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BALTIC STATES AND BELARUS REAL ESTATE MARKET REVIEW

2011

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REAL ESTATE MARKET REVIEW

2011

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REAL ESTATE MARKET IS STABILIZING AND RECOVERING

DENISS KAIRANS

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2010 was challenging for all real estate market players in Latvia. It was an inevitable test for everyone. Those who have managed to survive, learned and adapted to the current market reality and will continue to operate and further develop in an easier Latvian real estate market.

Analyzing 2010 and forecasting 2011 there is one conclusion which can be said with certainty - the real estate market is stabilizing. Over the last year we saw a significant increase of transactions in each of real estate segments compared to 2009. The pipeline for 2011 is already comprehensible and positive trends which started in 2010 will continue this year as well. The market is open for new players and there is proved interest from new investors who see the potential in the current situation in Latvia. .

However, this stabilization doesn't necessarily mean that market is ready for active development and unsustainable growth. The full real estate cycle which started 6 - 7 years ago is still closing. The consequences of the crisis that Baltic economies experienced are severe. Whilst there will be high vacancy, low rental rates and prices per sqm, as well as a lack of financing from the banks, we will not see rapid market recovery. Banks will continue to play a controlling role in the Latvian real estate market by repossessing large portfolios of distressed assets.

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We hope that this Real Estate Market Review provided by Colliers International will present You with useful information and insights that You will find helpful in planning your real estate business activities.

We are happy to conclude that the Latvian Real Estate Market has passed the bottom of the cycle and is now on the way to recovery. The country is showing positive signs in key economic indicators that following suit in all real estate market segments. We believe that these tendencies will continue in 2011, leading to a more active, healthy and sustainable market.

We have seen that the first market segment to see development is good quality residential where demand is the strongest, stimulated by new law passed as of July 1, 2010. There are several projects already in the construction stage. However, developers have learned mistakes made during the crisis and are now more careful in planning, designing and marketing projects.

Economic Overview

"The latest Citadele Index study shows that entrepreneurs are continuing to become more optimistic concerning the economic development in Latvia. The index has grown by 7.57 points over the last two quarters of the year, and for the first time since the end of 2007, it has climbed above 50 points. That means that for the first time in the last 11 quarters, the mood of businesspeople can be described as optimistic."

Citadele, 22/09/2010

In 2003 - 2007 the Latvian economy expanded considerably, achieving Gross Domestic Product (GDP) growth of 11.9 per cent in 2006 and 10 per cent 2007 - the highest result among all European Union member countries.

In the wake of the global financial crisis and the exit of international finance, consumer spending power was significantly curtailed, leading to falling retail turnovers and a collapse in real estate values.

Like many parts of the world, the Latvian economy has gone through a very difficult recession in recent years. The government has responded with fiscal tightening and debt reduction in order to prevent the devaluation of the currency.

Key elements of the government's revised budget and economic restructuring program have included measures to restore confidence in the banking system and support to private debt restructuring. Additional fiscal measures have been introduced in an attempt to limit inflation and reduce government spending. Social policy reforms have also been introduced to rebuild competitiveness and create a more efficient government.

Thankfully, the first signs of economic stabilization appeared in 2010, mainly as a result of increased manufacturing and exports. Most market sentiments improved and GDP is now forecast to grow by 4 per cent in 2011 and 5 per cent in 2012.

According to the Finance Ministry, Latvia's projected GDP increase in 2011 could be one of the highest in the European Union. The Ministry of Economy's analysis shows that economic growth in Latvia is faster than previously expected. The economic situation is improving largely due to the increase of exports, and positive trends in the economy, felt first by the opportunities for export-related enterprises.

Latvia has also started to reform it's statutory and regulatory structures to create a more friendly business environment and re-opened the door to foreign investment. This has led to a ranking of 24th in the 2010 Annual World Bank's "Doing Business Report", an improvement on 27th place in the 2009 edition.

Comparing average consumer price changes in 2009 and 2010, the annual decrease in 2010 was 1.1 per cent. The VAT tax changes starting from January 1, 2011 will also have an influence on prices.

The rebound in investments in the second half of 2010, although anticipated, was stronger than expected. Activity of foreign investors has started to increase slowly. Together with inflows of new equity capital, reinvested earnings from foreign direct investment (FDI) were positive in the third quarter of 2010 for the first time in two years.

Standard & Poors has revised Latvia's country rating one notch upwards from "BB" to "BB+" - although this is still below investment grade, the revision shows the improvement of confidence. Further upgrades in the rating are expected in the first half of 2011, which will promote investments.

KEY ECONOMIC INDICATORS OF LATVIA

f – forecast
**-estimated figures*
***-figure for first 3 quarters of 2010*
Source: CSB of Latvia, SEB, Swedbank

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011f	2012f
GDP Current Prices, bln EUR	9.4	9.5	10.7	12.7	16.0	20.0	23.0	18.5	18.0*	19.1	20.5
GDP Growth (real), % yoy	6.5	7.2	8.6	10.2	11.9	10.0	-4.2	-18.0	-0.2*	4.0	5.0
Industrial Production, % yoy	8.4	9.1	8.9	5.6	4.8	-1.0	-8.3	-17.7	14.0	8.0	7.5
Unemployment Rate, % avg	8.2	8.2	8.2	7.1	6.5	4.9	7.0	16.0	14.3	12.6	9.3
Total Central Government Debt, % of GDP	13.5	14.4	14.5	12.5	10.6	9.7	10.5	15.8	19.2	19.4	n/a
PPI, % yoy	1.0	3.2	8.6	7.8	10.3	16.1	9.3	-8.0	8.0	n/a	n/a
CPI, % yoy	1.9	2.9	6.2	6.7	6.5	10.1	15.4	3.5	-1.1	3.4	2.4
Fiscal Deficit, % of GDP	n/a	-1.6	-1.1	-1.2	-0.5	-0.4	-4.2	-10.2	-8.2*	-5.8	-2.8
Current Account, % of GDP	-6.6	-8.1	-12.9	-12.4	-21.1	-23.8	-12.6	9.4	4.0*	-0.5	-2.5
FDI, mln EUR	262.3	252.2	491.3	583.2	1,308.7	1,697.0	607.0	36.0	284.0	350.0	350.0
Cumulative FDI, mln EUR	2,672.1	2,626.1	3,367.1	4,210.5	5,704.1	8,068.0	5,711.0	5,734.0	6,116.0**	6,280.0	6,650.0
LVL/EUR, aop	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.702804	n/a	n/a
LVL/USD, aop	0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.5	0.535000	n/a	n/a

FORECASTS

◊ The first convincingly positive signs in the economy were appearing in the second half of 2010, mainly as a result of increased manufacturing and exports. Market sentiments improved and GDP is now forecast to grow by 4 per cent in 2011 and 5 per cent in 2012.

◊ High consumer price inflation is expected in 2011, mostly due to VAT increases. SEB bank analysts estimate average CPI growth at about 3.4 per cent in 2011 and are keeping a 2.4 per cent forecast for 2012. They believe that such inflation is not yet damaging to competitiveness due to productivity improvements.

◊ Wages and salaries will stop shrinking both in the statistics and reality, as they will be adjusted to productivity. The share of wages „in envelopes" might increase. The number of part time workers will be significant and is unlikely to decrease soon. Struggle with the shadow economy is going to be one of the major challenges and tasks of the government.

◊ The average unemployment rate decreased from 16 per cent in 2009 to 14.3 per cent in 2010. Now contradictory trends are observed and in the coming years the situation is going to be challenging. As economic growth gains strength, the unemployment issue will become more prominent. Despite economic recovery, unemployment will still be high, workers will consider emigration in various forms and the employers will complain of the shortage of skilled workforce. Problems in workforce structure may be an ongoing issue and the solution should be found in the reform of education and the ability to educate the population according to the needs of the economy.

◊ Retail turnover may recover in 2011 when the country's financial situation becomes stronger, unemployment decreases, financing is relaxed and the population re-establishes confidence about the future.

Office Market

OVERVIEW

After severe economic decline in 2009, 2010 was the year of stabilization. Many companies have understood the new market realities and have found new ways of doing business in a challenging environment. Many companies that were able to overcome the difficult period of 2008 - 2009 are now able to plan ahead, and build strategic plans for next three-five years. They are thinking of hiring new staff, expanding and growing. This will eventually be reflected in increasing demand for office space and will have positive effect overall on the commercial real estate market. We are on the way to further recovery and growth.

In 2010 the Riga office vacancy rate dropped, almost 30,000 sqm of vacant A and B class office space was absorbed and rental rates have stabilized as well. This all indicates a positive trend which is expected to continue in 2011.

Additions to office stock were negligable in 2010 and no new major office developments are planned to be commissioned in 2011. This allows for further decreases in vacant office stock in the coming year, as the market continues to absorb it.

SUPPLY

As at January 2011 total speculative A and B class office stock in Riga has reached 355,000 sqm and the total A and B class built-to-suit stock amounted to 163,000 sqm. In total, the high class (A and B) office stock in Riga equalled 518,000 sqm.

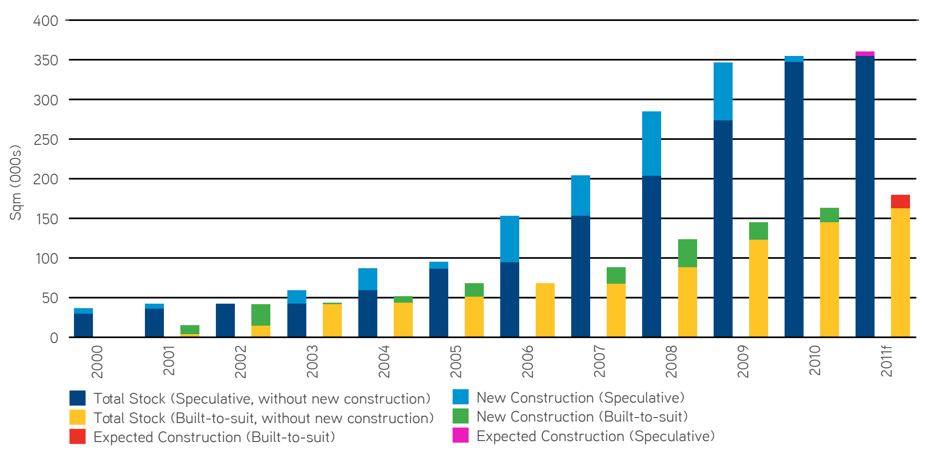
Most of the additions to the office stock in the 2010 were in the built-to-suit segment (17,733 sqm): DnB Nord Bank headquarters on Skanstes street, comprising 13,100 sqm of leasable space, and the administrative building of the Sanitary Transport Depot of Riga (STDR), comprising 4,633 sqm of leasable space were added to the stock. The only project that was added to the speculative office market in 2010 was Upenu Office Centre with total GLA 7,003 sqm. It has been overtaken by Ektornet Latvia, which is an SPV Real Estate Fund of Swedbank, from a financially distressed landlord.

Approximately 9,500 sqm of office stock GLA has been "frozen" during construction until there is clear demand from potential occupants for the project. It is expected only one new speculative office development to be commissioned in 2011.

The American Embassy project is due for completion in 2011 and this is the only project that is expected in built-to-suit segment.

DYNAMICS OF OFFICE SPACE IN RIGA

f - forecast



COMPLETED SPECULATIVE PROJECTS IN RIGA IN 2010

Class	Project Name	Address	GLA, sqm	Developer/ Owner
B2	Upenu Office Centre	G. Astras St. 1C	7,003	Tipo ipasums / Ektornet Latvia
Total			7,003	

COMPLETED BUILT-TO-SUIT PROJECTS IN RIGA IN 2010

Project Name	Address	GLA, sqm	Developer
DnB Nord Headquarter	Skanstes St. 12	13,100	Skanstes 12, Ltd.
Office Building of Riga Sanitary Transport Depot	Duntes St. 15A	4,633	Riga Sanitary Transport Depot
Total		17,733	

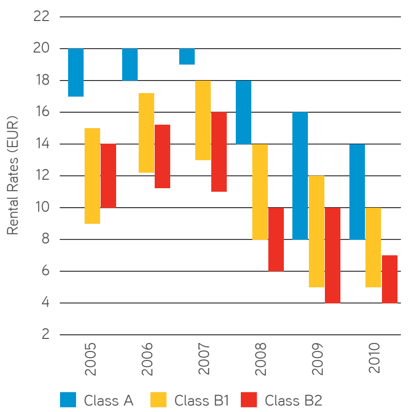
LIST OF NEW SPECULATIVE PROJECTS AND PROJECTS UNDER CONSTRUCTION IN RIGA

Project Name	Address	GLA, sqm	Developer/Occupant	Building status
Jupiter	Skanstes 7, Riga	5,693	Development Projects, Ltd.	Under construction
RIXPORT, 1st Office Building	Riga reg., Marupes distr., territory or Riga Airport	9,408	Rixport	Under construction, frozen
Total		15,101		

LIST OF NEW BUILT-TO-SUIT PROJECTS UNDER CONSTRUCTION IN RIGA FOR 2011

Project Name	Address	GLA, sqm	Developer/Occupant
American Embassy	Remtes St. 1	n/a	American International Contractors (Special Projects), Inc.
Total		n/a	

DYNAMICS OF RENTAL RATES IN RIGA



RENTAL RATES AND TRENDS IN RIGA

** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*
→→ - stable

Class	Rates	Trends for 2011
A existing	8 - 14	→→
B1 existing	5 - 10	→→
B2 existing	4 - 7	→→

DEMAND

During 2010 the demand for office premises in Riga business centres was growing in comparison to the inactive year before. After a year of downsizing, laying-off staff, cost cutting and survival, 2010 was a year of stabilization and recovery. A number of companies in 2010 have expanded their existing premises; and relocated to better quality premises by moving from inferior properties into modern office centres.

There was also demand from international outsourcing companies who have used favourable timing for tenants to enter the Riga market. For example, Regus, a multinational corporation which provides serviced office accommodation in business centres worldwide, has signed a lease for more then 1,000 sqm, with help of Colliers International in one of Riga's business centres.

In general, the most demanded size for office space are 200 - 500 sqm premises. Riga's historical centre locations are popular among smaller and mid-sized tenants, while larger companies occupying space of more than 500 sqm are considering offices outside of the historical centre of Riga, looking for open space, efficient solutions and low bills for maintenance.

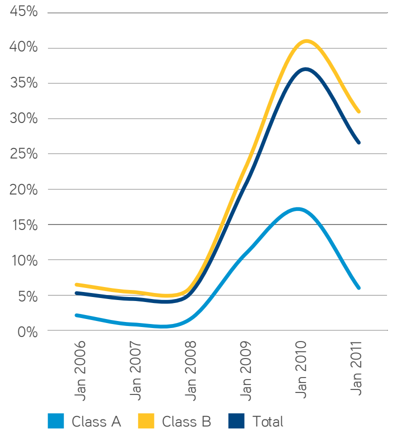
We expect continued growth in demand in 2011.

RENTAL RATES

In 2010, asking rents have stabilized. The worst period of rental rates decreases is over and stabilization is also expected throughout 2011. Once vacancy falls to sustainable levels of 5 - 10 per cent, rental rates will start growing. We expect the largest gap will be in A class premises, which already has a low vacancy rate, which might push the lower end of rental rates upwards in 2011.

Average asking rents in Riga remained stable throughout 2010 at EUR 8 - 14 per sqm in A Class buildings; EUR 5 - 10 in B1 Class and EUR 4 - 7 per sqm in B2 Class buildings. Rents are at their lowest levels since 2005 and are not expected to decrease in 2011. The majority of deals in the office segment were in the range of EUR 5 - 8 per sqm per month. Average operational and public utilities costs in business centres were around 2.0 - 2.5 EUR/sqm/month.

DYNAMICS OF VACANCY RATES IN RIGA



VACANCY RATES AND TRENDS IN RIGA

→↘ - *slight decrease*

Class	Rates in 2010	Trends for 2011
Class A	5.8%	→↘
Class B1	31.0%	→↘
Class B2	34.0%	→↘

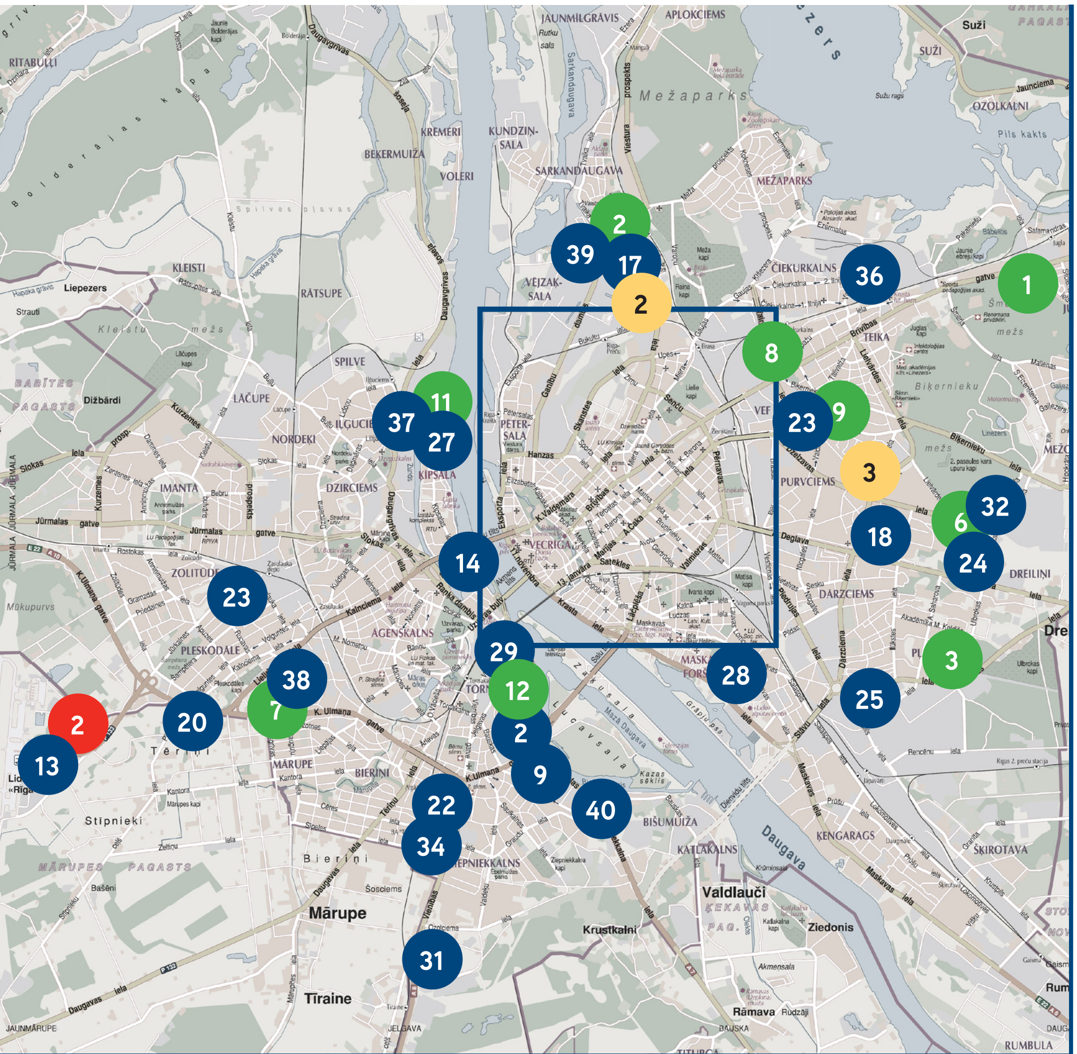
VACANCY RATES

Due to virtually no growth in office stock in 2010, combined with an improving overall economic environment in Latvia, which normally drives demand for office stock, the total vacancy rate in the market has declined. The office vacancy rate was 26.6 per cent as at January 2011 compared to 36.9 per cent 12 months earlier. Consequently, total vacant office supply has decreased from 128,000 sqm in the beginning of 2010 to 99,000 sqm at the year-end, which is a 23 per cent decrease or reduction of almost 30,000 sqm of office premises.

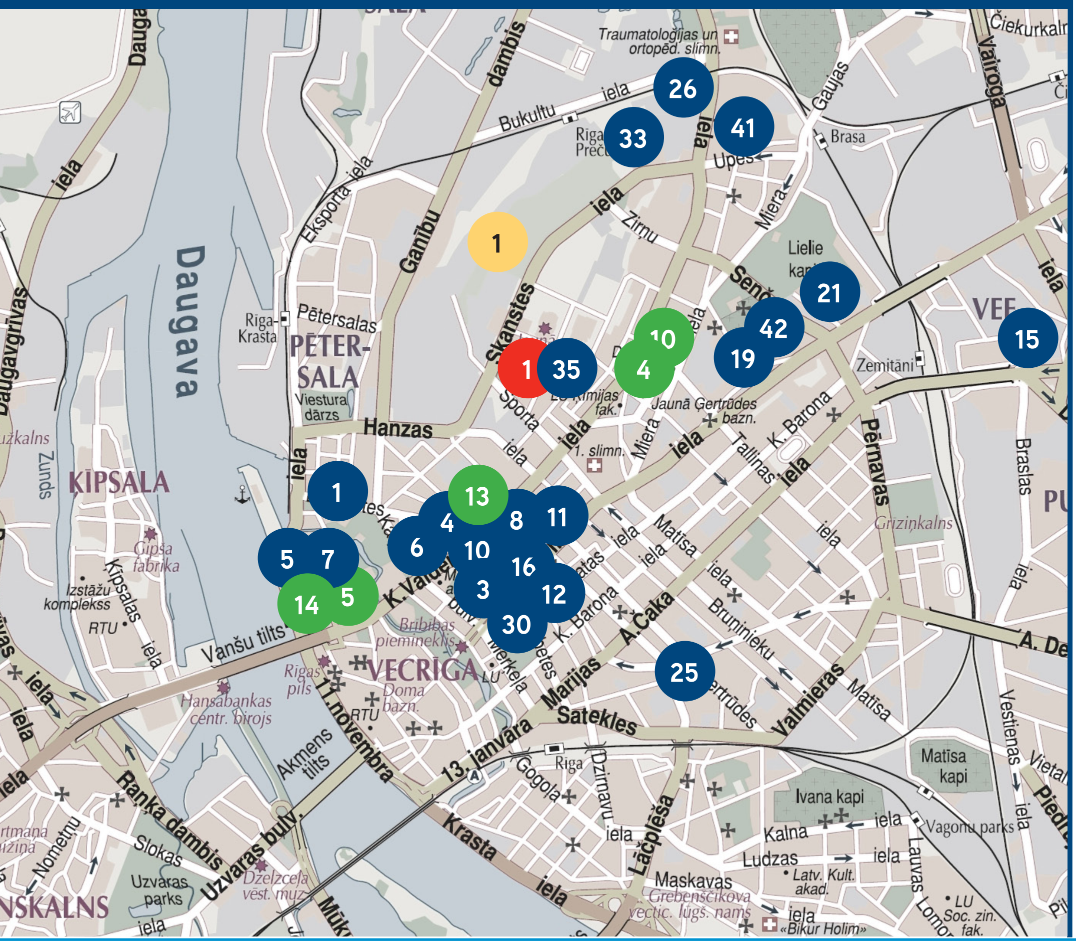
The take up was mostly driven by expanding companies and moving to better quality premises from C class offices and residential properties. A number of new international companies has also entered the market in 2010. One example is where Colliers International represented the interests of the tenant, a chemical and materials company, namely Cytec that has leased premises in the Europa Business Centre.

TENDENCIES AND FORECASTS

- The economic recession of Latvia that has started in 2008 has increased the competitive advantage of Riga for relocation or establishment of back offices, call centers, and shared service functions of international companies. With relatively low real estate costs, together with lower salaries and an educated workforce, Riga is emerging as one of the most attractive cities in the EU. Companies have explored this opportunity and many have entered Latvian market in 2010. It is anticipated that this tendency will continue in the next couple of years.
- Several large office deals took place in 2010 in the Riga office market. Large companies have chosen to use a favorable situation for tenants and were able to sign long-term lease agreements with landlords at favorable terms and conditions. As vacant stock will be gradually absorbed by the market, the number of such favorable opportunities will become limited.
- The vacancy rate in the Riga office market has dropped from 36.9 per cent to 26.6 per cent during 2010. In the case that the economy will continue to recover at the same pace, then vacant stock will continue to be absorbed within two-three years and vacancy rates will reach long-term sustainable levels.
- Regarding rental rates, as predicted, they were stable during 2010 and are expected to stay this way throughout 2011.
- A significant increase in supply is not forecasted in 2011. Several office centers are "frozen" and may be resumed in 2011. There is expected to be limited development, but no significant increase in office stock is forecasted within next 2 years.
- A balance in the office market supply and demand can be sustained in next two-three years when there will be a right time for adding new office supply to the stock.



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 Str. 12
6. Eirkel BC
7. Kronvalda bulvaris 3
8. Gertrudes Centrs, Baznicas 20/22
9. Valdo Office Complex
10. Dominante Office Building
11. Gertrudes Centrs, Gertrudes 10/12
12. Terbatas Centrs, Terbatas 30
13. Helio Biroji
14. Swedbank HQ
15. Domina Office Centre
16. Terbatas BC
17. Marine BC
18. Astras Biroji
19. North Gate , 1st/2nd stage
20. Baltais Vējš
21. Brivibas 171 Office Building
22. Office Centre at Vienibas St. 87H
23. NTP BC
24. PBLC BC
25. Modern City
26. Duntes Nami
27. Office Complex "Ostas skati"
28. Gredu 4a BC
29. Mukusalas BC, 2nd stage
30. Office Centre at Terbatas 14
31. Torensberg
32. Dzelzavas Biroju Nams
33. SWH BC
34. Unity BC
35. Rietumu Capital Centre
36. Reaton Office Building
37. Magnat Business Centre
38. Panorama Plaza
39. Indi Centrs
40. Upmalas Biroji
41. Duntes Biroji
42. Barons Kvartals

Completed in 2009

1. ASU Centre
2. O'Live BC
3. Lubanas Centrs
4. Valdemāra Pasāža
5. Muitas 1 Office Building
6. Dzelzavas 120 Office Building
7. Zuma Biroji
8. Europa BC
9. Tomo BC
10. Alojas BC
11. Office Complex "Ostas Skati", 3rd stage
12. Office Complex Mukusalas 41
13. Zaļā 1 Office Building
14. Citadele Bank Headquarter

Completed in 2010

1. DnB Nord HQ
2. Office Building of Riga Sanitary Transport Depot
3. Upenu Office Centre

Projects Under Construction

1. Jupiter (under construction)
2. RIXPORT 1st Office Building (under construction, frozen)

Retail Market

OVERVIEW

The Latvian retail market had finally seen positive movements in 2010 after more than two years of negative trends. During the first three quarters of 2010, real net wages in Latvia grew by nearly 1 per cent and employment by about 3 per cent since the end of 2009 (seasonally adjusted). Based on Swedbank's economic research, residential household deposits started to diminish in the second half of 2010. Along with a rise in consumer confidence this suggests that households increasingly chose to spend rather than save. This assumption is supported by the fact that retail trade turnover has been growing somewhat faster than incomes (up by about 8 per cent in constant prices during the same period). All these factors considered, the indications point to an optimistic outlook for the retail market segment in the next years.

Notably, 2010 saw the opening of Galleria Riga shopping centre, with a number of outlets that were not previously presented in the Latvian retail market.

Vacancy rates in successful shopping centres and in top high street locations have decreased in 2010 due to improved interest in these locations from potential tenants. Vacancy rates in shopping centres that have problems with accessibility, concept or management continued to increase.

Colliers International noticed slight increases in rent rates for quality retail premises in excellent locations. Tenants still hoped for rent discounts in 2010, however, landlords were not as flexible as they were in 2009.

SUPPLY

As of January 2011 the total shopping centre supply in Riga amounted to 614 thousand sqm. In 2010 the total supply of retail premises in shopping centres has increased by 29,700 sqm of GLA, largely due to the opening of Galleria Riga - a multiple (7) floor shopping centre that includes more than 100 shops, several restaurants, cafes, bars an ice skating rink on the roof terrace and underground parking with 120 lots.

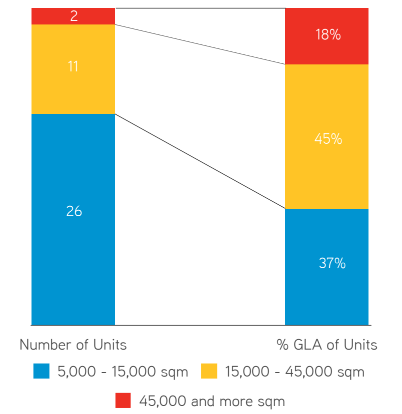
Three retail projects with total GLA of 27,700 sqm will be commissioned in 2011: A shopping centre developed by Homburg Group in Zolitude, the shopping centre Damme developed by Rimi Latvia and Hypermarket Prisma, both located in Imanta. All three retail objects will be located in dense residential neighbourhood districts and will have grocery supermarket as anchor tenants: Maxima, Rimi and Prisma respectively.

Larger scale shopping centre developments have been postponed, until the market situation improves.

DEMAND

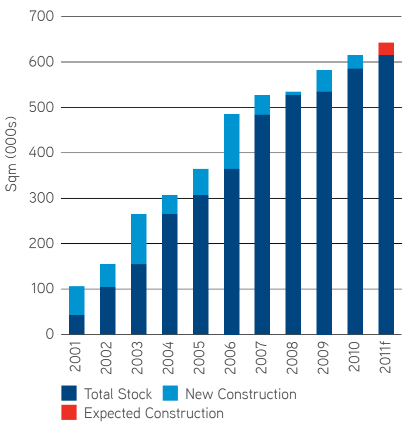
Demand for retail premises in the most popular and successful shopping centres is stable, however less successful shopping centres are experiencing problems in tenant demand. Tenants are very careful in choosing the premises for rent, they evaluate existing performance of a shopping centre and it's potential for improvement in customer flow growth. Tenants prefer to be in those

DISTRIBUTION OF RETAIL SPACE IN RIGA BY SIZE



RETAIL SPACE DYNAMICS IN RIGA

f - forecast

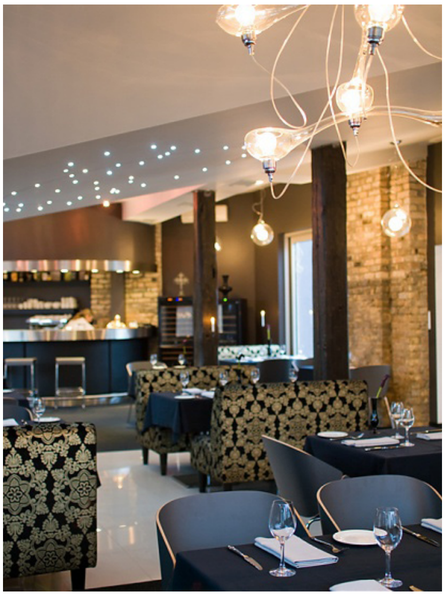


COMPLETED PROJECTS IN RIGA FOR 2010

Project Name	Address	GLA, sqm	Developer
Galleria Riga	Dzirnavu St. 67	29,700	Patollo
Total		29,700	

LIST OF NEW PROJECTS IN RIGA FOR 2011

Project Name	Address	GLA, sqm	Developer
Homburg Group Shopping Centre, 1st stage	Priedaines St. 20	5,000	Homburg Zolitude
Rimi Shopping Centre DAMME	Kurzemes Ave. 1A	15,000	Rimi Latvia
Prisma Hypermarket	Kurzemes Ave. 3	7,700	Imanta Retail Park
Total		27,700	



shopping centres that have the highest customer flow and average expenditure per purchase. At the same time, the landowners of the most successful shopping centres are also becoming "picky" and choose the most interesting and attractive tenants in line with the overall concept of the store.

Most of the newcomers to Riga market in 2010 have opened premises in newly opened Galleria Riga: such as Piazza Italia, Italiarredo, Assos, Home Fashion, Mon Cheri, Viviana Conti, and Deha are represented in this centre.

Many small cafeterias expanded their chains in 2010 and will continue doing this in 2011. In general, the catering business was active in 2010: several restaurants and public eating places were looking for expansion possibilities.

The street retail segment was also rather active in 2010. The demand for street retail was high for the top street locations throughout 2010 and this trend is forecasted to continue in 2011. The most desirable street retail locations were in Terbatas and Barona streets. Riga's main street, Brivibas, was also an attractive retail location, especially on it's central stretch. Other appealing retail locations were in Gertrudes, Dzirnavu, Marijas and Chaka streets. However, supply of vacant premises in these streets is becoming scarce as premises are being taken up. The most popular tenants are in catering business - a number of new cafeterias and bakeries have opened in Riga's streets.

RENTAL RATES

Asking rent rates in shopping centres remained rather stable in 2010 as the largest corrections took place a year earlier. Small retail units with up to 100 sqm show the highest demand. Rental rates for small units vary from EUR 20 to 40/sqm/month. Asking rates for anchor tenants are EUR 3 - 9/sqm/month.

Schemes where rent is not fixed but is paid as a percentage of turnover have gained further popularity in 2010, particularly in the newly opened Galleria Riga. Tenants are continuing to negotiate lease terms and asking for rent discounts, however landlords are not as flexible as they were a year ago in providing discounts. Landlords were not ready to sign agreements with discounted rent for more then 1 - 2 years and in 2011 the period of discounts will be over, it will be time for new round of negotiations.

Street retail rent rates remained stable during 2010 as the largest decreases took place a year earlier.

VACANCY RATES

During 2010 the vacancy rate in Riga shopping centres saw some fluctuations: in the beginning of 2010 the vacancy rate was 9.6 per cent before falling to 6.4 per cent by mid-year due to strong take-up in the first half of 2010, such as Multikino in Riga Plaza shopping centre. Vacancy has increased again to 9.4 per cent towards the end of the year due to the opening of Galleria Riga with vacant space.

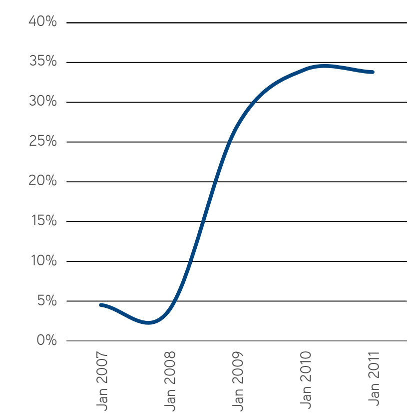
In general vacancy varies from 0 per cent to 40 per cent depending on how successful the concept of shopping centre is, its location, accessibility and the management team.

