Real Estate Market Review

Baltic States and Belarus I 2010

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Latvia

Real Estate Market Review I 2010

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A Year of Opportunity

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Last year can be characterized as a year of emotional instability on the market. The turbulence of 2009 minimized the quantity of players and crystallized more quality in the market, which became more professional and experienced, although we still did not use all the opportunities presented by the negative trends in our economy.

How strange this sounds, although looking through the prism of opportunity RIGA, with the highest vacancy rates in most RE segments within the EMEA region, the lowest rental rates, and negative economic indicators, can create a new business platform for the next two to three years and attract new business in each of the CRE segments. The ongoing global trend towards business relocation and cost optimization programs means possibilities to make Riga their final destination.

Attempts at new development in Riga are minimal and the entire accent is on existing stock. 2010 is a testing year for landlords - how to manage, control, and maintain the liquidity of property without losing future competitiveness.

With more than a year of investment activity at close to zero in the Baltic States, increasing optimism across the world has not yet brought foreign investors back into the region, but has incentivized many private investors to study the worst-performing markets for speculative investment and distressed sale opportunities.

In spite of increasing interest in exploiting the benefits of the downturn, the number of transactions remains limited as market players have yet to learn to accept the new rules of the game.

Banks have increased their influence in transaction-related processes, although distressed sales are limited and there is still a long way to go before the new reality is organized and market performance restarted.

The Baltic market has become pretty much local, being locked into existing players present on the market, aware and able to assess the risks, or wealthy individuals familiar with the specifics and rules of the local economy. This has led to a number of separate small-scale equity transactions that are expected to accelerate in number with time.

We are currently witnessing a classic macro-economic situation: with the economic cycle at rock bottom, excess supply of commercial real estate premises plus project over-supply results in low rental rates and sale prices. Additionally, due to the high leverages involved in development projects, banks are now playing and will continue to play a major role in the market, defining its new paradigm.

As the development cycle lags behind the general economic cycle by a couple of years, a number of real estate development projects were put into commission during 2009 by inertia. However, most new development projects are “on hold” for three reasons: bad market indicators, high risk, and unavailability of debt financing. We do not anticipate strong development activity in the next two years, despite the fact that low construction and “soft” costs turn development into a highly attractive activity. This period can also be used by developers for planning, design, and preparing the ground to “cherry-pick” when the market recovers.

Economic Overview

- The year 2009 has been the most difficult year for Latvia's economy since the beginning of the 1990ies as it put to a severe test the economy and the society of Latvia. Both the economic and the moral crisis turned out to be more difficult than expected, therefore the remedies, too, had to be more painful.
- The Ministry of Finance predicts that the Latvian economy will begin to see gradual stabilization in the 1st quarter of 2010 and growth is likely to resume in the 2nd quarter of the year. Banks' analysts go along with the Ministry's forecasts and state that the situation in the Latvian economy is gradually stabilizing, and although the downturn will continue this year, the rate of the decline will decelerate.
- 2009 recorded a deep GDP decline of about 18 per cent (estimate). It was pushed down by a collapse of all kind of domestic demand, decline of government spending and the collapse of both exports and imports.
- External debt is one of the worst in the world and will further deteriorate in 2010 (as a per cent of GDP).
- Unemployment rate zoomed from 7 per cent in 2008 to over 17 per cent in 2009 and is still growing.
- Real wages are down sharply especially in the public sector (decline of some 20 per cent).
- Private consumption collapsed in the last two years by some 35 per cent, falling over 23 per cent just in 2009. This is one of the deepest declines of private spending during the crisis anywhere in the world.
- Retail sales are still year on year down just over 30 per cent.
- The authorities have expressed the desire to join the euro sooner rather than the original plan of aiming for 2014.

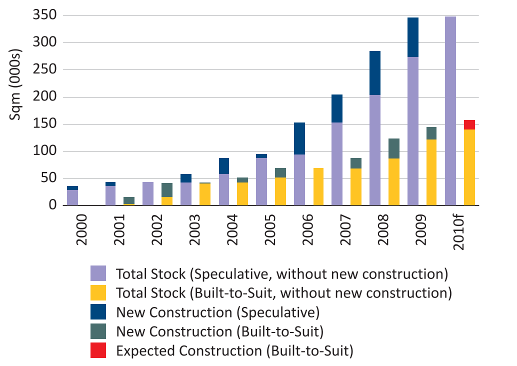
Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*	2010f
GDP current prices, bln EUR	8.3	9.3	9.4	9.5	10.7	12.7	16.0	20.0	23.0	18.0	16.3
GDP growth (real), % yoy	6.9	8.0	6.5	7.2	8.6	10.2	11.9	10.0	-4.6	-18.0	-4.0
Industrial production, % yoy	4.7	9.2	8.4	9.1	8.9	5.6	4.8	-1.0	-8.3	-24.2	n/a
Unemployment rate, % avg	8.7	8.5	8.2	8.2	8.2	7.1	6.5	4.9	7.0	17.5	21.5
Total central government debt, % of GDP	12.3	14.0	13.5	14.4	14.5	12.5	10.6	9.7	10.5	15.8	19.2
PPI, % yoy	0.6	1.7	1.0	3.2	8.6	7.8	10.3	16.1	9.5	n/a	n/a
CPI, % yoy	2.6	2.5	1.9	2.9	6.2	6.7	6.5	10.1-10.2	15.4	3.5	-3.5
Fiscal deficit, % of GDP	n/a	n/a	n/a	-1.6	-1.06	-1.18	-0.5	-0.4	-4.1	-9.3	-8.0
Export, bln EUR	16.1	7.5	8.6	14.3	21.4	31.4	15.3	24.1	10.4	-14.0	10.0
Import, bln EUR	11.9	13.4	9.0	19.5	27.0	27.4	31.3	23.5	-3.3	-25.0	-1.5
Current account, bln EUR	-0.4	-0.7	-0.6	-0.8	-1.4	-1.6	-3.4	-4.7	-2.4	n/a	n/a
Current account, % of GDP	-4.8	-7.6	-6.6	-8.1	-12.9	-12.4	-21.1	-23.8	-15.4	-7.0-8.0	-11,3
FDI, mln EUR	421	143	262	252	491	583	1,309	1,647	916	430	n/a
Cumulative FDI, mln EUR	2,246	2,656	2,672	2,626	3,367	4,211	5,704	8,068	8,124	8,253	n/a
LVL/EUR, aop	0.570	0.561	0.610	0.674	0.692	0.703	0.703	0.703	0.703	0.703	0.703
LVL/USD, aop	0.613	0.638	0.594	0.541	0.516	0.593	0.530	0.510	0.480	0.489	0.489

** - 11 months data*
f - forecast
Source: Statistics Latvia, Bank of Latvia, Ministry of Finance of the Republic of Latvia, SEB Bank

Office Market

Dynamics of Office Space in Riga



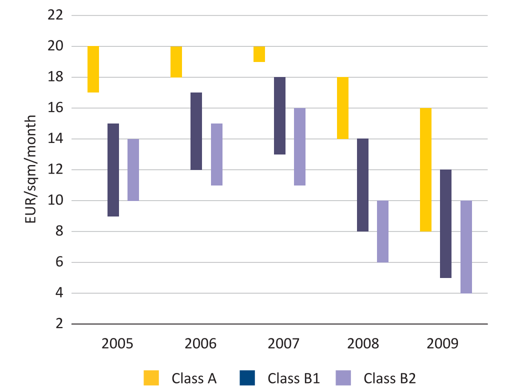
f - forecast

Rental Rates and Trends in Riga

Class	Rental Rates*	Trends for 2010
A existing	8-16	→→
B1 existing	5-12	→↘
B2 existing	4-10	→↘

