of the Kristiine Shopping Centre in Tallinn), then two community shopping centres in Tallinn were purchased in 2012. Shopping Centre Mustikas with leasable area of 21,500 sqm was acquired by EfTEN Real Estate Fund with the price of EUR 21.5 million in July, while acquisition of the Sikupilli Shopping Centre with GLA 15,100 sqm for EUR 21.8 million was finalised in the end of 2012.

Despite improved confidence in retail sector among consumers at the end of the year, private consumption growth and retail sales are expected to slow in 2013 due to rising prices boosted by the opening of the electricity market in January and very high reference base of previous year. According to the Bank of Estonia forecast, private consumption is expected to continue growing by 3 per cent in 2013 and by 4.1 per cent in 2014.

SUPPLY

The retail property market in Tallinn has undergone considerable changes during the last 20 years. These changes have been driven by retail consumer trends in emerging markets in Eastern Europe – from marketplaces and small detached shops to dominance by big shopping centres and hypermarkets.

By the beginning of 2013, the stock of Tallinn retail space had increased by approx 7,300 sqm since the beginning of 2012, to a total of 491,800 sqm (1.17 sqm per capita).

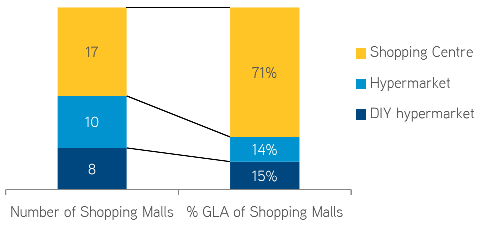
2012 saw continuing activity in the grocery sector and expansion of existing retail centres. On the 3rd of May, fully let community shopping centre Magistral in Mustamäe city district was reopened after an eight-month renovation and extension project. The leasable area of the centre increased by 2,200 sqm to 11,700 sqm and the largest part in the Magistral shopping centre is occupied by Rimi Hypermarket.

The expansion of Bauhof in the vicinity of Tallinn in Laagri was completed in February 2012, seeing Tallinn's DIY segment expanded by ca 4,900 sqm. At the same time, Rautakesko closed its 2,400 sqm DIY store in Lasnamäe city district in the end of the year (despite increased Rautakesko net sales in Estonia by 7 per cent in 2012 yoy), indicating growing trend of closing some smaller and/or ineffective stores.

The retail market has shown that development activity in this sector is continually active throughout Estonia (not just Tallinn). In November a new Uku shopping centre was opened in Viljandi with an area of approx 7,000 sqm and Rimi hypermarket as an anchor tenant and Fama Centre completed 2,700 sqm expansion in Narva. 2012 saw the opening of numerous new super- and hypermarkets geographically spread right across Estonia – Maxima opened XX format supermarkets in Tartu and Maardu, Prisma opened its second hypermarket in Tartu on the 16th of May, Selver opened three new supermarkets in Saku, Tartu and Rapla ect.

Several new supermarkets were opened in Tallinn as well, mostly in the second half of the

DISTRIBUTION OF RETAIL SPACE IN TALLINN BY TYPE



COMPLETED PROJECTS IN TALLINN IN 2012

PROJECT	CITY DISTRICT	GLA (SQM)	ANCHOR TENANT	DEVELOPER
Ext. of Magistral SC	Tallinn	2,400	RIMI	Citycon
Ext. of Bauhof	Laagri	4,900	Bauhof	Harju KEK
Total:		7,300		

NEW AND POTENTIAL RETAIL DEVELOPMENTS IN TALLINN, 2013-2014

EXPECTED COMPLETION	PROJECT	GLA (SQM)	DEVELOPER	CONSTRUCTION STATUS	COMMENTS
2013	Redevelopment of Post Office	7,000	Promethean	Under construction	H&M and Rimi will be anchor tenants
2013	Rocca al Mare expansion	4,000	Citycon	In planning	Extension for H&M and Debenhams
2014	Ülemiste expansion	22,000	Lindstow	In planning	Expansion
2014	Panorama City	57,000	ELL Kinnisvara	In planning	New Shopping Centre, planning to start construction in 1HY 2013
2014	Pro Kapital Centre	55,000	Pro Kapital	In planning	New Shopping Centre
Total:		145,000			

year. Maxima opened two XX format supermarkets and one X format supermarket in Lasnamäe city district; Rimi Tatari supermarket and Comarket Kadriorg local store opened its doors in the Central city district, while Raudalu Konsum supermarket was opened in the southern outskirts of Tallinn. In addition, Selver entered the market with new concepts and opened a new format small 'local store' (with GLA 825 sqm) in Tallinn in December and two gourmet shops in Solaris Centre and Tallinn Kaubamaja.

However, it should be mentioned again, that the extensive development activity, especially among grocery stores, has not been caused by significantly increased demand, but rather by tight competition among retailers aiming to keep and protect their market share.

Development activity in the retail sector in the near-term perspective is expected to continue mainly with expansion of existing grocery chains. For example, Selver plans to open four new stores in Estonia in 2013 including new hypermarket on the border of Tallinn (Selver Mõigu Hypermarket) and new supermarket in Lasnanäe city district. Rimi also declared to open four stores across Estonia in 2013 including two stores in Tallinn.

At the same time, in 2012 several developers announced about the start of the development of new regional shopping centres as well as shopping centre expansions in Tallinn – construction of Panorama City and Pro Kapital Shopping Centre in Lasnamäe city district (planned time of completion 2014), reconstruction of old Post Office in CBD (end of 2013) and expansion of Rocca al Mare (end of 2013) and Ülemiste Shopping centres (1HY 2014) in Haabersti and Lasnamäe city districts respectively.

However, the completion of all aforementioned projects is questionable as the completion of the developments would increase Tallinn retail stock by 145,000 sqm, which is already ca 40 per cent of the current existing shopping centre stock. Also the fact that as of beginning of 2013 actually no new shopping centres (Panorama City, Pro Kapital Shopping Centre) are under construction indicates that developers remain cautious and consider carefully their possibilities.

Due to the effect of ageing, several shopping centres will have to start some renovation

works in order to re-energise interest from consumers in near and mid-term perspective. After acquisition of Mustikas shopping centre in 2012, EfTEN announced about its plans to invest EUR 2 million in renovation of 4,000 sqm of space and improvement of the shopping centre's logistical level for tenants in order to diversify the tenant mix and increase net rental income in the future.

Some refurbishment is expected in Sikupilli shopping centre (with GLA 15,100 sqm) in order to improve the footfall and sales figures of other tenants in addition to the well-performed anchor tenant (Prisma hypermarket). Lasnamäe Centrum, community shopping centre with GLA 19,600 sqm located in Lasnamäe city district, is also considering some expansion and improvements of the centre in order to meet the intensified and growing competition in the area.

Two years ago Colliers International wrote about two potential large-scale projects - Gate Tallinn, which promoted itself as the Largest Retail Park in the Balic States with more than 240,000 sqm of retail and warehouse space and American Corner Retail and Logistics Park, a huge retail and logistics project close to Tallinn with more than 110,000 sqm of retail and warehouse space. Despite long-continued planning stage and previously made announcements, none of these projects is likely to be completed in mid-term perspective due to unsettled access problems, unsustainable concept and different project management issues. At the same time, new Retail and Logistics Park is planned in Loovälja in the eastern end of Tallinn next to Peterburi Road. Current project has certain advantages due to location, convenient access from the highway and acceptable volume of retail and warehouse space.