VACANCY RATES AND TRENDS IN RIGA

→↘ - *decrease*

City	Vacancy as at January 2010	Vacancy as at January 2011	Trends for 2011
Riga	9.6%	9.1%	→↘

VACANCY RATES DYNAMICS IN RIGA SHOPPING CENTRES



RENTAL RATES AND TRENDS IN RIGA SHOPPING CENTRES

** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*

→→ - stable

Unit Size	Rates* in 2009	Rates* in 2010	Trends for 2011
Large retail unit (anchor tenants)	5 - 7	3 - 9	→→
Medium retail unit (150 - 350 sqm)	10 - 25	15 - 25	→→
Small retail unit (up to 100 sqm)	16 - 40	20 - 40	→→

STREET RETAIL RENTAL RATES AND TRENDS IN RIGA

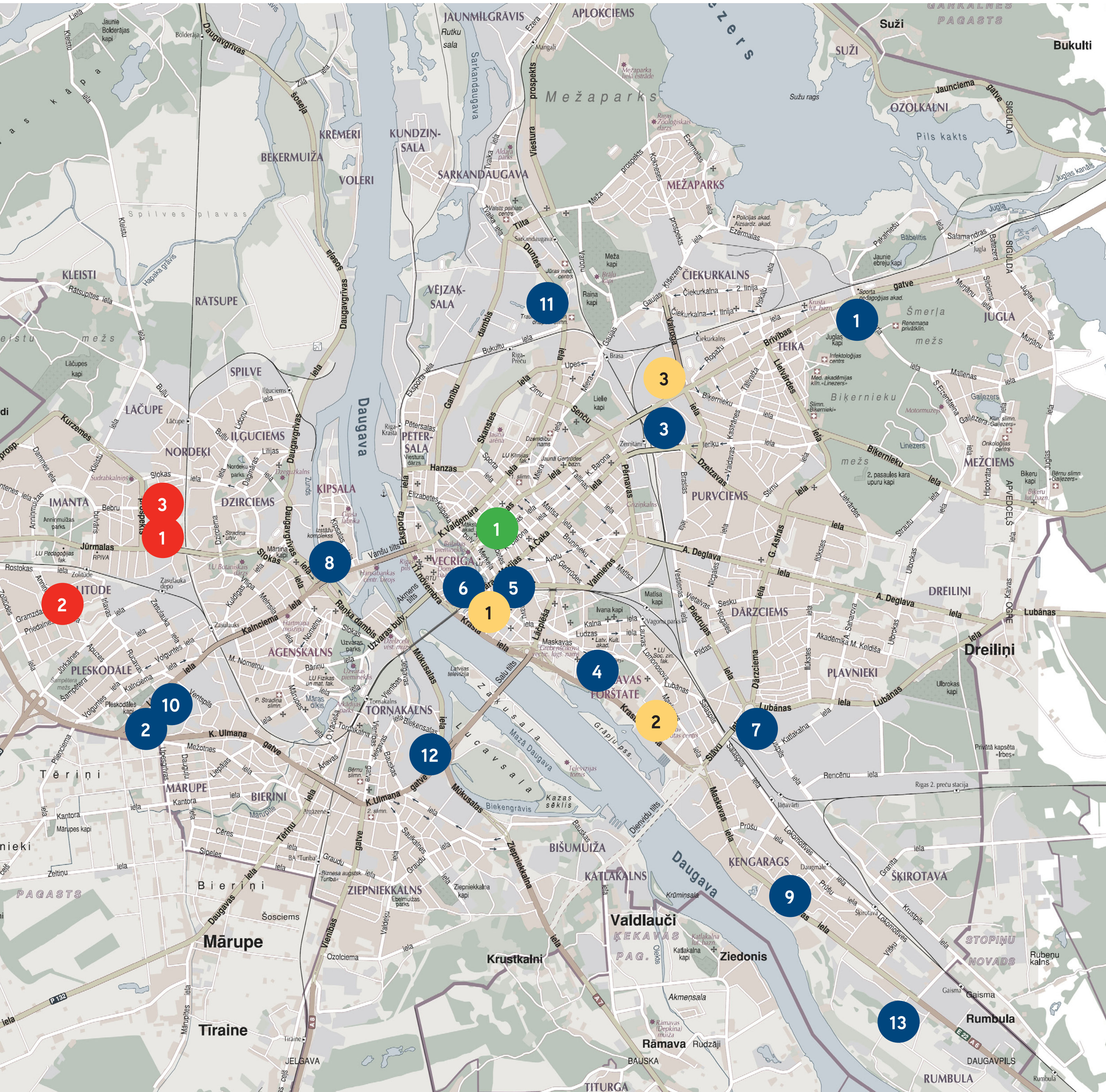
** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*

→↗ - slight increase

City	Location	Rates* in 2009	Rates* in 2010	Trends for 2011
Riga	Kr. Barona, Raina Bvld, Brivibas, Gertrudes	10 - 30	10 - 30	→↗
Riga	Old Riga	7 - 25	7 - 40	→↗

TENDENCIES AND FORECASTS

- Household consumption, as forecasted by Swedbank economists, is expected to grow by 2.5 per cent in 2011 and 4.5 per cent in 2012. The forecasts are moderate due to the fact that household consumption will be undermined by tax increases and higher inflation over the next years.
- As the unemployment will continue its fall through 2011 consumer confidence will increase. Household consumption is also expected to pick up, leading to improvement in retail market indicators, such as rent rates and vacancy.
- Rent rates are forecasted to remain stable or show slight increase as economic growth picks-up. The period of discounts provided several years earlier is expected to end in 2011.
- The demand for street retail will remain high on the high street locations and in leading shopping centres.
- The vacancy rate is expected to decrease slightly due to overall market recovery and a limited increase in retail stock.
- The latest forecasts from Experian suggest that Latvia is set to see domestic demand grow in excess of 50 per cent over the ten-year period, which will support strong retail sales growth in the market.
- First two “Cash and Carry” retail projects will be opened in Latvia (in Riga and Valmiera) in 2011. This has become possible due to changes in legislation. “Cash and Carry” is a form of trade in which goods are sold from a wholesale warehouse operated either on a self-service basis, or on the basis of samples. Customers settle the invoice on the spot in cash, and carry the goods away themselves.



SHOPPING CENTRES IN RIGA

Existing Developments

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

Completed in 2010

1. Galleria Riga

Existing Department Stores

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

Declared for Completion in 2011

1. Rimi Shopping Centre DAMME
2. Shopping Centre of Homburg Group
3. Prisma Hypermarket

Industrial Market

OVERVIEW

The industrial market in Latvia has been the slowest market sector to recover; during 2010 it was the least active of all the commercial real estate segments. The vacancy rate remained effectively unchanged; and additions to the total industrial stock were only added by built-to-suit project. Companies continued to renegotiate leasing terms and used the opportunity of a weak market to relocate to better quality premises. Downward pressure on rental rates has continued throughout 2010.

Another tendency observed in 2010 is that the companies have started to reject the idea of having their own warehouse facilities and started using the services of "outsourcing" companies, such as DSV and Schenker that provide services in logistics, warehousing and distribution.

SUPPLY

The total stock of modern warehouse space in Riga and its suburbs amounted to 477,000 sqm by the end of 2010. The stock increased over the year by 15,000 sqm of build-to-suit GLA, which was leased to Kuehne + Nagel in Maykel Business Park. No speculative warehouse projects were put into commission during 2010.

All other projects (such as the NCC, VGP in Kekava and Vecinku Logistics Park warehouses) have been postponed indefinitely: the time of completion is hard to predict.

There will be little addition to the industrial stock in 2011: a speculative industrial project at Plienciema Street 16, comprising 3,000 sqm will be commissioned during the year.

DEMAND

Despite the fact that throughout 2010 the overall demand for industrial space was slow, a number of large deals in this segment took place. For instance, a distribution and logistics company Sanitex JSC has leased almost 13,000 sqm in Roņu ieleja 2 centre with help of Colliers International. Atlas SIA, has signed a lease agreement for almost 10,000 sqm in the premises at Lubanas 76.

As companies are becoming more keen to use the services of third-party logistics (3PL) companies there is increased demand for warehouse space from companies that provide a one-stop shop service to its customers of outsourced (or "third party") logistics services for part, or all of their supply chain management functions.

The market saw that companies have started thinking about expansions, but the result of signed lease transactions will not be evident for another 12 - 18 months.

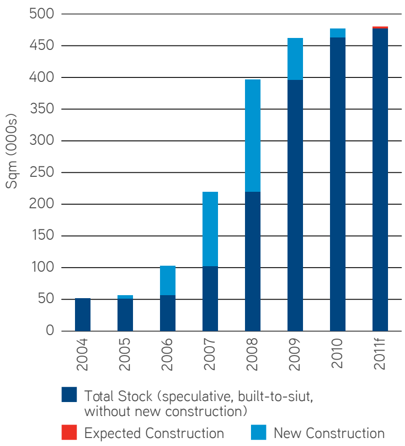
RENTAL RATES

Rental rates in the Latvian warehouse market have seen further divergence between classes. A Class warehouse space has seen slight rental rate growth in its lower margin, while lower class warehouses have continued to diminish, reaching historically low levels.

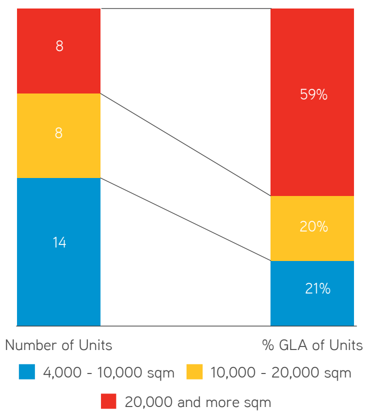
Looking into 2011, we expect a slight upward correction in rental rates in A class warehouses but we do not anticipate notable increases in rents over the year, with occupiers likely to wait and see how the economic recovery pans-out before committing to immediate expansion. We do, however, expect corporate occupiers to commit to future space via pre-lets -

DYNAMICS OF A AND B CLASS WAREHOUSE SPACE IN RIGA

f - forecast



DISTRIBUTION OF A AND B CLASS WAREHOUSE SPACE IN RIGA AND RIGA'S DISTRICT



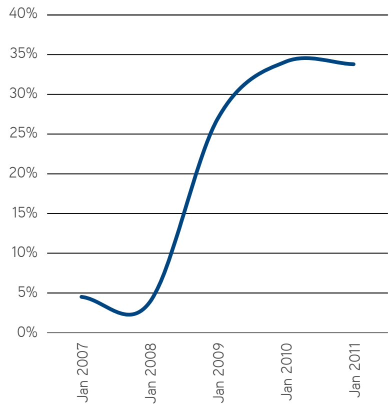
LIST OF COMPLETED PROJECTS IN RIGA AND RIGA REGION FOR 2010

City	Project Name	Type	GLA, sqm	Developer
Sauriesi	Maykel Business Park	Speculative	15,000	Carn Holdings
Total			15,000	

LIST OF NEW PROJECTS IN RIGA REGION FOR 2011

City	Project Name	Type	GLA, sqm	Status	Developer
Marupe	Plienciema 16	Speculative	3,000	Planning	Plienciema 16
Total			3,000		

DYNAMICS OF VACANCY RATES OF WAREHOUSE SPACE IN RIGA AND RIGA'S DISTRICTS



agreements which will allow them to both customise their end product and negotiate advantageous lease terms.

VACANCY

The Vacancy rate in 2010 has decreased (just slightly) by 0.3 percentage points. Vacancy did not decrease significantly due to slow take-up and insufficient market activity.

TRENDS AND FORECASTS

◊ As the economy will continue its recovery, so to will the logistics and industrial sector. Its revival may be slower than other commercial real estate sectors.

◊ Colliers International has already seen increased interest from companies in expanding their premises, though the process of relocation. Negotiation is longer among these market players then as is the case in the office sector, thus, the signing of lease transactions will take place in around 12 - 18 months.

◊ From the Baltic perspective, Latvia is in a superior position compared to Lithuania and Estonia, as these markets are close to saturation with low vacancy rates and limited offers.

◊ We also see an increase in interest for industrial land and industrial premises, as new operators are looking to enter Latvia for production operations.

ASKING RENTAL RATES AND TRENDS

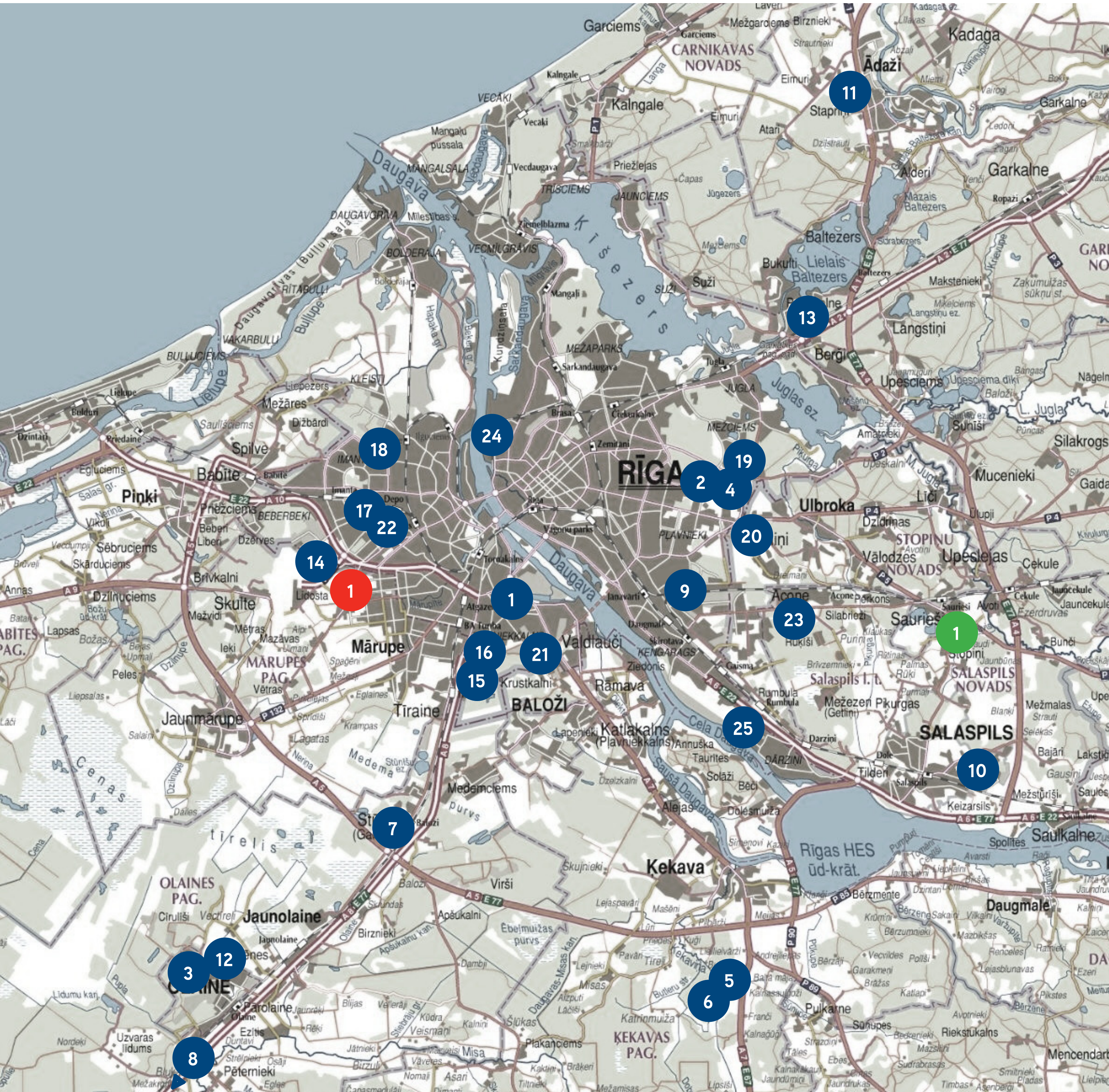
** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*
→→ - stable

Riga, Riga district	Rates* for 2009	Rates* for 2010	Trends for 2011
A class	2.0 - 4.0	2.7 – 4.0	→→
B class	2.0 - 5.0	1.5 - 3.5	→→

VACANCY RATES AND TRENDS

→↘ - slight decrease

Region	Rates in 2009	Rates in 2010	Trends for 2011
Riga and Riga District	34.1%	33.8%	→↘



HIGH CLASS SPECULATIVE AND BUILT-TO-SUIT PROJECTS IN RIGA DISTRICT

Existing Developments

1. Valdo Logistikas Komplekss
2. Riga Industrial Park, 1st and 2nd phase
3. Nordic Industrial Park in Olaine
4. Riga Industrial Park - PBLC Bussines Center
5. Dominante Park
6. Roņu ielēja 2
7. Dommo biznesa parks, 1st stage, 1st building
8. Eirkel Bussines Park, 1st & 2nd phase
9. Rolands S Warehouse Complex, 1st and 2nd stages, Rencenu St.
10. Wellman Logistics Center, 1st stage
11. Lauki Warehouse Complex, new building
12. Olaines Logistic Park, 1st phase
13. Logistics Center Bergi
14. Elipse-BLC Logistic and Distribution Center
15. Ritausmas St. 23 Industrial and Office Building
16. Business and Logistics Centre Ritausmas Centrs
17. Nordic Technology Park
18. Biznesa parks ABAVA
19. B&S Warehouse
20. Izoterms
21. DLW
22. NP Business Center
23. LE/ROM Business Center
24. Man Tess
25. Maskavas iela 462 Warehouse Complex, 1st and 2nd phases

Completed in 2010

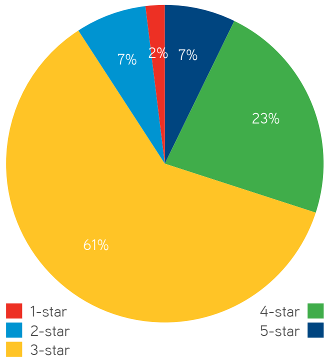
1. Maykel Business Park

Declared for Completion in 2011

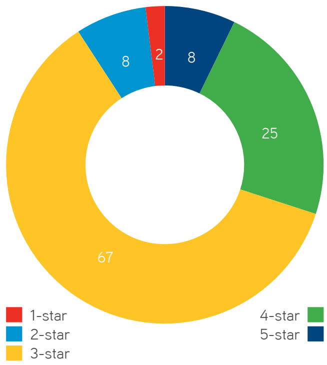
1. Project at Plienciema 16

Hotel Market

DISTRIBUTION OF LATVIAN HOTELS BY NUMBER OF STARS



DISTRIBUTION OF LATVIAN HOTELS BY NUMBER OF STARS



OVERVIEW

The Latvian hospitality market has reached it's bottom during 2009 and first signs of market recovery were evident in 2010. The number of incoming visitors and visitor nights spent in Latvian accommodation establishments has increased in 2010 by 18 per cent relative to the previous year, the occupancy rate has improved and the outlook for the lodging industry is bright.

One of the major events that took place in 2010 was the partnership agreement signed between the Rezidor Hotel Group and Norwegian real estate developer Linstow for the management of 10 Reval hotels in the Baltics and in Russia. The joint venture agreement includes three hotels in Riga, two hotels in Tallinn, two hotels in Vilnius, and three hotels in the cities of Kaunas, Klaipeda and St. Petersburg. The new hotels in Riga are operated under Radisson BLU brand. This positive trend will potentially benefit all market players in terms of greater stability.

Several distressed hotels were repossessed by banks or banks' SPV companies during 2010. These properties will be either sold to new investors or new hotel brands will be attracted to operate them under management agreement.

Just one hotel (256 rooms) was opened in Riga in 2010, thus the supply has changed insignificantly. Hotel development is expected to be rather limited over the next two years.

SUPPLY

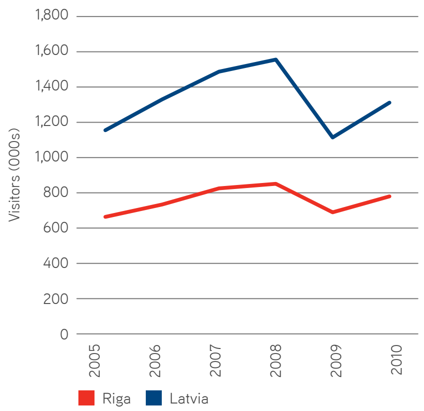
As of January 2011, Latvia has 110 officially rated and certified hotels with a total of 6,712 rooms. Riga hotels account for over 70 per cent of Latvia's total room supply. 3-star hotels dominate Latvia's hotel market in respect to both number of hotels and total room supply, comprising 60.9 per cent and 46.6 per cent respectively. In Riga, 4-star hotels provide the market with the largest number of rooms (46 per cent) while more than half of all hotels in Riga are 3-star (55 per cent). During 2010 just one Tallink Hotel Riga with 256 rooms located near Riga Central Train Station was put into commission, which is similar to the increase in 2009 when several smaller boutique type hotels were opened in Riga's Old Town.

No new hotels are planning to be opened in Riga in 2011, however 3-star hotel Karavella will be renovated and refurbished during the year. The 30-storey Z Towers project, where one of the towers will be Sheraton Hotel, is under construction and expected to be commissioned in January 2014.

Marriott Hotel project with 200 rooms is at the planning stage and can theoretically be commissioned in three or four years time.

VISITOR DYNAMICS IN ACCOMMODATION ESTABLISHMENTS

Source: Central Statistical Bureau of Latvia, Colliers International



NUMBER OF RATED HOTELS AND ROOMS IN LATVIA AND RIGA AS AT JANUARY 2011

Source: Central Statistical Bureau of Latvia, Colliers International

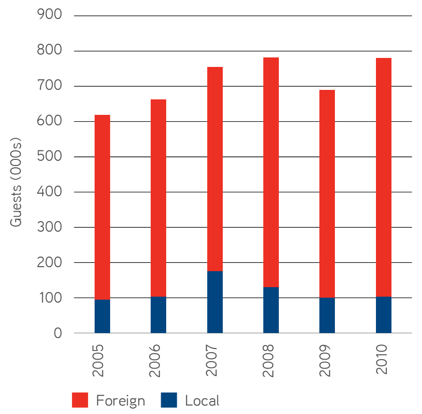
Stars	Latvia		Riga	
	Number of Hotels	Number of Rooms	Number of Hotels	Number of Rooms
5-star	8	735	7	693
4-star	25	2,549	16	2,192
3-star	67	3,130	33	1,709
2-star	8	253	2	117
1-star	2	45	2	45
Total certified	110	6,712	60	4,756
Non certified	111	2,701	31	1,201
Total	221	9,413	91	5,957

COMPLETED PROJECTS IN RIGA IN 2010

City	Stars	Project Name	Address	Number of Rooms	Operator
Riga	4-star	Tallink Hotel Riga	Elizabetes 24	256	TLG Hotell

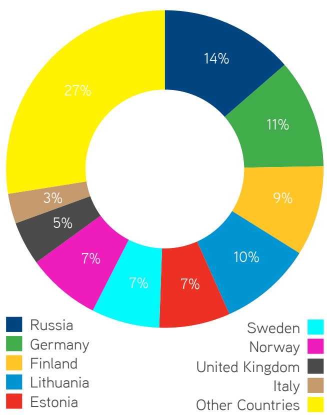
DISTRIBUTION OF FOREIGN AND LOCAL GUESTS IN RIGA ACCOMMODATION ESTABLISHMENTS

Source: Central Statistical Bureau of Latvia



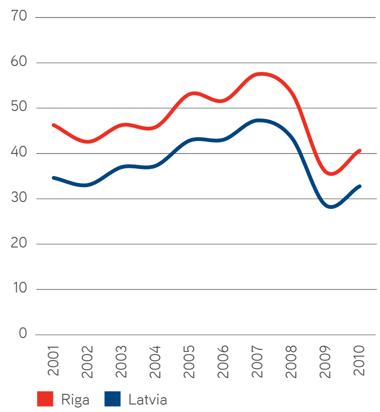
DISTRIBUTION OF FOREIGN VISITORS BY COUNTRY IN LATVIAN ACCOMMODATION ESTABLISHMENTS

Source: Central Statistical Bureau of Latvia



DYNAMICS OF AVERAGE ROOM OCCUPANCY RATE IN ACCOMMODATION ESTABLISHMENTS

Source : Central Statistical Bureau of Latvia, Colliers International



DEMAND

In 2010 the Latvian tourist market has seen an 18 per cent increase in visitors staying in accommodation establishments compared to 2009, a total of 1.312 million (2009: 1.114 m). This is a clear sign of market recovery and stabilization. The worst period of economic recession is over and the outlook for Latvian hospitality industry is bright.

In Riga 780,000 visitors stayed in accommodation establishments in 2010 (2009: 689,000), which is a 13 per cent increase. As the economies of Western European countries recover from recession, travel has increased and Riga is benefiting from this trend.

Foreign guests make up the majority of hotel visitor numbers, comprising 66.9 per cent of visitors to Latvia and 86.8 per cent in Riga. Local tourists dominate numbers in the low-end accommodation segment while foreign visitors prefer to stay in 3–5 star hotels.

The number of tourists from nearby Russia has increased significantly in 2010 (by 65 per cent), reaching 14 per cent of the total (8.9 per cent in 2009), becoming a major tourist country. This is due to very unpleasant weather conditions in Moscow caused by forest fires in the summer and overall warmer political climate with the neighbouring country. Among other countries that are traditionally popular for visiting Latvia are Germany (11 per cent), Lithuania (10 per cent), and Finland (9 per cent).

PRICES

Despite an increased number of tourists and the positive dynamics of Latvian lodging industry, the prices for hotel rooms did not increase significantly during 2010, but remained stable. Hotels continued to compete on prices to attract guests, thus the downward pressure on prices did not diminish. During 2010 the average weighted room price per standard double room in Riga's 5-star hotels was around EUR 150 per night, twice the average price in a 3-star hotel.

OCCUPANCY

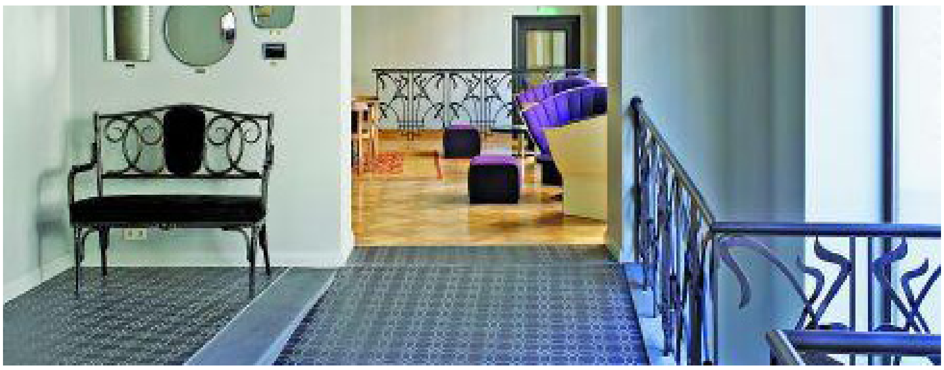
The hotel occupancy rate reached the bottom in 2009 after showing historically low levels and grew during 2010. The average rate in 2010 was 32.8 per cent in Latvia overall and 40.6 per cent in Riga.

However, well-established, professionally-operated hotels in the upper class segment outperform the market average and show consistently higher occupancy rates.

Colliers International estimates that in 2011 the occupancy rate will continue its positive trend and will continue to grow along with to overall improvement in "Old Europe" economies as well the undertakings of local organizations, such as LIAA in promoting Latvia abroad.

PRICE RANGE FOR STANDARD DOUBLE HOTEL ROOMS IN RIGA

Stars	Minimum Room Rate, EUR	Maximum Room Rate, EUR	Average Room Rate, EUR
5-star	100	250	140 - 150
4-star	50	100	70 - 75
3-star	25	70	50 - 60



TRENDS AND FORECASTS

◊ Demand for services of accommodation establishments will improve among both foreign and domestic tourists in 2011.

◊ Average occupancy rates in accommodation establishments in both Riga and Latvia are expected to continue their positive trends in 2011.

◊ Smaller, family operated hotels will continue to experience difficulties in the next year and there is a chance that some of them will become the properties of the banks that have financed them.

◊ More international hotel brands are starting looking at the Riga hotel market and there is a chance that new hotel brands will enter the market.

◊ The hotel investment market is expected to pick up in 2011 with several hotel transactions to take place.

◊ Efforts undertaken by Riga municipality, AirBaltic airlines, and the Association of Latvian Hotels and Restaurants to increase the popularity of Riga and Latvia through LIVE RIGA and other programmes had a positive effect on the tourism industry in Riga and Latvia in 2010 and the trend will continue in 2011.

◊ The tourism industry in Riga and Latvia is strongly affected by airport activities. Successful implementation of Riga airport expansion plans to reach annual capacity of 20 million passengers in the next decade will favour development of the tourism and hotel industries.

Upscale Residential Market Highlights

- As of July 1, 2010, Latvia has passed a new regulation providing additional opportunities for foreigners to obtain a temporary residence permit in Latvia without the need to reside in the country for a specific period of time.
- According to the newly adopted provision, one way a foreign natural person may obtain a temporary residence permit, is by acquiring real estate in Riga or in one of the other main cities of Latvia worth EUR 142,300 or EUR 71,200 respectively.
- The given regulation has encouraged demand for apartments in Riga central areas and Jurmala - a resort city on the shore of the Baltic sea, mainly from Russia and other Independent States Union countries.
- As at the end of 2010, 55 investors (with family members 121) received Residence permits (30 per cent of them through real estate investment).
- Foreign buyers are mainly interested in high-quality, renovated or newly built apartments, with developed infrastructure located in the Riga central and prestigious areas, such as the "embassy area", Riga historical centre, the Old Town and Jurmala;
- Typical demand is for apartments with full interior decoration, 3 - 4 rooms with total area of 80 - 120 sqm and a parking space.
- However, the supply of such apartments is limited and there is shortage of quality products in the market, thus, we anticipate increased activity in development of luxury residential projects, both in Jurmala and the Riga historical centre.
- In general, in the Riga residential market a stabilizing trend was observed during 2010. The lowest level in terms of price was reached in 2009.
- Buyers are still price sensitive and evaluate the quality, location and management of the property before making the decision to acquire real estate.
- Activity registered in the Land Book transactions has increased by 14.5 per cent in comparison with 2009. One of the influencing factors are banks have been repossessing properties from distressed landowners.
- An increase in the number of transactions registered in the Land book indicates that the residential market is on its way to recovery and stabilization.
- The majority of transactions in the residential segment took place in secondary markets among local residents.
- During 2010 Nordea Bank has issued the majority of mortgages for newly built apartments. Average loan term is 3 months EURIBOR + 3 per cent.
- More than half of the transactions in the residential market are made without bank financing by using equity and savings.

Latvia Legal Overview

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 (eg, 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.

ACQUISITION OF REAL ESTATE

General

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

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

Change of Ownership

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

Asset Transfer vs Share Transfer

Asset deals and share deals relating to real estate are both commonly used in practice.

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.

Asset transfer involves the following 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.

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 of the agreement is not Latvian, a translation of the agreement approved by a notary and an original counterpart of the agreement must be

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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 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 constructed on it are in different ownership, the owner of each property has a right of first refusal over the other owner's property if it is sold to a third party.

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

TYPICAL PURCHASE PRICE ARRANGEMENTS

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

RELATED COSTS

Sharing of costs related to the transaction 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.

State duty for registration of title to real estate amounts to 2 per cent of either the real estate purchase price or the cadastral value of the real estate, whichever amount is higher. Nevertheless, state duty may not exceed LVL 30,000 (approx EUR 42,700). Stamp duty for registration of title and issue of a Land Book certificate is LVL 15 (approx EUR 21). Notary fees for drafting the registration application to the Land Book and approving the parties' signatures amount to LVL 65 (approx EUR 92).

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.

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

◊ more than 50 per cent 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 per cent 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 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 2011 (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 25.6 million) for the financial year preceding the merger; or

◊ joint market share of the companies exceeds 40 per cent of the relevant market.

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

MORTGAGE

Purchase of real estate is often financed by banks, which require security in the form of a mortgage in return for the bank loan. As any other encumbrance on the real estate, a mortgage agreement must be registered with the Land Book. State duty for registration amounts to 0.1 per cent of the amount of the loan but may not exceed LVL 1,000 (approx EUR 1,423). The amount of stamp duty and notary fees is the same as for title registration.

PROPERTY MANAGEMENT

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

LEASE AGREEMENTS

General

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

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

Duration and Expiry of Lease Agreement

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

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Lease Payment and Accessory Expenses (Utilities)

Prepayment 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 so that 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 procedure set by the Civil Procedure Law. Sale of real estate during insolvency proceedings is also usually performed by auction and regulated by the Insolvency Law and Civil Procedure Law.

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Latvia Tax Summary

RENTAL INCOME

Latvian corporate income tax, a flat 15 per cent rate, applies to worldwide income, including rental income, earned by a taxable corporation or Latvian permanent establishment. Individuals who earn rental income are subject to a 25 per cent personal income tax on their profit. Taxable income is based on annual financial profit or loss adjusted for taxation purposes.

DEPRECIATION

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

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. Non-deductible interest cannot be carried forward and is lost as a deduction.

TAXATION LOSSES

Taxation losses can be carried forward for eight years, increased to ten years for taxpayers located in Latvian Special Economic Zones or Free Ports. Losses can be transferred between qualifying Group companies.

WITHHOLDING TAX

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

- ◊ dividends (0 per cent – mostly to qualifying EU-EEA and Latvian residents; in other cases - 10 per cent);
- ◊ interest (0 per cent – on payments to unrelated parties; for related parties 10 per cent (5 per cent as of 1 July 2009 if paid to EU residents));
- ◊ management and consulting fees (10 per cent, can be reduced to 0 per cent under a tax treaty);
- ◊ royalties (15 per cent on literature or art; 5 per cent in other cases);
- ◊ use of property located in Latvia (5 per cent);
- ◊ total sale price of real estate located in Latvia or shares in "real estate companies" (2 per cent);
- ◊ most payments to "Black list" jurisdictions (15 per cent), though the tax authorities may grant relief;
- ◊ 0 per cent for all payments to Lithuania.

A real estate company is a company more than 50 per cent 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 per cent tax on transfer of shares in a "real estate company".

CAPITAL GAINS

Individual income tax and corporate income tax on capital gains applies to individual taxpayers and corporate taxpayers respectively, both being subject to a 15 per cent rate.

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 as of 1 January 2011 applies at a rate of 1.5 per cent of the real estate's cadastral value. A limit of 25 per cent applies to annual tax increases for present tax objects until the end of 2011. A 1.5 per cent rate is applicable to engineering structures (not taxed before 2010) and a 1.5 per cent rate is also applied to uncultivated land usable for agriculture.

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 per cent – for cadastral value not exceeding LVL 40,000 (approx EUR 56,900);
- ◊ 0.4 per cent – for cadastral value from LVL 40,000 to LVL 75,000 (approx EUR 106,700);
- ◊ 0.6 per cent – for cadastral value exceeding LVL 75,000.

Local municipalities have power to grant taxation reductions to specific categories of individuals.

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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 22 per cent. The combined sale of unused real estate and all or part of the underlying land cannot be separated for VAT to be applied only to the unused real estate sale value. 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 in case of changes in the percentage of taxable use.

Rental of residential premises to individuals is VAT-exempt, whereas rental payments for commercial property are subject to 22 per cent VAT.

TRANSFER STAMP DUTY

A stamp duty of 2 per cent normally applies to the sale price on transfer of title to real estate. Duty is capped at LVL 30,000 (approx EUR 42,700). Duty does not apply to mergers and other restructurings. A 1 per cent 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 per cent of the loan amount and is capped at LVL 1,000.

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LITHUANIA
REAL ESTATE MARKET REVIEW

2011

Accelerating success.

COMMERCIAL REAL ESTATE MARKET SHOWS PROMISING SIGNS

RAMUNE ASKINIENE

Director
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Colliers International Advisors, Lithuania

2010 could be considered as the turnaround year for Lithuania's economy. The country has emerged from recession, and posted positive GDP growth in Q2 and Q3. Meanwhile, the commercial real estate market remained rather passive due to the slower economic recovery of the country. Although the market has been offered the lowest number of new projects in the past decade, there have been positive trends, which at the end of the year sparked optimism among market participants. A decline in vacancy rates has been observed without exception in all commercial real estate sectors. The period of rental price corrections has ended, with rental prices have stabilizing. Favourable conditions for the objects that are attractive in terms of location and concept emerged with elimination of discounts granted to tenants during the crisis, and rental price increases. The improved image of the Baltic countries in Scandinavia and Western Europe returned investors interest in the countries (for instance, BPT Asset management established a new fund BPT Baltic Opportunity to invest in real estate in the Baltic countries).

2011 promises to be more optimistic, although a great market rebound is not expected. Labour market issues and significantly deteriorated household consumption, credit market stagnation, low investment levels amongst others limit market growth opportunities. On the other hand, increased investors interest confirms that it is still a good time to purchase attractive objects. As a result, investors are willing to pay more, although meeting the expectations of sellers is still difficult.

For explanations of our findings, please refer to our annual market report. We hope that an objective assessment of the current market situation and insights for the future development of the market presented by our qualified analyst team will be useful and help you in planning and decision-making processes.

Economic Overview

2010 was a year of expectations. Although there were many challenges there was no lack of positive changes either: the electricity sector reform, liberalization of labour relations, stimulation of foreign investments in Lithuania, particularly in high-tech and IT sectors, and the reduction of VAT on tourism are a few examples. In 2010 Lithuania's GDP growth became positive again. The main engine of recovery was export, which reached the best results since Lithuanian independence. At the same time problems affecting long-term economic recovery were revealed: labour market issues, labour emigration, lack of investments and poorly managed public finances.

The end of the 2010 third quarter officially marked the end of recession - GDP grew two quarters in a row. According to the Department of Statistics preliminary data, in 2010 Lithuania's annual GDP amounted to EUR 27.4 billion an increase of 1.3 per cent on the 2009 figure. In 2010, a growth in GDP was observed in industry and energy (by 5.7 per cent) and trade, transport and communication (by 3.1 per cent).

In 2009 a fixed 1.3 per cent average annual inflation grew to 3.8 per cent in 2010. The annual inflation rate was largely due to a 14.5 per cent increase in prices of housing, water, electricity, gas and other fuels group of goods and services, a 6.1 per cent increase in food products and non-alcoholic beverages, an 8.4 per cent rise in transport goods and services. There was also a decrease of 3 per cent in prices of clothing and footwear, also of furnishings, household equipment and routine maintenance of the house goods and services, and a 3.6 per cent fall in communications goods and services.

According to preliminary data, in 2010, the Lithuanian unemployment rate reached 17.8 per cent-an increase of 30 per cent on 2009. Although there was a recorded decline in unemployment in the second and the third quarters, the situation in the labour market has remained tense due to the emigration of qualified professionals and a tangible lack of skilled specialists in the domestic labour market.

According to the Department of Statistics preliminary data, as of 30 September 2010, cumulative FDI in Lithuania amounted to EUR 9.9 billion a 1.5 per cent increase from the beginning of the year. The increase in cumulative FDI was determined by the FDI inflow from other capital, such as loans obtained from foreign investors. The largest source was Poland - with Polish investors contributing 11.8 per cent of total FDI, Swedish - 11.1 per cent, Dutch - 10.4 per cent, and German - 10.2 per cent of the total FDI quantity. Direct investment from EU-27 countries amounted to 78.2 per cent of total FDI, from CIS countries - 7.6 per cent.