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

Dynamics of Rental Rates in Riga



Vacancy Rates and Trends in Riga

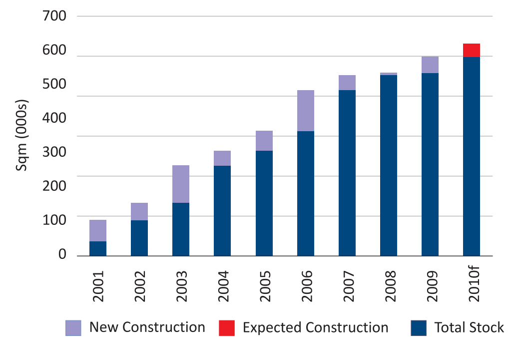
Class	Rates in 2008	Rates in 2009	Trends for 2010
A	10.4%	17.1%	→↗
B1	25.7%	42.8%	→↗
B2	26.1%	30.3%	→↗

→↗ - slight increase

- The **total speculative** supply of offices in Riga had reached 347,812 sqm by the end of the year. During 2009, 13 A and B class speculative office projects were fully put into commission in Riga, with total leasable area of approx 73 thousand sqm (compared with 10 projects with total leasable area of approx 81 thousand sqm in 2008). One of the commissioned projects, the A class office centre Alojas Business Centre, was leased by Colliers International to Nordea Bank as the Bank's headquarters building.
- In 2009 a total of 22 thousand sqm of built-to-suit projects were put into commission, including the Parex Bank headquarters.
- **Office stock** is not planned to be increased in 2010. Most additions to office stock in 2010 will be in the built-to-suit segment. DnB Nord Bank headquarters on Skanstes Street, comprising 16,500 sqm and the American Embassy project are due for completion in 2010.
- **Demand** for commercial office space is directly linked to the curve in employment and job growth; hence, absorption trends follow accordingly. An increase can be seen in supply of available office space on the market as a result of significant corporate layoffs and labour market restructuring over the past two years. This excess supply, combined with a highly competitive market, has resulted in a reduction in transaction volume, longer deal duration, and lower rental rates.
- Worsening of economic indicators together with continued speculative construction, led to an overall **office vacancy rate** that fluctuated between 36 - 37 per cent, including both direct and sublease space available.
- **Average asking rents** in Riga plunged to EUR 8 - 16 per sqm in A Class buildings; EUR 5 - 12 in B1 Class and EUR 4 - 10 per sqm in B2 Class buildings in the second quarter of 2009, a 38 per cent decline from the same period last year. Rents are at their lowest level since 2005. Office rental rates continued to fall throughout 2009 with many companies renegotiating their current rent levels, drawing rates down. Total vacant office supply as of Q4 2009 was 128,493 sqm (for 2008: 69,142 sqm).
- The economic recession in the country has increased the competitive advantage of Riga for relocation or establishment of back offices, call centres, and shared service functions of international companies. In terms of real estate costs, together with lower salaries and an educated workforce, Riga is now one of the most attractive cities in the EU.
- Regarding rental rates, the main wave of correction is over and sharp decreases are not expected in 2010. Most likely rental rates will remain on the level achieved at the end of 2009, though slight downward corrections may occur.

Retail Market

Retail Space Dynamics in Riga



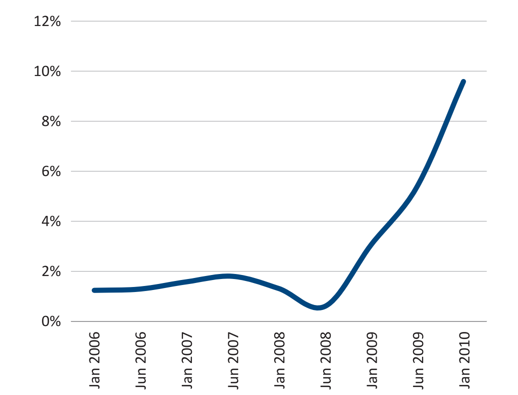
f - forecast

Vacancy Rates and Trends in Riga

City	Vacancy in 2008	Vacancy in 2009	Trends for 2010
Riga	3.06%	9.60%	→↗

→↗ - slight increase

Dynamics of Vacancy Rates in Riga



Rental Rate Distribution According to Area in Shopping Centres in Riga

Unite Size	Rental Rates*	Trends for 2010
Large retail unit (anchor tenants)	5-7	→↘
Medium retail unit (150-350 sqm)	10-25	→↘
Small retail unit (up to 100 sqm)	16-40	→↘

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

- 2009 was extremely harsh for the retail sector as consumers cut back on spending in a reaction to the economic situation. Retailers struggled to lure customers while landlords worked to fill vacancies.
- A definite flight to quality has occurred in the market. Retailers only want to be in the top centres and will not consider second-tier locations. The most active retailers in the market continue to be those that appeal to cost-conscious consumers: discount stores such as Cenu Klubs, Tiger, thrift stores, and value restaurants such as Kebab, Hesburger, Karotes.
- As of January 2010 total shopping centre **supply** in Riga amounted to 582 thousand sqm. In 2009 the total supply of retail premises in shopping centres increased by 47,000 sqm due to the opening of Riga Plaza, with about 150 shops, cinema halls, sporting facilities with bowling, billiards, and other.
- Galleria Riga, scheduled to open in 2010, will be located in Riga centre. The total area will be 53,000 sqm, GLA - 38,000 sqm. Specifics of this new shopping centre include multiple floors (7), floor split by tenant profile, specialization on fashion. It will form all planned retail stock for 2010.
- **Demand** for retail space is declining, and is mostly generated by those companies, that have experience in operating in a falling market and providing low-cost goods.
- **Rental rates** fell in Riga shopping centres in 2009. Retailers are not ready to declare any rental rates due to the unstable situation in the market, which defines an individual approach to each tenant. The rental rate still depends on shopping centre location, area, and type of commodity. Small retail units with up to 100 sqm show the highest demand. Rental rates for small units vary from EUR 16 to 40/sqm/month. Asking rates for anchor tenants are EUR 5 - 7/sqm/month.
- With the sharp decrease in purchasing power and retail turnover, street retailers have been forced to close down the shops or to push the landowner to drastically decrease the rental rates. Rental rates in street retail fell sharply during 2009, in some places from EUR 20 down to EUR 7/sqm/month.
- Continuous tenant rotation, the decline in consumer purchasing power, fall in retail turnover and weak demand have combined to pump up the high vacancy rate in Riga shopping centres from 3 per cent in January 2009 to 9.6 per cent in December 2009. Majority of the shopping centres have faced difficulties in finding new tenants for vacant units. Though, in Rigas's most successful shopping centres Alfa and Spice vacancy is low.