The biggest share of retail space in Tallinn is concentrated in the Lasnamäe city district, which is indeed the most populated city district in Tallinn. The most intense retail development is expected to occur during the next 2 years in Lasnamäe and probably Central city districts.

Tallinn currently has 17 shopping and leisure centres with a total GLA of approx 349,600 sqm of retail space and 10 separate hypermarkets. Most of these hypermarkets opened during 2000 – 2003. Tallinn's largest shopping centres are Rocca al Mare with a GLA of approx 53,300 sqm, Kristiine with a GLA of approx 42,700 sqm and Ülemiste with a GLA of approx 37,500 sqm.

In 2012, the turnover of Tallinn's biggest shopping centres exceeded the level of 2006. Further moderate growth in consumption indicates that by 2014 the turnover of regional shopping centres will reach boom-period levels of 2008.

DEMAND

Retail continued to be one of the most active sectors of the Estonian commercial real estate market in 2012 in terms of demand, planned expansions and investments, supported by increased sales and turnover numbers (reaching 6-8, up to 10 per cent annual turnover growth on average in Tallinn's biggest shopping centres).

Compared with 2011, a lot of retailers increased a number of their stores in 2012. Quite a big part of retail enterprises have been reorganized through consolidation of stores, renaming etc. The vacant premises of the retailers, who did not survive during the recession in 2009-2010 (including: former supplier of PEPE jeans, PTA, Everdeal Eesti JSC (Your Face brand), Trendmaker Ltd etc), were taken over by stronger retailers that wanted to expand or by new market players (several new brands entered Estonian market in 2012 as well). There have been also a lot of expansions of well-known brands even to smaller cities all over Estonia throughout the year.

One of the major trends during the last two years has been the growth in the number of new, quality and more expensive brands on the market (Frey Wille, Max &Co, Burberry), driven by demand from both tourists and a local customers due to the increasing purchasing power and growing numbers of upper or upper-middle class consumers. This trend can be considered as a sign of the more global trend of consumer markets polarisation between economy and premium sectors (low price versus luxury) as retail sales continued to show upward movements in a luxury sector.

In 2012, demand for modern retail space in bigger shopping centres still exceeded supply

RENT AND VACANCY RATES AND TENDENCIES IN TALLINN

UNIT SIZE	RENT RATES*	TENDENCIES FOR 2013
Large Retail Unit (anchor tenant)	6.4-10.0	→→
Medium Retail Unit (150-350 sqm)	9.8-30.2	→→
Small Retail Unit (up to 100 sqm)	12.5-45.0	→↗
Vacancy (major shopping centres)	1%	→→

* rent rate (EUR/sqm/month) excluding VAT and operating expenses
→→- stable, →↘- slight decrease, →↗- slight increase

STREET RETAIL RENT RATES IN TALLINN

UNIT SIZE	RENT RATES*	TENDENCIES FOR 2013
Street retail	9.0-30.0*, up to 45.0	→→

* rent rate (EUR/sqm/month) excluding VAT and operating expenses
→→- stable, →↘- slight decrease, →↗- slight increase

and free space was absent in Tallinn's existing large shopping centres with a vacancy rate that remained almost zero.

However, while in 2010 – 2011 retail trade growth was mainly driven by durable goods (electronics etc.), by the beginning of 2012 most of the costly purchases were already made and throughout the year outgoings included mainly grocery expenditures. The sales of clothing, woven materials and footwear in Estonia increased by 27 per cent in the first quarter of 2012 compared with the same period of previous year and experienced 7 and 9 per cent yoy increase in the second and third quarters respectively.

The sales of the Baltika Group (fashion retailer operating four retail concepts: Monton, Mosaic, Baltman and Ivo Nikkolo) grew by 5 per cent in 2012. All brands and markets of Baltika Group achieved good results in 2012, including 10 per cent sales efficiency growth (turnover per sqm of GLA) in Estonia. In the end of 2012, Baltika also signed agreements on the purchase of the Bastion trademark and the acquisition of retail stores operated under the Bastion trade name. in addition, the retail turnover of the largest Baltic clothes retail group Apranga in Estonia (12 stores) amounted to EUR 19.2 million in 2012, indicating 19.6 per cent year-on-year increase.

Tourist spending continued to play an important role in retail sales volume growth in Estonia (especially during the summer period). According to the Bank of Estonia, in 2012 tourist spending in Estonia posted a new record and increased 6 per cent compared to the previous year.

Shopping centres have continued to attract consumers through different sales campaigns however discounts are not as frequent and high as a few years ago. Despite the fact that the retail market in Tallinn is clearly shopping centre oriented, the street retail showed also some enlivenment during 2012 – first Frey Wille Boutique (precious, handcrafted fire enamel jewellery and accessories) was opened in Tallinn in September in a new center of street retail activity on the border of Old Town.

2012 brought also good news to the consumers as it was announced that long-awaited H&M will enter Tallinn retail market in 2013. The retailer will open its stores in redeveloping Post Office with the new name of Galleria, Rocca al Mare and Kristiine shopping centres. In addition, another big-name retailer – the British Debenhams will open its doors in Rocca al Mare shopping centre in autumn 2013 and later in new Panorama City shopping centre in 2014.

RENT AND VACANCY RATES

Rents remained stable in main shopping centres in Tallinn during the last 6 years (since 2005), as demand continually exceeded supply (the vacancy rate in bigger shopping centres in Tallinn varied from 0.5 to 2 percent). Even though the upper margin of rental rates increased during the boom time in accordance with consumption growth, the lower margins did not substantially change.

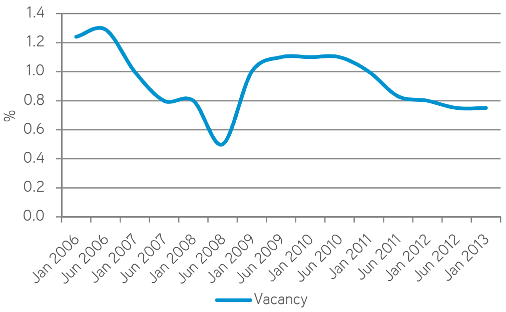
Colliers International has found that as consumer confidence improved in 2011 and later in the beginning of 2012, thus contributing to the turnover increase, it is possible to conclude that rental values for the shopping centre sector have also begun to improve slightly in 2012 by 3-5 per cent on average mostly due to index increments and less rental discounts.

Although landlords remain interested in keeping good tenant-landlord relations by providing different payment schemes and a more tenant-oriented approach, the volume of rental rebates decreased from the previous year. According to Citycon, 2012 saw positive net rental income development in Citycon's shopping centres in the region, mostly due to Rocca al Mare's improved performance compared to 2011.

After the peak period of economic growth in 2006 when rental rates for street retail premises in Tallinn Old Town ranged from 19.0 to 32.0 EUR/sqm/month on average, asking rent rates had fallen to a level of 9.6 – 19.0 EUR/sqm/month in 2009.

In 2012, the upper margin of rental rates for street retail premises started to increase up to 45 EUR/sqm/month, driven by the increased demand from luxury and fashion retailers and lack of quality retail space on the market.

DYNAMICS OF VACANCY RATE IN TALLINN OF THE LARGEST SHOPPING CENTRES, 2006-2013



In 2013, rental rates for anchor tenants are expected to remain stable. Minor upward trends may be expected in rents of smaller retail units. Although the Tallinn shopping centre market is close to saturation, some room remains for additions and the possibility for the emergence of a few new shopping centres in the mid-term perspective. However, as the tenant mix of different shopping centres is very similar, any larger additional retail area would be expected to include a greater diversity of stores, rather than similar kinds that compete with existing tenants and do not offer more variety to customers.