KEY ECONOMIC INDICATORS OF LITHUANIA

f – forecast
Source: Department of Statistics to the Government of the Republic of Lithuania, Ministry of Finance, SEB, SWEDBANK.
Accounting methods of FDI were changed in Q1 of 2005. Data can not be compared yoy due to the change in the methods used.
GDP calculation methods were revised and data for 2007 - 2008 were updated.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011f
Nominal GDP, EUR billion	13.6	15.0	16.5	18.2	20.9	24	28.6	32.2	26.5	27.4	28.1
GDP at Cchain-linked Volume, EUR billion	14.1	15.1	16.7	17.9	19.3	20.8	22.8	23.5	20.0	20.3	20.8
GDP growth, % yoy	6.7	6.9	10.2	7.4	7.8	7.8	9.8	2.8	-14.7	1.3	2.8
Industrial Production, % yoy	16.0	3.1	16.1	10.8	7.1	7.3	4.0	2.7	-14.6	6.6	n/a
Unemployment Rate, % avg	17.4	13.8	12.4	11.4	8.3	5.6	4.3	5.8	13.7	17.8	16.2
Total Public Debt, % GDP	23.1	22.3	21.1	19.4	18.4	18.0	16.9	15.6	29.5	n/a	n/a
PPI avg, % yoy	-3.1	-2.9	-0.5	6.1	11.6	7.4	7.0	18.2	-13.3	10.3	n/a
CPI avg, % yoy	1.4	0.3	-1.1	1.2	2.7	3.7	5.7	10.9	4.2	1.3	1.8
Fiscal Balance, % GDP	-3.6	-1.9	-1.3	-1.5	-0.5	-0.4	-1.0	-3.3	-9.2	n/a	n/a
Export, EUR billion	4.8	5.5	6.2	7.5	9.5	11.3	12.5	16.1	11.8	15.7	n/a
Import, EUR billion	6.8	7.9	8.5	10.0	12.5	15.4	17.8	21.1	13.1	17.7	n/a
C/A Balance, EUR billion	-0.7	-0.8	-1.1	-1.4	-1.5	-2.6	-4.1	-4.2	1.1	n/a	n/a
C/A Balance, % GDP	-4.7	-5.1	-6.8	-7.7	-7.1	-10.6	-14.5	-13.1	4.3	n/a	n/a
Cumulative FDI, EUR billion	2.6	3.1	3.8	4.0	4.7	6.9	8.4	10.3	9.3	9.8	n/a
LTL/USD aop	4.000	3.6733	3.0599	2.7808	2.7746	2.7513	2.5230	2.3569	2.4828	2.6067	n/a
LTL/EUR aop	3.5849	3.4605	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528

FORECASTS

◊ Economic growth will continue, but the drivers of growth in 2011 - 2012 will not lead to long-term development. In the medium-long term huge emigration and lack of structural reforms will become the main factors hindering the country's economic development.

◊ Lithuania's economic recovery engine - exports will maintain its importance to the national economy, but its growth will be lower. Economic recovery will also be stimulated by accelerating domestic consumption.

◊ Consumption recovery in 2011 will be encouraged by improved expectations of the population and reduced savings. In 2012 the key factors of consumption growth will be rising real wages, increased employment and consumer confidence, improved lending conditions.

◊ Due to a growth in forecasted prices of raw materials, food and energy on global markets, inflation will continue to grow and become a major obstacle that must be met by Lithuania before joining the euro zone.

◊ The labour market will recover slowly. Although there is a high unemployment rate in the labour market there is little remedy currently. The biggest problem is a lack of skilled professionals due to emigration. Therefore, the situation in the labour market will depend on the ability of the unemployed to meet market needs, willingness to change qualifications and geographical mobility.

Office Market

OVERVIEW

2010 can be described as an inactive period in terms of new projects in the office sector. Due to limited supply, vacancy rates shrank, and the first signs of rental rate increases were seen. An increased demand for high quality projects was marked by some significant lease transactions. Recent development projects have been successfully leased out to both international and local companies. Major tenants in the market were banking, IT and telecommunication industry companies.

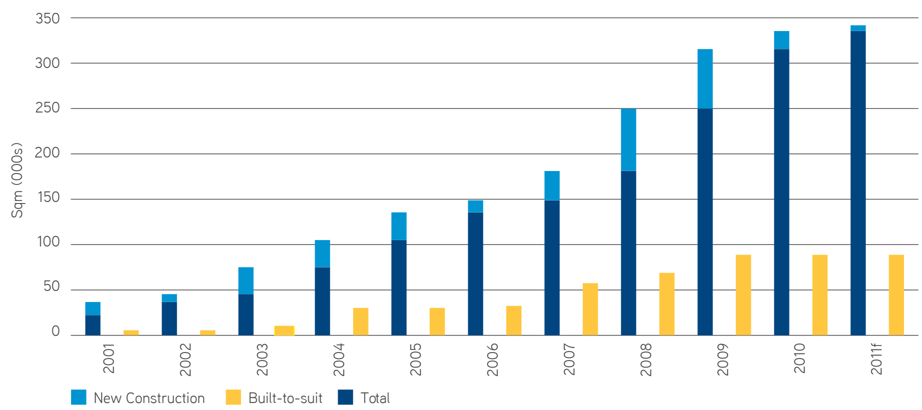
SUPPLY

In 2010, the supply of Vilnius' office space grew by 6.3%, with 20,000 sqm being added to the market. The total supply of modern office space was 335,500 sqm at the end of the year. Supply growth increased 3-fold on that added to the market in 2008 and 2009. Only one project in 2010 added B1 class premises for rent in Vilnius and it is likely that only class A will be opened in the business centre in 2011. At the beginning of 2010, 34 per cent of the total office space market in Vilnius was Class A and 66 per cent Class B.

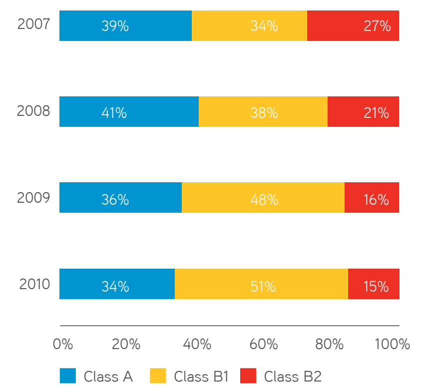
Supply growth in Kaunas and Klaipeda was not seen at all. While a few projects are in the pipeline, major developments will have to wait as only pre-leased projects could be developed in the market. At the beginning of 2011 Kaunas' office space consisted of 38,000 sqm and the Klaipeda office market offered 62,600 sqm of office space.

Due to economic conditions and the banks diminished willingness to grant financing, most of the new planned projects have been postponed. There is no speculative supply planned until market conditions support project feasibility.

DYNAMICS OF OFFICE SPACE IN VILNIUS
f - forecast



DISTRIBUTION OF SPECULATIVE OFFICE SPACE IN VILNIUS BY CLASS



COMPLETED SPECULATIVE PROJECTS IN 2010

City	Project	Address	GLA, sqm	Developer
Vilnius	Beta	Juozo Balcikonio St. 3	20,000	Realco
Total			20,000	

LIST OF NEW SPECULATIVE PROJECTS UNDER CONSTRUCTION IN VILNIUS IN 2011

City	Expected Completion	Project	Address	GLA, sqm	Developer
Vilnius	2011	Merchants' Club (Pirkliu klubas)	Gedimino Ave. 35	6,300	Somenera
Total				6,300	

DEMAND

2010 was exceptional in the means of demand. In newly-built business centres the majority of floor area has been leased - SEB moved their back-office to the business centre Beta, and Western Union set up a branch in Lithuania. TEO relocated its headquarters and opened a main office in Vilniaus Verslo Uostas. Rental transaction volumes during 2010 came close to the level of 45,000 sqm. Annual absorption was surprisingly high compared with the average annual absorption of about 32,000 sqm during the 2006 - 2008 period, and 36,000 sqm during 2009. Over the past two years, tenants have had a selection of favorable lease terms and the majority of companies (particularly larger firms) took advantage of conditions: moving, merging, and relocating to premises with better locations, quality and price options.

The Kaunas and Klaipeda office markets was inactive as deals were few and far between. The main activity was seen from small, local and companies, establishing their offices of 100 - 150 sqm in new business centres.

RENTAL RATES

The first half of 2010 maintained similar rental levels as 2009, but during Q3 the first signs of recovery were observed with increased activity in the market. Developers started to increase asking rental rates, especially for new tenants and offered fewer concessions to potential tenants.

The asking rental rates for Class A business centres was 5 - 7 per cent higher year on year in January 2011 which is primarily due to the reduction of vacant office space, while for Class B office centres asking rentals were about 3 - 5 per cent higher. Rental rates were not expected to increase for lower quality office space located in oversupplied, unfavoured locations.

Rental rates in Kaunas and Klaipeda were more stable due to significantly less activities in the market.

VACANCY

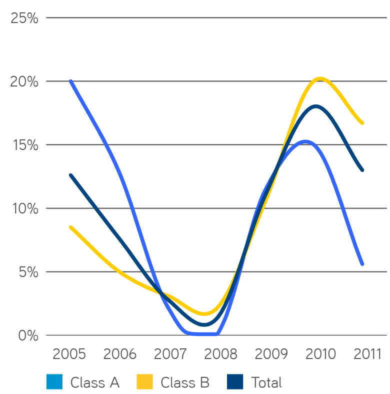
During 2010, vacant office space fell to 13 per cent from 18 per cent at the beginning of the year. The Class A rate reached 5.6 percent at the beginning of 2011, although in the middle of 2010 it has been shrunken down to 4.6 per cent. At the end of Q3, Class A vacancy was less than 4 per cent. Class B space vacancy rate still fluctuates, at generally around 17 per cent, but good quality premises, meeting the needs of tenants are more difficult to find. Average vacancy rates have reached a sustainable level, but it should be noted that there are specific business centres where vacancy rate has remained rather high.

An increased supply of class B space did not have any impact in possible vacancy increases as all the premises were leased out prior opening.

Absence of new supply did not exert such a high influence on vacancy rates in Kaunas and Klaipeda markets either.

DYNAMICS OF RENTAL RATES IN VILNIUS

DYNAMICS OF VACANCY RATES IN VILNIUS



RENTAL RATES FOR 2010 IN VILNIUS, KAUNAS, AND KLAIPEDA AND TRENDS FOR 2011

** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*

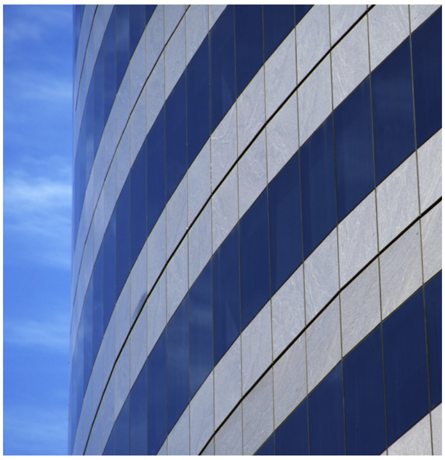
→→ - stable, →↗ - slight increase

Class	Vilnius		Kaunas		Klaipeda	
	Rates*	Trends	Rates*	Trends	Rates*	Trends
A existing	11.0 - 14.3	→↗	8.7 - 9.3	→↗	8.7 - 9.3	→→
B1 existing	8.1 - 10.1	→↗	7.0 - 8.7	→↗	6.7 - 8.1	→→
B2 existing	5.8 - 7.2	→↗	5.2 - 7.0	→↗	5.2 - 6.4	→→

VACANCY RATES FOR 2010 IN VILNIUS AND TRENDS FOR 2011

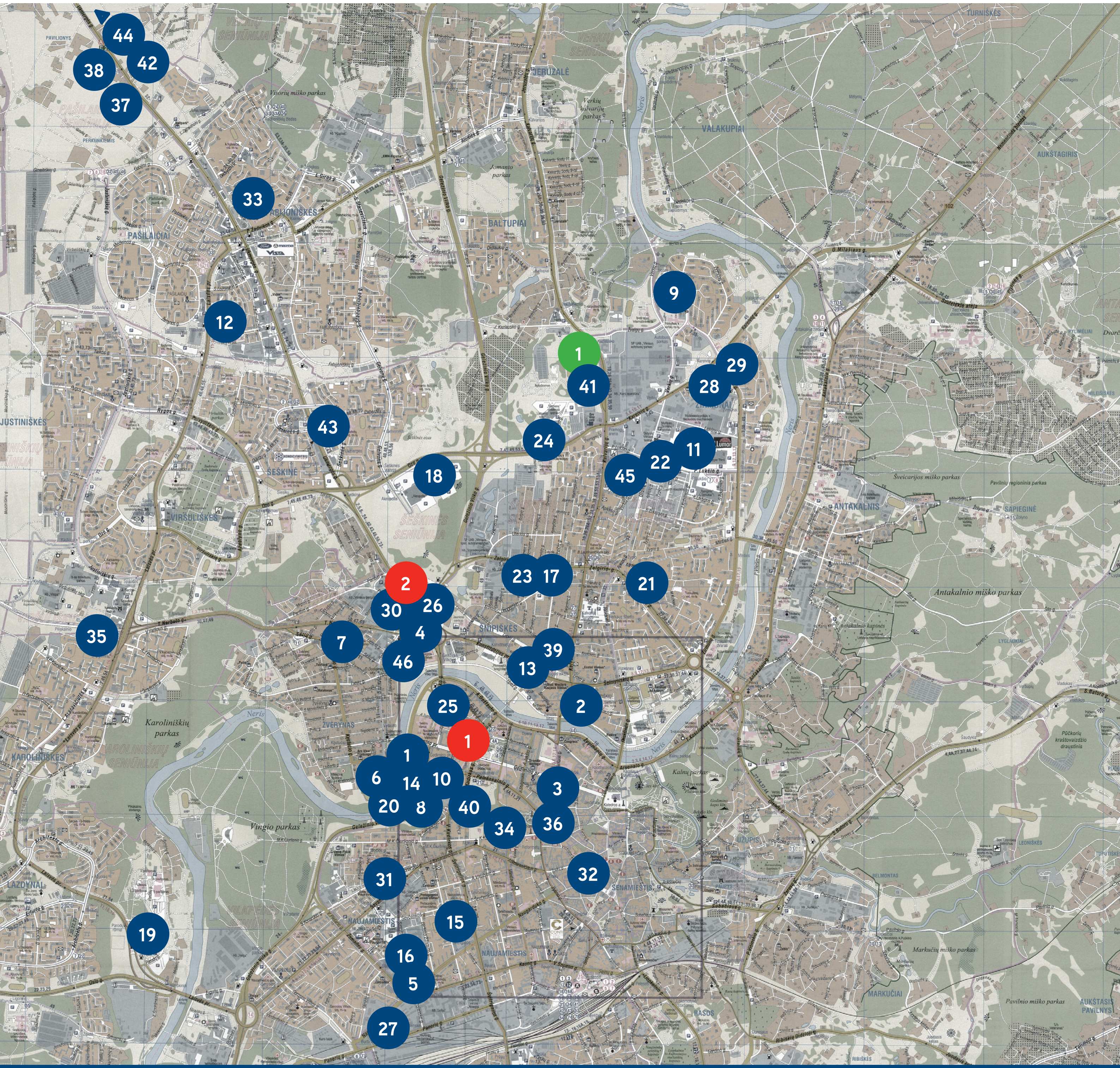
→→ - stable, →↘ - slight decrease

Class	Rates	Trends
Class A	5.6%	→→
Class B1	17.5%	→↘
Class B2	13.9%	→→



TRENDS AND FORECAST

- During the economic crisis, developers, banks, and investors adopted a very conservative approach, and a large proportion of the projects were suspended which can now be reviewed. However, speculative business centre developers are unwilling to break ground without an anchor tenant in place.
- There are only a few projects planned at this time for development. More significant supply growth can be expected only beyond 2012 - 2013.
- With optimistic expectations, rental rates will be increasing at a low pace, with a significant and sharp rise is not expected in 2011. It is likely that Class A office space rents will grow by 8-10 percent, and Class B - 5 - 10 per cent during 2011.
- Economic recovery will influence office market vacancy level changes. The lack of new projects will influence the vacancy level decrease in 2011.



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

Completed in 2010

1. Beta

Declared for Completion in 2011 - 2012

1. Merchants' Club (Pirkliu Klubas) BC
2. Baltic Hearts

Retail Market

OVERVIEW

2010 was a tough year for the retail market. New retail development in Lithuania has effectively ceased and it is likely to be 2013/2014 before we see any significant movement in this market.

Retailers have competed actively and food retailers in particular continued to optimize, in many cases expanding outside of the main cities. Conditions are expected to remain challenging in 2011, although the recovery of the sector is expected to be seen in the second half of the year.

A significant drop in retail turnover during 2009 was followed by modest retail turnover growth of 4.7 per cent during second half of 2010 compared to corresponding period year on year.

SUPPLY

Supply of leasable retail space in Vilnius grew by 14,000 sqm of (2.7 per cent) to reach 535,000 sqm. Only one new shopping centre (Link Moletu, 8,800 sqm) was developed, in the outskirts of Vilnius. The expansion of outlet centre Parkas added more than 5,000 sqm to the total retail space supply. Growth in the retail space supply market is not expected in the nearest future: although projects are at the preparation process, development would face especially high competition in the market.

The other city in Lithuania which saw retail space supply increase was Kaunas. The third Banginis scheme development project in Lithuania opened, adding 13,000 sqm of retail space to the market. Total supply grew by 5.9 percent to reach 235,200 sqm. The Klaipeda, Siauliai and Panevezys markets saw no changes in retail area supply in large shopping centres. It is likely that implementation of new projects will be postponed until 2013 - 2014.

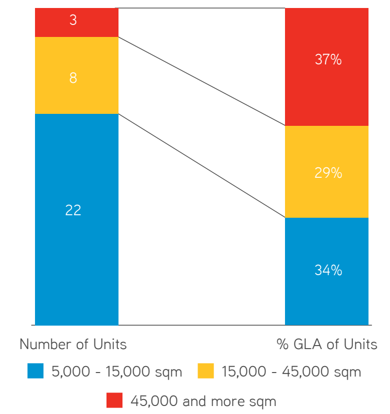
DEMAND

Significantly diminished household consumption has markedly affected the strength of the retail market and subsequently retail space demand has decreased. New projects and existing vacant premises were rented out rather slowly, cases where tenants became insolvent in less than one year also emerged. IKI supermarket and Pasidaryk

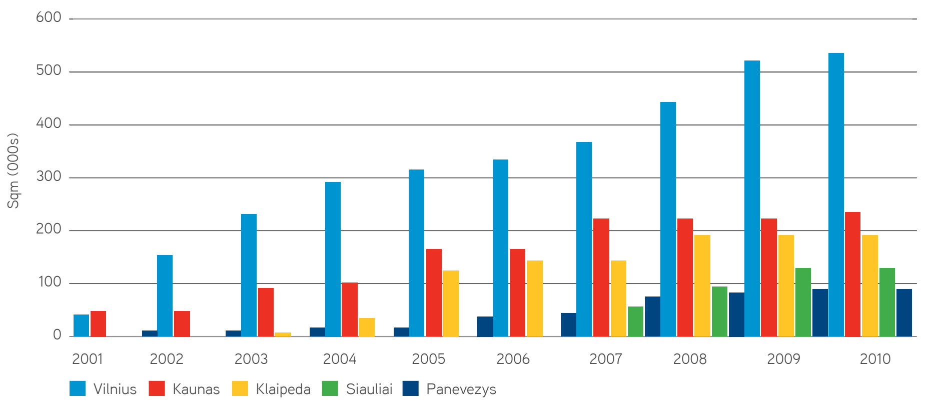
COMPLETED PROJECTS IN LITHUANIA FOR 2010

City	Project Name	Address	GLA, sqm	Anchor Tenants	Developer
Vilnius	Link Moletu	Moletu St. 13	8,800	IKI	Baltishes Haus
Kaunas	Banginis	Pramones Ave. 6/ Draugystes St. 8	13,000	Prisma	SSPC-Pramone
Vilnius			8,800		
Kaunas			13,000		
Total			21,800		

DISTRIBUTION OF RETAIL SPACE IN VILNIUS BY SIZE



DYNAMICS OF RETAIL SPACE



Pats have leased premises as anchor tenants in the shopping centre Link Moletu. Additional space in the 2-storey shopping centre were not fully leased out even during the first year of operation.

Development of the new Banginis project in Kaunas was mainly driven by the pre-lease of Prisma, which opened its second hypermarket in Lithuania. Additional space in the project was leased to small tenants (optics, pharmacy, specialized food stores, etc.) forming a right tenant-mix and an attractive location for daily shopping.

Although the number of visitors in shopping centres increased, buying habits have remained rational and planned. Only in the last quarter of 2010 shopping centres reported slight turnover increase which hopefully indicates modest retail market recovery in 2011. Consumer expectations have also improved during 2010 with a positive outlook for 2011.

Positive changes are expected by the leading retailers, depending on the activities sector retailers forecast a 5 - 15 per cent turnover growth during 2011.

RENTAL RATES

Following a significant drop in rental rates during 2009; 2010 can be described as a period of stabilisation, though unfortunately at only a low level. A sluggish rental market offered discounts and incentives for certain periods in order to attract prospective tenants. Favourable rent and terms set up for the short term were revised again, with only a fraction of them extended further.

Again a large gap has been seen between rental rates in primary and secondary projects. Primary projects landlords had more reasons to renew contracts without extended discounts.

Poorly operating projects kept rental rates at the lowest possible level. However, these decisions did not cause an increase in occupancy levels. It is forecasted, that rental rates will remain rather stable, and economic growth will be slow.

VACANCY

A slight increase in demand and leasing activity during 2010 have led to vacancy level decline in the Vilnius retail market with major shopping centres now close to full-occupancy. Successful shopping centres had more opportunities to form a more favourable tenant mix. Dialogue established between tenants and landlords lead to stabilized vacancy rates, existing and new tenants have become partners and are more interested in cooperation than ever before.

The Kaunas and Klaipeda retail markets were not experiencing any major changes in occupancy levels. Throughout the year, small scale shopping centres were gradually collecting tenants, while large scale objects maintained high occupancy levels.

RENTAL RATES FOR 2010 AND TRENDS FOR 2011

** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*

→→ - stable

Unit Size	Vilnius		Kaunas		Klaipeda	
	Rates*	Trends	Rates*	Trends	Rates*	Trends
Large retail unit (anchor tenant)	6.0 - 9.0	→→	5.5 - 8.0	→→	5.5 - 8.0	→→
Medium retail unit (150 - 350 sqm)	13.0 - 20.0	→→	9.0 - 20.0	→→	8.0 - 18.0	→→
Small retail unit (100 sqm and less)	18.0 - 29.0	→→	17.0 - 28.0	→→	17.0 - 28.0	→→

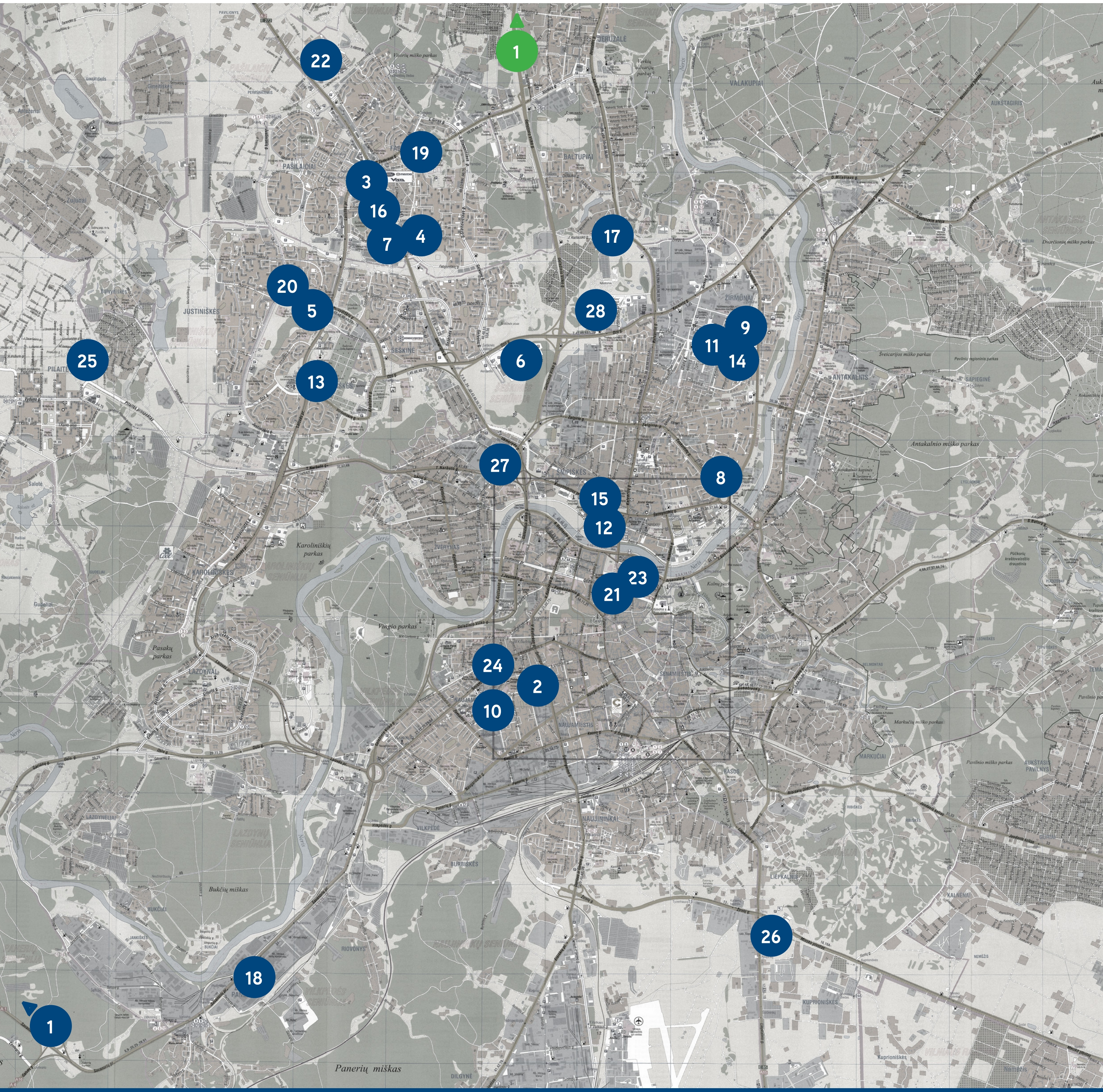
VACANCY RATES FOR 2010 AND TRENDS FOR 2011

→→ - stable

City	Vacancy	Trends
Vilnius	4.5%	→→
Kaunas	2.0%	→→
Klaipeda	6.3%	→→

TRENDS AND FORECAST

- Slowly resurgent consumption remains very fragile. Conditions are becoming easier for operating shopping centres, but not sufficient lead to the new developments in the sector.
- Development of new shopping centres in the coming few years at least will have to wait as pipeline projects have been postponed indefinitely.
- Further stabilisation of rental rates and vacancy is expected in the coming years, caused mainly by modest growth in retail turnover.
- Shopping centre landlords will have to put a lot of effort into managing the existing situation - established dialogue between landlords and tenants will be the key factor of success.



RETAIL PROJECTS IN VILNIUS

Existing Developments

1. Maxima-Baze XXX
2. Maxima XXX
3. Maxima XX
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. Flagman
22. BIG
23. Gedimino 9
24. Helios City
25. Pupa
26. MaximaXX
27. Panorama
28. Ozas

Completed in 2010

1. Link Moletu

Warehouse Market

OVERVIEW

The Lithuanian Warehouse market has not been immune to the economic crisis. Activity for the 3PL declined and current low demand could be satisfied by the vacant space that currently exists on the market. Another impact from the economic crisis is the scarcity of modern logistics facilities, as developers have frozen their activities in the 2009 - 2010 period. This has caused a situation where no speculative logistics projects entered the market in 2010. The logistics facility construction which is taking place is mostly for own-use and will not highly impact the vacancy rate of the market.

SUPPLY

At the beginning of 2011 the Vilnius region warehouse space supply was 337,000 sqm. No new supply was added in the market during 2010.

A large part of the new speculative projects, about 170,000 sqm is now, suspended in the market without a clear date of implementation. Projects are delayed for an unspecified time, for two main reasons: the absence of anchor tenants, and financing problems.

While many developers have projects prepared and construction permits, the current situation in global financial markets and difficulties in finding anchor tenants significantly affect the project development risks and commencement of projects have been postponed indefinitely.

In the Vilnius region, new supply will be added by construction of built-to-suit projects. Currently, the companies Transimeksa, Transekspedicija, and Entafarma are developing warehouses for their own needs (45 - 50,000 sqm of total area). It is likely excess space in such projects will be offered for other tenants, seeing new, high quality space will be added to the market.

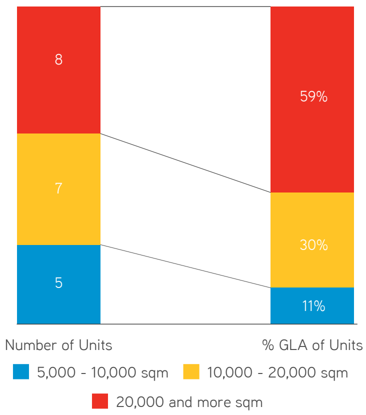
No warehouse projects were implemented in the Kaunas and Klaipeda regions, leaving the supply volume at 160,200 and 102,600 sqm respectively. A similar market situation is expected in 2011. Due to prolonged economic recession development of new projects will continue to be risky.

DEMAND

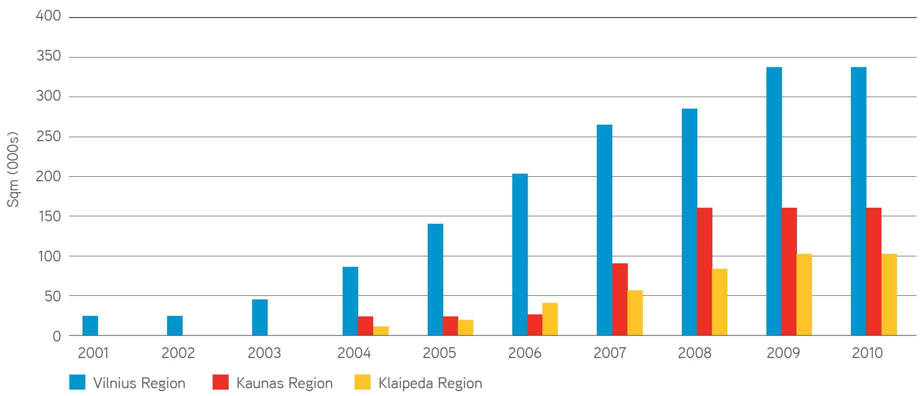
Warehouse operators, logistics companies, and retailers remain the main tenants. In 2010 these tenant groups occupied around 90 per cent of the total leased area of speculative warehouses. Due to such a tenant structure, the probability of a decrease in demand and a fluctuation in vacancy exists. Despite a noticeable slowdown in the market, a number of lease transactions and renegotiations were recorded in 2010 due to lease renewals, relocations and expansions. Take-up in the Vilnius region during 2010 was the highest of the last few years, reaching 75,000 sqm.

Warehouse areas have been successfully rented to retailers and logistic companies. A greater proportion of established companies

DISTRIBUTION OF WAREHOUSE PROJECTS IN VILNIUS BY SIZE



DYNAMICS OF WAREHOUSE SPACE



WAREHOUSE RENTAL RATES

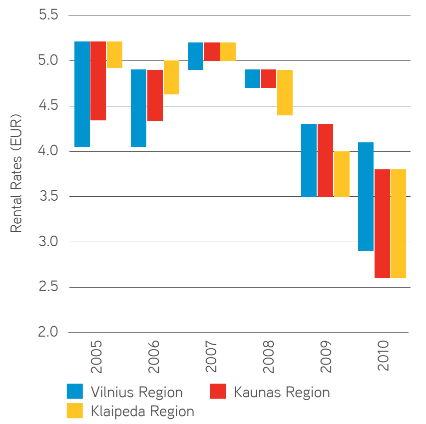
** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*

→→ - stable, →↗ - slight increase

Region	Rates*	Trends
Vilnius	2.9 - 4.1	→↗
Kaunas	2.6 - 3.8	→→
Klaipeda	2.6 - 3.8	→→

DYNAMICS OF RENTAL RATES*

** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*

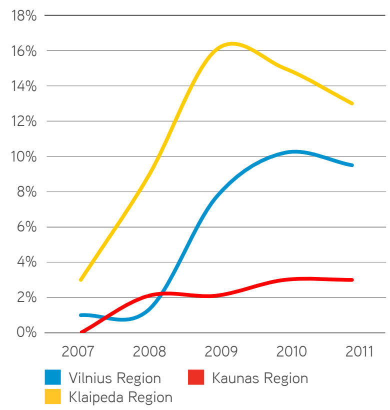


VACANCY RATES AND TRENDS

→↘ - slight decrease

Region	Vacancy	Trends
Vilnius	9.5 %	→↘
Kaunas	3.0 %	→↘
Klaipeda	13.0 %	→↘

DYNAMICS OF VACANCY RATES



compared to new companies entering the Lithuanian market, were relocating or expanding their business in the local market. Among tenants of existing warehouses, renegotiation of rent rates, discount periods, rent free periods and/or downsizing were common practices.

RENTAL RATES

Although vacancy remains low in the logistics market, average rental levels were pushed downwards in the first half of the year due to warehouse owners' desire to retain existing tenants and to attract potential new tenants, gaining at least minimum income flows for further financial commitments.

During 2HY 2010, asking warehouse rental rates remained stable due to a sufficiently high level of occupancy. Cases of agreed rental prices signed at below-market range exist, but such cases are isolated, and only where conditions have been offered a strong position, with tenants who occupy very large areas (up to 15,000 - 20,000 sqm).

The rental range remained fairly wide, indicating space for negotiation. Higher rental rates were asked from tenants with exceptional requirements for premises.

Rent rate level stabilisation was seen during the year of 2010, with only a minor decrease of 5 - 10 per cent recorded. Landlords are already bordering on rental rate levels where investment is economically unprofitable and financially unattractive and further price reductions would amount to desperate actions to overcome difficulties at any cost.

VACANCY

In 2010 slight fluctuation in the vacancy rate were seen. Since new supply was not added to the market, existing vacant space was absorbed by relocation, expansions, or new companies entering the market. By the end of the year the vacancy level was approximately 9 - 10 per cent.

It should be noted that the vacancy level indicator does not show the real situation in the warehouse market as only the un-leased space is taken into account. The tenants of leased space providing logistic services are servicing fewer clients and have additional empty premises under leases that are not included in these statistics.

In 2011 vacancy levels should not increase due to the lack of new speculative project development with all 2011 projects expected to be developed on built-to-suit basis.

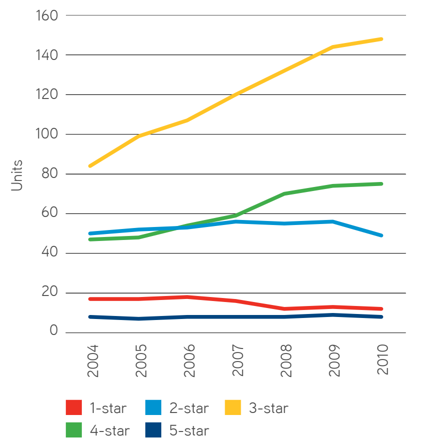
TENDENCIES AND FORECAST

- ◊ The prolonged economic slowdown and credit policy of banks for warehousing projects will impact the feasibility of new developments. New projects will be started only after finding tenants (the construction on built-to-suit basis), and in their absence, project implementation will be postponed.
- ◊ 2011 will not face rent rate decline as the breakeven limit already has been reached. Similarly, a significant increase of rent rates is not expected as the economic recovery is slow. Landlords will be forced by financial institutions to start rent indexation renewal and step rent application. Due to these actions average market rent rate may increase by 5 - 10 per cent during 2011.
- ◊ New projects that add to the market supply cause a vacancy rate increase. It is forecasted to remain unchanged or to decline gradually.

Hotel Market

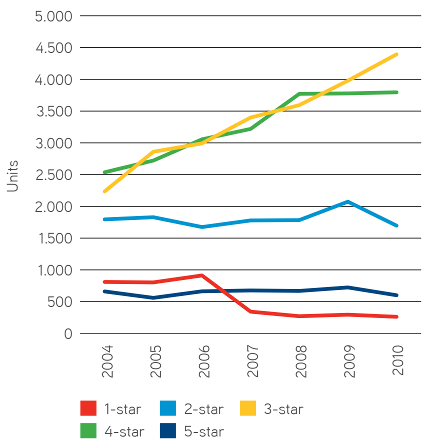
HOTELS IN LITHUANIA

Source: Lithuanian Department of Statistics



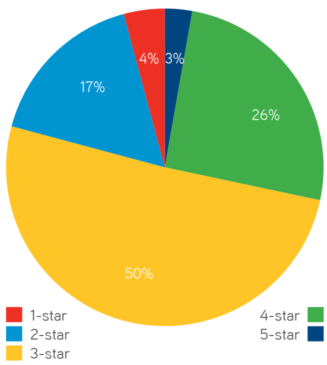
NUMBER OF ROOMS IN HOTELS IN LITHUANIA

Source: Lithuanian Department of Statistics



DISTRIBUTION OF HOTELS BY NUMBER OF STARS IN LITHUANIA

Source: Lithuanian Department of Statistics



OVERVIEW

In 2010 the fight for survival continued in the country's hotel market. Hotels were searching for new ways to increase their efficiency. Although the last year was very difficult for many hotels (increased tax burden, decreased flow of tourists), the year ended with the improving expectations for the future. This is due to VAT law amendments that allow hotels and lodging establishments since January 1, 2011 to apply VAT of 9 per cent (instead of 21 per cent). It is expected that VAT reduction will increase hotels' competitiveness, while at the same time attract more visitors, which in turn affect the larger occupancy of hotels. The latter growth will restore the wage-fund and create new jobs.