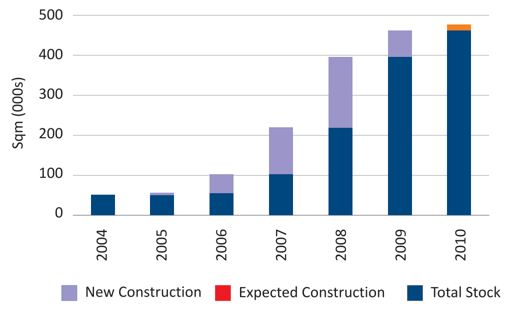
Street Retail Rental Rates in Riga

City	Address	Rental Rates*	Trends for 2010
Riga	Kr. Barona, Raina Bvld, Brivibas, Gertrudes	10-30	→↘
Riga	Old Riga	7-25	→↘

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

Industrial Market

Dynamics of Riga Warehouse Space



Rental Rates and Trends in Riga and Suburbs

Region	Rental Rates in 2008*	Rental Rates in 2009*	Trends for 2010
Riga	3.5-5	2-4	→↘
Riga District	3.5-4.5	2-5	→↘

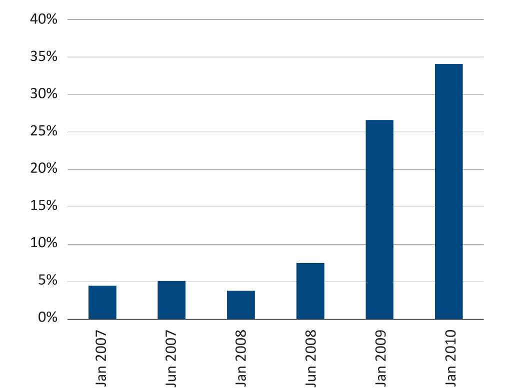
** - asking rental rate (EUR/sqm/month) excluding VAT and operating expenses*
→↘ - slight decrease

Vacancy Rates and Trends in Riga District

Region	Vacancy Rates in 2008	Vacancy Rates in 2009	Trends for 2010
Riga and Riga District	26.9%	34.1%	→↗

→↗ - slight increase

Distribution of Warehouse Space in Riga by Size



- The global economic crisis and the resulting real estate crash have hit the industrial sector globally as well as in Latvia. With many construction projects coming to a halt, and many partially finished sites littering the landscape, owners of facilities have much to worry about.
- Colliers International reports that the **supply** of modern warehouse space in Riga and its suburbs consisted of almost 465,000 sqm by the end of 2009.
- **Demand** for quality premises is low, especially when the time comes to renegotiate lease agreements with current landlords. However, bearing in mind relocation costs, potential tenants seek to cover these by exemption from rent for a certain period. Companies using 3PL services from logistics companies (major tenants at logistics parks) prefer to provide consignments small enough to sell and re-order, instead of storing goods.
- **Rental rates** for industrial facilities, as in the other real estate sectors, showed instability and a major drop in 2009. Typical monthly rental rates for new warehouse premises in Riga and Riga District range from EUR 2.0 to 4.0 sqm/month.
- During 2009, the average weighted **vacancy rate** jumped 26.9 percentage points to 34.1 per cent. Rapid vacancy growth was caused by the crisis combined with fully implemented plans for increasing supply.
- The possibility exists of demand from new companies entering the market for industrial and warehouse facilities as potential data centres or high quality information storage centres in Latvia. Production and assembly companies may consider relocating facilities from countries outside the Baltics due to decrease in Latvia of operational expenses for their business in general, as well as real estate.
- The bulk of industrial projects that have not yet entered the construction phase will remain frozen. A few will start construction, but only as built-to-suit for an actual tenant on the basis of specific needs and preferences.
- Colliers International further forecasts a rental drop of 10 per cent on average (in some cases, 20 per cent) during the next 12 months. An average rent of EUR 2.0 - 4.0/sqm/month seems to be reasonable for high quality facilities on Riga's ring road and inside Riga.

Completed Projects in Riga District for 2008 and Q1 2009

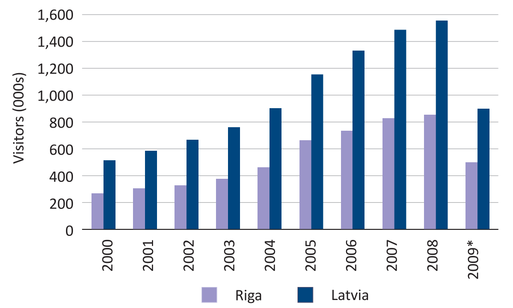
City	Project	Type	GLA (sqm)	Developer
Riga (Riga Airport)	Elipse-BLC	Speculative	28,543	Elipse BLC
Riga	Maskavas St. 462 Warehouse Complex, phase II	Speculative	17,000	Baltkorts
Riga	Ritausmas St. 23 Industrial and Office Building	Speculative	10,000	Private person
Jelgava	Eirkel Busines Park, 2nd stage	Speculative	10,300	Tand Jelgava
Total			**65,843**	

List of New Projects in Riga District for 2009 - 2010

City	Project	Expected Completion	Type	GLA (sqm)	Status	Developer
Sauriesi	Maykel Business Park	2010	Speculative	15,000	Under construction	Carn Holdings
Total				**15,000**		

Hotel Market

Visitor Dynamics in Accommodation Establishments

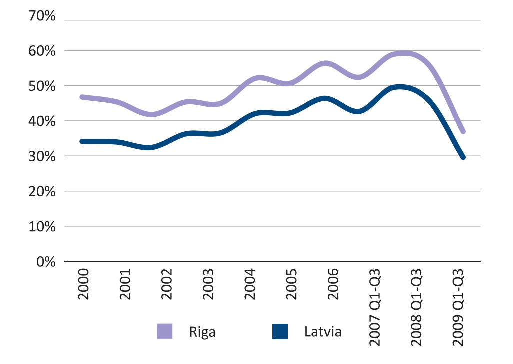


Source: Central Statistical Bureau of Latvia, Colliers International
**3 Quarters of 2009*

Price Range for Standard Double Hotel Rooms in Riga

Number of Stars	Minimum Room Rate, EUR	Maximum Room Rate, EUR	Average Room Rate, EUR
5-star	75	300	140-150
4-star	50	150	75-80
3-star	25	120	50-60

Dynamics of Average Room Occupancy Rate in Accommodation Establishments



Source: Central Statistical Bureau of Latvia, Colliers International

- In 2009 the tourism market in Latvia suffered the consequences of the global economic slowdown. During the first three quarters of 2009 a total of 898 thousand (3Q 2008: 1,276,441) visitors stayed in accommodation establishments in Latvia, a 30 per cent decline. In Riga an estimated 490 thousand visitors stayed in accommodation establishments in the first three quarters of 2009 (3Q 2008: 695,689).
- As of January 2010, **Latvia has 100 officially rated and certified hotels** with a total of 6,273 rooms. Riga hotels account for over 70 per cent of Latvia's total room supply. Dominating Latvia's hotel market are 3-star hotels in respect of both number of hotels and total room supply, comprising 61.0 per cent and 44.9 per cent correspondingly. In Riga, 4-star hotels provide the market with the largest number of rooms (45 per cent) while more than half of all hotels in Riga are 3-star (53.8 per cent).
- During 2009 just one boutique hotel with 67 rooms located in Riga Old Town was put into commission, which is significantly less compared to 2008 when six hotels with more than 700 rooms were added to stock.
- **Room supply** is expected to increase by 256 rooms in 2010 with the opening of Tallink Hotel Riga, the Tallink Group's first hotel in Riga.
- Tourists from nearby Germany (13.4 per cent), Lithuania (9.9 per cent), and Finland (9.5 per cent) predominated among visitors at accommodation establishments in 2009. The number of visitors from Russia increased in 2009, reaching 8.9 per cent (7.2 per cent in 2008).
- As of January 2010, the **average weighted room price** per standard double room in Riga 5-star hotels was around EUR 150 per night, thrice the average price of a 3-star hotel.
- As expected, the **occupancy rate** continued to fall in 2009 after reaching a peak in 2007. The average rate in 2009 was 30.2 per cent in Latvia and 37.7 per cent in Riga, reaching historically low levels throughout the period 2000 - 2009.
- Colliers International estimates that in 2010 the **occupancy rate** should remain at 2009 levels or may slightly increase due to implementation of such tourist attraction programs as LIVE RIGA and efforts by Riga municipality, AirBaltic airlines, and the Association of Latvian Hotels and Restaurants to increase the popularity of Riga and Latvia.
- Decrease in VAT rate from 21 per cent to 10 per cent for tourism industry should also have a positive effect on the profitability.