TENDENCIES AND FORECASTS

◊ In 2012, retail was one of the most active sectors of the Estonian commercial real estate market in terms of demand, planned expansions, investment and new developments across Estonia.

◊ In 2012 the sentiment in retail sector was continually optimistic – retail sales figures were increasing, consumption expenditure of households was in upturn due to decreasing unemployment, moderately growing real wages and low deposit rates.

◊ The battle between the main grocery retail chains became more intense – food retailers were vigorously expanding, but still making profit. 2012 saw the opening of several new supermarkets geographically spread right across Estonia, while 8 new supermarkets and local stores were opened in Tallinn. Several grocery retailers (e.g. RIMI, Selver, Maxima) continue to seek possibilities for further expansion and opening of new stores during the next two years.

◊ Strong activity was again seen in the local stores market, thus Selver opened first new concept "local store" in Tallinn.

◊ Annual turnover growth in Tallinn's biggest shopping centres was approx 6-8 per cent on average in 2012, while the number of visitors remained stable or marginally increased during the same period.

◊ Despite the fact that the retail market in Tallinn is clearly shopping centre oriented, the street retail showed some enlivenment and growing demand in 2012.

◊ Vacancy rates in larger shopping centres remained effectively zero, although higher and perhaps still rising elsewhere.

◊ The cluster of fashion clothes and shoes showed good sales numbers that increased annually by more than 10 per cent in 2012. Grocery chains indicate that children's clothes and goods are in high demand, while electronics sales decline (partially because of e-commerce).

◊ Good retail sales numbers were to some extent supported by a growing number of foreign tourists in Estonia. Foreign tourists' expenditures set new record in 2012.

◊ In 2013, rent rates are expected to remain more or less stable, a slight improvement by 3-5 per cent on average is likely due to index increments and fewer rental discounts.

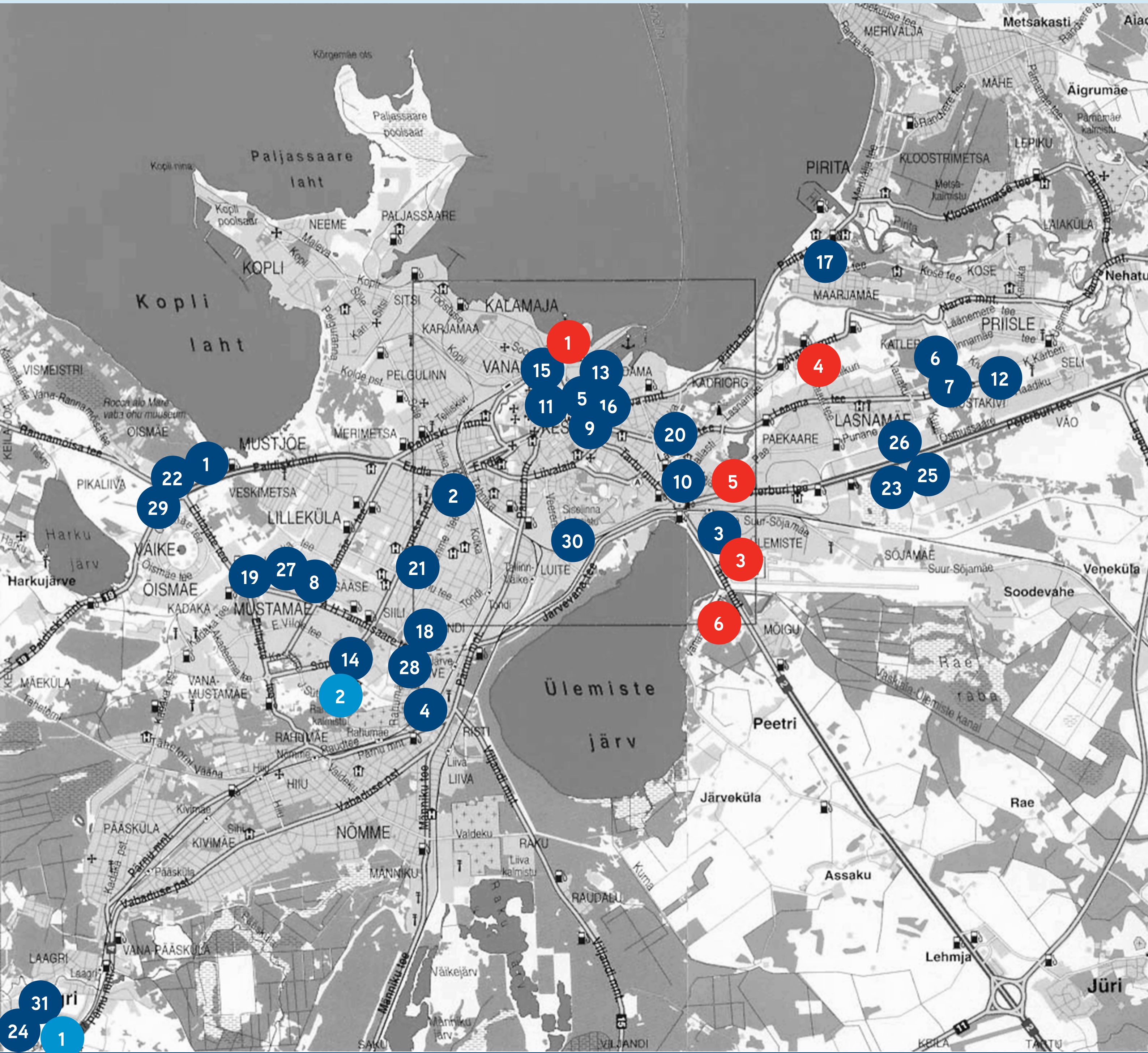
◊ The future level of rental rates will depend on retailer performance as well as supply of new premises (completion of several big retail projects).

◊ In 2013 the arms race between grocery stores and shopping centre will continue, although the situation is quite paradoxical as consumer confidence doesn't support such aggressive development and also several retailers and landlords admit that it is not sustainable.

◊ Completion of several big retail projects in 2014 was announced by developers in 2012.

◊ Due to the effect of ageing, several shopping centres will have to start some renovation works in order to re-energise interest from consumers (Mustikas, Lasnamäe Centrum, Norde Centrum, Sikupilli).

◊ Growth in private consumption expenditure is expected to slow in 2013, driven by rising prices, weaker external demand and high reference base. Additionally, the majority of spending postponed during the recession was already done in 2011.



SHOPPING CENTRES IN TALLINN

Existing Development

1. Rocca al Mare
2. Kristiine Centre
3. Ülemiste 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. Pirita Selver Hypermarket
18. Tondi Selver Hypermarket
19. Kadaka Selver Hypermarket
20. Torupilli Selver Hypermarket
21. Sõpruse Rimi Hypermarket
22. Haabersti Rimi Hypermarket
23. Lasnamäe Maksimarket
24. Laagri Maksimarket
25. Bauhof
26. Lasnamäe Ehituse ABC
27. Kadaka Ehituse ABC
28. Tondi K-rauta
29. Haabersti K-rauta
30. Espak
31. Laagri Bauhof

Completed in 2012

1. Exp. of Laagri Bauhof
2. Exp. of Magistral Centre

Declared for Completion in 2013/14

1. Post Office Redevelopment
2. Exp. of Rocca al Mare
3. Exp. of Ülemiste Centre
4. Panorama City
5. Pro Kapital Centre
6. Mõigu Selver Hypermarket

Hotel Market

OVERVIEW

2011 and 2012 turned to be a successful years for the hotel market in Estonia. Sales of accommodation services by all accommodation establishments continued to increase during the last two years, while the number of tourists in accommodation establishments exceeded the same period result for 2008, i.e. the best year of the past decade, already in 2011, and continued to set up a new record in 2012.