SUPPLY

According to the Department of Statistics, Lithuania had 292 classified hotels and guesthouses at the end of 2010, a yoy decrease of nearly 1.4 per cent. No new hotel projects have been offered in the main cities of Lithuania (Vilnius, Kaunas, and Klaipeda) as the market has been experiencing hard times.

Further hotel market development will depend on global economic trends, the country's fiscal stability and the accessibility (particularly by air transport).

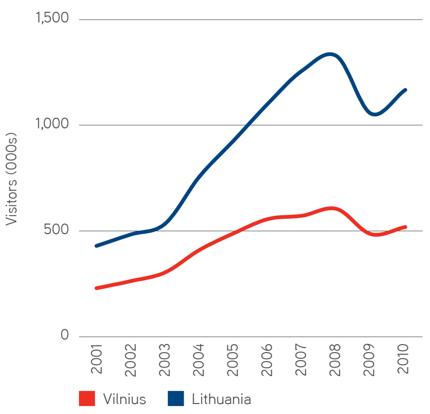
Both in terms of the number of establishments and the number of rooms, 3-star hotels and guest houses occupied a dominant position in the market - 50.7 per cent and 40.9 per cent respectively.

In the main cities of Lithuania (Vilnius, Kaunas, Klaipeda) certain changes took place in the market: 5-star Crown Plaza Vilnius became a 4-star hotel, 3-star Klaipeda hotel in Kaunas became 4-star Amberton Cozy, and 2-star Europa Stay Vilnius became a 3-star hotel. As a result, in 2010 compared to 2009, the number of rooms in 4-star hotels of these cities increased 5.1 per cent year on year and made the largest market share - 47.5 per cent.

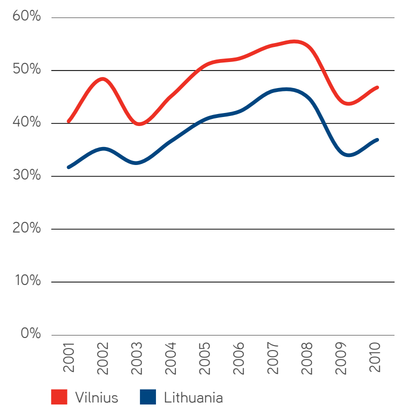
The key events of 2010:

- ◊ Linstow AS, one of Norway's leading property developers, signed a management agreement with Rezidor Group Hotel, one of the fastest growing hospitality companies in the world. It included 10 Reval Hotels in the Baltic countries (3 hotels in Riga, 2 in Tallinn, 2 in Vilnius, and 1 hotel each in Kaunas and Klaipeda) and Russia (1 hotel in St. Petersburg). As a result, from June Reval Hotels were rebranded to Radisson BLU (6 hotels) and Park Inn (4 hotels).
- ◊ Klaipeda Hotel Chain, which is managed by Hoteliers Co., was rebranded to Amberton from February, aiming to increase the hotel's market share and grow sales. Hotel management company currently operates 3 hotels in the main cities of Lithuania (Vilnius, Kaunas, Klaipeda), plans further expansion of the Amberton Hotel Chain in the Baltic region.
- ◊ In January, 2011 Klaipedos viesbutis, AB, which owns hotel Amberton Klaipeda, sold 40 per cent its total share capital for EUR 0.81 mil and traded over the counter.
- ◊ The cooperation between Scandic Neringa Hotel (4-star, 60 rooms), owned by the Swedish fund LR Baltic Halding, AB, and the Scandinavian hotel chain Scandic Hotels ended in October. Scandic Hotels managed the only hotel in Lithuania. Soon the hotel was returned former name of Neringa, after its acquisition by Neringa Hotel, UAB.
- ◊ International hotel chain Choice Hotels has announced its expansion in the Baltic countries. Over the next 2 - 3 years it plans to expand the chain with 9 new hotels in this region.
- ◊ 4-star, 32 rooms hotel Barbacan Palace, located in Vilnius Old Town, was sold. The sales price of the hotel, with a total area of 1,837 sqm, was approx. EUR 3.2 mil. Sales transactions of small, standalone, independent hotels (up to 1,000 sqm) were recorded in other cities.

DYNAMICS OF VISITORS IN HOTELS
Source: Lithuanian Department of Statistics



DYNAMICS OF THE AVERAGE ROOM OCCUPANCY RATE IN HOTELS
Source: Lithuanian Department of Statistics



PRICE RANGE FOR DOUBLE STANDARD HOTEL ROOMS IN VILNIUS
** - rack rates, EUR*
→↗ - slight increase

Number of Stars	Minimum Price*	Maximum Price*	Forecast for 2011
5-star	60	162	→↗
4-star	34	119	→↗
3-star	22	67	→↗

◊ In mid 2010 construction of the Snoras Snow Arena in Druskininkai began. After completion in 2011 it will be one of the biggest indoor skiing facilities in Europe. A unique complex of winter services will increase tourist flows to the health resort and at the same time increase demand for accommodation services.

◊ More than EUR 39 mil in EU support funds were awarded to 34 tourism projects (spa, wellness, rehabilitation and tourist centres, hotels and other facilities to be established and reconstructed). This fact may be considered as the principal driver behind new accommodation projects.

DEMAND

According to Department of Statistics data, 1.55 million visitors were accommodated in 2010, i.e. a 8.8 per cent more compared to 2009, of which 1.167 million stayed in hotels and guesthouses, a 10.6 per cent more, foreigners and local tourists - a yoy increase of 11.4 and 9.4 respectively. In 2010 foreigners comprised 63.1 per cent of visitors in Lithuanian hotels and guesthouses.

Hotels and guesthouses in Vilnius in 2010 accommodated 518.7 thousand tourists or 7 per cent more, compared to 2009, 429.7 thousand of whom were foreigners - 8.1 per cent growth.

Unlike Vilnius, the second largest Lithuanian city, Kaunas reached an unprecedented high number of tourists. In 2010 3Q hotels and guesthouses in Kaunas accommodated 90.8 thousand tourists or 30.9 per cent more, compared to 2009 3Q. A substantially better situation in this city was aided by improved accessibility largely thanks to Europe's largest low fares airline Ryanair.

In 2010 most visitors arrived from Poland - 135.7 thousand (16.1 per cent), Russia - 105.9 thousand (12.6 per cent), Germany - 105.8 thousand (12.6 per cent), Belarus - 71.4 thousand (8.5 per cent), Latvia (7.9 per cent), United Kingdom - 35.4 thousand (4.2 per cent), Estonia (3.9 per cent). In many cases, a growth trend was seen in the number of visitors.

There has been a growing trend of visitors from Belarus for some time. Belarusians are attracted by a wide range of goods and services as well as an acceptable quality and price ratio. Similarly, more visitors from Russia arrived than usual (the growth of nearly 35 per cent, compared to 2009) due to a natural disaster occurred in August 2010 in Russia (the country has been under a health hazard smog due to heat and burning peat).

OCCUPANCY

Hotels' recovery is barely perceptible and very fragile. Hotel and guesthouse occupation in 2010 averaged 36.9 per cent in Lithuania and 46.8 per cent in Vilnius, a yoy growth of 7.6 and 6.4 respectively. The most notable improvement in hotel occupancy was observed in Kaunas, as well as resort cities Palanga, Druskininkai, Birstonas. Accommodation services of these cities have become particularly demanded among Russians due to a natural disaster facing their country in August.

PRICES

Despite a significant drop in the prices in Lithuania's hotels in 2009 (up to 30 - 40 per cent and more), the room prices continued to decline in 2010. Guests were further attracted by promotional rates, special proposals, and various other discounts. Hotel business profitability was mainly influenced by a decrease in flows of tourists and a hard tax burden (VAT - 21 per cent).

It seems that 2011 will be less strained. Amendments to the VAT rate to 9 per cent entered into force at the beginning of 2011 will allow hotels to breathe easier. In addition, it's also likely that hotels will benefit from upcoming events of national importance (FIBA European Basketball Championship, International Hansa days, the 35th AITO conference in Vilnius, etc.). As a result room prices may increase slightly.

TENDENCIES AND FORECAST

- ◊ We believe that the most difficult stage of the crisis has passed, and in 2011 the situation in the country's hotel market will improve slightly. Market recovery will be affected by factors such as global economic trends, the country's fiscal system and political stability and the country's accessibility by air transport. Upcoming events of national importance (FIBA European Basketball Championship, International Hansa days, the 35th AITO conference in Vilnius and others) will provide an excellent opportunity to raise awareness of Lithuania in the world and establish new business relationships.
- ◊ The popular low fares airlines Wizz Air and Ryanair are commencing service to Vilnius in 2011. This will increase the country's accessibility and choice of flights (at least 27 cities, and 31 airports will be directly reachable from Vilnius). According to the Ministry of Transport and Communications' estimates, it will attract approx. 120,000 additional tourists to Vilnius in 2011.
- ◊ Hotels will be able to improve their performance due to reduced VAT and upcoming events of national importance. As a result it is expected modest growth of hotel occupancy and room prices.
- ◊ Due to the prolonged economic recession and sluggish recovery in hotel market 2011 will remain favourable for hotel acquisitions.

Lithuania Legal Overview

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 relevant rights and obligations; the information it contains is publicly available. Data recorded with the Real Estate Register is considered true and comprehensive until proven otherwise.

ACQUISITION OF REAL ESTATE

General

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

Upon sale of a building, the buyer's rights to the land plot occupied by the building and necessary for use of the building must be specified in the acquisition agreement. An agreement which does not deal with these rights to 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.

Asset Transfer vs Share Transfer

Asset deals and share deals relating to real estate are both commonly used in practice.

The following key issues should be taken into account when opting for a share deal:

- ◊ 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 any matters and risks that may have occurred 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.

Asset transfer involves the following key issues:

- ◊ an asset deal may be more expensive than a share deal, as an asset deal involves notary fees and stamp duties;
- ◊ Lithuanian law entitles a tenant of the property to terminate the lease upon change of ownership of 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;
- ◊ limited scope of due diligence investigation as it covers only the target asset.

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, for example, title, encumbrances, third party rights,

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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 is 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 in the case of 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, for example, 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 the 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.

RELATED COSTS

It is up to the parties to agree on 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.

The fee for notarisation of an agreement for real estate acquisition amounts to 0.45 per cent of transaction value, with a maximum of EUR 5,792 for transactions involving one real estate object and a maximum of EUR 14,481 for transactions involving two or more real estate objects. The stamp duty for legal persons to register title to real estate ranges from EUR 23 to EUR 1,448 for each object depending on the average market value of the property. Additional expenses such as brokerage fees, real estate valuation, bank fees, translation fees, legal fees and fees for technical, environmental, and financial due diligence may also be incurred during a transaction.

RESTRICTIONS

Restrictions on Acquisition of Real Estate

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

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 established in:

- ◊ Member States of the European Union 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.

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 until 1 May 2011, 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 transitional period should cease on 30 April 2011, if not extended. A request for extension was delivered to the European Commission at the beginning of 2011.

Concentration Control

Acquisition or taking possession (eg lease) of real estate may be subject to prior approval by the Lithuanian competition authorities.

An intended concentration must be notified to the Competition Council, whose permission is required where the combined aggregate income of the undertakings concerned is more than EUR 8,688,601 for the financial year preceding concentration and the aggregate income of each of at least two undertakings concerned is more than EUR 1,448,100 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

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aggregate turnover of a foreign undertaking (ie 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 bond signed by the debtor, the creditor, the owner of the mortgaged real estate, and notarised. A mortgage comes into effect at the moment of registration with the Mortgage Register.

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.

Lately a mortgage reform was introduced that should simplify formal procedures and broaden the types of property which may be mortgaged or pledged. Proposed amendments are currently under review by the Lithuanian Parliament.

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 determined, 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 to such use.

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 (eg 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

The distressed asset market is currently a buyer's market. The present situation offers more opportunities to invest in assets that would earlier either have been unavailable or too expensive. A potential buyer should consider the importance of a full scope due diligence investigation of the asset, including a valuation of future asset performance and seller's solvency in view of the risk of a real estate transaction being revoked in later insolvency proceedings for, eg, violating the rights of the seller's creditors.

Foreclosure on mortgaged property is initiated by the creditor applying to the mortgage judge for an order for sale of the mortgaged asset 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. At auction, real estate is sold to the person who offers the highest price.

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Lithuania Tax Summary

RENTAL INCOME

Net income received by corporate taxpayers is taxable at the general Corporate Income Tax rate of 15 per cent from the 2010 tax year (a reduced 5 per cent rate may be applicable to small companies with income lower than LTL 500,000 (approx EUR 144,810) 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.

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.

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 per cent of shares or rights (options) to dividends; or (ii) together with related parties, holds more than 50 per cent of shares or rights (options) to dividends, and the holding of that creditor is not less than 10 per cent. 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.

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 per cent 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 per cent 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 are not taxable. In other cases, withholding tax of 10 per cent 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, 10 per cent withholding tax rate on royalties will apply until 30 June 2011. Thereafter, the rate on qualifying royalty payments is reduced to 0 per cent.

Royalties paid to foreign companies are subject to a 10 per cent withholding tax.

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CAPITAL GAINS

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

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. Lithuanian and foreign individuals owning real estate should pay real estate tax if the real estate is used for their commercial activities (including rental of real estate to legal entities). The annual tax rate ranges from 0.3 per cent to 1 per cent 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 per cent of the 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 per cent and not higher than 4 per cent 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 building; (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. This option applies for a period of not less than 24 months.

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ESTONIA
REAL ESTATE MARKET REVIEW

2011

Accelerating success.

STABILITY, OPTIMISM AND THE EURO

AVO RÕÕMUSSAAR

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After several difficult and challenging years of economic downturn in Estonia, 2010 can be hailed as the end of crisis times, and of stabilization of the economy and real estate markets.

2010 saw an end to falling figures and negative growth, as well as a farewell to the Estonian Kroon, with the country embracing The Euro on 1 Jan 2011. The market turnaround as well as the new era of membership of the Eurozone have given a great sense of optimism and positive outlook for Estonian real estate markets.

Economic growth has recovered above expectations in 2010, driven by exports to key trade partners, most notably Finland and Sweden. Investment activity emerged once again after very little activity in 2009 thanks to revived foreign interest in Tallinn, which offers companies commercial areas very much below average Eastern European capital city prices.

Supply showed little change during the year, with difficult financing conditions, and soaring construction costs however demand generally increased in most sectors. 2011 should not differ greatly in this respect. Rents in most sectors finally strengthened and showed a slight increase in an upward trend that is expected to continue into 2011 also. Finally, vacancy rates increased in older or poorly located properties, but are generally decreasing and effectively nil in some segments such as CBD office and retail in modern shopping centres.

Although crisis times are officially over and there is a sense of optimism in the market, this does not signal a return to boom-times by any means. Several ongoing defects in the economy will continue to impact the growth of real estate markets such as high structural unemployment, high construction prices, inflation and supply side defects.

Overall the market is much more optimistic entering 2011 12 months earlier. The adoption of the Euro was a landmark event and is symbolic of the beginning of a new post-crisis phase and the expectation of steady growth in years to come.

We, at Colliers International hope that the following market summaries, prepared by our market experts in Tallinn will provide you with useful information and insights to assist you in your business decision making in Estonia in 2011.

Economic Overview

The economy of Estonia bottomed-out in 2009 and is steadily improving with a quarterly GDP increase of 6.6 per cent in the Q4 2010 on Q4 2009 YOY. In 2010, total annual GDP grew by 3.1 per cent.

Several confidence indicators confirm a turn for the better, illustrating that economic activity in Estonia reached it's low in the second half of 2009 before a turnaround in 2010. According to Ministry of Finance forecasts, the economic conditions are expected to continue to improve with GDP growth forecasted at above 4 per cent in 2011 and 2012. Growth is expected to be led by exports, driven by a faster-than-expected recovery in demand from main export partners such as Sweden and Finland.

The consumer price index increased 3.0 per cent in 2010 on the 2009 average. Since March 2010, the consumer price index has increased (Year on Year) by 3 per cent, driven by growth in the price of motor fuel, electricity, heating energy, food and beverages. Rapid inflation (as there was in the second half of 2010) is not expected to continue in 2011 and remain only slightly above the euro-area average although Euro adoption will also increase price growth in 2011.

A decrease in year on year monthly retail sales of retail trade enterprises that had lasted for almost two and a half years, turned around with a 1 per cent rise in September and October 2010. In November and December the growth in retail sales accelerated further. In 2010, retail sales decreased by 4 per cent at constant prices compared to 2009.

In 2010, Estonia's exports at current prices increased 35 per cent and imports 27 per cent compared to 2009. This recovery was based on the increased competitiveness of the industrial sector due to the reduction of wages and companies focus on international clients. Real export growth is expected to be 6.4 per cent in 2011 and 6.9 per cent in 2012 respectively.

In Q4 2010, the average monthly gross wage was 814 Euro - a 3.9 per cent year-on-year increase. Average gross monthly wage is expected to grow moderately in 2011 as the wage fund recovers more slowly than nominal economic growth.

The Estonian labour market started to experience dramatic changes in 2009 when the unemployment rate soared to 13.7 per cent, up from 5.5 per cent in 2008. In the Q4 2010, for the first time during the last one and a half years unemployed persons numbered less than 100,000 and the unemployment rate decreased slightly, to approximately 13.6 per cent from an average unemployment rate of 16.9 per cent in 2010. Long-term unemployment continues to be one the main problems in Estonia. The lack of skilled workers in growing sectors (structural unemployment) will hamper the creation of new jobs.

KEY ECONOMIC INDICATORS OF ESTONIA

f – forecast

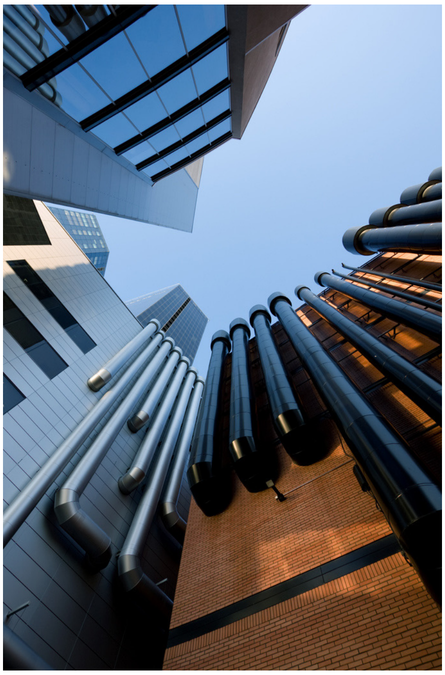
Source: Estonian Statistics Department. Bank of Estonia. Ministry of Finance. Swedbank

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011f
GDP Current Prices, EUR billion	6.9	7.8	8.7	9.6	11.1	13.1	15.3	15.9	13.9	14.5	14.9
GDP Growth (real), % yoy	7.7	7.8	7.1	7.5	9.2	10.4	6.3	-3.6	-13.9	3.1	4.2
Industrial Production, % yoy	8.8	8.4	11	10.4	11	9.9	6.4	-5.1	-24.0	20.9	4.6
Unemployment Rate, % avg	12.6	10.3	10	9.7	7.9	5.9	4.7	5.5	13.8	16.9	14.8
Total Central Government Debt, % of GDP	4.8	5.7	5.6	5.0	4.6	4.4	3.7	4.6	7.2	7.0	6.7
PPI, % yoy	4.4	0.4	0.2	2.9	2.1	4.5	8.3	7.1	-0.5	3.3	n/a
CPI, % yoy	5.8	3.6	1.3	3	4.1	4.4	6.6	10.4	-0.1	3.0	3.7
Fiscal Deficit, % of GDP	-0.1	0.3	1.7	1.7	1.6	2.3	2.6	-2.8	-1.7	-1.2	-1.1
Export, EUR billion	3.7	3.6	4	4.8	6.2	7.7	8	8.5	6.5	8.7	9.1
Import, EUR billion	4.8	5.1	5.7	6.7	8.2	10.7	11.4	10.9	7.3	9.2	10.2
Current Account, EUR billion	-0.4	-0.8	-1	-1.1	-1.1	-2.2	-2.8	-1.5	0.6	0.5	-0.4
Current Account, % of GDP	-5.2	-10.6	-11.3	-11.3	-10	-15.3	-17.2	-9.7	4.5	3.6	-2.6
FDI, EUR million	602.7	306.8	822.2	770.8	2,302.2	1,431.7	1,991.1	1,179.7	1,209.0	1,196.5	n/a
EEK/EUR, aop	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	15.6	-
EEK/USD, aop	17.5	16.6	13.9	12.6	12.6	12.5	11.4	10.7	11.2	11.8	n/a
EUR/USD, aop	0.90	0.95	1.13	1.24	1.24	1.26	1.37	1.47	1.39	1.33	n/a

FORECASTS

- ◊ The Estonian economy bottomed-out in 2009 and 2010 saw steadily improvement and recovery. Growth is expected to be led by export, driven by a faster-than-expected recovery of external demand from main export markets such as Sweden and Finland.
- ◊ The adoption of The Euro is believed to be crucial the revival of investment activity. The major benefit of The Euro will be a reduction of currency conversion, lower risks and greater market confidence.
- ◊ Rising prices, ongoing unemployment and a high saving rate will suppress private consumption growth in Estonia.

Office Market



OVERVIEW

After poor conditions and high vacancy in 2009 the office market had begun to firm coming into 2010. Entering 2010 it appeared that rental and vacancy rates would remain relatively stable. However, coming into the year with a significant oversupply, no dramatic recovery was expected and no significant office projects were anticipated to be added to the market. The year saw vacancy rates gradually decrease and the situation in the office sector in 2010 started to improve particularly for landlords who were flexible with lease terms and pricing. The vacancy rate in A and B1 office buildings started to decrease slightly in the second half of the year.

SUPPLY

As no new premises were added to the market during 2010, the total office stock in Tallinn remained at 473,500 sqm. After the first half of 2009, when approx 51,700 sqm of new supply entered the market, development in the Tallinn office market and supply of new properties has ceased due to unfavourable economic conditions, an oversupply of office premises, and a high cost or absence of liquidity in the market. By the end of 2010, several developers considered possibilities for establishing new office buildings in two-three years time.

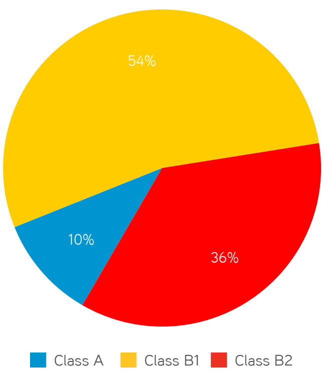
Due to the relatively large speculative risk, it is crucial for developers to have a very good capitalisation and a high proportion of pre-lease tenants before starting construction works.

By the end of 2010, the total stock of office space in CBD area accounted for 42 per cent of total Tallinn stock. While 65 per cent of new supply in 2005 came onto the market in the CBD and 51 per cent of new supply in 2006 came onto the market in the Kesklinn (Centre City) district, over the next two years (2007 and 2008) the most dynamic development of new office properties was outside the CBD - in the Lasnamäe district (mainly in Ülemiste City), comprising 39 per cent and 34 per cent of new supply in Tallinn during that period respectively. Half of new supply in 2009 was developed in CBD.

By the end of 2010, Class A premises accounted for about 10 per cent (49,400 sqm) of the total stock of speculative (not built-to-suit) office buildings in Tallinn, Class B1 for 54 per cent (254,900 sqm), and Class B2 for 36 per cent (169,200 sqm) of total stock.

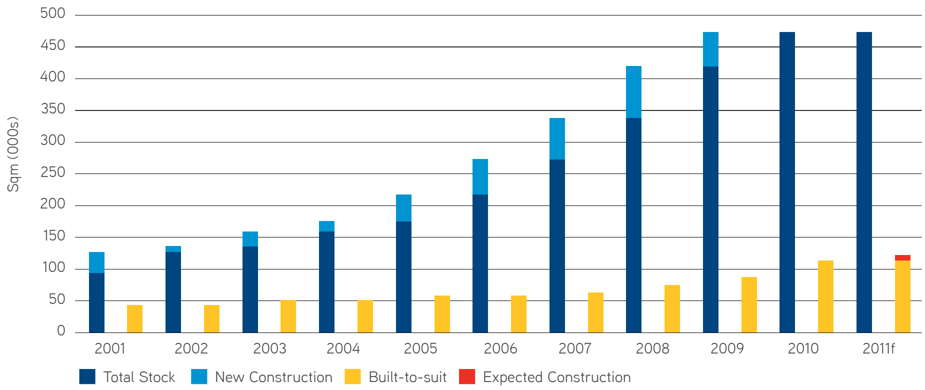
The volume of occupancy permissions issued for office and administration buildings in Tallinn during 2010 decreased by 51 per cent compared to the same period in 2009 (140,275 sqm in 2010 and 284,916 sqm in 2009), while the volume of building permissions issued for office and administration buildings in Tallinn in 2010 comprised only 5,789 sqm. The majority of volume of issued occupancy permissions in Tallinn in 2010 was for office and

DISTRIBUTION OF SPECULATIVE OFFICE SPACE IN TALLINN BY CLASS



DYNAMICS OF OFFICE SPACE IN TALLINN

f - forecasts



LIST OF NEW BUILT-TO-SUIT PROJECTS IN TALLINN IN 2010

Year	Project	Address	GLA, sqm	Developer/Occupant
2010	The Estonian Forensic Science Institute Office building	Rahumäe tee 6	10,000	Riigi Kinnisvara
Total			10,000	

LIST OF NEW BUILT-TO-SUIT PROJECTS UNDER CONSTRUCTION IN TALLINN FOR 2011-2012

Year	Project	Address	GLA, sqm	Developer/Occupant
2012	Paldiski 80 Office Building	Paldiski road 80	8,000	Wilson Kinnisvara
Total			8,000	

administration buildings built in 2008 (Marienthali Business Centre) or in 2009 (Peterburi business quarter).

Delivery of new office facilities in the near future clearly depends on further economic progress. Presently, construction activity can be seen mainly in the public sector. According to the Building Register, in 2009 - 2010 approx 75 - 80 per cent of construction projects under way were public sector office and administrative premises.

DEMAND

During the first half of 2009, when the Tallinn office market witnessed more tenants moving out of space than tenants moving in, it experienced positive absorption in the 2010.

In 2010, the demand for high quality, modern office space (A-class offices in favourable location) started to grow as landlords of A and B1 office buildings were flexible enough to offer attractive lease terms, incentives and good pricing, allowing companies to move to better quality properties. Since several lease contracts that were concluded 3 - 5 years ago started to end by the mid-2010, it became possible for tenants to rent A-class office premises with more or less the same rental level as B-class premises. By the end of 2010 the most favourable office properties were those below 100 sqm. Some larger companies were also looking for larger modern office premises.

Since landlords believe that the rental rates will more or less recover in a two-three years period, they are interested in concluding short-term contracts, while larger tenants wish to benefit from the present situation and rent A-class premises at low rental rate for longer period of time.

In coming years the demand can be expected to surge mainly in CBD area due to the location and lack of supply. Other potentially realistic locations are highly developed concept areas (e.g. Ülemiste City).

The highest contribution to take-up volume in 2010 came from companies in the IT and High Tech sector (29 per cent) and the Manufacturing, Industrial and Energy sector (18 per cent). Companies in the Finance and Consultation sectors occupied 11 per cent and 9 per cent respectively of total take-up. The majority of new lease agreements in 2009 were mainly in the Financial Services, IT, and Healthcare-related sectors.

In 2010, the office sector has also observed increasing interest for larger premises among BPO (Business Process Outsourcing) companies.

The strongest demand remains tied to smaller office space, with a significant increase in demand for Class A office facilities in the CBD due to highly attractive starting prices.

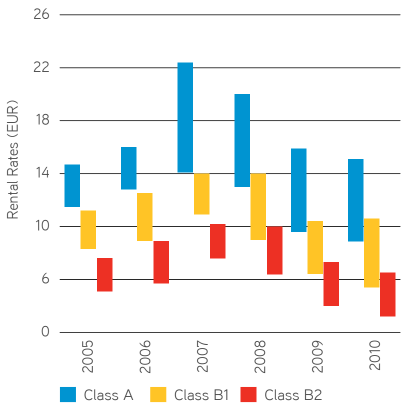
RENTAL RATES AND TRENDS IN TALLINN

** -asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*

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

Class	Rates*	Trends for 2011
A existing	8.9 - 15.1	→↗
B1 existing	5.4 - 10.6	→→
B2 existing	3.2 - 6.5	→↘

DYNAMICS OF RENT RATES IN TALLINN



RENT RATES

The main changes in office rental and vacancy rates took place in the first half of 2009 when many companies started to restructure their activities and look aggressively for cost saving opportunities. Office rent rates started to decline dramatically only in Q4 2008, significantly dropped during the first six months of 2009 when A and B properties showed an average year-on-year drop of 25 - 40 per cent in rental rates, while rent rates for new premises outside CBD decreased up to 50 per cent. In the second half of 2009 office rental rates started to stabilize.

In early 2010, rent rates remained more or less on the same level since 2009, although the range of asking rent rates (especially for B1 Class buildings) became wider. In order to attract new tenants landlords have agreed to rent out office space to tenants during first one or two years of lease agreement for a rent that is significantly lower than the market average price.

Overall in 2010 the average asking rental rates decreased by 2 - 5 per cent due to a small decrease in average rental prices for A Class properties and decrease in the lower end prices for B1 Class properties. At the same time, while the average asking rental rate continued its falling trend, the rental rates in contemporary office buildings in good location have stabilized or even somewhat increased.

The Tallinn office market remains a tenant's market, with a good range of choice and attractive rental rates. However, lease incentives, rent-free periods and partial fit-out compensation are less likely to be offered to tenants now compared with the crisis period.

Office rental rates are expected to remain more or less stable during 2011. A sharp increase in construction prices in 2010 have put pressure on the average rental rates of potential developments, although tenants are not yet prepared to pay higher rents.

Rental rates in Tallinn are typically 15-17 per cent lower than average rent rates in main Eastern European capitals.

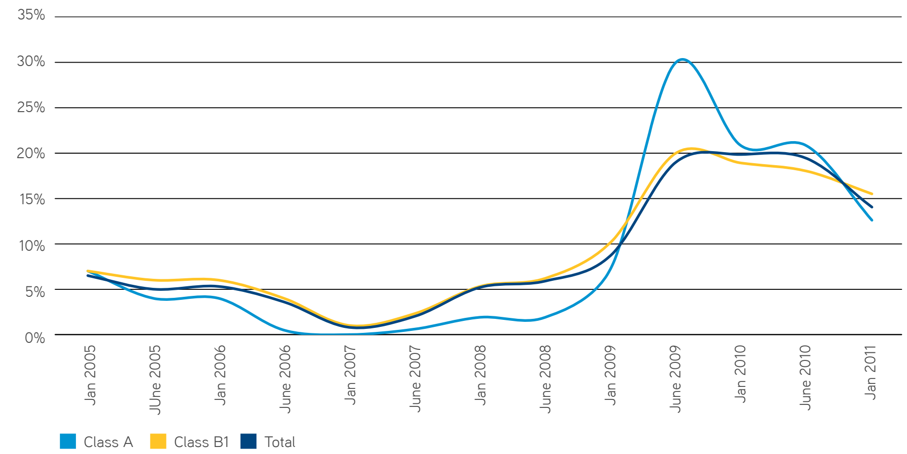
VACANCY

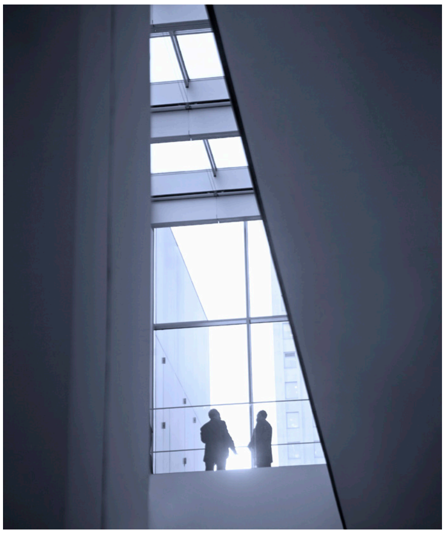
A strong supply of new office projects accompanied by the economic slowdown and tenants' cost-saving policies (reducing the size of office space requested, renegotiating rents, and sub-leasing excess office space) resulted in an increase in vacancy rates in 2009.

There were no new contemporary office buildings accruing to the market in 2010, and the vacancy rate of existing office buildings (especially for A-class properties) started to decrease gradually. The key strategy for attracting new tenants became active marketing and communication, not only the cheapest rental rate.

By the end of 2010, the situation in the office sector had improved for landlords who are flexible with pricing, thus the vacancy rate in A and B1 office buildings is slightly decreasing. The average vacancy rate for Class A offices varied in the range of 12 - 15 per cent at the end of 2010 while the average vacancy rate for Class B offices varied in the range of 14 - 17 per cent.

DYNAMICS OF THE VACANCY RATE IN TALLINN





Due to growing demand for A-class premises, landlords' willingness to rent premises out at highly attractive starting prices started to diminish in the second half of the year. However, due to significant oversupply owing to previous years, no rapid changes can be expected before the end of 2011 and no larger speculative office projects will be started in the next few years.

TENDENCIES AND FORECASTS

◊ Office rentals and vacancy rates have remained more or less stable in 2010 although vacancy in A-class premises decreased gradually by the end of a year. As major changes in relocation and rental rates have already taken place, no more considerable changes can be predicted in the future.

◊ A decrease in the vacancy rate of A-class premises in 2010 occurred mostly due to the small rental rates and attractive incentives that have stimulated demand for buildings already delivered to the market, especially in the CBD area. In the beginning of 2010, falling rents gave tenants leverage in renegotiating more favourable lease terms and enabled tenants to enter some formerly expensive office markets

◊ The weak financial position of many companies and high unemployment rate continue to affect the Tallinn office market by contributing to reduced demand for office space.

◊ During 2011, the situation in the office sector is expected to improve gradually for A and B1 office buildings in prime locations in terms of slight decreases in vacancy rate.

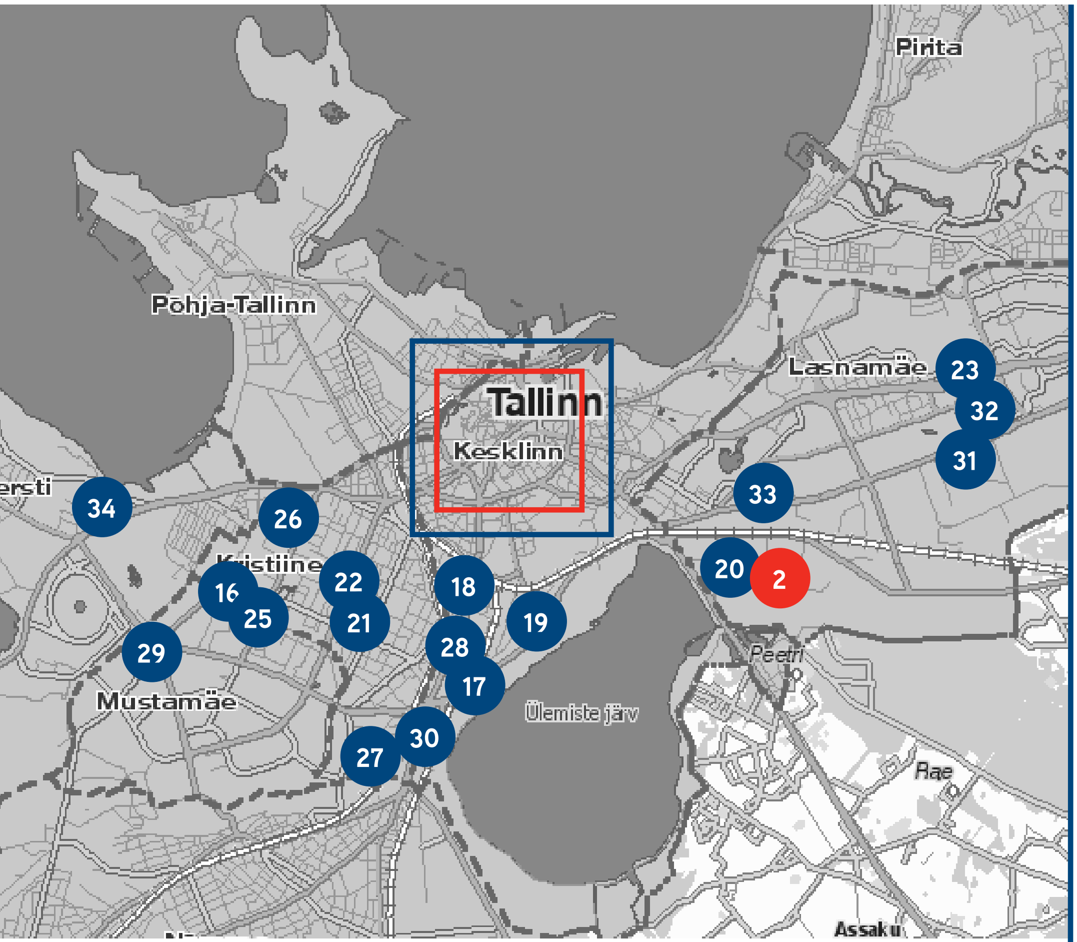
◊ Office rental rates are expected to remain more or less stable in 2011. In the most demanded areas (e.g. CBD) a slight rent rate increase can be expected due to the lack of supply and rising construction prices. The estimated rental rate increase can be up to 10 per cent.