Number of Rated Hotels and Rooms in Latvia and Riga as at Jan 2010

Stars	Number of Hotels in Latvia	Number of Rooms in Latvia	Number of Hotels in Riga	Number of Rooms in Riga
5-star	8	735	7	693
4-star	20	2,333	12	2,003
3-star	61	2,815	28	1,510
2-star	8	251	2	95
1-star	3	139	3	139
Total certified	100	6,273	52	4,440
Non certified	102	2,861	32	2,501
Total	**202**	**9,134**	**84**	**6,941**

Source: Central Statistical Bureau of Latvia, Colliers International

Latvia Legal Overview

Title to Real Estate, Land Book

Title to real estate is transferable subject to registration with the Land Book. In general, buildings are considered to be a part of the land beneath them. However, as a result of land reform and in lease relations, a land plot and a building situated on it may belong to different owners.

The Land Book stores information regarding the legal status of real estate, including encumbrances, mortgages, pre-emption rights, and other relevant rights and obligations. Information registered in the Land Book is binding on third parties and is publicly available, also via electronic database in return for a fee.

Acquisition of Real Estate

General

Real estate may be acquired as a building and land plot beneath (entire or ideal parts) or as a building or land separately (if registered with the Land Book as permanent property objects) or apartment ownership. Generally, transfer of a building or land separately from each other is not possible, unless the land plot and the building are registered with the Land Book separately as permanent property objects.

Change of Ownership

Each transaction with real estate and registration of ownership rights with the Land Book involves a number of formalities which have to be completed or resolved before title transfer. For instance, any real estate tax debt on a particular property has to be settled - if not, registration of ownership rights with the Land Book is refused. The period for registration of title to real estate with the Land Book is ten days as of filing all necessary documentation with the Land Book.

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, take the following into account:

- notary fees and state duty arising from real estate sales are excluded from transaction costs on the sale of shares of a company;
- ownership of shares is transferred as agreed in the sale agreement, at the time of signing the agreement, or on registration, which takes only a few days;
- 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;
- applicability of financial assistance rules;
- deferred tax issues.

Asset transfer involves the following benefits and drawbacks:

- asset transfer is subject to notary fees and state duty and is thus more expensive than a share transfer;
- limited scope of due diligence investigation since the review concerns only the target asset;

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- lease agreements registered with the Land Book still bind the new owner after purchase of the target asset;
- agreements on supply of utilities and other services must be assigned to the buyer or new agreements signed with service providers;
- an asset transaction may in some cases be treated as sale of an entire company, in which case all obligations associated with the company may be transferred from seller to buyer.

Form of Agreements

Transactions with real estate require written form, as well as registration with the Land Book. There are no requirements for notarisation of the purchase agreement.
Registration of ownership rights with the Land Book is carried out on the basis of a registration application signed by both seller and purchaser in the presence of a notary public.
In addition to the purchase agreement and registration application, other documents have to be prepared and filed with the Land Book (e.g. statement confirming payment of real estate tax).

Language Requirements

There is no specific requirement under Latvian law to use only the official state language (Latvian) in agreements on real estate. Parties may choose the language of the agreement themselves. However, the Land Book must have at least a translation approved by a notary public of the purchase agreement and one copy of the original agreement.

Due Diligence

Before carrying out any real estate transaction, it is advisable to research the status of the real estate, e.g. encumbrances, permitted use as set by the local authority, lease agreements affecting the real estate. The results of research may help set the final purchase price reflecting the value of the real estate.

Pre-emption Rights

Local municipalities enjoy pre-emption rights in respect of acquisition of real estate (land and buildings) located in their territory. Only after the municipality has decided not to exercise its pre-emption rights may a purchase agreement be registered with the Land Book and ownership transferred to the purchaser.
Should the building and the land plot have different owners, the owner of the building situated on the land plot to be sold enjoys a pre-emption right with respect to the land plot, and vice versa. Additionally, co-owners of real estate enjoy pre-emption rights with respect to the ideal part (legal share) of immovable property being sold.

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By law, the state enjoys pre-emption rights on the sale of cultural monuments of state importance and land plots in preservation zones. Generally, pre-emption rights are exercised within two months after the purchase agreement is delivered to those entitled to such rights. The local municipality has to decide on exercising pre-emption rights within 20 days after receiving the purchase agreement.
Pre-emption rights may be also agreed upon between the parties.

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 a purchaser to a seller's account as an advance payment on signing the agreement. Normally, the parties agree to use an escrow account with a bank. During the registration process, neither the seller nor the purchaser has access to funds transferred to the escrow account. Generally, the parties agree on release of these funds only after registration of the purchaser's real estate title with the Land Book.

Related Costs

Sharing of costs incurred during purchase is a matter for agreement between the parties. Usually, the purchaser pays state and stamp duties, whilst notary fees are shared equally between the parties.
State duty 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 EUR 44,843 (LVL 30,000). Stamp duty for registration and issue of a Land Book certificate is currently EUR 15 (LVL 9).
Preparing and attesting signatures for the application to the Land Book costs approximately EUR 92 (LVL 65).

Restrictions

Restrictions on Acquisition of Real Estate

Restrictions on real estate acquisition in Latvia apply to land plot purchases. Latvian law does not lay down any particular restrictions or obstacles for foreigners to buy land in cities in Latvia, except for foreigners from non - EU states, for whom a restriction is in force on acquiring land located in state border territories, special protection zones, and agricultural or forest land.
With respect to land in rural areas, no restrictions are imposed on acquisition of land plots by companies registered in the Latvian Register of Enterprises in the following cases:

- if more than 50 per cent of the company's share capital is owned by Latvian citizens, the state, or a municipality; or
- if more than 50 per cent of the capital is owned by foreign natural persons or undertakings, and Latvia and the relevant foreign country have concluded agreements on mutual promotion and protection of investments (Latvia has signed such agreements with most European countries, Canada, and the USA).