SUPPLY

After 2009, when Tallinn's hotel segment expanded with the opening of two hotels belonging to the Meriton Hotels Chain, no new hotels entered the Tallinn hotel market in 2010-11. However, Laulasmaa spa-hotel, located approx 40 km from Tallinn, was reopened by a new operating company in June 2011.

In 2012, a small 3-star guesthouse Gotthard Residence (47 rooms) was opened in a historical part of the Tallinn Old Town. The house of Gotthard Residence was built in the beginning of the 14th century and it was fully renovated in 2012.

By the end of 2012, the 4-star segment comprised the largest percentage of Tallinn's available rooms, consisting of 27 hotels with 3,875 rooms, or 59 per cent of total supply. Recent development, most of which was completed in 2007, mostly occurred in the 4-star and 5-star segments. In 2007 one 3-star, four new 4-star and two 5-star hotels opened in Tallinn. Comparable figures for 2008 were one 4-star hotel and in 2009 one 4-star hotel enlargement and one new hotel.

While less than one fourth of all Estonian hotels are 4-star hotels, approximately 38 per cent of Estonia's total hotel rooms stock is strongly rooted in the 4-star hotel segment, indicating that visiting tourists to Estonia are often looking for middle and higher-value travel options.

Hotel market in Tallinn is dominated by local hotel chains and operators. Among local hotels chains the biggest are Tallinnk Hotels chain that has 4 hotels with 1,502 hotel rooms in Tallinn, and Meriton Hotels chain that has 3 hotels with 556 hotel rooms in Tallinn.

The largest international hotel chain in Tallinn is Carlson Rezidor Hotel Group with 2 Radisson Blu Hotels (670 hotel rooms) and one Park Inn by Radisson Central Tallinn Hotel (245 hotel rooms) and Sokos Hotels, the biggest hotel chain in Finland, which has 516 hotel rooms under management in Tallinn.

At the same time, the Swedish-based Scandic hotel chain terminated its lease contracts in Pärnu in the end of 2012 (Rannahotell) and sold its property in Tallinn in the beginning of 2013 (Scandic Palace hotel, 86 hotel rooms) and will quit Estonia in 2013.

With respect to number of rooms, ca 39 per cent of Estonia's total rooms in accommodation establishments (including hotels, hostels, guesthouses, B&Bs, etc.) is concentrated in Tallinn; also, Tallinn hotel rooms account for 53 per cent of Estonia's total hotel room supply.

DEMAND

During 2012, 1.87 million foreign tourists stayed overnight in the accommodation establishments of Estonia. Their number increased by 3.6 per cent or by 65,600 compared with the same period last year. The number of nights spent was 3.8 million (2 per cent up on the same period of 2011).

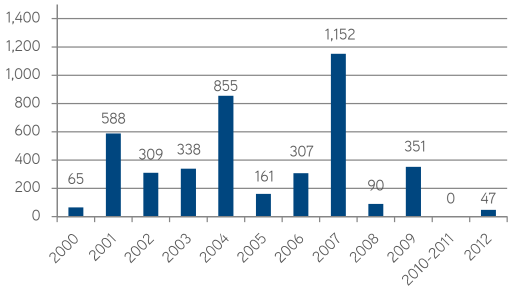
While in 2011 inbound tourism to Estonia increased significantly compared with 2010 which was already a record year for Estonia, then 2012 experienced more moderate growth (15.6 per cent in 2011 and 3.6 per cent in 2012). The number of foreign tourists stayed overnight

NUMBER OF HOTELS IN ESTONIA BY STARS

STARS	NO OF ROOMS	
	ESTONIA	TALLINN
5	7	5
4	37	27
3	70	16
2	44	10
1	3	1
Total	**161**	**59**

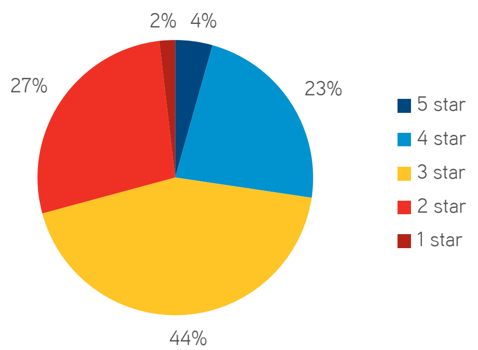
Source: Estonian Hotel and Restaurant Association

NUMBER OF HOTEL ROOMS ACCRUED TO THE TALLINN HOTEL MARKET IN 2000 – 2012



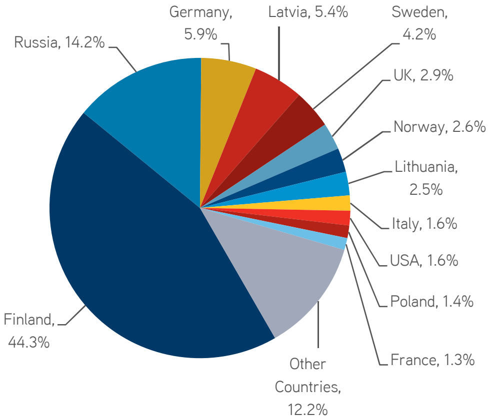
Source: Estonian Hotel and Restaurant Association

DISTRIBUTION OF HOTELS BY NUMBER OF STARS IN ESTONIA



Source: Estonian Hotel and Restaurant Association

DISTRIBUTION OF FOREIGN VISITORS BY COUNTRY IN ACCOMMODATION ESTABLISHMENTS IN ESTONIA IN 2012



Source: Central Statistical Bureau

CHANGE IN NUMBER OF TOURISTS IN ESTONIA, 2011 VS 2012

COUNTRY	NO. OF TOURISTS		CHANGE, %
	2011	2012	
Finland	840 714	829 225	-1.4%
Russia	203 204	266 192	31.0%
Germany	103 559	111 251	7.4%
Latvia	85 229	100 638	18.1%
Sweden	86 287	78 412	-9.1%
United Kingdom	69 912	54 305	-22.3%
Norway	51 510	48 479	-5.9%
Lithuania	47 003	47 397	0.8%
Italy	33 618	30 574	-9.1%

Source: Statistics Estonia

in the accommodation establishments of Tallinn during 2012 increased by 2 per cent y-o-y, while their number of nights spent in Tallinn remained largely unchanged.

Similarly to the development in 2011, in 2012 tourism from Russia has shown by far the biggest increase in absolute figures. The general outbound travel trend in Russia continues to be very positive in 2012, as the majority of the European destinations that have published their results for 2012 show strong growth from Russia, including destinations such as Romania, Finland, Latvia and Lithuania.

The number of Russian tourists staying at accommodation establishments in 2012 – 266,192 – was 82,759 more than a year ago. The number of tourists increased by 31 per cent and their overnights by 24.8 per cent compared with the exceptionally strong figures a year ago. As in previous years, tourism from Russia continued to increase substantially in their most popular destination Tallinn (+28 per cent) as well as in most other regions of Estonia. However, the share of Tallinn among their destinations in Estonia has slightly decreased over the past two years as several other regions have shown bigger growth (in 2010, Tallinn accounted for 66 per cent of their overnights in Estonia whereas in 2012 the respective figure was 62 per cent).