◊ Another recent trend is further market segmentation from increased competition. This may lead to situation where rental levels for buildings of the same class vary significantly, depending on the financial position of the landlord, geographic location, building quality, tenant reputation, bargaining power and deal size.

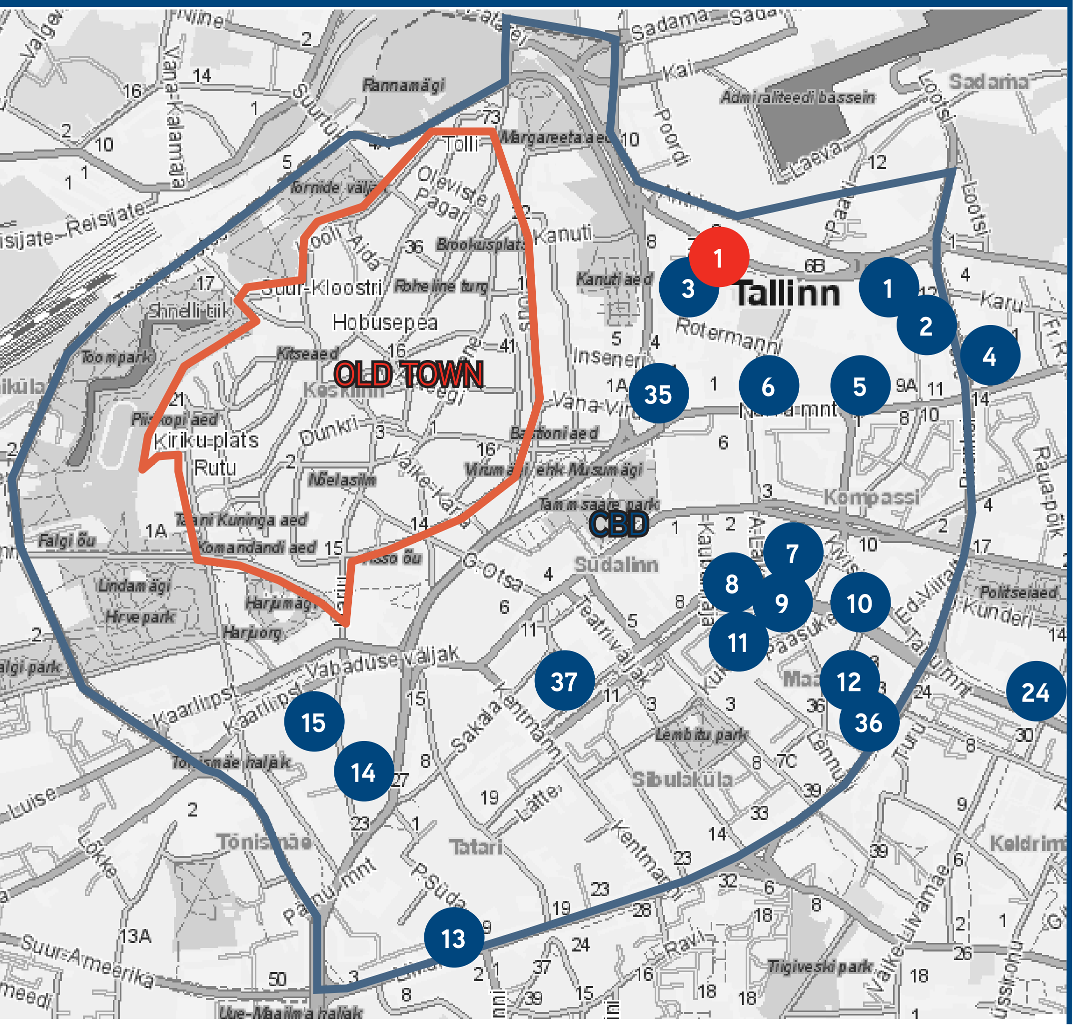
◊ The Investment market was revived in 2010 after an inactive 2009. Colliers expects to see relatively active years to come (2012 - 2013) in the investment market with rental-flows stabilizing and capital values rising.

◊ The period of 2009 to 2012 can be characterised as a time of slow recovery from crisis, with a limited number of new developments. Any such developments are expected to be mainly built-to-suit and tenant-oriented projects. The public sector will be important player in the Tallinn office market due to the relocation of many of its institutions to new premises.

◊ The CBD area is considered to be the most attractive place for possible Class A office space developments in the short-term perspective.



SPECULATI VE (NOT BUILT-TO-SUIT) OFFICE CENTRES IN TALLINN



● Existing Developments

1. Admirali Business Centre
2. WTC Business Centre
3. Rotermann Quarter
4. Pro Kapital Business Centre
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 and Rävala5 Business Centre
12. Office Building at Maakri 23
13. Eurox Business Centre
14. Swiss House
15. Roosikrantsi tn 2 Office Centre
16. Tetris Office Centre
17. Kalev Business Quarter
18. YIT Business Centre
19. Veerenni Business Centre
20. Ülemiste Business Centre
21. Ehitajate tee 114 Office Centre
22. Sõpruse pst 145 Office Centre
23. Tähesaju tn 14 Office Building
24. Scala City (reconstruction)
25. Tammsaare Business House
26. Marienthali Business Centre
27. Tammsaare Business Centre
28. Estconde II Business Centre
29. Office building - Meistri tn 22
30. Delta Plaza
31. Peterburi Road Business Centre
32. Lasnamäe Business Centre
33. Peterburi Business Quarter, 1st phase
34. Al Mare Office Building
35. Metro Plaza
36. Nordea Building
37. Solaris

● Declared for Completion in 2011

1. Rotermann Quarter enlargement
2. Ülemiste City enlargement

Retail Market

OVERVIEW

The year on year monthly decrease in retail sales that has lasted for almost two and a half years reversed to a rise of 1 per cent in September and October in 2010. In November and December the growth in retail sales slightly accelerated further. Overall, in 2010, the retail sales decreased by 4 per cent at constant prices compared to 2009. The volume of private consumption in 2010 was roughly the same as 2004, making a negative contribution to GDP growth. The growth of private sector consumption expenditure remains lower than the average growth of the economy. Pickup in domestic demand will take place with a substantial lag behind to the recovery of export income, depending on strengthening consumer confidence and the banking sector's support to the economy (recovery in lending).

Weak domestic demand and a fall in wages were the main reasons behind the annual decrease of the consumer prices by 0.1 per cent in 2009. The consumer price index increased 3.0 per cent in 2010 on the 2009 average prices, driven up by price rises in motor fuel, electricity, heat energy, food and beverages. Rapid inflation (as there was in the second half of 2010) is not expected to continue in 2011 and remains only slightly above the euro-area average although Euro adoption will also contribute to price growth in 2011.

Sales per square metre of GLA in Tallinn's biggest shopping centres are positively correlated with wages growth, while wages growth is dependant on unemployment level in the country. Therefore with an ongoing high rate of unemployment (above 10 per cent) ongoing increases in retail sales are expected to be very modest at least until 2014. Retail sales are expected to grow in the first half of 2011 mainly due to a low y-o-y comparison base rate, but from May the pace of growth will slow down considerably.

SUPPLY

By the end of 2010, the stock of Tallinn retail space had increased by approx. 32,000 sqm since the beginning of the year, totalling 461,800 sqm (1.14 sqm per capita). The new retail space was added largely from expansion of existing retail centres – Kristiine Centre and the second phase of Täesaju City (Bauhaus).

The most intense retail developments occurred in Tallinn's Kristiine and Lasnamäe districts.

COMPLETED PROJECTS IN TALLINN FOR 2010

Project	City district	GLA, sqm	Anchor Tenant	Developer
Tähesaju City, 2nd phase	Lasnamäe	20,000	Bauhaus	CityPro
Kristiine expansion	Kristiine	12,000	Marks & Spencer, Esprite, Vila, Terranova, Högli, Matinique & Inweari	Pro Kapital Grupp
Total		32,000		

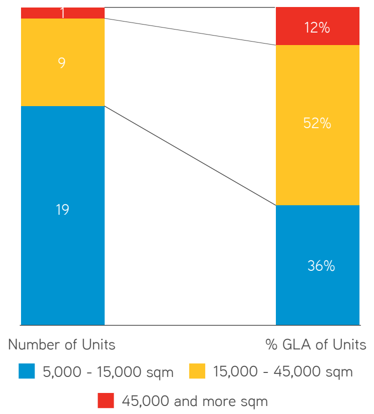
LIST OF NEW POTENTIAL PROJECTS IN TALLINN FOR 2011 - 2012

Expected Completion	Project	GLA, sqm	Status	Developer
2011 - 2012	Mustikas Centre	5,500	Under construction	Combinent
2011 - 2012	Maxima	10,000	In planning	Maxima Eesti
2012	Tähesaju City, 2nd and 3rd phases	9,000	In planning	CityPro
2012 - ...	Rotermann Quarter, 3rd and 4th phases	1,200	In planning	Rotermann Eesti
2012 - ...	Gate Tallinn	47,000	In planning	Trigon
2012 - ...	American Corner Retail and Logistics Park	110,000	In planning	Helios Properties and Süda Maja
2012 - ...	Smuuli Shopping and Commercial Centre, 1st phase	60,000	In planning	ELL Kinnisvara
Total		242,700		

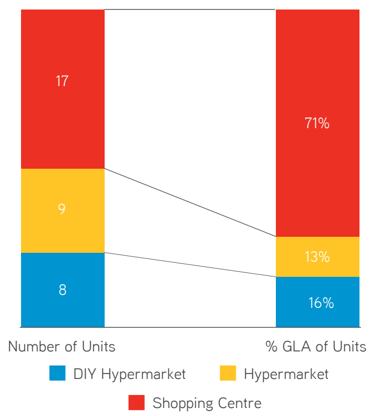
DYNAMICS OF RETAIL SPACE IN TALLINN

f - forecasts

DISTRIBUTION OF RETAIL SPACE IN TALLINN BY SIZE



DISTRIBUTION OF RETAIL SPACE IN TALLINN BY TYPE



The development of the second phase of Tähesaju City (the planned volume of the second stage is 35,000 sqm) was started in summer 2009 and Europe's building material retail giant Bauhaus opened the doors of its new store in April 2010, seeing Tallinn's DIY segment expanded by ca 20,000 sqm.

On the 30th of September 2010 Kristiine Shopping Centre opened 20,000 sqm of GBA extension with 45 new tenants (such as Marks & Spencer, Shu, Esprite, Vila, Rademar, Terranova, Geox, S'Nob, Matinique & Inwear), making Kristiine Shopping Centre the largest shopping centre in Estonia in the terms of the number of different stores.

While Kristiine shopping centre completed its enlargement in Tallinn, big grocery chains like Rimi, Prisma and Maxima continued to open their stores all over Estonia. Prisma opened its first hypermarket in Narva with more than 9,000 sqm of retail area, making it the largest hypermarket in the East-Viru County, and another was opened in Tartu in November.

Rimi opened a new supermarket near Tallinn on the 3rd of June in Tabasalu with a total area of ca 2,200 sqm; Maxima open a small grocery store with an area of ca 800 sqm in Põhja-Tallinn city district in the beginning of July indicating a trend of increasing popularity of small size local stores.

Development activity in the retail sector is expected to continue mainly with the expansion of existing shopping centres, although completion of several big retail projects / retail parks during next three years has been announced also.

Despite an improved global economic outlook, retailers are still expressing caution in terms of expanding and committing to new stores.

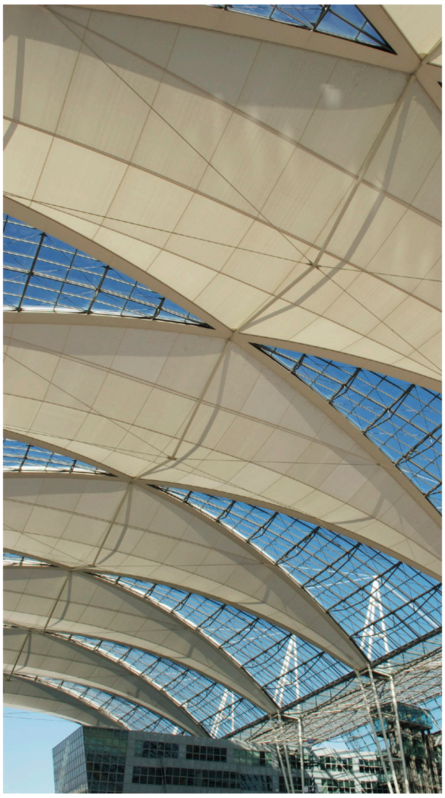
Some future projects include:

- "SMUULI" shopping & commercial centre, with total projected area of ca 104,000 sqm (with the shopping and entertainment centre amounting to 60,000 sqm and office premises of about 44,000 sqm). The centre plans to have more than 200 different stores selling clothing, footwear, sports goods, electrical and household appliances, beauty products, household products, home goods, and furniture and includes a multiplex cinema, ice rink, bowling alley and a children's playground. The project will be completed in stages. The projected beginning of the first stage is planned for around 2012 - 2013.
- Gate Tallinn, which promotes itself as the Largest Retail Park in the Baltic States with more 240,000 sqm of retail and warehouse space (more than 170,000 of retail space).
- 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. Construction is expected to start in the near future with the first buildings in occupation by the end of 2011. The developer hopes to attract European retailers and distribution operators.

Further sustainable development of shopping centres depends on the turnover generated at existing premises. Tenants' rent payment capability should be also taken into consideration in determining the feasible rental rate. One possible option is a turnover sharing agreement in calculating the rental level payable - a percentage is applied to the turnover in addition to a minimal fixed base rate to cover owner investment and loan expenses.

Availability of finance is another important issue that has had notable impact on possible development in the retail sector.

There are currently 17 shopping and leisure centres in Tallinn with a total GLA of approx. 346,500 sqm of retail space and 9 separate hypermarkets. Most of these hypermarkets were opened in Tallinn during 2000 - 2003. Tallinn's largest shopping centres are Rocca al Mare with a GLA of approx. 53,500 sqm, Kristiine with a GLA of approx. 42,500 sqm and Ülemiste with a GLA of approx. 37,500 sqm.



DEMAND

2010 was expected to be more difficult for retail owners than landlords in other sectors, as considerable instability in tenant, rental and vacancy rates became apparent towards the end of 2009. Sales figures still remained lower YOY at the beginning of the year, but improved. It is still surprisingly, that in 2010 the market saw substantial development and the demand for modern retail space in bigger shopping centres still exceeded supply and free space was absent. Therefore, in Tallinn's existing large shopping centres the vacancy rate has remained almost zero. New retail space delivered in 2010 was almost fully leased out before completion.

In 2010 shops with more expensive clothing and footwear have started to reduce their retail space and move to smaller premises (for example Emporio Armani has closed its store on Rävala Str. and opened a smaller store in the Old Town in April 2010). In contrast to high-end brands, budget retail chains have started to expand. Colliers has received indications that one of Germany's most well known retail chains wishes to expand its retail space in Estonia. This is one example. Estonian local retailers have also started to create new low-price brands (e.g. new footwear brand SHU, which is a part of Tallinn Kaubamaja Group).

RENTAL RATES AND VACANCY

Rents remained stable in main shopping centres until summer 2009, as demand continually exceeded supply (the vacancy rate in bigger shopping centres in Tallinn varied from 0.5 to 2 per cent). At the same time, due to an overall slowdown in private consumption, tenants with goods and services in less demand (for example, sportswear) stared to relocate from the larger shopping centres to retail spaces with lower rent, or to close down some of their stores.

The upper margin of rental rates increased during boom time in accordance with consumption growth while lower margin did not substantially change. By the beginning of 2010, the average rent rates per square meter in retail premises in Tallinn had decreased by 5 - 8 per cent y-o-y.

Consumption in Estonia is positively correlated with consumer confidence. Continuing growth in consumer confidence would signify not only growth in retail sales figures but quite likely a rental growth. Indications in recent months suggest that rental declines have slowed and rental values for the shopping centre sector might begin to improve by the end of 2011.

Rent rates for anchor tenants are expected to remain stable, with the main changes expected in rent level for small size retail units. Rent rates will also depend on retailers' performance as well as supply of new premises (completion of several big retail projects / retail parks).

RENTAL AND VACANCY RATES AND TRENDS IN TALLINN

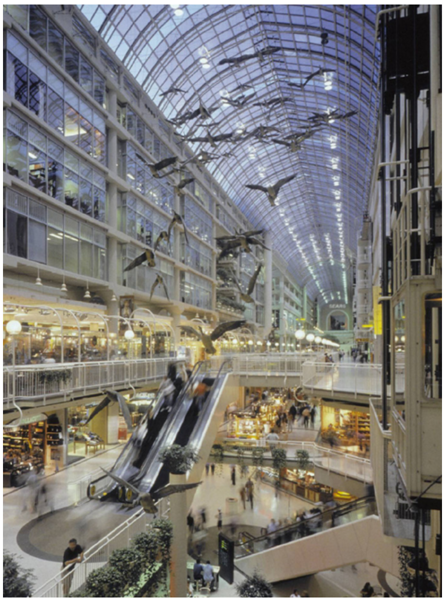
** asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*
→→ - stable

Unit Size	Rates* in 2010	Trends for 2011
Large retail unit (anchor tenants)	6.4 - 9.6	→→
Medium retail unit (150 - 350 sqm)	9.6 - 28.8	→→
Small retail unit (up to 100 sqm)	12.5 - 42.2	→→
Vacancy (major shopping centres)	1%	→→

STREET RETAIL RENTAL RATES IN TALLINN

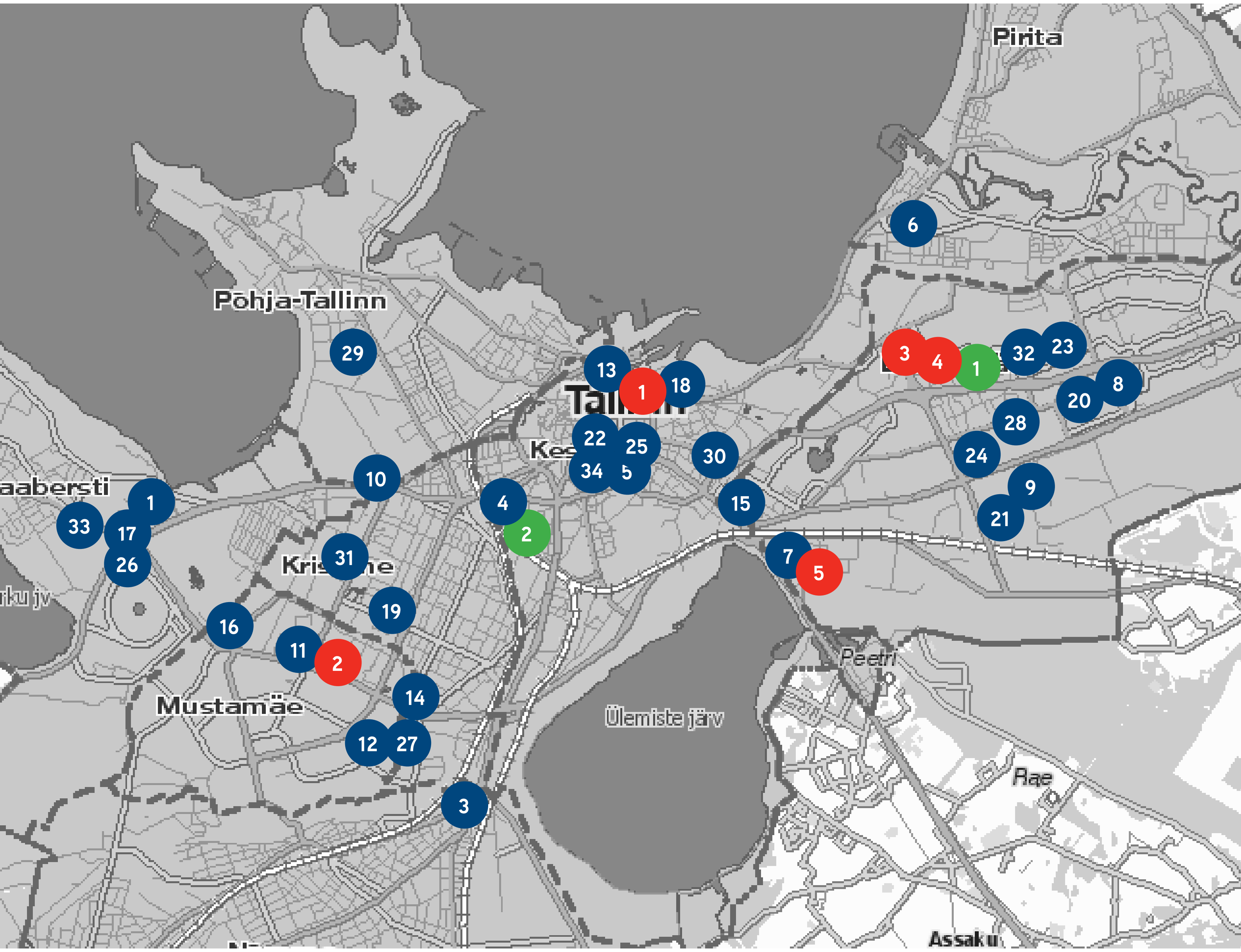
** asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*
→→ - stable

Unit Size	Rates* in 2010	Trends for 2011
Street retail	9.0-28.0	→→



TENDENCIES

- Sales figures remained lower YOY at the beginning of 2010, but improved gradually and turned positive in the third quarter of 2010.
- Surprisingly, the market saw substantial development activity in Tallinn with Bauhaus opening 20,000 sqm of new floor area in April and Kristiine Shopping Centre opening its 20,000 sqm extension in September.
- Vacancy rates in larger shopping centres remained effectively at zero, although high and perhaps still rising elsewhere;
- As it is more difficult for landlords to find new tenants for the vacant premises with the same terms and rental level than a few years ago, landlords are more interested in keeping good tenant-landlord relations.
- The Estonian retail market is too dependant on several retail chains performance. Insolvency of one single retail chain may lead to considerable leap in vacancy rates across Estonia.
- Despite an improved global economic outlook, retailers are still expressing caution in terms of expanding and committing to new stores.
- Possible development in the retail sector depends not only on recovery of domestic consumption in Estonia but to a great extent also on financing availability. Innovation will be more crucial than ever concerning supply of new premises in the future - unique concepts of retail-leisure centres and new brands will gain an advantage.
- Rental rates for anchor tenants are expected to remain stable. The main changes are expected in rent levels of smaller retail units. Future rent rates will depend on retailers' performance as well as supply of new premises (completion of several big retail projects/retail parks).



SHOPPING CENTRES IN TALLINN

Existing Developments

1. Rocca al Mare
2. Rotermann Quarter, phase I
3. Järve Shopping Centre
4. Kristiine Centre
5. Stockmann
6. Pirita Selver
7. Ülemiste Centre
8. Mustakivi Centre
9. Bauhof
10. Merimetsa Selver
11. Mustikas Keskus
12. Magistral Centre
13. Sadamarket
14. Tondi Selver
15. Sikupilli Centre
16. Kadaka Selver
17. Haabersti Hyper Rimi
18. Norde Centrum
19. Sõpruse Rimi Hypermarket
20. Lasnamäe Centrum
21. Lasnamäe Maksimarket
22. Viru Centre and Tallinna Kaubamaja
23. Mustakivi Prisma
24. Ehituse ABC
25. Foorum
26. K-Rautakesko
27. Tondi K-Rautakesko
28. Punane Selver
29. Pelgulinna Selver
30. Torupilli Selver
31. Marienthali Selver
32. Tähesaju City, 1st phase
33. Kakumäe Selver
34. Solaris

Completed in 2010

1. Tähesaju City, 2nd phase
2. Ext. of Kristiine Centre

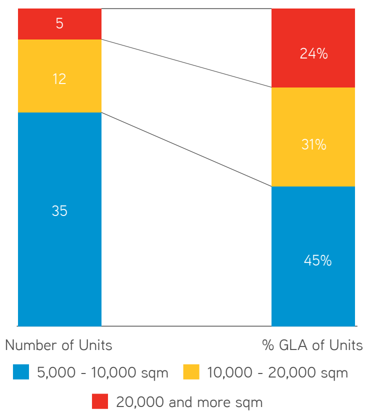
Declared for Completion in 2011 - 2012

1. Rotermann Quarter, 3rd phase
2. Ext. Of Mustikas Centre
3. Smuuli Shopping and Commercial Centre, 1st phase
4. Tähesaju City, 2nd phase
5. Ext. of Ülemiste Centre

Industrial Market

DYNAMICS OF WAREHOUSE SPACE IN TALLINN AND HARJU COUNTY

DISTRIBUTION OF WAREHOUSE SPACE IN TALLINN



OVERVIEW

The volume of the Estonian economy decreased by 3.6 per cent in 2008, and negative GDP outcome continued in 2009, with an average of minus 14.1 per cent. Amidst a strengthening export-led recovery, economic growth recovered in 2010 with an increase in GDP of 6.6 per cent in the Q4 2010 relative to Q4 2009.

In 2010, the overall annual GDP grew by 3.1 per cent compared to the previous year.

The sales turnover and profitability of most exporting-sector companies (export is the main driver of economy recovery in Estonia) has started to pick up in the first half of 2010 and exports of goods in 2010 exceeded the historical highest level (the level of 2008). According to Statistics Estonia, in 2010 the export of goods at current prices increased 35 per cent and imports 27 per cent compared to 2009. In the last months of the year growth in trade accelerated as dispatch and arrivals of machinery and equipment increased the most.

At the same time, the rapid growth in production recorded in 2010 was partly influenced by the low reference base in 2009. During 2011-2013 the growth in exports will stabilize in accordance with the developments of main export markets and it is indeed a positive sign that future economy growth in the Nordic countries should exceed the EU average expected growth.

SUPPLY

By 2010, the total supply of new industrial and warehouse premises was estimated at 12,500 sqm. The estimated total stock of industrial facilities exceeded 701,500 sqm (approx 195,000 sqm of generic facilities plus 506,500 sqm of built-to-suit facilities).

During the last few years the most intensive development of new industrial and warehouse facilities has been concentrated in Tallinn's suburbs and in 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.

Most premises built in 2010 were small, detached warehouses and industrial built-to-suit projects (with a GLA less than 4,300 sqm) mainly for companies representing the food-manufacturing industry. There was little development activity in industrial parks in Harju, although several companies owning or renting premises in industrial parks have announced expansion plans for 2011. According to the Estonian Building Register, the amount of occupancy permits issued in 2010 for new industrial and warehouse buildings in Tallinn and Harju County reached 30,665 sqm, which is approx 57 per cent less than in 2009.

Although the projected new supply in 2011 is approx 12,000 sqm, the volume of industrial projects depends on acquiring tenants in advance of development. New built-to-suit projects in Harju County, planned for 2011 include industrial building for Kemivesi located in Rae Industrial Park (with GLA 1,790 sqm), industrial building for Metus-Est in Tabasalu (2,300 sqm) and office and industrial premises for Laser Diagnostic Instruments (1,239 sqm) in Ülemiste City in Tallinn.

At the beginning of 2010 the warehouse and industrial market has become more active than some time ago. Several developers announced that they would like to continue with large development projects. For example, the developers of Gate Tallinn and American Corner Retail and Logistics Park have both indicated that the negotiations with potential tenants are in process and they would like to start the construction works as soon as possible.

Currently, five industrial and warehouse projects with a GLA of over 20,000 sqm per project and a total area of 228,000 sqm are under way. Most of the existing stock consists of industrial and warehouse projects with a GLA of 5,000 - 10,000 sqm per project.

DEMAND

The general behaviour of the warehouse and industrial market in 2009 has been similar to the office and retail market. Due to a significant decrease in consumption, export volumes and transit, vacancy rates increased and rental rates fell in the first half of the year compared to previous years. In the second half of the year the warehouse market became more active due to foreign companies seeking possibilities to transfer their production from or to Estonia. Several Swedish and Finnish companies started to seek industrial warehouse properties in Estonia to transfer their production activities. In late 2009 and the beginning of 2010, low prices have started attracting foreign industrial companies once again.

The industrial market sector saw increased tenancy enquiries for industrial/logistics property (albeit from an earlier low base) in 2010 although both purchasing and leasing activity remained at a low level. Companies that were seeking and leasing warehouse premises in 2010 represented mostly retail sector companies (Prisma, Rahva Raamat, Selver, R-Kiosk).

The industrial market continued to be occupier led in 2010 as landlords offered competitive and more flexible lease conditions to tenants. Simultaneously tenants were looking to take advantages of the market conditions in order to upgrade their premises or move to a better location.

Presenting 2010, the main group of prospective tenants looking for industrial premises were foreign (mostly Scandinavian) companies, with the aim of reducing their operating costs by transferring their production activity to Estonia (lower rents and labour costs are two examples). Local companies that were looking for industrial/logistics premises were mostly from retail-oriented distribution sectors.

The most demanded in 2010 were smaller industrial premises of around 250 - 1,000 sqm. The industrial sector remains more subdued than other sectors although there remains a number of unsatisfied requirements from large warehouse occupiers seeking 5,000 sqm or more.

Starting from the end of 2009 foreign investors turned their attention to the industrial market and continue to seek attractive investment possibilities.

The number of built-to-suit projects is and will continue to make up most of new projects and the proportion of speculative industrial projects is not expected to increase. General recovery in the overall economy in 2010 leads to increasing demand for good quality industrial space in 2011.

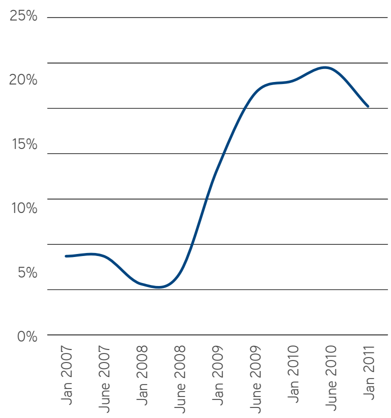
RENTAL RATES

In 2010 rental rates decreased year-on-year by 6 - 10 per cent while the vacancy rate remained at 18 per cent. Average rental costs for modern logistics warehouses stand at between EUR 2.8.-5.0 per sqm/month. The market does not indicate a substantial decrease in vacancy over the next two years.

Average rental rates for older logistics warehouses stand at between EUR 1.3 - 3.2 per sqm/month. In recent years a slightly higher rental rate correction has occurred for outlying areas of Tallinn, although some areas have remained immune. Historically, rental rates in the industrial sector are relatively stable, and more recently have shown a small increase and then decrease of 4 per cent in boom and post-boom periods respectively. Despite reduced demand, the drop-off in supply should allow rents to remain more stable in 2011.

Even though the industrial market vacancy rate was quite high throughout 2010, the sector has become more active among Russian and Scandinavian companies, and there was some degree of demand shortfall in larger properties (above 5,000 sqm).

DYNAMICS OF VACANCY RATES IN TALLINN



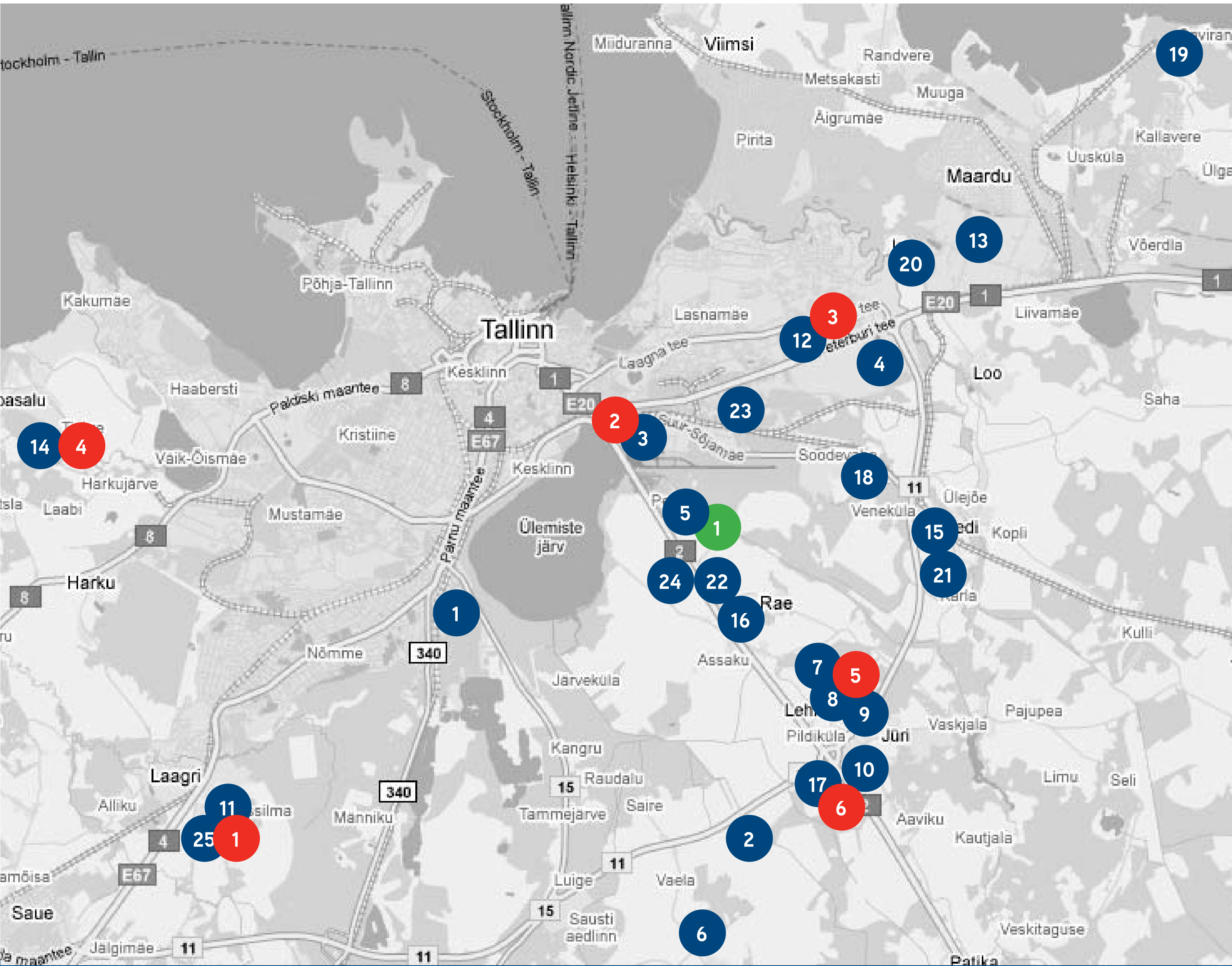
WAREHOUSE AND INDUSTRIAL SPACE RENTAL RATES AND VACANCY IN TALLINN AND HARJU COUNTY

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

Building condition	Rates*	Trends for 2011	Vacancy Rates	Trends for 2011
New and renovated buildings	2.8 - 5.0	→→	20%	→→
Older buildings	1.3 - 3.2	→→	20%	→↗

TENDENCIES

- After 2009 saw diving rental rates and increasing vacancy, 2010 began with very little tenant demand and a high vacancy rate. The sector remained fragile with fears of bankruptcies or jumps in vacancy with hopes pinned on a growth in exports and transit and a stabilising.
- In 2010 the market remained in favour of occupiers as landlords offered competitive and more flexible lease conditions to tenants. Companies that were seeking and leasing warehouse premises in 2010 represented mostly retail sector companies (Prisma, Rahva Raamat, Selver, R-Kiosk).
- As 2010 has progressed, construction prices have increased steeply (approximately 20 per cent over the year) and widened the gap between the asking price of developers and tenant expectations. Due to increased construction prises and the high cost of borrowing, occupiers tend to prefer build-to-suit to self-financed and built projects because companies could use their capital for other purposes rather than tying it up in real estate.
- Occupiers are still cautious and generally show preference to leasing over purchase. In the case of needs for premises with specific parameters, due to a shortage of such new buildings often older industrial premises are considered. Short-term rental contracts have become more common. Investor interest for industrial sector is improving but remains relatively low.
- Even though the industrial market vacancy rate was quite high throughout 2010, the sector has become more active among Russian and Scandinavian clients, and there was some degree of demand shortfall in larger properties (above 5,000 sqm). In addition to international companies, some local companies have also become active in this segment.
- Although the sector has shown some positive signs of recovery, supported by strengthening exports and economic revival in neighbouring Nordic countries, stable recovery in this market will be slow-moderate over the medium-term. Despite reduced demand, a drop-off in supply should allow rents to remain more stable in 2011.
- The development of industrial properties is concentrated on the area of Tallinn and Harju County. The obvious reasons for this are the location (for example, proximity of main ports such as Muuga and Paldiski), built-up infrastructure and economic activity in the area.
- Since the end of 2009 foreign investors have turned their attention to the industrial market and continue to seek attractive investment possibilities. Growing interest from foreign investors attracted to the sector by low prices, remains to be a promising sign.



INDUSTRIAL AND LOGISTICS PARKS IN TALLINN AND HARJU COUNTY

Existing Developments

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

Completed in 2010

1. Mõigu Industrial Park

Declared for Completion in 2011 - 2012

1. VGP Park Tallinn II building
2. Ülemiste City
3. Tondiraba Industrial Park
4. Tabasalu Industrial Park
5. Rae Industrial Park
6. American Corner Retail and Logistics Park

Hotel Market

OVERVIEW

At the beginning of 2010 the hotel sector remained in deep recession with quite a bleak outlook. However the summer and good publicity overseas in 2010 saved many hotel operators from near bankruptcy.