Should potential foreign purchasers fail to fulfil the criteria listed above, they must apply for permission from the local municipality, which has the discretion to accept or reject the application. Permission is necessary, regardless of the size of the land plot to be purchased.
However, permission is required only for acquisition of land. Therefore, apartments or buildings may be acquired without further restrictions and limitations, unless the land beneath is included in the deal. In most

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cases, apartment ownership also comprises a certain ideal part of the land plot, the land plot being in the co-ownership of all apartment owners in the house.
As of 1 May 2011 (expiry of transitional period), EU citizens and legal entities domiciled in EU Member States may acquire land in rural areas on the same conditions as citizens of Latvia. During the transitional period, EU citizens may only acquire agricultural or forestry land if they live permanently in Latvia and have had farmland there within the last three years.

Concentration Control

Transfer of real estate may be subject to prior approval by the Latvian competition authorities.

Encumbrances

Real estate might be encumbered with servitudes, pre-emption rights, lease rights registered with the Land Book, mortgages, protection zones, and other encumbrances that should be considered in use of real estate and construction of buildings.

Mortgage

Usually, purchase of real estate is financed by bank loans. Therefore, the bank requires security in the form of a mortgage.
In order to register a mortgage on real estate, a mortgage agreement should be concluded. An application to register the mortgage with the Land Book must be signed in the presence of a notary public. The Land Book registers the mortgage within ten days of filing the necessary documentation.

Property Management

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

Lease Agreements

General

General terms for lease agreements are laid down in Latvian Civil Law. The contents of a lease agreement are subject to agreement between the parties. Lease agreements on real estate remain valid if registered with the Land Book. Otherwise, a purchaser of real estate may terminate an unregistered agreement. However, the lessee is entitled to compensation from the owner for termination of a lease agreement before expiry.

Duration and Expiry of Lease Agreement

The duration and expiry of lease or tenancy agreements is usually set in the agreement. Latvian law lays down some general rules and these agreements may be for a specified or unspecified term. As for termination, the law lays down only general rules. More specific provisions on termination are regulated by the Law on Apartment Leases, adopted in order to protect the interests of tenants.

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Lease Payment and Accessory Expenses (Utilities)

Prepayment of lease payments (deposit or guarantee) is usually required by the owner, but Latvian law lays down no specific provisions or procedure regarding payment of deposits.
Accessory expenses are payments for maintenance and utilities such as water, gas, and electricity. As a rule, these are usually paid by the tenant in addition to lease payments.

Distressed Assets Purchase

In distressed asset purchases the buyer has the upper hand and can therefore dictate terms of the transaction. Distressed sales may be facilitated or controlled by banks that have been financing development 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. The asset is then sold "as is", which makes thorough due diligence even more important.

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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. 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.

For more information on real estate services in Latvia, please contact:

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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 control over use of Latvian real estate. Individuals, who were previously only liable for real estate tax on land, from 1 January 2010 must also pay real estate tax on their residential homes and apartments.

Real estate tax as of 1 January 2010 applies at a rate of 1.5 per cent of the real estate's cadastral value (the previous rate was 1 per cent) maintaining a limit of 25 per cent of tax increase for present tax objects until the end of 2010. A 1.5 per cent rate is introduced for engineering structures (not taxed before 2010). A 3 per cent rate is introduced for 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.

- 0.1 per cent - for cadastral value not exceeding LVL 40,000 (approx EUR 56,900);
- 0.2 per cent - for cadastral value from LVL 40,000 to LVL 75,000 (approx EUR 106,700);
- 0.3 per cent - for cadastral value exceeding LVL 75,000.

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

Value Added Tax

Sale of land is VAT-exempt, as is the sale of real estate in use. However, sale of unused real estate (buildings and constructions) and development land (land granted a building permit) is subject to VAT of 21 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 21 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).

For more information on real estate services in Latvia, please contact:

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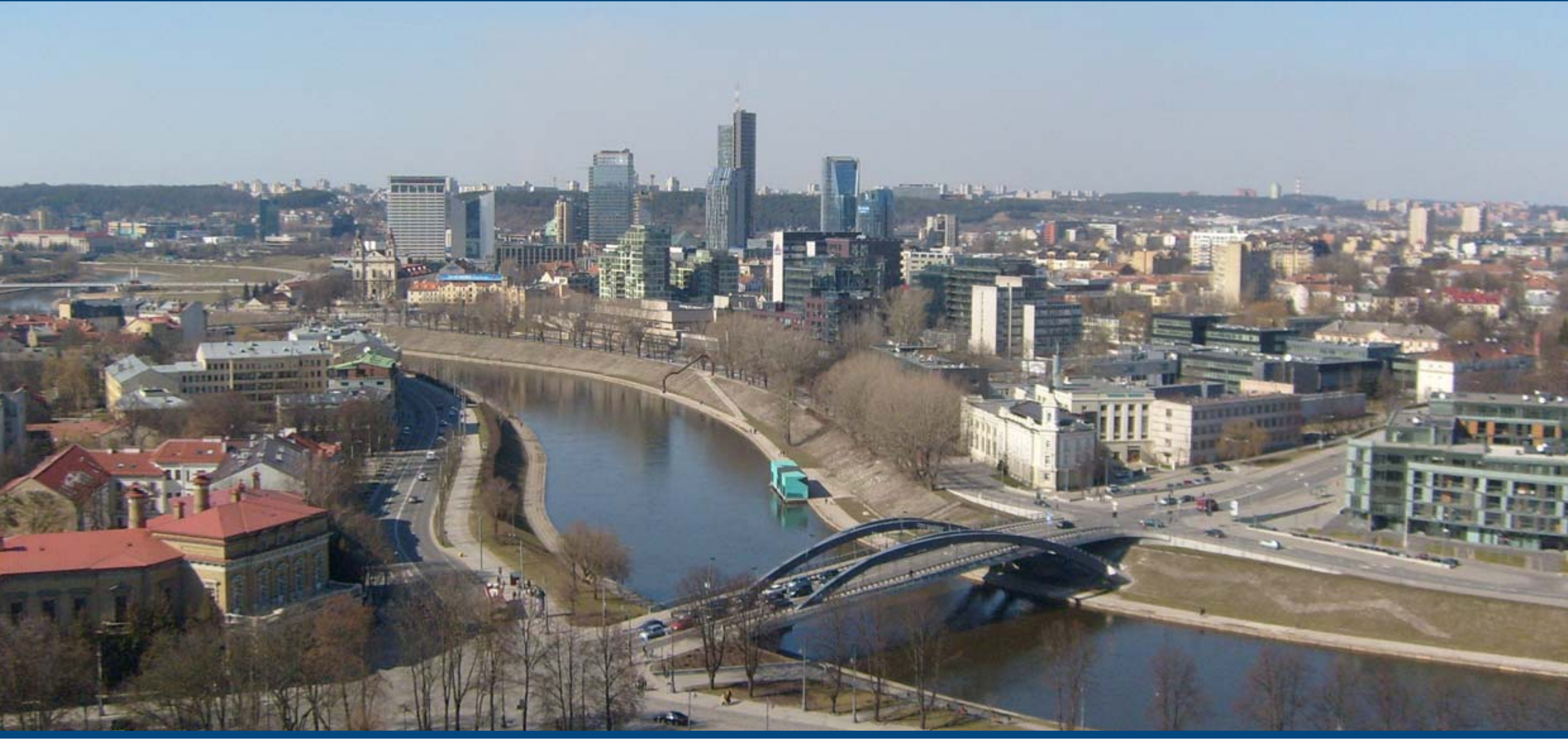

Lithuania

Real Estate Market Review I 2010

ESTONIA LATVIA LITHUANIA BELARUS

Still Waiting for Investors Interest

2009 was a year of painful, significant losses and new experiences. Negative economic indicators inevitably affected all real estate market sectors without exception. The unfavourable environment led to changes for business, with falling company profitability, while market players fearing for their survival had to adapt to prevailing market conditions, exploring new business niches, optimizing performance, reviewing the terms of lease agreements, and reducing the size of leasable area and operating costs. Despite a noticeable slowdown in the market, a number of lease transactions and renegotiations based on costs optimization were recorded in 2009. Company development plans and new project development were put on hold until better times.