In 2012 the number of tourists from the largest source market, Finland, amounted to 829,225 (-1.4 per cent) and their overnights to 1.65 million (-1.5 per cent). In absolute figures, their overnights increased most in Harju County and Tartu. In Tartu, their overnights even reached a new record for the second consecutive year, partly due to the increase in average length of stay. In Tallinn, their overnights decreased by 1.1 per cent compared with the record level achieved a year ago.

Tourism from the third largest market Germany increased for the third consecutive year. Both the number of arrivals (111,251) and the number of overnights (227,959) exceeded the previous record level dating from 2005. Their overnights increased throughout the first half of 2012, with the biggest increase occurring from March to May (over 25 per cent), thanks to the additional flights from several German cities. However, in July and August as well as in last three months of the year their overnights decreased slightly compared with the high base figures a year ago.

The number of Latvian tourists and their overnights reached a new record. 100,638 Latvian tourists stayed at the accommodation establishments in 2012. This was 18.1 per cent higher than the previous record (dating from the same period of 2011). Their overnights amounted to 152,491, increasing by 17.2 per cent. The increase was observed in almost all of the regions of Estonia. In absolute figures, the biggest increase occurred in Tartu. In Tallinn (which showed the biggest growth last year) the number of overnights increased by 6.1 per cent, reaching a new record and in Pärnu their overnights increased by 13 per cent, following the long-term growth trend.

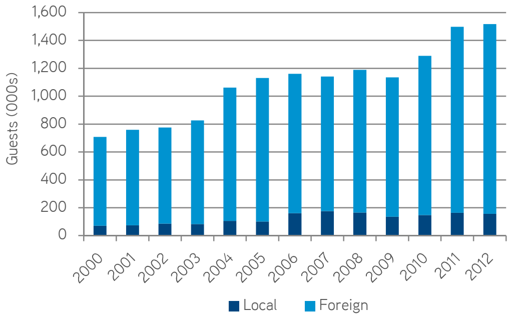
Tourism from Sweden, the fourth largest market in terms of overnights, showed modest results. Following the recovery in 2010 and 2011, their number decreased almost throughout 2012. The number of Swedish tourists decreased by 9 per cent and their overnights by 10 per cent. Tallinn as the biggest destination has accounted for the biggest decrease (-14 per cent) in 2012. This followed a 12 per cent increase in 2011.

According to Estonian Convention Bureau there were 565 international conferences held in Estonia in 2011. Totally, 68,112 foreign delegates participated on conferences in Estonia during mentioned period. According to preliminary estimation, the figures are expected to increase by ca 10 per cent in 2012.

966,376 domestic tourists stayed overnight in the accommodation establishments of Estonia in 2012. Their number increased by 5.3 per cent or by 48,358 compared with the same period last year. The number of nights spent was 1.72 million (4.3 per cent up on the same period of 2011). After the substantial decrease in 2009 due to the economic crisis, domestic tourism has gradually recovered starting from 2010. In 2012, number of domestic tourists reached the record level of 2007. However, their overnights are still 2.1 per cent below the record level of 2007.

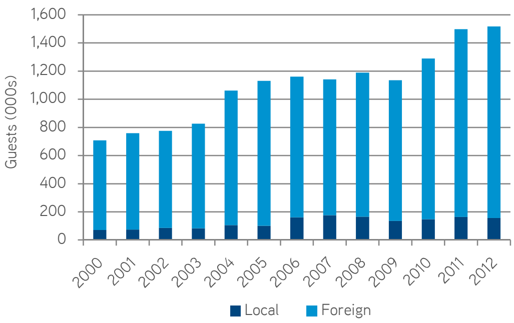
The good results of 2012 and especially the first quarter of 2012 (inbound tourism grew by

DISTRIBUTION OF VISITORS BY COUNTRY IN ACCOMMODATION ESTABLISHMENTS IN TALLINN, 2002-2012



Source: Statistics Estonia

DISTRIBUTION OF VISITORS IN ACCOMMODATION ESTABLISHMENTS IN ESTONIA, 2002-2012



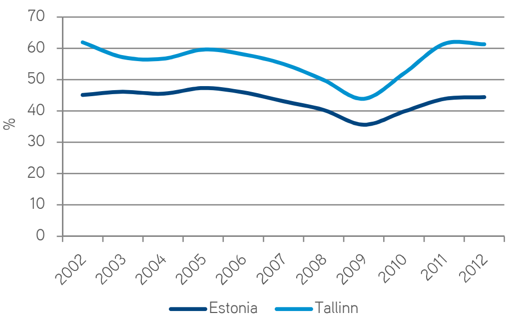
Source: Statistics Estonia

PRICE RANGE PER NIGHT FOR STANDARD DOUBLE HOTEL ROOMS IN TALLINN

NUMBER OF STARS	MIN PRICE, EUR	MAX PRICE, EUR
5	€105	€245
4	€50	€120
3	€40	€100

Source: Colliers International

DYNAMICS OF AVERAGE ROOM OCCUPANCY RATE IN ACCOMMODATION ESTABLISHMENTS



Source: Statistics Estonia

11 per cent) can also be attributed to the factors contributing to the substantial growth already in 2011, e.g. the increase in the number of direct flights to Tallinn, the effect of last year's extensive media coverage of the European Capital of Culture, active promotion of Estonia by the public and private sector and the continued growth in outbound tourism from several bigger European markets. According to UNWTO, inbound tourism to European countries increased by 3.3 per cent in 2012, surpassing the peak set in 2008, whereas foreign arrivals to Central and Eastern Europe increased by 8 per cent.

Regarding the increased flight capacity to Tallinn, several new routes or new frequencies were added in the 2nd or 3rd quarter of 2011, thus the number of connections in the 1st half and especially in the first quarter of 2012 was bigger compared with the same period of 2011. Starting from the 3rd quarter of 2012, however, the positive impact of the new flights was rather minimal. The biggest increase occurred in the number of direct flights from Russia. In the first quarter of 2012, the number of flights from Moscow increased from four to sixteen flights per week and the number of flights from St. Petersburg increased from six to nine flights per week compared with the first quarter of 2011. In the 2nd quarter, the number of flights was even bigger: from Moscow, 26 flights per week (in the 2nd quarter of 2011, the respective figure was just five flights per week) and from St.Petersburg, 19 flights per week (up from just six flights per week a year ago). The number of flights from Norway and Germany also increased compared with the first half of 2011. On the other hand, the number of flights from the UK decreased this spring, leading to a noticeable decrease in the number of British overnights in Estonia starting from May (compared with the record level achieved last year).

Such changes in air capacity have, among other factors, contributed to the fact that growth in inbound tourism has gradually slowed. In the first quarter, foreign overnights increased by 7.6 per cent (compared with the respective period a year ago). In the 2Q, they increased by 3.3 per cent whereas in 3Q they decreased slightly by 1.8 per cent but turned again to increase in 4Q by 2.5 per cent.

The number of passengers (including both arrivals and departures) at Tallinn Airport increased annually by 15.3 per cent in 2012 amounting to 2.2 million passengers. In 2013 the number is expected to decrease to ca 1.8 million passengers due to decreasing flight capacity to Tallinn.