In 2010, the hotel market witnessed an increase in the number of tourists, driving average occupancy rates and prices up. During 2010, income of the sales of accommodation services increased by 8.7 per cent compared to the previous year.

SUPPLY

2009 saw Tallinn's hotel segment expand with the opening of two hotels belonging to the Meriton Hotels Chain, however no new hotels entered the Tallinn hotel market in 2010.

At the beginning of 2011, the 4-star segment comprises the largest percentage of Tallinn's available rooms, consisting of 26 hotels with 3,783 rooms - 57 per cent of the total supply. Recent development, most of which was completed in 2007 has mostly occurred in the 4-star and 5-star segments. In 2007, one 3-star, four new 4-star and two 5-star hotels were opened in Tallinn, 2008 added one 4-star hotel and 2009 saw one 4-star hotel enlargement and one new hotel enter the Tallinn market.

Approximately 36 per cent of Estonia's total stock is strongly rooted in the 3-star hotel segment, indicating that visiting tourists to Estonia are often looking for middle or higher-value travel options. Tallinn's hotels rooms account for 63 per cent Estonia's total supply, with the 3-star segment dominating the Estonian market, in respect to the number of hotels.

DEMAND

During 2010 Estonia accommodated a total of 2,401,763 guests, with 1,289,372 of them staying in the capital city. Numbers increased by approx. 12 per cent in Estonia and 13.6 per cent in Tallinn respectively relative to 2009.

The majority of tourists were from outside Estonia, with 1.56 million foreign tourists staying in Estonian accommodation establishments and 1.14 million foreign tourists similarly in Tallinn. Foreign tourism in Estonia increased by 13.3 per cent and in Tallinn by 12.2 per cent compared to 2009. The number of local visitors increased by approx. by 9.3 per cent in Estonia and by 8.6 per cent in Tallinn.

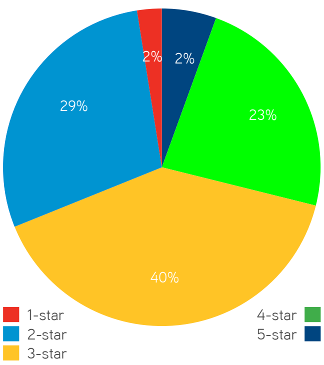
The number of nights spent by foreign tourists in Estonia was 3.2 million (+17 per cent relative to 2009), an all-time record high number, exceeding the pre-crisis (2008) level by as much as 9 per cent and the previous record level (2006) by 6 per cent.

According to Enterprise Estonia, the number of foreign visitors on overnight stays for holiday trips increased by 21 per cent, stays overnight on business trips by 12 per cent and overnights on other trips by 8 per cent. Both holiday (which account for 2/3 of all foreign overnight stays) and business trips were slightly longer than in 2009. The growth

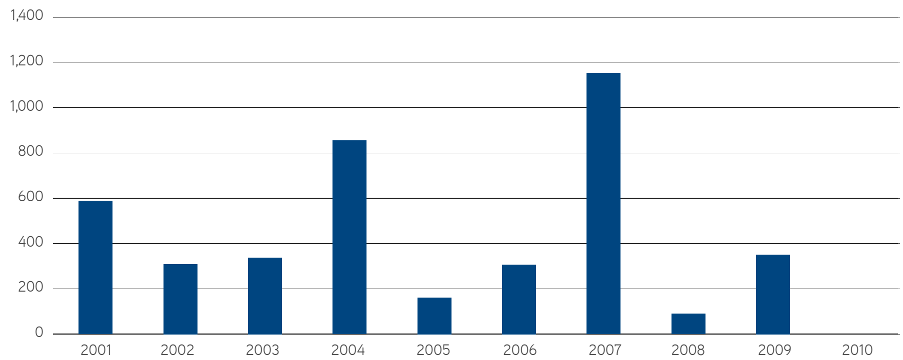
NUMBER OF HOTELS IN ESTONIA BY STARS
Source: Colliers International Advisors, Estonian Hotel and Restaurant Association

Stars	Estonia	Tallinn
5-star	7	5
4-star	30	26
3-star	50	16
2-star	36	10
1-star	3	1
Total	126	58

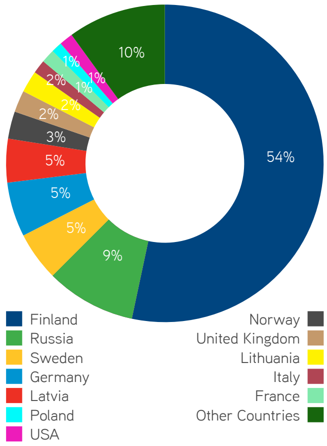
DISTRIBUTION OF HOTELS BY NUMBER OF STARS IN ESTONIA
Source: Colliers International Advisors, Estonian Hotel and Restaurant Association



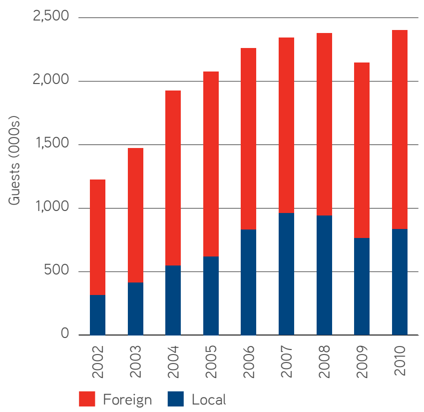
NUMBER OF ROOMS ADDED TO THE TALLINN HOTEL MARKET IN 2000 - 2010
Source: Colliers International Advisors



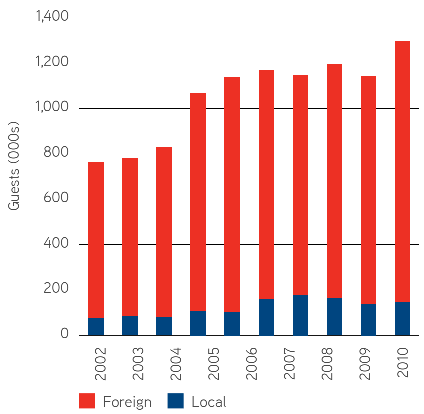
DISTRIBUTION OF FOREIGN VISITORS BY COUNTRY IN ACCOMMODATION ESTABLISHMENTS IN 2010
Source: Statistics Estonia, 2010



DISTRIBUTION OF FOREIGN VISITORS BY COUNTRY IN ACCOMMODATION ESTABLISHMENTS IN ESTONIA
fSource: Statistics Estonia, 2010



DISTRIBUTION OF FOREIGN VISITORS BY COUNTRY IN ACCOMMODATION ESTABLISHMENTS IN TALLINN
Source: Statistics Estonia, 2010



in arrivals and overnights were achieved with lower prices. Overnight stays (domestic + foreign) increased by 14 per cent, and the sales income of accommodation services increased by 8.7 per cent.

More than half of the foreign tourists staying in accommodation establishments came from Finland. Compared to the same period of the 2009, the number of tourists from Finland increased 11 per cent. The length of stay of the Finns also showed a good increase - up by as much as 17.5 per cent. Finnish overnight stays increased somewhat more in spa hotels than in other accommodation establishments. Tourism from Finland has been boosted by a combination of several factors: marketing activities by the public and the private sector, new tourist attractions, as well as the general growth trend in Finnish outbound travel.

Arrivals and overnight stays from Russian tourists reached a new peak in 2010 when 141,964 tourists from Russia used the services of accommodation establishments, 51 per cent more than a year ago. Russia was also one of the very few growth markets in 2009. The increasing popularity of Estonia as a New Year trip destination for Russians, the lowering of the minimum sum for purchases eligible for a VAT refund (for non-EU travellers), active marketing by the public and the private sector, additional transport connections and international winter sports events were the main factors that grew tourism from Russia to Estonia in 2010. It should also be mentioned that one third of Russian tourists overnight stays in 2010 were spent at spa hotels (a year ago this figure was 27.5 per cent).

Most of the other main source markets showed an increase in 2010 with more tourists than 2009, such as Germany, Lithuania, Latvia, United Kingdom and Sweden as well as from more distant Southern European markets (Italy, France, and Spain) and the USA. At the same time, the number of visitors from Norway decreased 1.2 per cent.

The majority of foreign tourists arrive by ship. According to the Port of Tallinn, the number of ship passengers increased by 9 per cent in 2010.

The number of tourists from Finland is expected to continue to increase, due to ongoing special offers and discounts from ferry operators. In 2010 AS Tallink Grupp transported 3,974,927 passengers between Estonia and Finland which reflects an approx. 13 per cent increase compared to 2009. During 2010, the number of passengers travelling between Tallinn and Stockholm increased by 6.4 per cent (with a substantial y-o-y increase of 38 per cent in December 2010).

The number of passengers (including both arrivals and departures) using Tallinn Airport increased annually by 3 per cent in 2010 after a sharp decrease of 25.6 per cent in 2009 compared to 2008. An increase in number of direct inbound and outbound flights from Tallinn has also factored in increasing the number of travellers through Tallinn. Irish low-cost airline Ryanair launched it's inaugural flights from Tallinn Airport in late 2010. By the beginning of 2011 Ryanair is offering seven destinations from Tallinn and additional new routes to East Midlands, Girona (Barcelona) and Bremen are expected to be launched in March 2011.

Tallinn Airport expects to add almost half a million passengers in 2011 and the number is expected to continue further growing mostly due to low-cost carriers. According to Erik Sakkov, board member of Tallinn Airport, at the beginning of 2011 Tallinn Airport is negotiating with 30 - 40 airlines and is

CHANGE IN NUMBER OF TOURISTS, 2009 VS 2010

Country	Number of Tourists 2009	Number of Tourists 2010	Change
Italy	19,959	23,017	15.32%
Lithuania	33,441	34,107	1.99%
Latvia	68,320	72,684	6.39%
Norway	40,915	40,414	-1.22%
Sweden	77,470	81,196	4.81%
Germany	75,966	84,454	11.17%
Finland	750,984	832,874	10.90%
United Kingdom	33,395	35,692	6.88%
Russia	93,947	141,964	51.11%

looking for an Asian carrier to make Tallinn its hub in flights between Asia and Europe.

Domestic tourism decreased substantially in 2009. However, during the first months of 2010 the decline stopped and starting from the second quarter of 2010, domestic tourism showed an increase in terms of occupancy at accommodation establishments. In 2010, 837,811 domestic tourists stayed overnight at accommodation establishments in Estonia (+9.3 per cent compared to 2009). According to Enterprise Estonia, overnights on holiday trips increased by 13 per cent and overnights on business trips by 12 per cent, whereas overnights on other trips decreased by 2.6 per cent.

PRICES AND OCCUPANCY

In 2009, an overall decrease in occupancy rates directly caused a decrease in room rates. Low-end room rates fell 15 - 20 per cent year-on-year, forcing existing hotels to be more cost effective and flexible with pricing.

In 2010 the average price for a night of accommodation in Estonia was 26.7 EUR and 31.1 EUR in Tallinn indicating an annual decrease of 5 per cent and 8 per cent respectively. The minimum price for standard double hotel rooms in Tallinn decreased on average by 15 - 20 per cent encouraging sales of accommodation services in 2010.

The average occupancy rate in 2010 for all accommodation establishments was 39.8 per cent in Estonia and 52 per cent in Tallinn. Due to a substantial increase in the total supply (approx. 23 per cent) of rooms between 2007 and 2008 and an unfavourable economic climate, the occupancy rate during 2009 declined relative to 2008 by ca 12 per cent both in Estonia and Tallinn. In 2010 the average occupancy for accommodation establishments in Estonia returned to 2008 levels while the occupancy rate in Tallinn increased by ca 18.5 per cent in 2010 compared to 2009, exceeding 2008 level.

TENDENCIES AND FORECASTS

- Although 2010 already established a new record high in terms of the number of tourists in Estonia, hotel operators are even more optimistic about 2011.
- Starting from autumn 2010 the average room price has started to steadily increase and is predicted that during 2011 the increase could be as much as 30 per cent. In general, room prices are expected to increase by 10 - 15 per cent on average due to growing tourism demand and a continual increase in energy and labour force prices.
- Tallinn's European Capital of Culture programme is expected to further buoy the hotel sector in 2011.
- Further development of inbound tourism is substantially dependant on the volume of Estonia's air travel, which is expected to grow with the opening of several new direct flights. Tallinn Airport expects to add almost half a million passengers in 2011 and the number is expected to continue further growing mostly due to low-cost carriers.
- There are no new hotel chains expected to enter Tallinn hotel market and no new hotels to be established in the near future (in 1 - 2 year perspective).
- As Estonia is no longer a relatively inexpensive country, tourism enterprises will need to focus on additional products/ services and cost-efficient management in order to maintain a competitive advantage.

Estonia Legal Overview

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.

Asset Transfer vs Share Transfer

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

Issues to consider when planning a share transfer:

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

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

◊ scope of due diligence investigation is extended because a share deal transfers an entire company (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 secure with its own assets a loan taken by the buyer to finance acquisition);

◊ deferred tax issues.

Issues to consider when planning asset transfer:

◊ asset transfer is subject to notary fees and state duty and is thus 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;

◊ agreements on supply of utilities and other services must be assigned or concluded anew;

◊ LOIs and HOTs are not binding on the parties without notarisation;

◊ an asset transaction may qualify as a business transfer, in which case all obligations associated with the acquired business will be transferred from seller to buyer.

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 authorisation of signatories to

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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 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 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.

RELATED COSTS

Costs typically incurred in a real estate transaction 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.

Notary fees are stipulated 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 roughly EUR 1,548 plus VAT. Registration of ownership and encumbrances in the Land Book attract state duty. The amount depends on transaction value and is a fixed sum laid down by law. For instance, state 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 therefore less than 0.5 per cent of transaction value.

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. The Estonian Parliament is processing amendments to the law abolishing the restriction for individuals but not for legal persons.

Acquiring real estate 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);
- ◊ 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.

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

ENCUMBRANCES

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

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

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 sales 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.

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 the 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.

If, after expiry of a lease agreement, the tenant continues to use the leased premises, 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 (eg changes in local CPI may be capped at eg 3 per cent per annum). It is common to pay a deposit 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.

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DISTRESSED ASSETS PURCHASE

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 whereby 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.

The distressed asset is usually sold “as is”, which makes thorough due diligence even more important.

Lease contracts concluded by previous owners under adverse terms 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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Estonia 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 per cent.

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 per cent.

DEPRECIATION / LOSS CARRY FORWARD

Carry forward of losses is unlimited, as is depreciation for tax purposes.

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 per cent 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 per cent.

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 per cent and more than 50 per cent 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 per cent to 2.5 per cent of cadastral value of land excluding buildings. The rate is set by municipalities by 31 January each year.

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 per cent 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 per cent 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.

European Union
Regional Development Fund

Investing in your future

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BELARUS
REAL ESTATE MARKET REVIEW

2011

Accelerating success.

GOOD SIGNS FOR THE REAL ESTATE MARKET

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There appeared to be little activity on the Belarusian real estate market in. But it is not as it seems.

The beginning of the year was a period of pessimistic outlook, with the ongoing effects of the crisis still very much apparent.

At the beginning of 2010 as was the case in 2009, had the investors aimed to seize opportunities to acquire distressed assets for resale or development. To pay debts some of the developers were ready to sell their projects at only its cost price.

In the second half of 2010 the availability of bank finance to developers for their projects was a reason behind a revival in the market. By the end of the year several banks announced that they would become partners in some major mixed-used projects.

By the end of the year ongoing demand for quality premises appeared in every segments of the commercial real estate market. It became obvious that the real estate market is in need of experienced developers who can build objects of high quality to meet this demand in the near future.

At the same time, foreign investors significantly changed their view on Belarus when the Government announced that for the first time in the history of Belarus a land plot in the centre of Minsk for was sold into private ownership to the foreign investor for construction of a mixed-used project. This trend is certainly a good sign for the commercial real estate market in Belarus.

2010 was the year of long-hoped stabilization and optimistic views. The entry into the market of foreign developers and major tenants who are in need of quality premises in Minsk as well as other centres of Belarus can indeed be seen as a positive trend for the real estate market.

Economic Overview

There were a lot of important events in economy of Belarus during 2010. The year was the first post-crisis year for Belarus, characterized by having positive movement in macro economical indicators such as growth of the GDP, industrial production index, reduction of unemployment and maintaining inflation within the forecast. Average gross salary increased by 24 per cent, amounting to EUR 313/month. In order to stimulate the economy, the National Bank has reduced the base interest rate on six occasions - from 13.5 to 10.5 per cent.

The positions of Belarus in international ratings during 2010 were quite stable. In the Doing Business 2011 rating Belarus moved from 64th to 68th place. The Index of Economic Freedom the position has improved from 167th to 155th place, but not leaving the group of countries with a low level of economical freedom. An increase in funding and salaries in state-run enterprises (about half of all employment in Belarus) has led to an improvement in the Legatum Prosperity Index 2010 by 1 position to 54th place.

A negative balance of foreign trade forced further use of foreign reserves (and subsequent refilling of the reserves). The current account deficit reached 13.6 per cent of GDP, against 11.8 per cent in 2009. The IMF estimated that the main causes of the high account deficits in 2010 and 2011 are rapid credit expansion and significant increase in wages and salaries in late 2010.

New legislation regarding the release of Belarusian Eurobonds in 2010 - 2011 for the sum up to USD 2 billion was issued in May 2010. The debut issue of Eurobonds in Belarus for USD 1 billion was carried out in 3Q 2010. Total external debt has increased by 22.8 per cent in EUR within 9 month of 2010. An additional EUR 200 million (in Russian Rubles) of bonds were sold in December 2010 through Moscow based stock exchange MICEX.

The country government realizes the need of reforms and privatization. New legislation "Decree No 4: The development of entrepreneurship and stimulating business activity in Belarus" was issued in December 2010. Major attention is paid to increasing the efficiency of taxation and the simplification of legislation. Some changes in privatization legislation were made at the end of 2010. The head of the National Bank of Belarus forecasted that more than EUR 2 billion of savings can be achieved in 2011 through privatization.

KEY ECONOMIC INDICATORS OF BELARUS

f - forecast

**The estimation of the exchange rate of the Belarusian ruble adopted a 'currency basket" method in 2009 (whereas previously only comparison with the US Dollar was made). The currency basket value is calculated as the geometric average of the two-way exchange rates of the Belarusian ruble versus the US dollar (USD), Euro (EUR), Russian ruble (RUB) at the specific date*

***third quarter 2010*

Source: National Bank of the Republic of Belarus, Ministry of Economy of the Republic of Belarus, International Monetary Fund

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011f
GDP Current Prices, bln EUR*	15.5	15.7	18.6	24.2	29.4	33.0	41.0	35.8	41.2	43.9
GDP Growth (real), % yoy	5.0	7.0	11.4	9.4	10.0	8.6	10.0	0.2	7,6	6.2
Industrial Production, % yoy	4.5	7.1	15.9	10.5	11.4	8.7	11.5	-2.8	11.3	9.5
Unemployment Rate, % avg	3.0	3.1	1.9	1.5	1.2	1.0	0.8	0.9	0.7	1.5
Total Central Government Debt, % of GDP	2.5	1.9	2.1	2.0	1.6	4.5	5.9	17.1	19.6	23.3
PPI, % yoy	41.4	37.5	24.1	12.1	8.3	16.2	12.8	14.5	13.6	8.9
CPI, % yoy	43.0	28.0	18.1	10.3	7.0	8.4	14.8	13.0	9.9	10.8
Fiscal Deficit, % of GDP	-0.2	-1.7	0.04	-0.7	2.2	-1.5	1.9	-1.0	-2.4	-3
Export, bln EUR	8.45	8.8	11.0	12.7	15.65	16.3	22.5	15.3	22.5	22.3
Import, bln EUR	9.5	10.2	13.2	13.3	17.7	18.5	27.0	20.6	28.1	28.7
Current Account, bln EUR	-0.3	-0.4	-1.0	0.4	-1.2	-2.1	-2.5	-5.3	-5.60	-6.4
Current Account, % of GDP	-2.1	-2.4	-5.2	1.7	-4.1	-6.6	-8.0	-9.76	-11.7	-9.0
FDI, mln EUR	318.8	602.5	692.5	362.3	596.4	960.0	1,559.1	1,635.0	1,069,9**	n/a
Cumulative FDI, mln EUR	1,910.0	1,674.3	1,649.5	1,913.1	2,161.6	3,318.6	4,542.9	6,121.9	n/a	n/a
BYR/USD avg.	1,804.0	2,075.0	2,163.73	2,155.13	2,146.28	2,144.76	2,136.6	2,791.8	2,979.5	3,217.8
BYR/EUR avg.	1,704.0	2,353.0	2,698.27	2,684.29	2,714.88	2,897.28	3,143.0	3,893.0	3,954.1	4,270.4

Office Market

OVERVIEW

The suspension of new projects in 2008-2009 on the office market has followed on to new office building construction in 2010. Not all developers have overcome the burden of the crisis and a number of new office buildings are still incomplete. At the same time new projects have been launched.

Increasing business activity and a shortage of new supply led to filling of business centres, constructed in 2009, reducing the total vacancy level. Despite a general diminishing of office rent rates in 2009 until Q3 and Q4 2010 some of high quality properties have indicated a slight increase in rent rates. In summary, 2010 was rather stable, lacking considerable events.

SUPPLY

In 2010 developers completed 13 new business centres with GLA of 104,800 sqm with this new building completion reaching the same level of 2006. Projects entering the market are not only those that had been scheduled for 2010, but also those which had been planned for completion earlier, but had ran over-time. Due to continuing crisis influence most commercial office projects were suspended or slowed down in 2010.

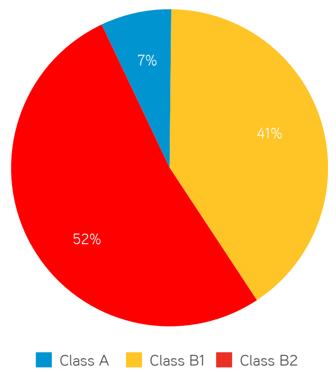
Only four B Class office buildings entered the market in 2010 with total GLA of 28,000 sqm.

In total, during 2010, three business centres were put into operation. 3 business centres "Parus", "Park Plaza" and "Technopark" were constructed under shared ownership terms and, and comprise numerous owners. However, the business centre "A-100" is owned exclusively by it's developer.

There are 16 business centres and mixed use commercial centres with developed office part with a total GLA of more than 105,000 sqm planned for completion in 2011. Based on recent data the completion of 10 - 15 per cent of new projects expected for 2011 will be delayed until at least 2012.

DISTRIBUTION OF OFFICE SPACE IN MINSK

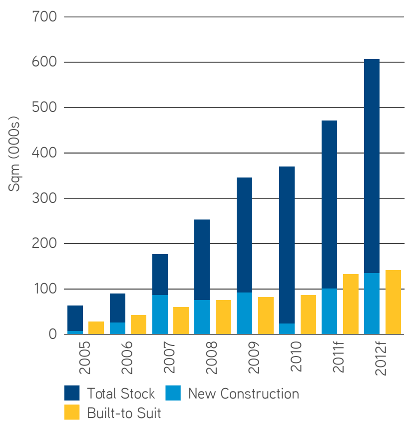
Source: Colliers International



DYNAMICS OF OFFICE SPACE SUPPLY IN MINSK

f - forecast

Source: Colliers International



COMMERCIAL OFFICE PROJECTS PLANNED FOR 2010

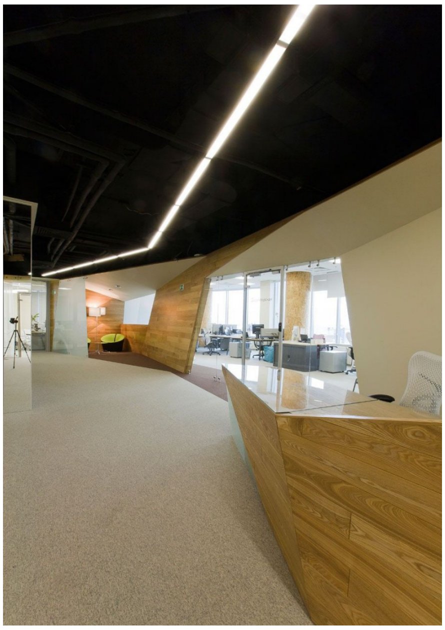
Source: Colliers International

Project	Address	GLA, sqm	Developer
Sky Towers	Leshinskogo St. 8	14,000	Kassar
Parus	Melezha St.	15,000	Elektroprom
Stolica	Tolbuhina St. 2A	15,000	IEPiU
No name	Timirjazeva St. 65V	10,000	Ofisinvest
Tehnopark	Mashinostroitelej St.	4,200	Biznespatronat
No name	Platonova St. 22	8,900	Belstrojveturia
No name	Prityckogo St.	7,500	Festival'nyj Centre
Europe, 2nd line	Surganova St.	8,000	Rubirous Int.
Slavjankij	Nemiga St. 3	5,000	Parking
Park Plaza	Logojskij trakt St. 22A	4,500	IV-Invest
Verhnij Gorod	Internacional'naja St. 3	4,500	Sulona
A-100	Gorodeckogo St.	4,400	Damaan
No name	Bogdanovicha St. 155A	3,800	Triple
Total		104,800	

BUSINESS CENTRES COMMISSIONED IN 2010

Source: Colliers International

Class	Project	Address	GLA, sqm	Developer
B2	Parus	Melezha St.	15,000	Elektroprom
B2	No name	Logojskij trakt St. 22A	4,500	IV-Invest
B1	A-100	Gorodeckogo St.	4,400	Damaan
B2	Tehnopark	Mashinostroitelej St. 29	4,200	Biznespatronat
Total			28,100	



COMMERCIAL OFFICE PROJECTS PLANNED FOR 2011

Source: Colliers International

Project	Address	GLA, sqm	Developer
Sky Towers	Leshinskogo St. 8	14,000	Kassar
No name	Timirjazeva St. 65V	10,000	Ofisinvest
Opel-Centre	Timirjazeva St.	9,700	Ingrado
Prima	Surganova St.	9,200	Studencheskij Dom
Forum Plaza	Kozlova/Akademicheskaja St.	8,300	Delorm
Tivali-Center	Prityckogo St.	7,500	Festival'nyj Centr
No name	Zheleznodorozhnaja St.	6,700	Techinmash
No name	Smolenskaja St.	6,500	Minskkontrakt
Europe, 2th line	Surganova St.	8,000	Rubirous Int.
Slavjankij	Nemiga St. 3	5,000	Parking
No name	Gamarnika St.	4,500	Lankorma
Velcom	Internacional'naja St.	4,000	Prudenko Investments
No name	Bogdanovicha St. 155A	3,800	Triple
Azimut	Chapaeva/Bjaduli St.	3,500	Univest-M
No name	Ajerodromnaja	2,500	Minsk-City
Optima	Zheleznodorozhnaja	2,500	ElitSrojTehMontazh
Total		105,700	

MAJOR BUILT-TO-SUIT OFFICE PROJECT COMPLETED IN MINSK IN 2010

Source: Colliers International

Project	Address	GBA, sqm	Developer
VTB	Moskovskaja St. 14	4,230	VTB-Bank
Total		4,230	

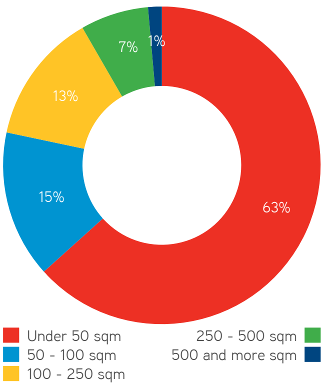
MAJOR BUILT-TO-SUIT OFFICE PROJECT PLANNED IN MINSK FOR 2010

Source: Colliers International

Project	Address	GBA, sqm	Developer
Velcom	Internacional'naja St.	12,000	Prudenko Investments
Belarusbank	Dzerzhinskogo Ave.	37,000	Belarusbank
Electro Lab	Smolenskaja St.	8,000	Electro Lab
Total		57,000	

DEMAND STRUCTURE FOR OFFICE SPACE IN MINSK IN 2010

Source: Colliers International



The supply structure of office space changed in 2010. The new business centres were all classified B Class (3 of class B2, and 1 of class B1). The business centre "Nemiga-City", which was previously graded A class, became B Class following 5 years of operation. Presently there are 3 business centres of class A in the market with GLA of 26,500 sqm GLA, making up 7 per cent of the market total.

Participants in built-to-suit office projects are still banks and major companies.

In spite of price reductions and rent rate decreases for office spaces since 2009, certain companies (mostly banks, telecommunications companies and other big businesses) continue to occupy or built-to-suit office construction due to the lack of suitable space, particularly larger and modern premises. During 2010 the major built-to-suit office project completed in Minsk was bank VTB building on Moskovskaja Street.

Originally the project was planned for operation in 2009 but like many other others construction was postponed and the building was finally building completed in 2010. This was again the same case for the reconstruction of the electro laboratory building on Smolenskaia Street, which was previously announced for 2010 but was delayed until 2011.

The major built-to-suit project planned for 2011 is the office building for the main Belarusian bank "Belarusbank" and telecommunication operator "Velcom". At the end of 2010 erection of the main office building for Belarusian Potash Company on Masherova Street was started. Due to project scope, completion is expected no sooner that in 2012.

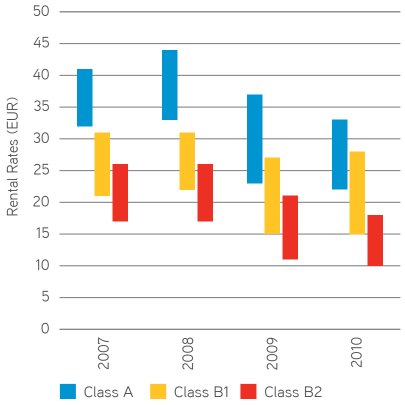
RENTAL RATES AND TRENDS IN MINSK

**asking rental rates EUR/sqm/month excluding VAT operating expenses*
→→ - stable, →↘ - slight decrease.
Source: Colliers International

Class	Rental Rates*	Trends for 2011
A existing	22 - 31	→→
B1 existing	15 - 28	→↘
B2 existing	10 - 18	→↘

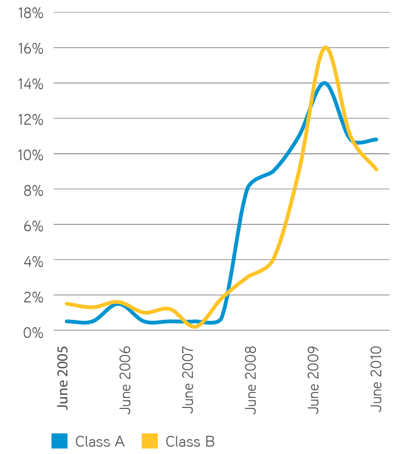
DYNAMICS OF RENTAL RATES *

**asking rental rates EUR/sqm/month excluding VAT operating expenses*
Source: Colliers International



DYNAMICS OF VACANCY

Source: Colliers International



DEMAND

The demand structure for office space did not change considerably during 2009 - 2010. Belarusian companies still provide a major part of demand and mostly need areas below 100 sqm. In Q1 - Q3 2010 a slight increase in demand for such offices was apparent.

Demand for office spaces of 250 sqm and more area led by stable Belarusian and International companies. Properties of such size are the most popular among IT, auditors and consulting companies. A downward trend in rental rates has contributed to increasing the number of companies moving into a new office in 2010.

Corporate requirements of many international companies still prefer open space. Modern office supply is limited to 3 or 4 properties. As not all the planned business centres were completed in 2010 (4 of 13 planned buildings) and newly entered ones were not able to let considerable amount of leased areas, demand for modern and larger office space remains unsatisfied.

Increasing demand is being seen from international companies for office areas over 500 sqm. During 2009 - 2010 Colliers International brokers concluded a number of significant lease agreements with office areas from 500 to 5,000 sqm.

RENTAL RATES

The first two quarters saw stabilization of rental rates. In Q3 a slight decrease was seen in some of high quality properties. Landlords showed less flexibility to offer discounts on face rents. Stabilization of rental rates has been supported by an increase in economic activity and at the same time a minimal increase of new office area supply (7 per cent).

It should be noted that most administrative buildings in Minsk are held by multiple owners, in some cases several dozen. Therefore premises within one building have different levels of finishing and equipment. As a result significant differentiation exists in rents for similar premises located in the same business centre held by different owners.

In spite of increase in demand owners continued to give discounts actively in 2010. Biggest discounts were provided to companies leasing over 400 sqm in A and B 2 class offices. Median value of discounts in these deals was 14 per cent of face rents without VAT. Discount rates fluctuated between 8 and 25 per cent, depending on the area being leased.

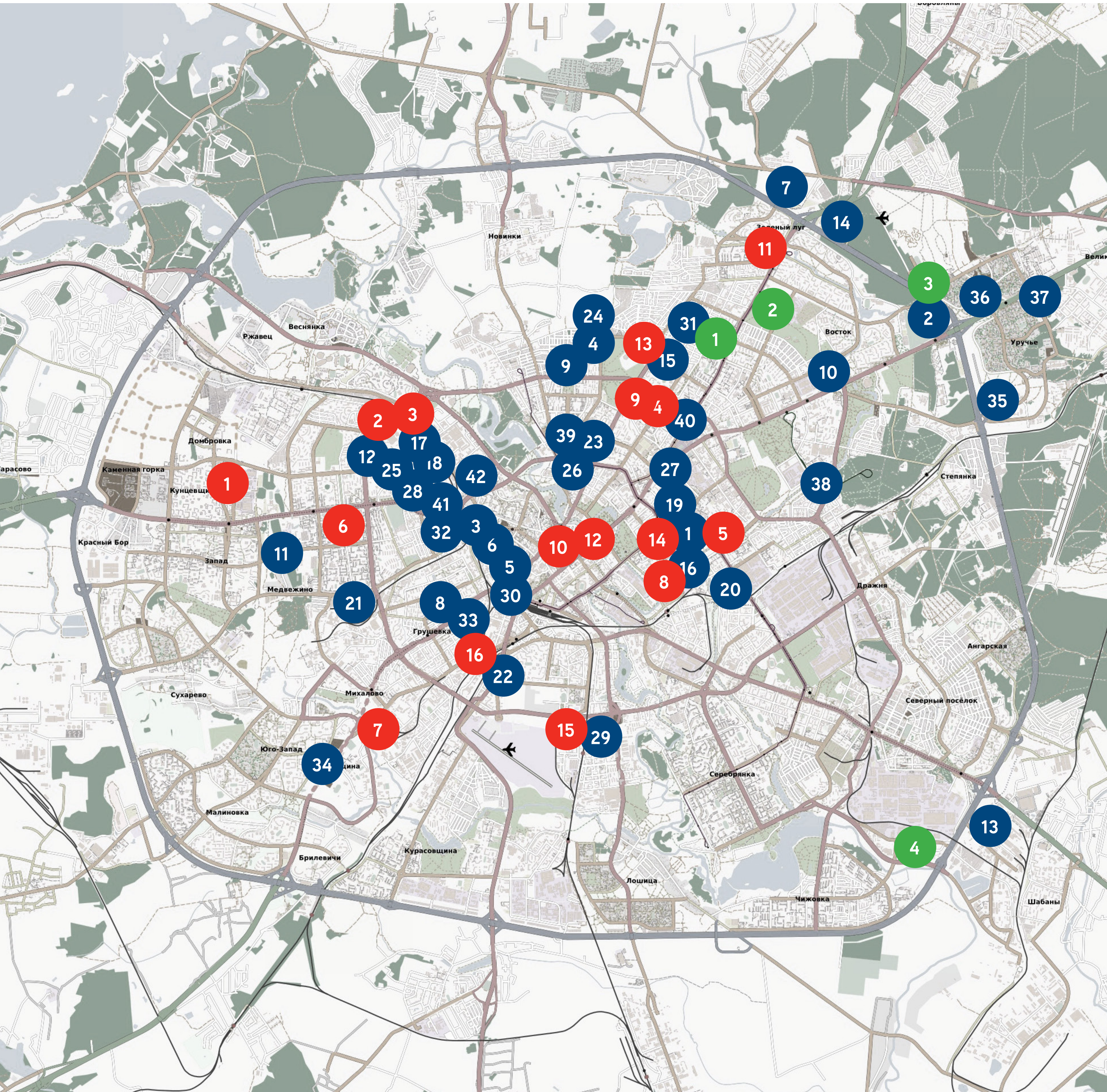
VACANCY

In 2009 saw vacancy increases due to a significant amount of new office area being putting into operation of significant amount of new office areas coupled with the general economic crisis. During 2010 absorption of new office area took place in these vacant business centres. Filling of new office centres by tenants and limited supply increase during 2010 resulted in a decrease in total vacancy levels.

New office premises have been filling due to a rotation of tenants and the entrance of new companies into the market, which was not seen in 2009.

TRENDS AND FORCASTS

- ◊ Vacancy rate increase in 2011 due to the entry of new objects onto the market.
- ◊ Stability of rental rates.
- ◊ Increasing demand for office premises over 500 sqm.
- ◊ Fulfilling new business centres due to deferred demand.