2010 does not promise significant changes in the real estate market. The real estate sector, influenced by many factors such as the country's unemployment rate and domestic demand, will be one of the last sectors to recover. However, we are expecting to see a slight improvement in the market this year. This will be fuelled by increased activity from market players, the recognition that pricing has probably passed its floor, and somewhat more attractive bank financing conditions. Caution and risk aversion will remain key items in the market for investors in 2010.

Best regards,

Ramune Askiniene

Director, Lithuania

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Economic Overview

- 2009 was particularly hard for the Lithuanian economy. Due to the difficult global situation the country's exports suffered severely, while domestic consumption declined significantly. The government's chosen internal devaluation strategy further reduced the population's purchasing power, increased low-income vulnerability and tension in the labour market. In addition, a local structural crisis has started due to the increase in government apparatus and its high maintenance costs.
- According to Department of Statistics published data, in 2009 Lithuania's annual GDP amounted to EUR 26.7 billion and, compared to 2008, decreased by 15.0 per cent.
- In 2008 a fixed 8.5 per cent average annual inflation fell to 1.3 per cent for 2009. This has been affected by sluggish popular consumption, along with internal devaluation.
- In 2009, the unemployment rate reached 13.7 per cent, increasing by more than twice compared to 2008 (5.8 per cent). Corporate bankruptcies and downsizing trends that started in 2008 became prevalent, in particular in the first half of 2009. In the second half of the year the rise in the unemployment rate slowed.
- As of 1 October 2009, foreign direct investment (FDI) was EUR 9.9 billion, that is, 0.7 per cent higher compared to 1 October 2008 data (EUR 9.8 billion). Most investors are from Sweden - 12.2 per cent, Denmark - 10.5 per cent, Poland - 10 per cent, Russia - 6.8 per cent, and Estonia - 6.7 per cent. FDI from the 27 EU Member States amounted to 78.9 per cent, from CIS countries - 7.4 per cent of FDI.
- Slow recovery of the country's economy with a modest recovery in domestic demand over the coming years will hold inflationary growth.

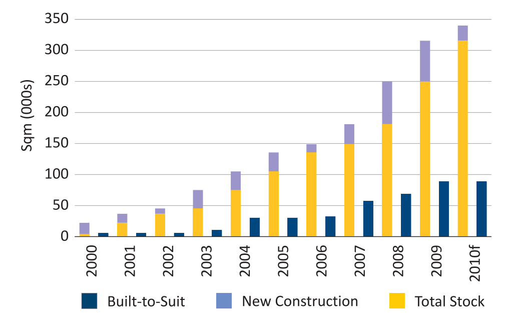
Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010f
Nominal GDP, EUR billion	12.4	13.6	15.0	16.5	18.2	20.9	24.0	28.6	32.2	26.7	27.2
GDP at chain-linked volume, EUR billion	13.2	14.1	15.1	16.7	17.9	19.3	20.8	22.8	23.5	19.9	20.3
GDP growth, % yoy	3.3	6.7	6.9	10.2	7.4	7.8	7.8	9.8	2.8	-15.0	1.6
Industrial production, % yoy	2.2	16.0	3.1	16.1	10.8	7.1	7.3	4.0	2.7	n/a	n/a
Unemployment rate, % avg	16.4	17.4	13.8	12.4	11.4	8.3	5.6	4.3	5.8	13.6	16.7
Total public debt, % GDP	23.7	23.1	22.3	21.1	19.4	18.4	18.0	16.9	15.6	29.3	n/a
PPI avg, % yoy	16.0	-3.0	-2.8	-0.5	6.0	11.5	7.4	7.0	18.0	n/a	n/a
CPI avg, % yoy	1.0	1.4	0.3	-1.1	1.2	2.7	3.7	5.7	11.1	4.2	-1.0
Fiscal balance, % GDP	-3.2	-3.6	-1.9	-1.3	-1.5	-0.5	-0.4	-1.0	-3.2	n/a	n/a
Export, EUR billion	0.9	4.8	5.5	6.2	7.5	9.5	11.3	12.5	16.1	11.8	n/a
Import, EUR billion	1.4	6.8	7.9	8.5	10.0	12.5	15.4	17.8	21.1	13.1	n/a
C/A balance, EUR billion	-0.7	-0.6	-0.8	-1.1	-1.4	-1.5	-2.6	-4.1	-3.8	n/a	n/a
C/A balance, % GDP	-5.9	-4.7	-5.1	-6.8	-7.7	-7.1	-10.6	-14.5	-11.9	n/a	n/a
Cumulative FDI, EUR billion	2.2	2.6	3.1	3.8	4.0	4.7	6.9	8.4	10.3	9.1	n/a
LTL/USD aop	4.0000	4.0000	3.6733	3.0599	2.7808	2.7746	2.7513	2.5230	2.3569	2.4828	n/a
LTL/EUR aop	3.6990	3.5849	3.4605	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528

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 cannot be compared yoy due to change in methods used.