The majority of foreign tourists arrive by ship. 8,841,679 passengers (including both arrivals and departures) passed through the port of Tallinn in 2012 (4.3 per cent up compared to 2011), of whom 82.2 per cent travelled on the Tallinn-Helsinki route, 10.6 per cent travelled on the Stockholm route, 2.1 per cent on the St. Petersburg route, while 5 per cent were cruise passengers. Port of Tallinn expects that the number passenger will continue to increase next year by ca 5 per cent or 437,000 passengers to a total 9.17 million passengers.

PRICES AND OCCUPANCY

According to the Bank of Estonia, Estonia's tourism receipts reached a new record, amounting to EUR 976 million in the first three quarters of 2012. This was 2.5 per cent more than a year ago. Travel receipts (foreign visitors' expenditures in Estonia) amounted to EUR 755.6 million (6 per cent more than a year ago). Fare receipts (foreign visitors' payments to Estonian transport companies) amounted to EUR 220.3 million or 7.7 per cent less than a year ago.

In 2012, the average price for a night in Estonia was EUR 30.9 and EUR 36.6 in Tallinn indicating a yoy increase of 8.8 per cent and 10 per cent respectively.

In 2012 the average room occupancy rate in Estonia was 44.4 per cent and 61.3 per cent in Tallinn indicating a continuing growth trend in the room occupancy rate in Estonia, but at the same time, slight decrease in the room occupancy rate in Tallinn.

Although the average occupancy level has remained more or less on the same level as a year ago, improving macroeconomic situation as well as increased number of tourists has had positive effect on average hotel room prices, which have increased by ca 10-15 per cent y-o-y in 2012 and thereby also on hotels' turnover numbers. However the figures aren't still comparable with 'boom time' numbers.

In 2012 the sales of accommodation services by all accommodation establishments amounted to EUR 171.5 million (11 per cent up on the same period of 2011). Thus, the sales of accommodation services increased more than the number of overnights (domestic and foreign overnights together increased by 2.7 per cent), indicating an increase in ADR (average daily rate). According to Statistics Estonia, ADR decreased by about 10-15 per cent between 2008 and 2010 and increased only slightly in 2011. Thus, the increase in 2012 meant that ADR reached roughly the pre-crisis level.

According to STR Global, in the first eleven months of 2012, Estonia has posted 11.1 per cent increase in RevPAR (revenue per available room) compared with the same period a year ago, due to 11.9 per cent increase in ADR with slight decrease in occupancy (-0.7 per cent).

TENDENCIES AND FORECASTS

◊ During 2011-12 tourism from Russia has shown the biggest increase in absolute figures. The number of tourists from Russia is expected to continue further growth in 2013.

◊ Estonia continues to be a popular spa and wellness holiday destination with growing popularity for spa tourism among Russians and Finns as well as domestic tourists.

◊ Trends in foreign visitor nights highlight a slow but steady decline in the length of stay.

◊ Starting from autumn 2010 the average room price started steadily to increase and this trend continued in 2011 with increases even up to 30 per cent. In general, room prices in 2011 and 2012 increased by 10-15 per cent on average per annum due to growing tourist demand and continued increase in energy and labour force prices.

◊ In the first eleven months of 2012, RevPAR (revenue per available room) in Estonia increased 11 per cent compared with the same period a year ago, due to increase in ADR.

◊ 2012 has begun where 2011 left off, with global growth prospects under threat from a deteriorating situation in financial markets. According to the European Travel Commission, hotels in Europe have been able to raise rates in 2012 but these gains remain subdued, especially in the face of other cost increases, and operators remain under pressure. Data suggest a rise in demand for less expensive options including a shorter length of stay on tourism trips and a rise in non-hotel demand.

◊ No new hotel chains are expected to enter the Tallinn hotel market and no new hotels to be established in the nearest future (in the 1-2 year perspective) but at the same time some activity could be marked in the hostel/guesthouse market in Tallinn.

◊ Despite on-going economic challenges, the growth of international arrivals worldwide is expected to continue in 2013. Inbound tourism is expected to grow by more than 4 per cent in Central and Eastern Europe in 2013.

◊ In 2013 the growth in number of accommodated tourists in Estonia is expected to slow down. As development of inbound tourism is substantially dependent on the volume of Estonia's air travel, then decreasing number of plane connections have negative impact on number of tourists arriving from further countries (countries with no quick/ convenient ferry, train or bus connection) and especially on tourism related to conference and larger entertainment events.

Legal Overview

LEGAL

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

ASSET TRANSFER DEALS

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

- merger clearance may be needed;
- obligations of the business transfer to the buyer;
- employees of the business must be notified of the transfer.

Main Steps

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

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

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Issues to Consider

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

SHARE TRANSFER DEALS

Main Steps

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

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

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

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

1. In the case of a private limited liability company which does not yet have its share(s) registered at the ECRS, the shareholder(s) must open a securities account for themselves with an Estonian commercial bank. Securities accounts are always linked to a regular bank account.
2. To register share(s) at the ECRS the shareholder(s) have to 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 company shares can be transferred via two methods: FOP (free of payment) or DVP (delivery versus payment).
6. FOP transfer allows payment for the shares by instalments, on a different date than the closing date and from and to accounts not linked to the securities account and thus also not in a bank registered in Estonia.
7. DVP requires total payment to be made at the same time as the shares are transferred and from and to the accounts of the parties which are linked to their respective securities accounts in a bank in Estonia.
8. To execute the transaction, the seller must issue an irrevocable and unconditional instruction to the bank administering its securities account to transfer its shares in the company to the purchaser's securities account. In the case of DVP, the instruction is made and executed only against payment for the shares.

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9. To execute the transaction, the purchaser must issue irrevocable and unconditional instructions to the bank administering its securities account to accept the shares of the company. In the case of DVP, the acceptance instruction is accompanied by an instruction to transfer the purchase price for the shares to the seller's current account. In that event, the shares are transferred only against payment for the shares.
10. Thereafter automatic changes are made to the list of shareholders in the company maintained by the ECRS. Transfer of title to the share(s) takes place at the moment the share(s) are registered in the securities account of the purchaser, if the time for transfer of title is not agreed otherwise in the share purchase agreement.

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

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

Issues to Consider

◊ notary fees and state duty arising from real estate sales are saved from transaction costs where sale of shares of a private or public limited company (whose shares are registered at the ECRS) is completed without notarisation as an electronic share transfer via banks and the ECRS;

◊ notary fees apply in the case of a share transfer by notarised share purchase agreement, which makes the transaction more expensive than executing via securities transaction via the ECRS;

◊ ownership of shares is transferred as agreed in the sale agreement, usually at the time of closing the transaction, or (in the case of transfer via the ECRS), upon registration, which takes only a few days, whereas in an asset deal transfer of title takes 2-4 weeks (registration with the Land Register);

◊ scope of due diligence investigation is extended because in a share deal the entire company transfers to the purchaser (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;

◊ LOIs and HOTs for real estate companies are usually binding on the seller without notarisation;

◊ financial assistance rules apply (the target company may not use its own assets to secure a loan taken by the buyer to finance acquisition);

◊ deferred tax issues.

TITLE TO REAL ESTATE, LAND BOOK

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

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

ACQUISITION OF REAL ESTATE

General

Real estate may consist of land, apartment ownership, or building title. In general, transfer of a building separately from the underlying land is not permissible, except if building title is established and so transferred. In that case, the building forms an essential part of the building title, not of land.

Change of Ownership

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

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FORM OF AGREEMENTS

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

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

LANGUAGE REQUIREMENTS

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

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

DUE DILIGENCE

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

RIGHTS OF FIRST REFUSAL

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

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

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

RESTRICTIONS

Restrictions on Acquisition

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

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

◊ Estonian citizens.