COMMERCIAL OFFICE CENTRES IN MINSK

Existing Developments

1. Victoria Plaza
2. XXI - Vek
3. Saako
4. Capital
5. Nemiga-City
6. Na Korolya
7. Expobel
8. IBC
9. Orlovskaja St. 40
10. Alexandrov Passage
11. Odoevskogo St. 115
12. Olshevskogo St. 22
13. Ankor
14. Akvabel
15. Bogdanovicha St. 120B
16. Smolenskaja St. 27
17. Timirjazeva St. 65
18. Timirjazeva St. 65B
19. Krasnozvezdnaja St. 18B
20. Kozlova St. 7
21. Dali
22. Komkon
23. Horuzhej St. 22
24. Karastojanovoj St .32
25. Olshevskogo St. 24
26. Masherova St. 19
27. Gikalo St. 3
28. Biruzova St. 10
29. Hi-Tech
30. Myasnikova St. 70
31. Meleza St. 5
32. Silver Tower
33. Rubin Plaza
34. Titan
35. Hi-Tech Park
36. Port
37. IceBerg
38. Union Centre
39. Terminal
40. Surganova St. 39A
41. Skryganova St. 6A
42. Stella

Completed in 2010

1. Parus
2. Park Plaza
3. A-100
4. Technopark

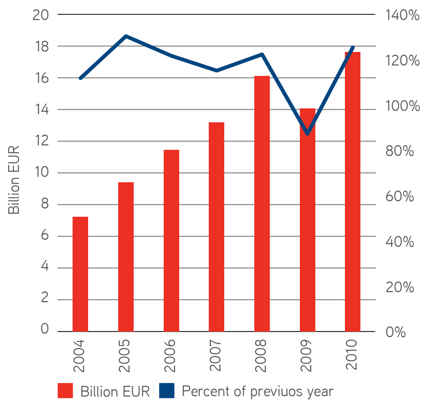
Declared for Completion in 2011

1. Sky Towers
2. Timirjazeva St. 65
3. Opel-Center
4. Prima
5. Forum Plaza
6. Tivali-Center
7. Zheleznodorozhnaja St.
8. Smolenskaja St.
9. Europe
10. Slavjankij
11. Gamarnika St.
12. Velcom
13. Bogdanovicha St.
14. Azimut
15. Ajerodromnaja St.
16. Optima

Retail Market

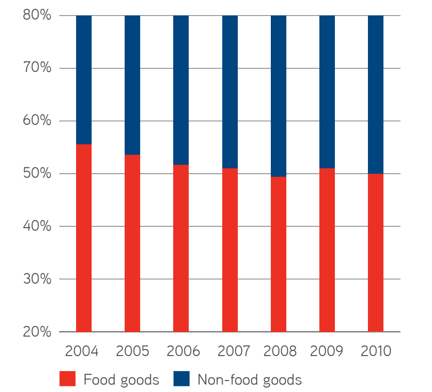
DYNAMICS OF RETAIL TURNOVER IN THE REPUBLIC BELARUS

Source: National Statistics Committee of the Republic of Belarus



STRUCTURE OF RETAIL SALES

Source: National Statistics Committee of the Republic of Belarus



OVERVIEW

2010 can be considered as a year of recovery in the retail and services segments in Belarus. Retail turnover in Local currency (Belorussian Rubles) increased by 17.1 per cent relative to 2009. Retail turnover in EUR figures increased by 25.4 per cent, amounting to 17.6 billion EUR This figure is 1.5 billion more than in 2008, which was previously the most successful year for the Belarusian retail. It is necessary to consider a major factor in the increase of EUR turnover was due to the fluctuation and devaluing of the EUR currency exchange rate. This is evident when it is considered that the increase of retail turnover in USD amounted to just 0.3 billion for the same period.

Food retailers were the most stable type of retail operation during the crisis.

The retail turnover structure also underwent some changes. In 2009 there was a dramatic decrease of sales volume and an increase of the share of foods in sales structure. In 2010 the share of foods decreased by 1 percentage point, amounting to a 50.1 per cent share of the total sales. An increase in real wages saw further reduction of food sales in the total retail sales volume.

Emergence of retail chains ("convenience stores", supermarkets and hypermarkets) became the main trend in the retail market in 2010. Development mainly took place in regional areas because of fierce competition in Minsk's retail segment.

Decrease of non-foods in retail sales structure as the consequence of crisis is ongoing and is constraining development actively in segments such as home appliances and clothing. Among non-food retailers "Buslik", which operates children's' product stores and has demonstrated active development.

In regional areas "convenience stores" developed most actively. Such stores can be opened in existing retail properties. Supermarket and hypermarket chains have to construct new 'built to suit' objects. 2010 also saw the start of new properties and the completion of projects that were suspended in 2008 - 2009.

In 2010 the majority of regional projects were implemented in Gomel, the second largest city by population in Belarus with 482,000 inhabitants. Hypermarket chain "Hyppo", supermarkets "Almi" and "Korzinka were opened in Gomel during the year, with an area of the objects exceeding 16,000 sqm. The company "Grinn" constructed it's first store of "cash& carry" store (self-service store, offering customers the opportunity to purchase various goods at retail and small wholesale) with a total area of 14,000 sqm. This chain operates 18 hypermarkets and 20 supermarkets in different regions of Russia. The further development of the chain is going to be directed to regional centres of Belarus also. Another notable development was by the company "Rakovski Kirmash", who opened a new food supermarket under a roof of the former operator after a partial reconstruction.

SUPPLY AND NEW CONSTRUCTION

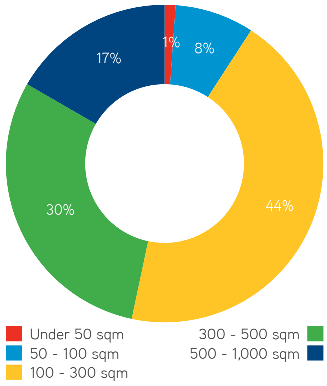
During 2010, 8 shopping centres and complexes with a large retail portion were put into operation. The total GLA of these objects is 59,000 sqm. Completion of a further 5 objects with 22,000 sqm of area has been delayed to 2011.

The delay of project completion was a typical trend even before the crisis, aggravated by the financial problems of some developers and froze some projects in 2009. At the same time large Belarusian and foreign companies constructed retail objects with a timeframe of under a year. 2Q 2010 saw the opening of shopping centre ProStore with total area of 20,600 sqm and DIY shopping centre OMA with total area 8,500 sqm.

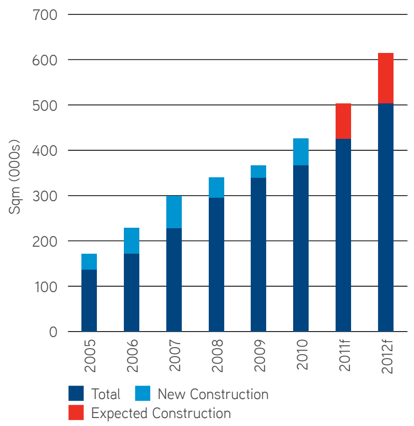
The existing supply is predominately neighbourhood and community shopping centres. The GLA of such objects generally doesn't exceed 5,000 and 15,000 sqm respectively Many objects do not have an anchor tenant.

There are currently only two centres large enough to be considered "regional shopping centres" on the market.

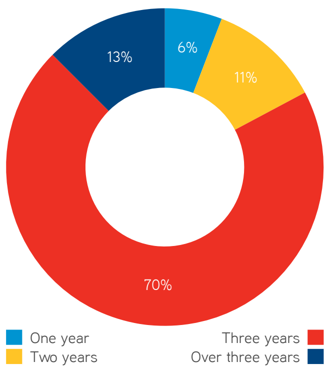
STRUCTURE OF DEMAND IN MODERN SHOPPING CENTRE IN MINSK (SHOPPING GALLERY)
Source: Colliers International



DYNAMICS OF RETAIL SPACE IN MINSK
f - forecast
Source: Colliers International



STRUCTURE OF LEASE AGREEMENTS(TERM OF 1 YEAR AND MORE
Source: Colliers International



In 2011 one entertainment-shopping centre is expected to be commissioned as a part of the mixed-use complex “Avtovokzal “Centralnyj”. Besides retail areas the complex includes an international bus station, multilevel parking and offices.

Entertainment-shopping centres “Zamok” and “Luxury Shopping Centre” are under construction now and will be opened in 2012.

Initially, the completion of the entertainment-shopping centre “Zamok” was planned by the end of 2011. Subsequently the first and second stages were delayed to Q1 and Q2 2012 correspondingly.

In 2011 the market expects 10 new objects with total GLA 78,000 sqm.

Availability of vacant space in the city centre until recently allowed construction of new shopping centres in historical commercial areas of Minsk city. Currently, there is a trend of reconstruction and redesign of industrial buildings in the city centre and for new construction in suburban areas and along the Minsk Ring Road.

In 2010, reconstruction of older department stores in Minsk began. Such objects have outdated layout and the quality does not meet modern requirements.

DEMAND

One of the features of the retail market in Minsk is the favouring of most shopping centres of small businesses. The number of tenants in a shopping centre can reach one hundred or more. Typically, these malls have no anchor tenant and the area of standard shops is 10 - 20 sqm.

Positive expectations of retail sales and the minimal presence of international brands in shopping centres make the Belarusian market attractive for foreign retailers. Nevertheless, the scarcity of modern shopping facilities in the market limits opportunities for international operators. There were several purchases by foreign companies stores in modern shopping centres, to locate a store in a shopping centre.

Around ¾ of enquiries have been regarding premises in shopping centres with areas from 100 to 500 sqm. A number of tenants, including retailers of clothing, require areas as large as 2,000 sqm. This demand can be satisfied only by the shopping centres that are currently under construction.

In the food sector there is a presence of Russian companies such as Kaliningrad group “Vester”, which has two supermarkets in shopping centres “Prazdnik” and “Globo”. Kursk company “Green” launched its first project on the territory of Belarus.

The formation of the Customs Union of Belarus, Russia and Kazakhstan has reduced trade barriers between the countries, further stimulating the interest of retailers in the Belarusian retail market.

DIY company OMA with a total area of 8,500 sqm. appeared in the non-food segment in Minsk. Lithuanian company Senukai and Finnish company Kesko participated in the realization of the project.

RENTAL RATES

Rent rates have been influenced by new legislation, namely Decree of the President No518, addressing lease relationships in the country. The most noticeable change in the Decree is that rental rates must be nominated and expressed in the contract in Belarusian Rubles. Previously, the rate could be nominated in EUR and paid in Rubles.

SHOPPING CENTRES OPENED IN 2010

Name	Address	GLA, sqm	Anchor tenant	Developer
ProStore	Uborevicha St. 176	14,400	ProStore	Altersolutions
Koltso	Men'kovskij Trakt St. 2	14,000	-	Rostjem
Materik	Pritytckogo St. 101	8,400	Materik	Ernis
OMA	Napoleona Ordy St. 6	7,700		Zabolis Partners
Coolman	Kul'man St. 3	4,700	-	Tsibor-T
Siluet	Very Horuzhej St. 1	3,800	-	Kajuma
No Name	Nemiga St. 5	2,400	-	Fart i V
Torgovyj Rjad	Pritytckogo St. 6/1	3,200	Ostrov Chistoty	Agroservis-6
Total		58,600		

RENTAL RATES

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

Area	Rates*
under 50 sqm	16 - 80
50 - 100 sqm	14 - 65
100 - 500 sqm	10 - 40
more 500 sqm	8 - 18

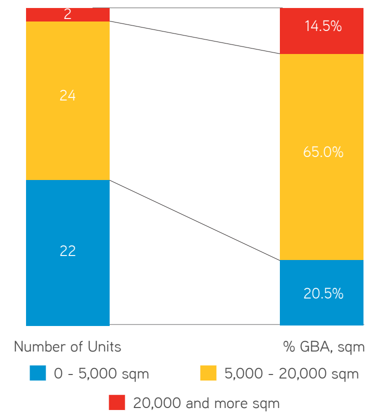
SHOPPING CENTRES PLANNED FOR COMPLETION IN 2011

**renovated DIY "Decorum"*
Source: Colliers International

Name	Address	GLA, sqm	Developer
Avtovokzal Central'nyj	Bobrujskaja St. 6	19,500	BNK Engineering
Gippo	Alibegova St./Rafieva St.	14,000	BelVillesden
No name (2nd phase)	Nemiga St.	9,900	Fart i V
Europa (2nd phase)	Surganova St. 57B	8,500	Rubirous Int.
Beemart*	Nezavisimosti Ave. 171	5,100	Stavkom
Slavjanskij	Nemiga St. 3	5,000	Parking
No name	Gamarnika St.	4,900	Lankorma
Radiomarket	Timirjazeva St.	4,500	TD Zhdanovichi
Impuls (2nd phase)	Very Horuzhej St. 2	4,300	Fart-Pljus
Zebra	Surganova St.	2,500	Laneks Pljus
Total		78,200	

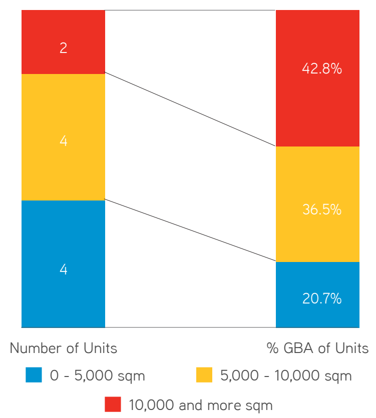
DISTRIBUTION OF RETAIL SPACE IN MINSK BY SIZE

Source: Colliers International



DISTRIBUTION OF NEW PROJECTS' AREA IN MINSK THAT ARE PLANNED FOR 2011

Source: Colliers International



Therefore, risks of inflation were to be carried by owners of premises. To minimize inflation and other Belarusian currency risks, owners usually concluded short-term (11-month) contracts.

The Decree also lays down rules for setting rental rates for state-owned administrative buildings and both state and private shopping centres. These rules prescribe the maximum profit of the lessor and expenses that may be covered by rent, such as depreciation costs, taxes and state fees, costs of shopping centre operation and maintenance.

Rent rates in 2010 in the retail segment were relatively stable. Fluctuations of rent rates were mostly due to changes in the Euro rate against the currency of the lease - the Belarusian ruble. Another factor affecting the growth of rental rates are the strict laws that make it a necessity to justify and register new rates with the local municipality, and restrictions on maximum profits.

Face rental rates were reduced in Q1 2010. This trend was typical for shopping centres without concept that were vacant in 2009.

In 2010, the total number of registered retail lease contracts decreased by 29 per cent compared with 2009. The reason is that 12 months and longer lease contracts are liable to state registration and subjects of statics while owners prefer to conclude short-term leases (usually 11 months) due to increased currency risks. This situation is unfavourable for both lessor and lessee: for a lessor it becomes more difficult to forecast revenue from the lease and a lessee has no guarantee of renewal contract in the future.

VACANCY

Recovery of consumer activity, increase in turnover and new foreign brands entering the market has had a positive impact on occupancy of retail properties. Decrease in vacancy rates has even been seen in conceptually weak objects that had vacancy as high as 40 - 50 per cent in 2009.

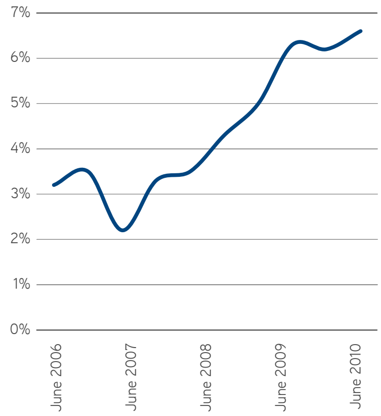
A characterising feature of new constructions in 2010 is that more than 44 per cent of the total volume was built-to-suit projects. This means that it wasn't necessary to search for tenants for the more than 22,000 square meters of retail space of new built-to-suit properties, which had a 100 per cent occupancy rate. However, 4 of 8 new shopping centres (49 per cent in area terms of newly commissioned objects) have no obvious anchor tenant. These new shopping centres, as a rule, have no consistent concept, and therefore face problems in attracting new tenants. This factor had a negative impact on the overall vacancy rate.

The demand in the pre-crisis period (up to 2008) grew dramatically and allowed for absorption of new properties by tenants quickly.

The major growth in vacancy appeared at the end of 2008 and in the beginning of 2009, caused by the appearance on the market of several new shopping centres. The presence of a number of objects currently under construction implies that vacancy can grow after the completion in 2011.

A very limited amount of new speculatve retail facilities available for lease appeared in

VACANCY RATE
IN MINSK SHOPPING CENTRES
Source: Colliers International



on the market. The majority of larger retail properties (Materik, OMA, ProStore) were constructed and occupied as built-to-suit projects. The shopping centres Coolman and Siluet have been on the market since 2009 and by the time of official opening were partially occupied. Thus, in the 1HY 2010 the vacancy rate remained stable with a slight decrease.

TENDENCIES AND FORECASTS

◊ Completion of large-scale retail objects/ regional shopping centres.

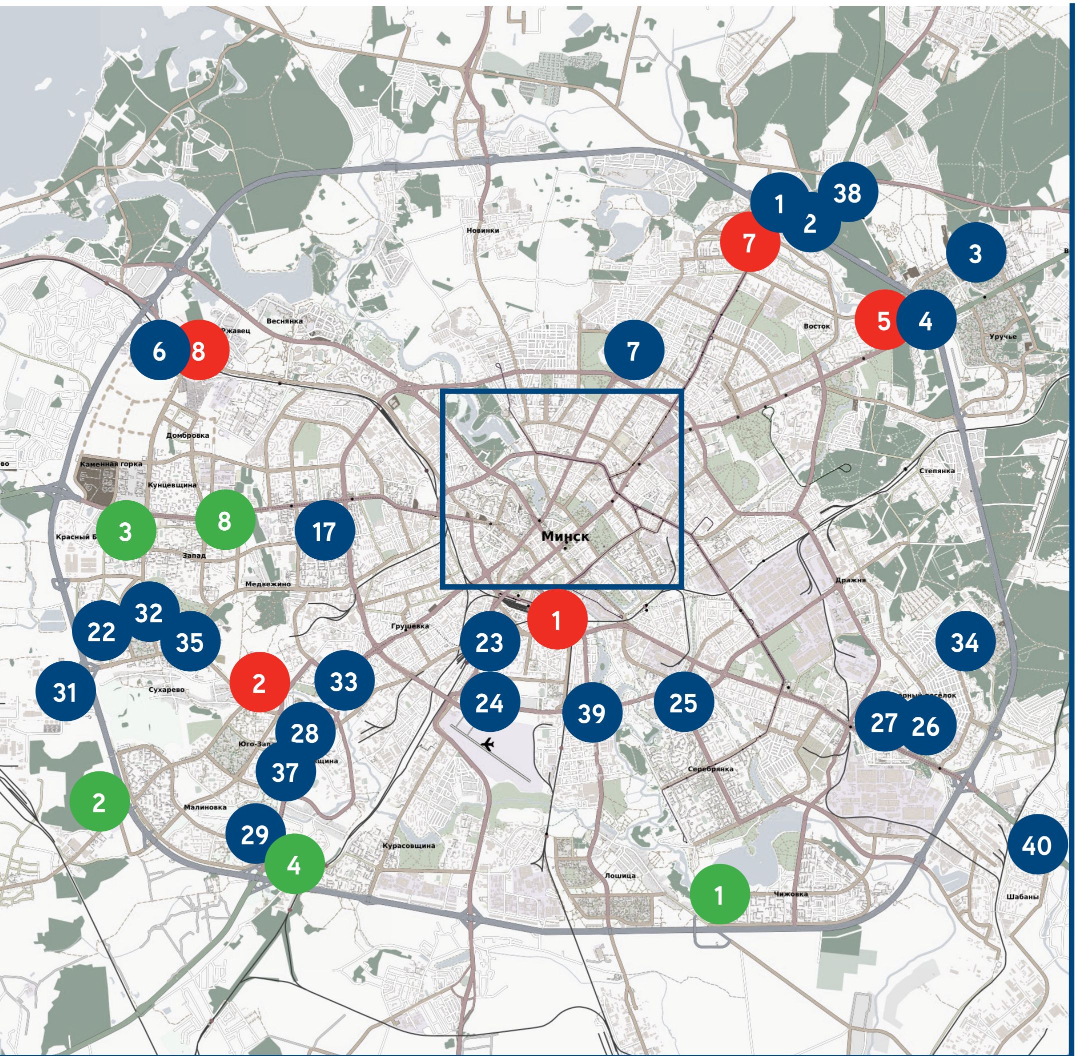
◊ Redevelopment of operating shopping centres with outdated concepts.

◊ Entry of foreign food of and non-food operators on the market.

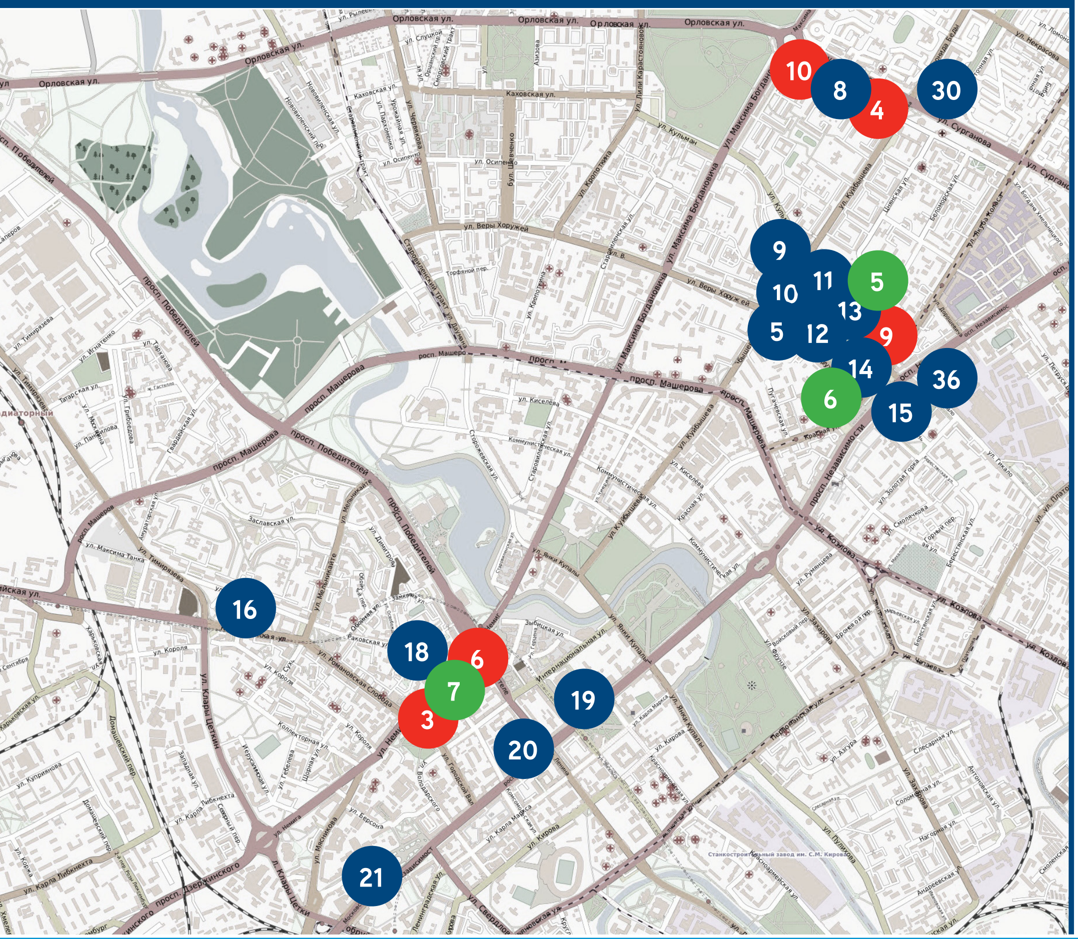
◊ Stability of rental rates.

◊ Stability of vacancy rates due to the completion of new projects.

◊ Development of retail chains and the construction of shopping and entertainment object in regional centres ouside of Minsk.



SHOPPING CENTERS IN MINSK



Existing Developments

1. Expobel
2. Akvabel
3. Dmitriev Kirmash
4. Dom Mebeli
5. Vostok
6. TD Zhdanovichy
7. Nekrasovskij
8. Europe
9. Manezh
10. Parking
11. Manetka
12. Zerkalo
13. Atlantic
14. Impulse
15. CUM
16. Korona
17. Rakavski Kirmash
18. TD Na Nemige
19. Kupalovskij
20. GUM
21. Stolica
22. Maximus
23. Most
24. Ajerodromnyj
25. Hyppo
26. Belarus
27. Podzemnyj Gorod
28. Kirmash
29. ProStore
30. Riga
31. Euroopt
32. Prazdnik
33. Globo
34. Maximus
35. Magnit
36. Stolichnyj Centr
37. Tytan
38. Boro
39. Majakoskogo St. 155
40. ProStore

Completed in 2010

1. ProStore
2. Kotso
3. Materik
4. OMA
5. Coolman
6. Siluet
7. Nemiga St. 5
8. Torgovy Rjad

Declared for Completion in 2011

1. Avtovokzal
2. Gippo
3. Nemiga St. 5 (2nd phase)
4. Europe (2nd phase)
5. Beemart
6. Slavyansky
7. Gamarnika St.
8. Radiomarket
9. Impulse (2nd phase)
10. Zebra

Industrial Market

OVERVIEW

The industrial real estate market is the least developed commercial real estate sector in Belarus. 2010 was the year when construction of modern warehouses commenced. Pre-lease of some projects in the completion stage started. Objects commissioned in 2010 are mostly built-to-suit projects (distribution and customs warehouses).

SUPPLY

The majority of warehouse properties within Minsk and Minsk region are old B, C and D class buildings.

59,000 sqm of warehouse space entered the Minsk and Minsk Region markets in 2010. These figures include 30,000 sqm of high quality (A and B Class) facilities - 52 per cent new construction total volume. Notably 8,000 sqm of new warehouse facilities are located in basements of new Minsk business centres.

The Belarusian warehouse market till the recent times has been characterized by a prevalence of built-to-suit objects among new constructions. The area of such facilities is generally 2,000 - 5,000 sqm. Often Belarusian companies that own warehouse facilities sublease unused warehouse areas to third parties.

Active growth of a number of Belarusian companies, mainly in the retail sector, required the construction of large distribution centres with areas up to 25,000 sqm.

The image below shows modern warehouse facilities and storage services (including built-to-suit projects) available for lease currently, and due in 2011.

Warehouses developers emerged only in 2007 and 2009 can be marked as the year when the construction of modern warehouses first started.

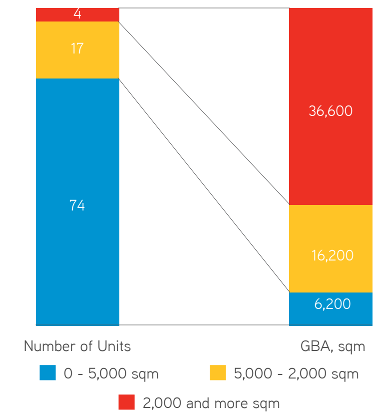
Projects completed in 2010 are mostly built-to-suit facilities. Virtually all projects announced to be commissioned in 2010 were postponed to 2011. Completion of new warehouses amounted to 42 per cent of the total volume announced by developers.

Thus, taking into account projects that were postponed in 2010, the total number of warehouse projects planned for 2011 equals 11 with total area of 168,500 sqm.

The projects likely to be completed by 2014 in the Minsk and Minsk area amount to more than 590,000 sqm. of warehouse space.

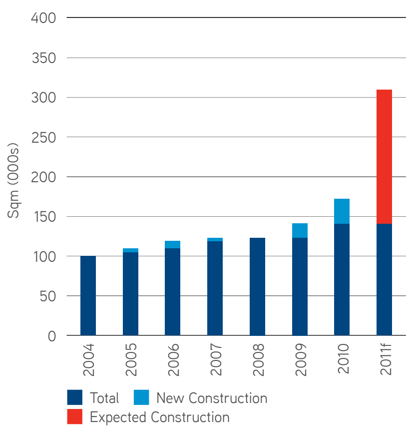
DISTRIBUTION OF NEW WAREHOUSES IN MINSK AND MINSK OBLAST BY SIZE

Source: National Cadastral Agency, Colliers International



DYNAMICS OF MODERN WAREHOUSE SPACE IN MINSK AND MINSK DISTRICT

f - forecast
Source: Colliers International



MODERN WAREHOUSE COMPLEXES COMMISSIONED IN 2010

Source: Colliers International

Location	Developer	Type	GBA, sqm
Minsk District	Beltamozhservis	Warehouse complex	5,000
Minsk District	FK "Euroopt"	Warehouse complex	25,900
Total			30,900

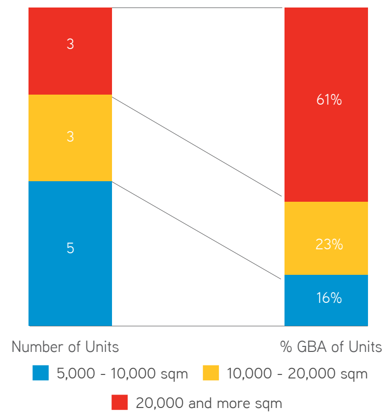
MODERN WAREHOUSE COMPLEXES ANNOUNCED FOR COMPLETION IN 2011

Source: Colliers International

Location	Developer	Type	GBA, sqm
Minsk District	BLT-Logistic	Logistic Centre	43,400
Minsk District	Kayson (Prilesie)	Logistic Centre	33,000
Minsk Oblast	BelVinges Logistic	Logistic Centre	26,300
Minsk District	Dvadcat' Chetyre (24)	Logistic Centre	18,100
Minsk	n/a	Warehouse Complex	10,500
Minsk District	ACE	Warehouse Complex	10,200
Minsk	JA invest	Warehouse Complex	6,400
Minsk	n/a	Warehouse Complex	5,600
Minsk	Belstroyresurs	Warehouse Complex	5,200
Minsk	Shate-M	Warehouse Complex	5,000
Minsk	Victoria	Warehouse Complex	4,800
Total			168,500

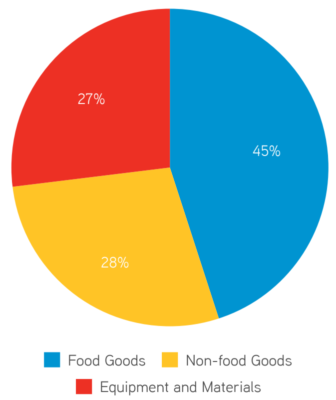
DISTRIBUTION OF PROJECTS PLANNED FOR 2011 BY AREA

Source: Colliers International



WAREHOUSES DEMAND STRUCTURE

Source: Colliers International



RENTAL RATES DYNAMICS IN MINSK

Source: Colliers International

WAREHOUSES RENTAL RATES

** - asking rental rates (EUR/sqm/month) excluding VAT and operating expenses*

→↘ - slight decrease

Source: Colliers International

Location	Rates *	Trends for 2011
Minsk	3 - 10	→↘
Minsk District	2 - 8	→↘

DEMAND

During 1 HY 2010 the demand structure for warehouses changed compared with 2009. There were an increasing number of requests for warehouses larger 1,000 sqm, but an ongoing demand for premises below 150 sqm. This is primarily due to the rapid development of retail and the appearance of new players on the market. There was demand from logistics operators who need A Class warehouses to deliver storage and logistics services. The largest players in Belarusian retail NTS and RTL-Holding develop their own facilities to provide storage and logistics services.

Major Belarusian and international companies tend to prefer new warehouse complexes because of poor quality services provided by old warehouses located in Soviet-era industrial buildings.

Manufacturers, distributors and retailers dominate in the demand structure.

There are companies on the market that require warehouses with areas between 5,000 and 60,000 sqm. This is mainly growing and larger companies that are wishing to relocate from warehouses located quite far away from each other or moving from outdated buildings. According to Colliers International, the total demand for modern warehouses (including safe storage services) at the end of 2010 exceeded 250,000 sqm.

RENTAL RATES

Rental rates for high quality warehouses within the city limits are 6 - 10 EUR/sqm/month net of VAT. There are different forms of payment for the warehouses: rents can be calculated per sqm. or per pallet.

Due to a limited supply and a shortage of quality areas the situation in the warehouse market remains relatively stable in contrast to the retail and office segments. The extension of widening of rental rate range is due to deepen due to the wide difference in the quality of facilities on the market.

Lessors often conclude preliminary lease agreements for warehouse premises under construction with the reduction of face rents of 10 - 20 per cent as loans have become cheaper and total supply is increasing.

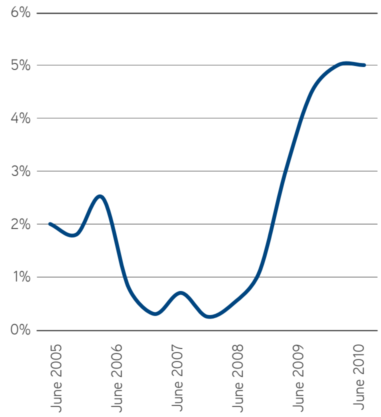
Currently, lease contracts are usually concluded for 11 months with renewal for the same time, due to further regulations governing leases over 12 months. Utilities and maintenance costs are paid by the tenant in addition to rent rate depending on the consumption.

VACANCY

The vacancy rate is relatively low due to limited existing warehouse areas within the city boundaries, and slow supply growth amidst the growing activity of tenants.

WAREHOUSES VACANCY LEVEL

Source: Colliers International



Some specific areas can have higher vacancy rates or have longer vacancy period before leases. Among such areas are premises located in multilevel warehouse complexes of old construction that even of good quality do not always correspond to specific activities of most companies.

TENDENCIES AND FORECASTS

◊ Significant increase in supply due to completion of new projects.

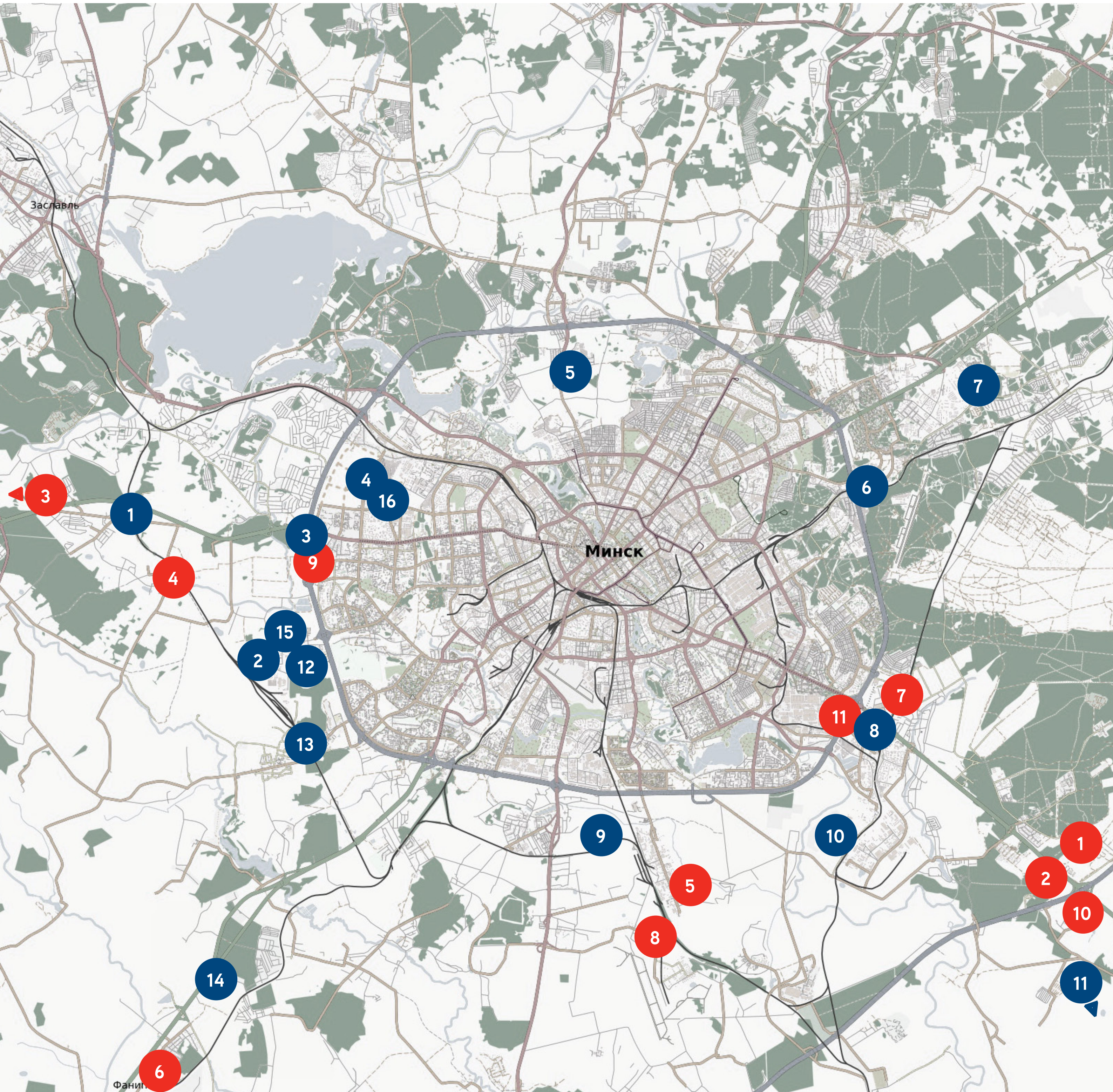
◊ Reduction in the rental rates of A and B Class properties.