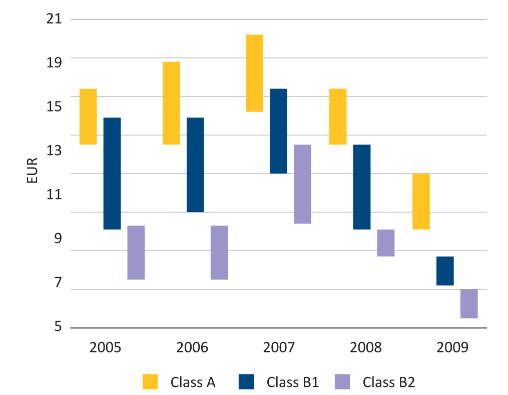
Office Market

Dynamics of Office Space in Vilnius

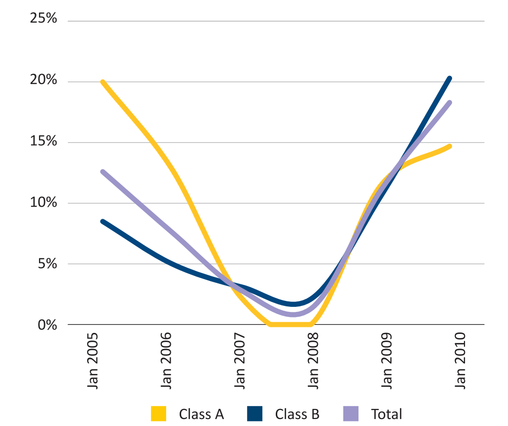


f - forecast

Dynamics of Rental Rates in Vilnius



Dynamic of Vacancy Rates in Vilnius



- In 2009 the supply of Vilnius **office space grew** by 65,600 sqm to 315,500 sqm. The opening of eight projects in 2009 added mainly B1 class premises for rent in Vilnius.
- In 2009 the **office space market increased** by another 26 per cent year on year, with 15 per cent of new space of **Class A** quality.
- Much new development was located at a **distance from the city centre** and only one A class business centre Green Hall was developed in close proximity to the Central Business District.
- Throughout 2009 the market was mainly a **tenants' market** so that developers had to adjust to the changed situation. During the whole year re-negotiations of current lease agreements, relocation of offices for more compact space or more suitable offices and conditions were a **driving force** in the Vilnius office market.
- New **supply was not absorbed** by tenants and only the higher quality business centres proposed by experienced developers were fully leased and did not face major difficulties in their first year of operation.
- **Annual absorption** was about 36,000 sqm, surprisingly high compared with average annual absorption of about 32,000 sqm during the 2006 - 2008 period.
- **Rental rates** fell throughout 2009 though the pace slowed at the end of the year. By year end, the asking rental rates for office space had fallen by 20 - 30 per cent.
- The **asking rental rates for Class A** business centres was 20 per cent lower year on year in January 2009, while for Class B office centres asking rentals were about 25 - 30 per cent lower.
- The total **vacancy rate** in the Vilnius office market was constantly on the increase due to new supply in 2009. The high average vacancy rate of 18 per cent was caused not only by new supply put on the market in 2009 but also by bankruptcies and reduced leased area of existing tenants' space.
- The strong growth trend of **office space supply** year on year will certainly be interrupted, with delayed projects having to wait for economic recovery and new demand.
- The first signs of economic recovery will be followed by fewer bankruptcies and a slight **growth in demand** should be noticed, although the main demand will be formed by small or medium tenants.
- **Rental levels** have bottomed out and are forecast to stay stable or even grow slightly as the heating season ends and the vacant office area decreases.
- **Vacancy rate** in the country's office market will remain high during 2010 in the face of falling indexes during the second half of the year.

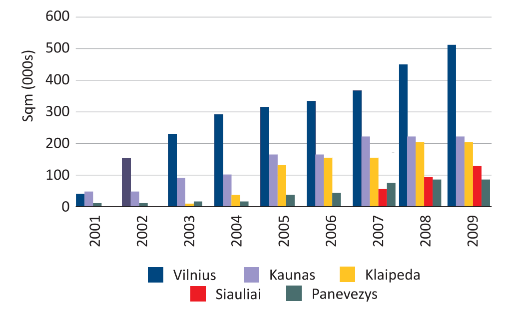
Rental Rates for 2009 in Vilnius and Trends for 2010

Class	Rates*	Trends
A existing	10.1-13.0	→→
B1 existing	7.2-8.7	
B2 existing	5.5-7.0	

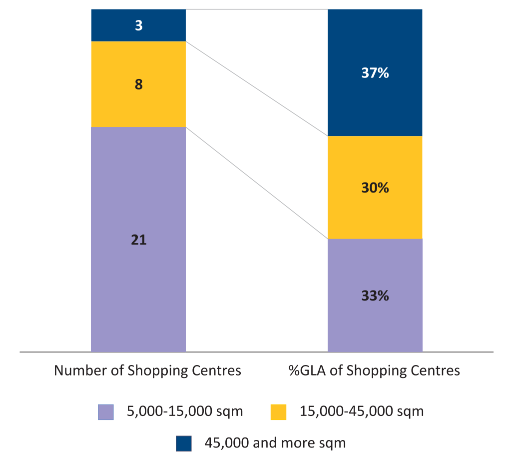
** - asking rental rate (EUR/sqm/month) excluding VAT and operating expenses*
→→ - stable

Retail Market

Dynamics of Retail Space



Distribution of Retail Space in Vilnius by Size



Vacancy Rates for 2009 and Trends for 2010

City	Vacancy	Trends
Vilnius	7%	→↗
Kaunas	2%	→↗
Klaipeda	6%	→↗

→↗ - slight increase

- In 2009, the **Lithuanian retail space market** showed a significant slowdown in terms of supply growth and pipeline project cancellation, as well as a significant drop in retail turnover. Retail turnover was down 28 per cent in 2009, showing a steady decline.
- **Supply in Vilnius** grew by 62,000 sqm of leasable retail space (14 per cent) to reach 512,200 sqm. Only one large scale shopping and entertainment centre Ozas was developed.
- **Kaunas and Klaipeda retail markets** saw no changes in supply. It is likely that implementation of new projects will adjust to the present economic situation and planned retail market growth may be postponed until 2013 - 2014.
- Growth in retail space is **not expected** in the nearest future: although projects are at the preparation stage, development would face especially high competition in the market.
- Harsh competition among shopping centres involved **continuous marketing campaigns** offering customers an opportunity to be a part of shopping centre life - concerts, exhibitions, games, various attractions, services for free - as a common tool to increase customer flow and propel stagnant trade.
- Changes in consumer demand were still affecting the **turnover decrease** of 25 - 30 per cent. Although the number of visitors in shopping centres remained fairly stable or even increased, buying habits became more planned and rational.
- The economic situation in Lithuania caused corrections in **rental rates**, with a drop of 20 - 30 percent observed in shopping centres, depending on their performance. Poorly operating projects showed a significant drop and even that step did not affect increased vacancy.
- **Re-negotiations** are expected to continue, although at a slower pace, with landlords preferring to keep tenants under re-negotiated conditions than to be left with vacant premises.
- Dialogue established between tenants and landlords may lead to **stabilized vacancy** rates in the future.
- Retail turnover indexes are expected to stabilize for a short period and to recover gradually; however, there are no expectations for **consumption to recover** close to peak year level.
- **Optimisation** of additional and operating expenses will show a downward trend based on optimisation of shopping centre management. On the other hand marketing campaigns will be more intensive in order to compete in the market so that marketing expenditure will be higher.

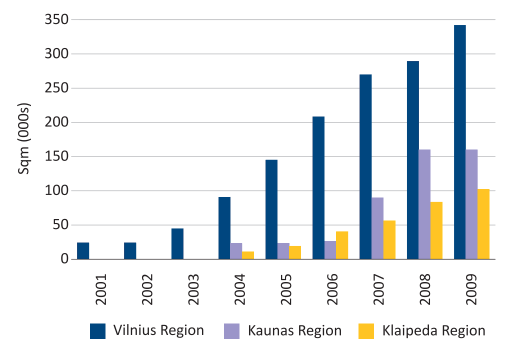
Rental Rates in 2009 in Vilnius and Trends for 2010

Unite Size	Rates*	Trends
Large retail unit (anchor tenants)	6.0-9.0	→→
Medium retail unit (150-350 sqm)	12.0-20.0	→↘
Small retail unit (up to 100 sqm)	20.0-30.0	→↘

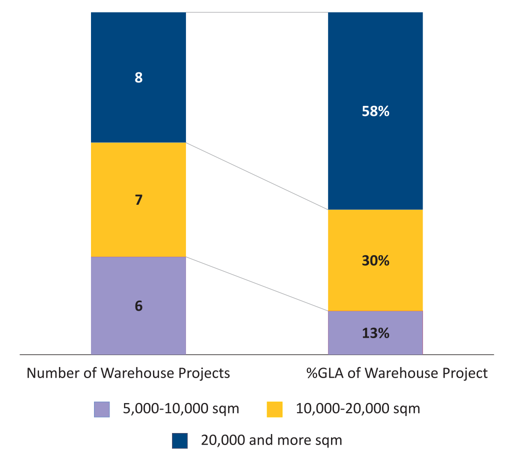
** - asking rental rate (EUR/sqm/month) excluding VAT and operating expenses*
→→ - stable, →↘ - slight decrease