◊ Citizens of a state contracting party to the EEA Agreement who have lived in Estonia for the past three financial years and are registered in an Estonian register as sole proprietor in agricultural production (EU Treaty, appendix 1).

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- ◊ Estonian legal persons registered in the Estonian Commercial Register or in the Register of Non-profit Associations and Foundations register and a branch of a legal person of a state contracting party to the EEA Agreement registered in the Estonian Commercial Register and operating in Estonia for at least the past three financial years in agricultural production (EU Treaty, appendix 1).

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

Concentration Control

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

Public Restrictions

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

ENCUMBRANCES

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

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

PROPERTY MANAGEMENT

Maintenance of real estate is usually carried out by the owner or by a professional management company which provides technical support, accounting, and other related services. Apartment owners may establish an apartment owners' association for the common management of property.

LEASE AGREEMENTS

General

For residential leases the law provides extensive mandatory regulation protecting the tenant. Business leases are much more flexible but a set of mandatory rules also applies.

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

Duration and Expiry of Lease Agreement

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

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

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If the tenant continues to use the leased premises after expiry of a lease agreement, 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).

Lease Payment and Accessory Expenses (Utilities)

Rent is usually paid once a month to the bank account of the landlord. The rent is typically indexed (e.g. changes in local CPI may be capped at e.g. 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. The other option is that the asset is sold outside the insolvency proceedings. Real estate from insolvency or enforcement auctions can be bought using bank financing.

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

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

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Tax Summary

ESTONIAN CORPORATE INCOME TAX SYSTEM DEFERS TAX PAYMENTS

Estonia offers a unique corporate income taxation system as resident companies pay no income tax for retained or reinvested earnings. Income tax obligations are deferred to the moment of distributing profits. Corporate income tax is levied on profit distributions and certain other payments deemed equivalent. Corporate income tax is levied on payments of dividends, gifts, fringe benefits, non-business expenditure and excessive capital reductions made by companies at the gross rate of 21%.

Personal income tax of residents, however, uses a more common approach, and tax is charged annually. Please note that the below does not cover personal income tax.

RENTAL INCOME

Under the unique Estonian corporate income tax system, rental payments to resident corporate taxpayers are considered regular corporate income and taxed only when profits are distributed. This means that lease income is not taxable when earned.

Rental payments by Estonian corporate taxpayers to Estonian natural persons or non-residents are subject to Estonian withholding tax at a rate of 21%.

DEPRECIATION / LOSS CARRY FORWARD

Carry forward of losses is unlimited, as is depreciation for tax purposes. A unique CIT system operates so that depreciation is entirely an accounting matter and any restrictions do not trigger CIT.

THIN CAPITALISATION

There are no traditional thin capitalisation rules, ie substantial debt financing at market rate interest is tax-neutral.

WITHHOLDING TAX

Dividends (without any participation requirement), interest (not exceeding market interest rate) and royalties (payments within the EU and 25% participation) are not subject to withholding tax.

Rental payments by Estonian corporate taxpayers to Estonian natural persons or non-residents are subject to Estonian withholding tax at a rate of 21%.

CAPITAL GAINS

Thanks to the unique Estonian corporate income tax system, capital gains of resident corporate taxpayers are considered as regular corporate income and taxed only when profits are distributed.

Income tax is charged only on gains derived by a non-resident from sale of Estonian real estate or shares in a real estate company if the non-resident's holding in that real estate company is or exceeds 10% and more than 50% of the latter's property is directly or indirectly made up of real estate located in Estonia in any preceding two years. No income tax is charged on a share deal if DTT allows taxation of capital gains in the seller's country only.

PROPERTY TAX

The rate of land tax ranges from 0.1% to 2.5% of cadastral value of land excluding buildings. The rate is set by municipalities by 31 January each year. An owner-user of residential land and building is exempt from tax within some limits.

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INDIRECT TAX / VAT

- ◊ Sale and rental of real estate is generally VAT-exempt without the possibility to deduct input VAT. However, the exemption does not apply to:
- ◊ leasing or letting or establishment of a usufruct on multi-storey car parks or premises for parking vehicles;
- ◊ real estate with new buildings, if transferred prior to first use;
- ◊ real estate with reconstructed buildings, provided that reconstruction exceeds at least 10% of acquisition value and transfer is prior to first use after reconstruction;
- ◊ lots within the meaning of the Planning Act if the lot contains no buildings.

An option is available to add VAT at a rate of 20% to the following:

- ◊ leasing or letting real estate or parts thereof, except dwellings;
- ◊ establishment of a usufruct on real estate or parts thereof;
- ◊ real estate and parts thereof, except dwellings.

Input VAT is generally recoverable. However, companies having VAT-exempt supply are generally unable to recover input VAT. The purchaser of an immovable has to adjust deducted input VAT within a ten-year period according to the use of the property for taxable/non-taxable purposes.

REAL ESTATE TRANSACTION RELATED COSTS

Typical costs incurred for real estate transactions include: brokerage fees, real estate valuation, bank fees, fees for legal due diligence and reviewing the sale and security agreements, notary fees and state duty. Sharing transaction costs is a matter for agreement between the parties. Usually, the buyer pays state duties for registering ownership, whilst notary fees are shared equally between the parties and the seller pays state duties for deleting old encumbrances (e.g. mortgages).

STATE AND TRANSFER STAMP DUTIES

State duty is paid for registration of ownership and encumbrances in the Land Book. The amount depends on transaction value and is a fixed sum laid down by law. For instance, duty for registering a new owner of real estate at a purchase price of EUR 500,000 is approx. EUR 767. Notary fees and state duty are usually less than 0.5% of transaction value. There is no stamp duty fee in Estonia.

NOTARY FEES

Fees are set by law. In sale transactions the fee for notarising the purchase agreement depends on the value of the transaction. For instance, the notary fee on sale of real estate for EUR 500,000 is approx. EUR 1,548 plus VAT. Notary fees and state duty are usually less than 0.5% of transaction value.

MORTGAGE

Real estate purchase is often financed by a loan. Usually, a mortgage is established on real estate as security in favour of the bank financing the purchase. The mortgage agreement is usually concluded at the same time and in the same document as the sale agreement.

If a mortgage already encumbers real estate before sale and the purchaser needs a mortgage for its own financing purposes, the existing mortgage is typically transferred to the bank financing payment of the purchase price. This transaction structure is more cost-efficient compared to deleting the existing mortgage and establishing a new one, since it saves on both notary fees and state duty.

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NOTEWORTHY SORAINEN REAL ESTATE TRANSACTIONS

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SORAINEN

BALTIC LAW FIRM OF THE YEAR

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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 120 lawyers and tax consultants advising international and local clients on all business law issues involving the Baltics and Belarus. SORAINEN is the first law firm in the Baltics and the only one in Belarus to have implemented a quality management system under ISO 9001 standards (certified by Lloyd's Register Quality Assurance).