◊ Increase in demand for services of customs warehouses and customs terminals due to the activities of the Customs Union of Russia, Belarus and Kazakhstan.

◊ Vacancy increase in high quality warehouses in the medium term, should all announced projects be completed.

◊ The presence of unsatisfied ongoing demand for modern properties.

◊ High competitive risks in the medium term (the probability of simultaneous market entry of large projects).



HIGH CLASS WAREHOUSE PROJECTS IN MINSK AND MINSK DISTRICT

Existing Developments

1. Minsk Wholesale Market
2. McDonalds
3. JV Dominik
4. MegaRent
5. LC Navinki
6. Avalontorg
7. Vitalur
8. BelBakaleya
9. Coca-cola
10. RTL-Holdings
11. Morozproduct
12. Belrusinvest
13. Ozerco-Logistic
14. Beltamozhservis
15. Euroopt
16. Prem'er Torg

Completed in 2010

1. BLT-Logistic
2. Prilesie
3. BelVingesLogistic
4. Dvadcat' chetyre
5. No name
6. ACE
7. JA Invest
8. No name
9. Belstroyresurs
10. Shate-M
11. Victoria

Hotel Market

OVERVIEW

2010 was characterized by activation of developers and international hotel chains with the construction of new hotels and renovation of establishments currently operating have been initiated.

The development of the hotel market has been stimulated by the preparation to the World Ice Hockey Championship in 2014. In preparation for the event new sport objects are under construction, transport infrastructure is being upgraded and the development of the hotel business is being actively supported by the State.

In the Master plan of Minsk till 2030 that was implemented in May, 2010, the section "Development of Tourism" was included for the first time. The section determines development prospects of tourism in Minsk city. The plan revealed that city aims to be positioned as dynamic tourist centre with ample opportunities for business, sport, entertainment and other types of tourism.

The most assets in hotel sector are owned by the State (by the Government or municipalities) with less than half in private hands. In total 150 (42 per cent) hotels of 359 are privately owned.

The hotel market of the Republic of Belarus has a minimal presence of international chains. As a rule, hotels are operated by a specific company created by an owner or the owner operates the business privately. Often, this is a negative factor in the quality of services provided as a private owner is usually not a specialist in hotel operation. It is also necessary to mention that Belarusian hotels have weak integration with on-line booking services and there is an absence of a flexible price policy.

In this market, Crown Plaza Minsk can be separately mentioned. The hotel is operated by Princess Group under a 20-year franchising agreement with the InterContinental Hotels Group. Hyatt Regency Minsk is currently under construction, on completion will be operated directly by Hyatt International. Another complex under construction is a mixed-use building located at Pobeditelej Ave. The hotel section of the complex will be operated under one of the brands of Rezidor Hotel Group.

SUPPLY AND NEW PROJECTS

The total bed spaces available in Belarus at the beginning of 2011 added-up to 26,673. The present capacity of Minsk hotels is 5,417 guests, which is insufficient during large-scale events in Minsk. According to estimates of the World Ice Hockey Championship 2014 Minsk will be visited by 35,000 sports fans as well as sport teams, representatives of IIHF, and journalists. Hotel capacity needs to be increased considerably to cater for an event of this size. In 2010 in Minsk there were 28 hotels. Just 11 hotels were certified with at least 2 - 5 stars. The total capacity of these hotels is 1,620 rooms.

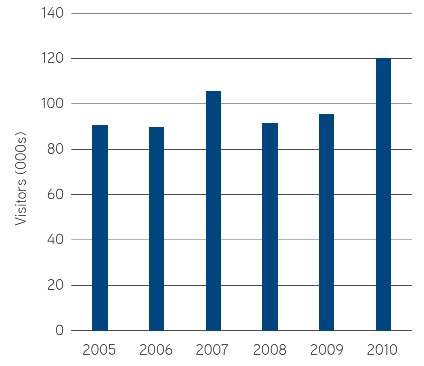
EXISTING RANKED HOTELS

Source: Colliers International

Stars	Name	Address	Rooms	Operator
5-star	Crowne Plaza Minsk	Kirova St. 13	115	Princess Group (IHG)
5-star	Europe	Internacional'naja St. 28	67	Hotel Europe
4-star	Victoria	Pobeditelej Ave. 59	169	Biznes-centr Stolica
4-star	Minsk	Nezavisimosti Ave. 11	252	Hotel Minsk
3-star	Dom Moskvy	Kommunisticheskaja St. 86	14	Dom Moskvy
3-star	Orbita	Pushkina Ave. 39	210	Hotel complex Orbita
3-star	Planeta	Pobeditelej Ave. 31	306	Hotel Planeta
3-star	Sputnik	Brilevskaja St. 2	136	Minotel
3-star	U Fontana	Amuratorskaja St. 4	18	Hotel U Fontana
3-star	Yubileiny	Pobeditelej Ave. 19	239	Hotel comlex Yubileiny
2-star	Zvezda	Gazety Zvezda Ave. 47	94	Zvezda
Total			1,620	

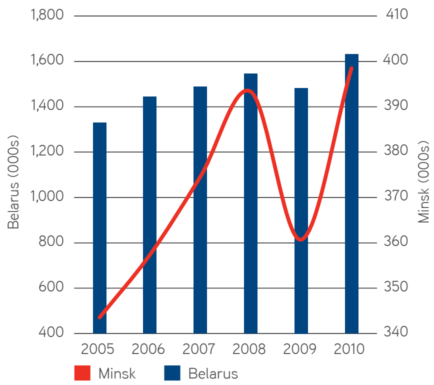
ARRIVALS OF FOREIGN TOURISTS TO THE REPUBLIC OF BELARUS

Source: National Statistics Committee of the Republic of Belarus



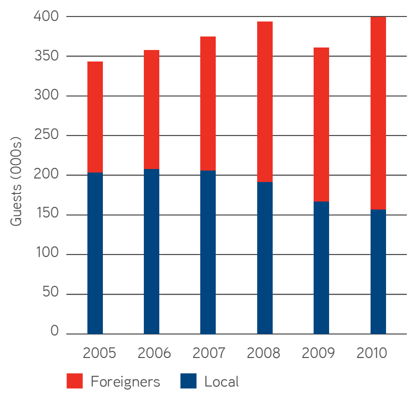
DYNAMICS OF GUESTS IN HOTELS

Source: National Statistics Committee of the Republic of Belarus



DYNAMICS AND DISTRIBUTION OF GUESTS IN MINSK HOTELS

Source: National Statistics Committee of the Republic of Belarus



There has not been any hotel construction in Minsk in 2009 - 2010. The newest hotel in Minsk is 5-star Crowne Plaza Minsk a reconstruction of the Svislotch hotel built in 1947. In 1999 an investor from Turkey won the tender to redevelop Svislotch. Initially, the opening of the redeveloped hotel was announced for 2005 although the hotel was only put into operation in 2008.

During 2010 the hotel real estate sector was very active. Foreign and local investors and developers announced a number of new projects with the improving global economic outlook and the potential of the undeveloped hotel market in Belarus.

State operators are focused mainly on renovation of existing hotels with subsequent certification as 2 - 3-stars hotels. Three new projects were commenced in 2010 in the historical centre of Minsk, two 3-star hotels with 70 and 27 rooms respectively and one 4-star hotel with 49 rooms. The latter is built on the foundation of an old monastery building. In 2011 a new boutique hotel has been planned on the site of an old brewery building situated outside the city centre.

2011 will see the commencement of large-scale reconstruction projects of State-owned hotels. The 21-storey Hotel Belarus with 521 rooms is a symbol of Minsk will be renovated and two more stories will be added. The hotel complex formerly known as "Oktjabrjskij" is currently under reconstruction due to be opened in 2012 under name "President Hotel". Project financing was realized by of Turkish bank "Turk Eximbank" where (51 million USD) was attracted. It was also announced that 45 million EUR will be granted by Polish bank "Bank Gospodarstwa Krajowego" to fund the second phase of the 4-star 'Hotel Victoria' with 300 rooms.

The 5-star Hyatt Hotel (243 rooms) and 4-star Radisson (256 rooms) are presently under construction, financed by BPS-Bank (Russia)/ Belinvestbank (Belarus) and by the Bank of Moscow, respectively. Iranian company Kayson started construction of a mixed-use complex "Magnet Minsk" in 2010 and it has been indicated that the project will include a 5-star hotel. The operator of the hotel is not defined yet.

Construction is also planned to start on 5-star Kempinski Hotel at Independence Avenue, the main highway of Minsk.

A number of other projects are also in the planning stage. A number of European, Middle Eastern and Asian investors have

PROJECTS COMPLETED IN MINSK IN 2007 - 2008

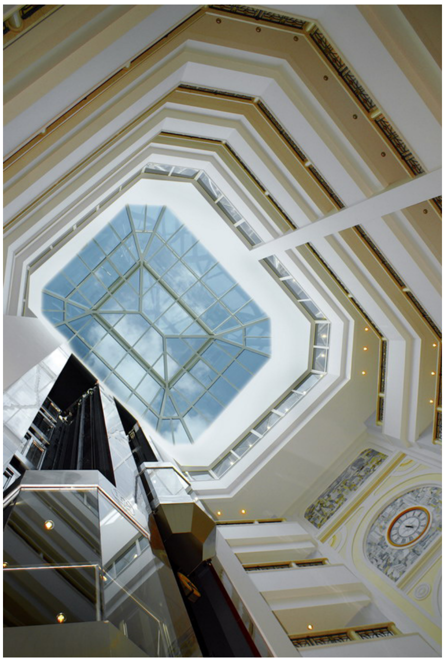
**under franchise of Intercontinental Hotels Group*
Source: Colliers International

Stars	Name	Address	Rooms	Operator
5-star	Europe	Internacional'naja St. 28	67	Hotel Europe
4-star	Victoria	Pobeditelej Ave., 59	169	Stolica
5-star	Crowne Plaza	Kirova St. 13	115	Princess Group*
Total			351	

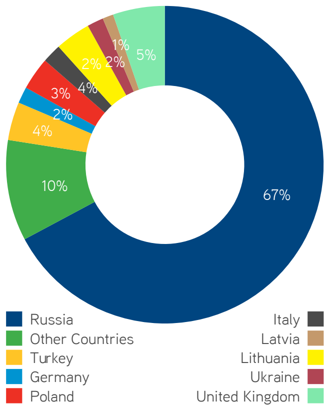
NEW HOTEL PROJECTS PLANNED FOR 2012 - 2014

Source: Colliers International

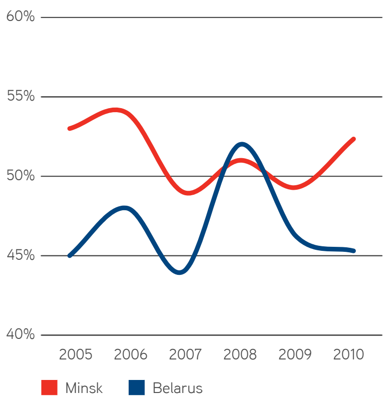
Expected Completion	Expected Stars	Name	Rooms	Status	Operator
2012	5-star	President Hotel	144	Under Construction	Hotel Minsk
2012	3-star	Garni	70	Under Reconstruction	Minotel
2012	3-star	No Name	27	Under Construction	n/a
2012	4-star	No Name	49	Under Construction	Minotel
2013	5-star	Hyatt Regency	243	Under Construction	Hyatt
2013	4-star	No Name	256	Under Construction	Rezidor
2013	5-star	Kempinski	356	In Planning	Kempinski
2013	4-star	Magnet Minsk	330	Under Construction	n/a
2013	4-star	Tivali	190	Under Construction	n/a
2013	4-star	Victoria (2nd stage)	300	In Planning	Stolica
2014	4-star	Mozer	220	In Planning	Vienna Int.
2014	3-star	No Name	120	In Planning	n/a
2014	4-star	Brovar	150	In Planning	Stolica
2014	5-star	Persipolis	250	In Planning	n/a
Total			2,705		



TOURIST ACTIVITY BY COUNTRIES
Source: National Statistics Committee of the Republic of Belarus



DYNAMICS OF THE AVERAGE OCCUPANCY RATE IN BELARUS AND MINSK
Source: National Statistics Committee of the Republic of Belarus, Colliers International



shown readiness to participate in the development of 3 - 5-star hotels in Belarus. Interest in the operators market has been shown by such international chains as Vienna International, Accor Group, Amara Hotels, Buddha-Bar Hotels as well as many local and Russian operators are interested in hotels in regional centres of Belarus. In 2010 several deals were made with small regional hotels.

DEMAND AND RATES

In 2010 there was a significant increase in the number of tourists that visited the Republic of Belarus. The increase of tourists in 2009 compared with 2008 was just 2.5 per cent, but 2010 saw surging growth on 2009 reaching 26 per cent. The greatest role was played tourists from Russia, with numbers increasing by 43 per cent on the number in 2009. Tourists from Russia mainly came to visit health resorts. The increase in tourists from countries outside the CIS was a modest 3 per cent.

The increase in tourists numbers was caused not only by recovery of economies in neighbouring countries, but also by due to major international sport and cultural events, such as the Junior Eurovision Song Contest was held in Minsk in 2010.

Public authorities are actively working to improve the image of the country. In November, 2010 the Belarusian Tourist Information Centre was opened in Warsaw. Another initiative of tourism development is the ceasing of licensing for tourist services since 2011.

The majority of tourists visiting Minsk come from neighbouring countries. Tourists from Poland and the Baltic countries are mostly interested in educational tourism (tourism focused on education, such as visits to museums and historical sites). Tourists from Russia commonly enjoy the services of Belarusian health resorts. With the commencement of new flight routes, the number of tourists arriving from the Middle East region increased.

Rates for hotel accommodation services remained at approximately the same level relative to 2009. This is due to both the weak competition in the market and to fluctuations of the EUR relative to the Belarusian currency (The Belarusian Rouble).

OCCUPANCY

In 2010 the increase of hotel guests in Belarus was 10.5 per cent. This figure is less than might be expected considering the significant increase in tourist flow. This is due in part to a considerable change guest structure. Currently foreign guests account for 61 per cent of the total number of guests. The number of local Belarusian guests decreased in 2010 due to the expanding market of short-term rental of flats and inflexible pricing policies of most hotels in Minsk.

The average occupancy rate for hotels in Belarus, according to Colliers International data, is about 45 per cent. The hotel occupancy rate in Minsk is about 52 per cent, exceeding occupancy in other regions by 5 - 7 per cent.

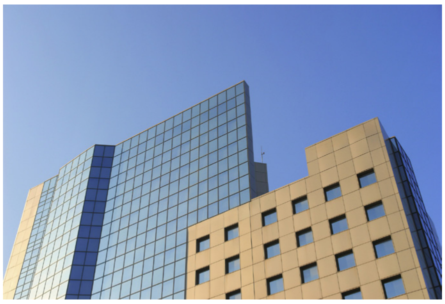
During large-scale sporting, cultural and business events Minsk hotels suffer a chronic supply shortage being almost completely occupied. In these times this demand is satisfied by hotels in suburbs and flats offered for short-term rent.

The average hotel stay duration in 2010 was 2.6 days decreasing from 2009 figures by 7 per cent.

The total revenue of Minsk hotels from accommodation services increased by 26.7 per cent year on year, amounting to 41.3 million EUR.

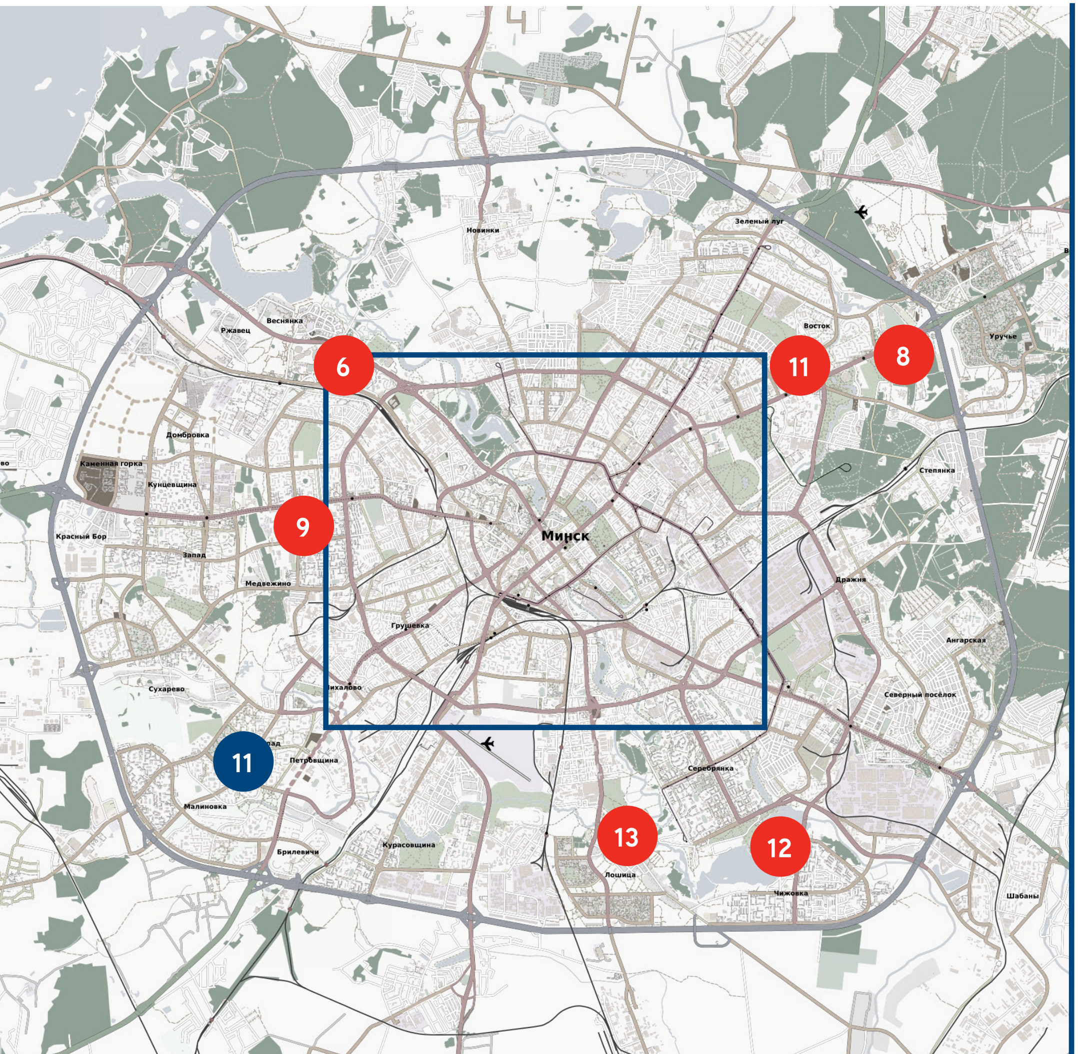
AVERAGE RATES PER DAY IN MINSK HOTELS
**EUR per night VAT incl.*
Source: Colliers International

Stars	Standard Room	Double Standard	Deluxe	Apartment
5-star	205 - 265	205 - 310	273 - 365	1,073 - 1,150
4-star	132 - 136	151 - 177	217 - 227	579 - 581
3-star	47 - 55	63 - 77	121 - 141	156 - 453

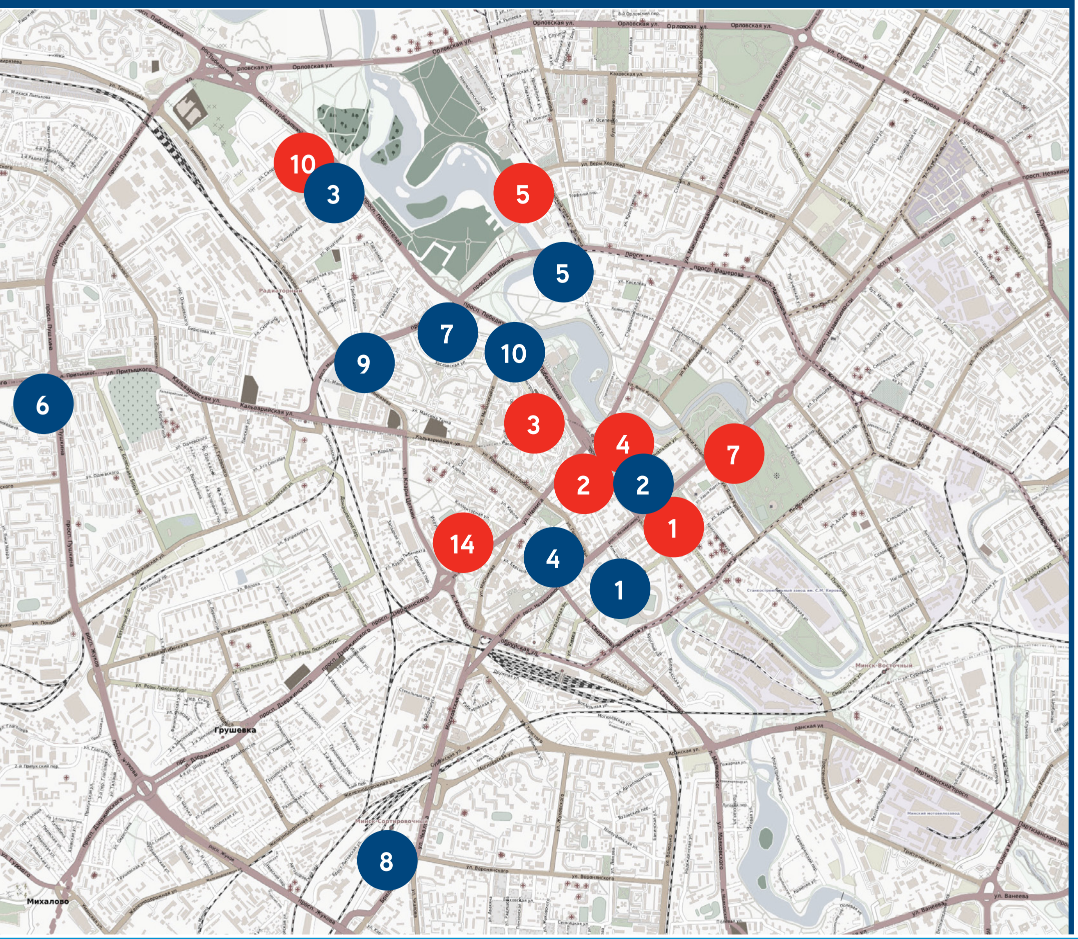


TENDENCIES AND FORECASTS

- ◊ A favourable climate for hotel development is forming supported by the decision to hold Ice Hockey World Championship in 2014 in Belarus.
- ◊ Implementation of the state Program of Tourism Development.
- ◊ Enhancement of international operators' activity and the commencement of hotel complex construction.
- ◊ Renovation and certification of existing hotels.
- ◊ Integration into International and online booking systems.
- ◊ Increase in the number of foreign organized tourists.
- ◊ Major cultural, sporting and business events in Minsk will increase demand for hotels in the future.
- ◊ The probability of entering the market in the medium term, a lot of hi-class hotel projects, and small amount of the most popular segments of the hotels (2 - 3-star). Risk of increasing vacancies for hi-class hotels.



HOTELS IN MINSK



● Projects Completed in Minsk Before 2010 (only rated Hotel)

1. Crowne Plaza Minsk
2. Europe
3. Victoria
4. Minsk
5. Dom Moskvy
6. Orbita
7. Planeta
8. Sputnik
9. U Fontana
10. Yubileiny
11. Zvezda

● New hotel projects planned in Minsk for 2011 - 2014

1. President Hotel
2. Garni
3. No Name
4. No Name
5. Hyatt Regency
6. No Name (Rezidor)
7. Kempinski
8. Magnet Minsk
9. Tivali
10. Victoria (2nd stage)
11. Mozer
12. No Name
13. Brovar
14. Persipolis

Belarus Legal Overview

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

Land plots can be held by legal entities (including those with foreign investments) in Belarus on the following titles: right of ownership, right of permanent use, right of temporary use. Individuals and Belarusian and foreign legal entities can also lease land plots. To our knowledge, currently only two legal entities possess right of ownership to land plots (IOOO "Orel Propeties chetyre" – with regard to realisation of an investment project, and ZAO "Agrostroi" – with regard to maintenance of a production plant building).

Land plots, transactions, and titles to them must be registered with the Unified State Register of Real Estate, Rights thereto, and Transactions therewith (the Real Estate Register).

Buildings, agreements with respect to buildings, and titles to buildings are also registered with the Real Estate Register. Lease agreements and lease rights to buildings need not be state-registered. However, a landlord must notify the territorial organisation of the National Cadastral Agency (the NCA) of details of the parties, location, and area of a leased building and the term of the agreement.

The Real Estate Register stores information regarding the legal status of real estate, including encumbrances. The real estate information contained in the Real Estate Register is publicly available. However, a list of all real estate objects owned by a particular individual or legal entity is unavailable to third parties.

ACQUISITION OF REAL ESTATE

General

Land plots can be acquired as a result of allocation as decided by local authorities or as a result of a transaction.

Transfer of a building involves transfer of title to the land plot to the new owner of the building. If the underlying land plot is leased, then the rights and obligations of the tenant of the land plot are transferred to the new owner of the building.

Change of Ownership

Change of ownership requires registration of the transaction, transition, and accrual of the right to real property with the Real Estate Register. The period for registration is usually seven days as of filing all necessary documentation with the Real Estate Register.

Asset Transfer vs Share Transfer

Asset deals and share deals relating to real estate are both commonly used in practice.

A share transfer of a company holding target real estate features the following:

- ◊ the buyer, on completing the transfer of shares, assumes responsibility for the whole company including any matters that occurred before change of ownership;
- ◊ due diligence investigations are more extensive as a share deal transfers the entire company (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;
- ◊ ownership of shares is transferred either as of the date the company is notified of the share purchase agreement (for LLC) or as of the date of transfer of shares to the account of the buyer, held with a depositary (for JSC); and
- ◊ VAT is not payable.

Asset transfer involves the following benefits and drawbacks:

- ◊ limited scope of due diligence investigation since the review concerns only the target asset;
- ◊ agreements on supply of utilities and other services must be assigned to the buyer or new agreements signed with service providers;
- ◊ in some cases possibility of exercise by the local authority of its right of first refusal to buy buildings situated within the respective administrative unit; and
- ◊ foreign individuals and legal entities cannot own land plots (except for Russian citizens and foreigners permanently residing in Belarus and legally performing work or entrepreneurial activity).

Transfer of assets of a unitary enterprise features certain peculiarities. A unitary enterprise is an organisational form of commercial legal entity established by one shareholder (founder). All assets of a unitary enterprise are considered the property of the founder and assigned to the unitary enterprise under business management. The authorised capital of a unitary enterprise is not divisible into shares.

Assets of a unitary enterprise can be transferred either individually (asset transfer) or as an asset complex (a kind of share transfer). An enterprise as an asset complex is considered as real estate. Hence, transactions involving an assets complex and rights to it must be registered with the Real Estate Register.

Transfer of an asset complex requires subsequent amendments to the articles of association of the unitary enterprise and state registration of the amendments. The buyer of an asset complex (new founder of the unitary enterprise) assumes responsibility for the whole company including any matters that occurred

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before change of ownership, so that extensive due diligence is recommended.

FORM OF AGREEMENTS

Transactions with real estate require written form. The transaction should be certified by a notary or the registrar of the Real Estate Register, if an individual is a party to the transaction (except for individuals acting in the capacity of individual entrepreneurs and having a seal). A transaction with real estate requires registration with the Real Estate Register, except for lease agreements of buildings and constructions.

Lease agreements of buildings and constructions require written form and notification of the Real Estate Register.

LANGUAGE REQUIREMENTS

No specific requirement exists under Belarusian law to use only the official state languages (Russian or Belarusian) in agreements on real estate. However, the Real Estate Register may certify only documents in Russian or Belarusian. Hence, foreign language documents require a translation either certified by a notary or signed by the parties. A bilingual agreement is also possible.

DUE DILIGENCE

Before carrying out any real estate transaction, it is advisable to research, for example, ownership, history, encumbrances, and lease agreements. The results of research may help to set the final purchase price reflecting the value of the real estate. Some information is publicly available and can be obtained independently; other information requires involvement of the seller.

RIGHTS OF FIRST REFUSAL

Local authorities enjoy a right of first refusal to acquire certain buildings and other real estate located within their territory. The list of such buildings and other real estate is determined every year by local authorities. In practice this right is exercised very rarely. However, sale-purchase agreements may be registered with the Real Estate Register and ownership transferred to the purchaser only after the local authority has decided not to exercise its right of first refusal.

If a share in common real property is to be sold to a third party, other common owners enjoy a right of first refusal to buy that share at the price offered to the third party.

TYPICAL PURCHASE PRICE ARRANGEMENTS

It is common for the seller to require payment of the full price prior to transfer of real estate to the buyer and registration of the buyer's rights in the Real Estate Register. Under current law, as a general rule real estate is considered to be mortgaged by the seller if it was transferred to the buyer, even though fully paid. Buyers normally try to mitigate this by transferring the money to an escrow account or using other payment options similar to an escrow. Other purchase price arrangements are project-based and depend largely on the parties and the specifics of the particular situation.

RELATED COSTS

Costs incurred during purchase of real estate include state duty, payment for state registration, and (if applicable) translation costs.

State duty for certification of a purchase agreement amounts to BLR 175,000 (approx EUR 43). If a purchase agreement is certified by a private notary, the parties also pay a notary fee of BLR 21,000 (approx EUR 5).

Payment for state registration includes payment for the purchase agreement and for transition of real property rights, amounting in all to BLR 154,000 (approx EUR 38).

Sharing of costs incurred during purchase is a matter for agreement between the parties.

RESTRICTIONS

Restrictions on Acquisition of Real Estate

Restrictions on real estate acquisition in Belarus apply to land plots and buildings.

A foreign legal entity cannot own a land plot. A foreign citizen or person without citizenship may own a land plot only in cases of inheritance.

Commercial buildings and constructions can be owned by foreign legal entities and individuals.

ENCUMBRANCES

Real estate may be encumbered by servitudes, mortgages, lease rights, gratuitous use, and other encumbrances that should be considered in purchase and use of land plots and buildings.

MORTGAGE

A mortgage of real estate may be used as an instrument for securing liabilities (eg repayment of loan). However, the law lays down several restrictions. A building located on an owned or leased land plot can only be mortgaged with a simultaneous mortgage of the underlying land plot or right of lease. A right of lease of a state-owned land plot can only be mortgaged after the tenant pays for the right to conclude a lease agreement. A mortgage of a land plot or right to lease a land plot may secure

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only repayment of a credit extended by Belarusian banks or a loan provided by the International Finance Corporation (IFC) or European Bank for Reconstruction and Development (EBRD). Belarusian banks may act as mortgagees only if they hold a licence from the National Bank to place attracted funds in their own name and for their own account on the condition of recurrence, interest payment and maturity. The President of the Republic of Belarus is entitled to determine other organisations which may be mortgagees of land plots and rights to lease land plots.

Mortgages must be registered with the Real Estate Register.

PROPERTY MANAGEMENT

Maintenance of real estate is usually carried out by the owner. In the case of joint ownership, owners may establish an owners' association.

LEASE AGREEMENTS

General

General terms for lease agreements are laid down in the Belarusian Civil Code and the Lease Law. Terms of lease are subject to agreement between the parties. Lease agreements should specify the description of leased objects (inventory number, location, area) and the rent.

Duration and Expiry of Lease Agreement

The duration and expiry of a lease agreement are usually fixed in the agreement. Belarusian law lays down some general rules under which lease agreements may be for a definite or indefinite term. The Civil Code sets grounds for termination of a lease agreement by the court at the request of a party. The parties may agree additional grounds for termination by the court or unilaterally.

Lease Payment and Other Expenses (Utilities)

The amount and the currency of lease payment (rent) are subject to agreement between the parties. However, several restrictions apply to state-owned property and retail premises, including shopping centres. Rent for trade premises should be calculated in basic units (special units pegged to the Belarusian currency and established by the Government). Rent for trade premises is calculated by multiplying the basic rent (from EUR 2.5 to EUR 9.5 depending on location) and coefficient (from 0.6 to 1 determined by the local authority depending on location). Application of other coefficients to increase rent should be substantiated and agreed with the local authority.

Maintenance and utilities (such as water, gas and electricity) are usually paid by the tenant in addition to rent. As to retail premises, only a limited number of expenses incurred by the landlord may be passed on to the tenant. The cost of additional services by the landlord to the tenant should be agreed with the local authority.

DISTRESSED ASSETS PURCHASE

Acquisition of distressed assets may be a feature if a company that owns real property faces financial difficulty and needs emergency funds to cover debts. Distressed assets purchase is not specifically regulated in Belarus. However, the following issues should be taken into consideration.

Time for closing a transaction with distressed assets is usually shorter as the selling company is under pressure to receive funds to settle with its creditors. Consequently, due diligence time frames may be shorter. At the same time, due diligence is especially required as risks related to distressed assets are higher (e.g. the property may be mortgaged or seized by a creditor).

The risk is that insolvency proceedings may commence against the seller after disposal of distressed assets to a buyer. Under the Belarusian Law on Insolvency, transactions by the seller preceding insolvency may be held invalid. For example, a transaction may be held invalid if it took place within six months, one year, or three years before commencement of insolvency proceedings, depending upon the circumstances and grounds involved.

Sometimes distressed assets are sold at a low - even nominal - price. This option should be thoroughly assessed, as the transaction may be held to be fictitious (eg intended to cover up a gratuitous transfer). This may mean that the transaction is held invalid and may also entail tax consequences (charge of profit tax plus penalties).

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Belarus Tax Summary

PROFIT TAX

Profit tax is imposed on:

- ◊ gross profit; and
- ◊ dividends and other similar income paid by Belarusian companies.

Gross profit is profit from the sale of goods (including fixed assets), services, and property rights, plus non-operating income.

Non-operating income includes income from leasing property (including real estate); interest on loans and deposits; dividends received from abroad; and other income not related to production and sale of goods, services and property rights.

Profit tax on dividends paid by Belarusian companies is withheld by those companies.

The general profit tax rate is 24 per cent. Dividends and income from sale of shares in Belarusian companies are taxed at the rate of 12 per cent.

VAT

VAT is imposed on the supply of most goods (including fixed assets), services, property rights in Belarus as well as on most imports to Belarus.

The standard VAT rate is 20 per cent. Thus, sale and lease of real estate is subject to VAT at the 20 per cent rate.

REAL ESTATE TAX

Corporate real estate tax is imposed on the depreciated value of buildings and constructions owned or leased by companies. With regard to leased real estate objects, the taxpayer is the company which has the real estate on its balance sheet according to the lease agreement; however, if the landlord is an individual or a foreign company not carrying out activities in Belarus through permanent establishment, the taxpayer is always the tenant.

The annual tax rate is 1 per cent. A 2 per cent rate applies to incomplete real estate objects where the terms of construction are exceeded and the company is engaged in construction of other objects.

Individual real estate tax is paid by owners of buildings. The annual tax rate is 0.1 per cent. The tax is assessed by tax authorities who send taxpayers a written notice by 1 August of the relevant year.

LAND TAX

Companies and individuals who own or use land in Belarus pay land tax. Except for a limited number of cases, the tax base is the cadastral value of the land, which can be found at the official website of the National Cadastre Agency http://nca.by/. Tax rates vary significantly depending on the cadastral value and functional use of land. Local government authorities may increase (not by more than 100 per cent) or decrease (not by more than half) the tax rates for certain categories of taxpayers.

SIMPLIFIED TAXATION SYSTEM (STS)

As an alternative to the general system of taxation, businesses may use the STS. Businesses subject to the STS pay a unified tax imposed on gross revenues and do not pay profit tax (except for profit tax on dividends and on income from sale of securities), real estate tax, land tax, VAT (if the STS without payment of VAT is used), and some other taxes. Gross revenues are considered to be revenues received during the taxation period from the sale of goods, services, and property rights, plus non-operating income.

The STS can be used by companies that meet the criteria on maximum amount of gross revenues within one calendar year and number of personnel. The following main tax rates apply under the STS: 8 per cent as to companies that do not pay VAT; 6 per cent as to companies that pay VAT; and 3 per cent with regard to revenues from export of goods and services.

WITHHOLDING TAX ON INCOME OF NON-RESIDENTS

Foreign companies that do not carry out activities through Belarusian permanent establishment pay withholding tax on certain types of income derived from sources in Belarus. Unless otherwise provided by double taxation treaties, withholding tax is imposed on the following types of income at the following rates:

- ◊ dividends and income from sale of shares in authorised capital of Belarusian companies - 12 per cent;
- ◊ royalties (payments for use of property in Belarus or the right to use such property; fees for use of property rights to copyright objects, objects of related rights; payments for

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industrial property objects, including know-how) - 15 per cent;

- interest - 10 per cent;
- freight and other charges connected with international shipping transactions and forwarding services - 6 per cent;
- other income (in particular, income from sale of real estate located in Belarus; income from real estate transferred in trust; income from supply of various types of services) - 15 per cent.

Currently, Belarus has 62 double taxation treaties. According to most of them, withholding tax can be imposed only on dividends, interest, royalties, and income from disposal of real estate. Moreover, most establish lower than default withholding rates applied to dividends, interest and royalties.

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