Akropolis Group

Advising on sale of Akropolis Kaunas shopping centre in Lithuania: the largest real estate transaction in the Baltics to date

Seller's Legal Adviser

Baltic Property Trust

Advising on sale of a large office and retail building in the Old Town of Riga, Latvia

Legal Adviser

Barclays Bank

Advising on lease of premises for Barclays Technology Centre in Lithuania: one of the largest corporate leases in the Baltics to date

Legal Adviser

IBERDROLA Engineering and Construction

EPC contract with Lietuvos elektrinė on a turnkey construction contract for a combined circle gas turbine power plant (CCGT) in Lithuania

EUR 376.5 million

Legal Adviser

Nord Stream

National permit issues on two potential new gas pipelines under the Baltic Sea in the Estonian EEZ

Legal Adviser

Citycon

Advising on acquisition of Kristiine Shopping Centre with gross leasable area of 42,600 m² – one of the largest-ever real estate transactions in Estonia

EUR 105 million

Buyer's Legal Adviser

Hesburger

Opening 3 new restaurants in Riga, Latvia, including the latest – a 2-floor restaurant located in the historical centre of Riga

EUR 2.3 million

Legal Adviser

YIT Ehitus

Advising on sale of an office and production facility with gross leasable area of approx 10,000 m² – one of the first forward purchase agreements in Estonia, where real estate is sold before completion and signing of leases

Seller's Legal Adviser

Irish Forestry Fund

Acquisition advice and full-scope legal due diligence on approx 200 forest and agricultural land plots in Estonia

Buyer's Legal Adviser

Ruukki Latvija

Advising on sale of production facility in Latvia

EUR 0.9 million

Legal Adviser

Metrostav

Advising on construction project with Beltamozhservice. Project includes construction of warehouse (26,000 m²), office building (4,000 m²), hotel (50 rooms) and other facilities

EUR 32.2 million

Legal Adviser

SEB Group

Advising on sale-leaseback of SEB Group real estate portfolio in the Baltics, the largest portfolio real estate transaction in the Baltics to date

EUR 200 million

Legal Adviser

Invest Lithuania

Advising the Lithuanian State via Invest Lithuania on establishing five new free economic zones in Lithuania, including standard tender documents

Legal Adviser

Larix Property

Advising on acquisition of 2.5 ha of land plot located in the historical centre of Riga, Latvia, for developing a multifunctional district

Legal Adviser

VEF-REC

Advising on sale of an industrial property located in Riga, Latvia

EUR 1.4 million

Legal Adviser

Event Hotel Group

Advising on purchase of the 280-room Radisson Blu hotel and adjacent office building in Tallinn, Estonia

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Glossary of Terms

AVERAGE OVER PERIOD (AOP) – A simple mathematical method of evaluating the average value of a figure, index, or other numerical series generated over a defined period of time.

BUILT-TO-SUIT (BTS) – A way of leasing property, usually for commercial purposes, in which the developer or landlord builds to a tenant's specifications. The landowner pays for the construction to the specifications of the tenant, and the tenant then leases the land and building from the landowner, who retains ownership. Build to suit is frequently used by tenants who wish to occupy a building of a certain type but do not wish to own the building.

CLASS A – For the purposes of comparison, office, retail, and industrial space is grouped into three classes. Class A refers to the most prestigious buildings competing for premier office users with rents above average for the area. Buildings are typically characterized by high quality design and finishes, state of the art systems, exceptional accessibility and a definite market presence.

CLASS B – For the purposes of comparison, office, retail, and industrial space is grouped into three classes. Class B buildings are competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area. Building finishes are fair to good for the area and systems are adequate, but the building does not compete with Class A at the same price. Class B is usually subdivided into B1 and B2, with B1 having a slightly higher quality.

CLASS C – For the purposes of comparison, office, retail, and industrial space is grouped into three classes. Class C is the lowest classification. These are older buildings (usually more than 20 years old), are located in less desirable areas and are in need of extensive renovation. Architecturally, these buildings are the least desirable and building infrastructure and technology is out-dated. As a result, Class C buildings have the lowest rental rates, take the longest time to lease, and are often targeted as re-development opportunities.

CONSUMER PRICE INDEX (CPI) – An inflationary indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation. Also called cost-of-living index.

CORPORATE INCOME TAX (CIT) – A tax that must be paid by a corporation based on the amount of profit generated. The amount of tax, and how it is calculated, varies depending upon the region where the company is located.

DOUBLE TAXATION TREATY (DTT) – A bilateral agreement made by two countries to resolve issues involving double taxation of passive and active income. Tax treaties generally determine the amount of tax that a country can apply to a taxpayer's income and wealth.

EUROPEAN COMMISSION (EC) – Subsidiary of the European Union that handles enforcement of treaties made by the union, proposed legislation, and a variety of general executive actions.

EUROPEAN ECONOMIC AREA (EEA) – The EEA states consist of the members of the EU (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK) together with Iceland, Liechtenstein and Norway. In some instances, Switzerland is also included.

EUROPEAN UNION (EU) – A group of European countries that participates in the world economy as one economic unit and operates under one official currency, the euro. The EU's goal is to create a barrier-free trade zone and to enhance economic wealth by creating more efficiency within its marketplace.

FOREIGN DIRECT INVESTMENT (FDI) – An investment made by a company or entity based in one country, into a company or entity based in another country. The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture.

FREE ECONOMIC ZONE (FEZ) – Airport, seaport, or any other designated area for duty-free import of raw materials, components, sub-assemblies, semi-finished or finished goods. Such items can be stored, displayed, assembled, or processed for re-export or entry into the general market of the importing country (after paying the required duties). Also called free trade zone.

GROSS LEASEABLE AREA (GLA) – Total building area less unrentable area. Also, the amount of floor space that is designed for tenants' occupancy and exclusive use.

LOAN COVERAGE INDICATOR (LCI) – In corporate finance, it is the amount of cash flow available to meet annual interest and principal payments on debt, including sinking fund payments. In government finance, it is the amount of export earnings needed to meet annual interest and principal payments on a country's external debts. In personal finance, it is a ratio used by bank loan officers in determining income property loans. It is generally calculated by net operating income divided by total debt service. This ratio should ideally be over 1. That would mean the property is generating enough income to pay its debt obligations. Also called debt-service coverage ratio.

MONTH-OVER-MONTH (MOM) – A method of evaluating two or more measured events to compare the results at one time period with those from another time period (or series of time periods), on an annualized basis. Month-over-Month are changes in levels expressed with respect to the previous month.

PERSONAL INCOME TAX (PIT) – Tax paid on one's personal income as distinct from the tax paid on the firm's earnings. In an incorporated firm, the owners (shareholders) pay taxes on both their income (salary or dividend from the firm) firm's income (profits).

PRODUCER PRICE INDEX (PPI) – A family of indexes that measures the average change in selling prices received by domestic producers of goods and services over time. PPIs measure price change from the perspective of the seller.

SPECIAL ECONOMIC ZONE (SEZ) – Designated areas in countries that possess special economic regulations that are different from other areas in the same country. Moreover, these regulations tend to contain measures that are conducive to foreign direct investment. Conducting business in a SEZ usually means that a company will receive tax incentives and the opportunity to pay lower tariffs.

SPECULATIVE (SPEC) – Land development or construction with no formal commitment from the end users of the finished product. This is in Contrast with custom building, where the builder is under contract to produce a specific structure. The speculative builder anticipates that a demand exists or will form when the product is put on the market.

VALUE ADDED TAX (VAT) – A type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. Value-added tax (VAT) is most often used in the European Union. The amount of value-added tax that the user pays is the cost of the product, less any of the costs of materials used in the product that have already been taxed.

YEAR-OVER-YEAR (YOY) – A method of evaluating two or more measured events to compare the results at one time period with those from another time period (or series of time periods), on an annualized basis. Year-over-year figures report the changes in a year's worth of data, in comparison with the previous year. Any measurable events that recur annually can be compared on a year-over-year basis - from annual performance, to quarterly performance, to daily performance.

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