Industrial Market

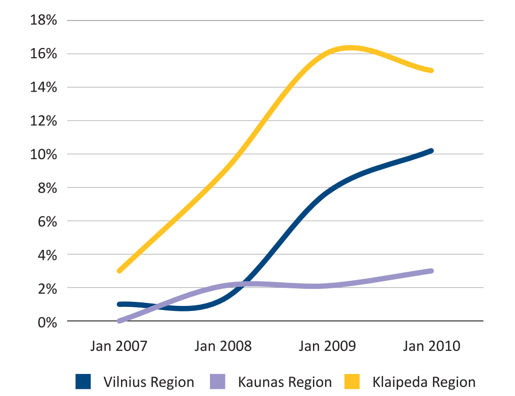
Dynamics of Warehouse Space



Distribution of Warehouse Projects in Vilnius by Size



Dynamics of Vacancy Rates



- **The 2009 warehouse market** can be described as predictable. Most new warehouses had prearranged users, with construction on a built-to-suit basis.
- Despite the noticeable slowdown in the market, far more lease transactions were concluded than ever before. **Take-up** in the last year amounted to more than 55,000 sqm with relocations as the key reason for transactions.
- The largest **new warehouse space supply** was recorded in the Vilnius region. In 2009, the warehouse market there grew 18 per cent (in contrast to 7 per cent in 2008), and finished with 342,200 sqm of new warehouse space by year end.
- Warehouse operators, logistics companies, and retailers remained the **main tenants**. In 2009, these tenant groups in speculative warehouses occupied around 90 per cent of the total leased area. Since the processes under way in the market (such as deteriorating imports, dwindling transit flows, increased competition between carriers in Europe, and the CIS position in regard to Lithuania) had a significant negative impact on these tenants' activities, demand for warehouse space dropped significantly.
- A downward trend in **rental rates** continued into 2009. A significant drop in rental rates (up to 25 - 30 per cent or even higher in some cases) was due to warehouse owners' desire to retain existing tenants and to attract potential new tenants, thus gaining at least minimum income flows for further financial commitments.
- In 2009 low growth of the **vacancy rate** was observed in the warehouse market. Vacancy growth in the warehouse market was mainly influenced by the consequences of the global financial crisis and economic recession. Tenants were trying to optimize their activities and fit into smaller warehouse space.
- Due to prolonged economic recession and the strict credit policy of banks, **new warehousing projects** will be compiled and developed only after finding tenants (construction on a built-to-suit basis).
- In 2010 warehouse **rental rates** should not decline further than the profit/loss threshold already achieved. Clear signs of growth will not be seen yet due to slow economic recovery.
- With the market providing new projects constructed on a built-to-suit basis, the **vacancy level** will remain unchanged or decline gradually.

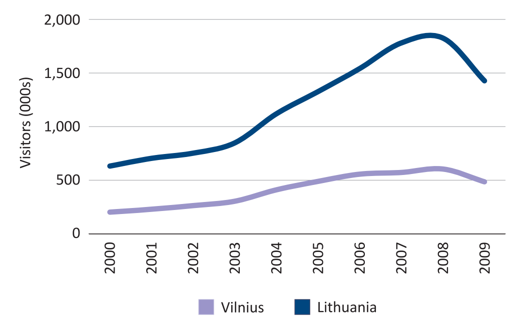
Warehouse Rental Rates in 2009 and Trends for 2010

Region	Rental Rates*	Trends for 2010
Vilnius	3.5-4.3	→→
Kaunas	3.5-4.3	→→
Klaipeda	3.5-4.0	→→

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

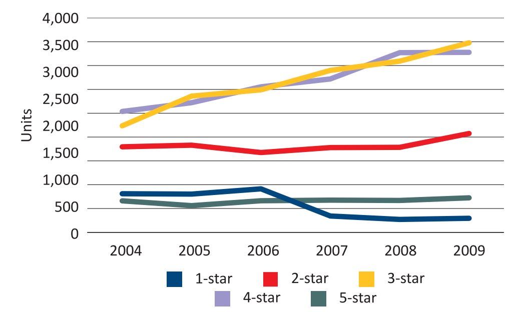
Hotel Market

Dynamics of Visitors in Accommodation Establishments



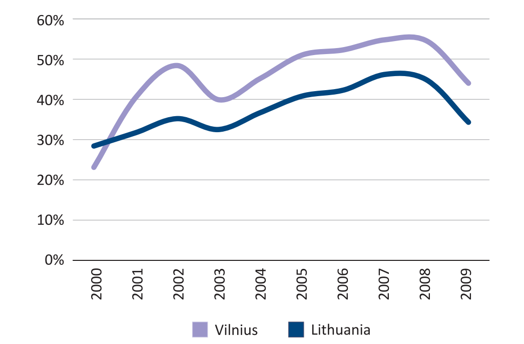
Source: Lithuanian Department of Statistics

Number of Rooms in Hotels and Guesthouses



Source: Lithuanian Department of Statistics

Dynamics of the Average Room Occupancy Rate in Accommodation Establishments



Source: Lithuanian Department of Statistics

- **New hotel openings** for companies have become a real challenge as most hotels are balancing on the threshold of survival. In 2009, the market was presented with only a few larger projects, mainly focused on economy class visitors.
- Both in terms of number of establishments and number of rooms, 3-star hotels and guest houses occupy **a dominant position** in the market - 49 per cent and 36.7 per cent respectively. In 2009 compared to 2008, the number of rooms in 3-star hotels increased by 10.7 per cent.
- A number of important factors, such as the global economic and financial crisis, the country's poor accessibility, and reduced consumption, have significantly corrected **demand for accommodation establishments**. According to Department of Statistics data, 1.4 million visitors were accommodated in 2009, that is, 21.8 per cent less compared to 2008, of which 1.055 million stayed in hotels and guesthouses, 20.5 per cent less foreigners and local tourists - a year on year drop of 16.9 per cent and 25.8 per cent respectively.
- **Hotel and guesthouse occupancy** in 2009 averaged 34.3 per cent in Lithuania and 44 per cent in Vilnius, a year on year drop of 10.6 and 10.5 respectively. Occupancy at this level indicates that the hotel business is balancing at the margin of survival. Hotels are forced to fight for every visitor by offering lower room prices and various discount packages.
- In 2009 **standard pricing** virtually disappeared. This in turn led to reduced profitability of hotels. In order to remain competitive and not to lose remaining quests, hotels cover the increased VAT charges (from 5 per cent to 21 per cent) by themselves. In addition, the real estate tax is still paid at the highest rate.
- Although the economy is showing signs of recovery, the hotel market cannot expect to feel positive changes in the near future. Nevertheless, a deceleration and stabilization of the fall in **the number of quests and nights** can be expected in 2010. Greater market recovery could be expected in 2011. In this respect, different events are likely to exert an influence. For example, the European Basketball Championship 2011 will take place in Lithuania, while Klaipeda should become an intermediate port of the worldwide regatta The Tall Ships' Race Baltic 2011.
- The highly fragile economic recovery of the country in 2010 will not provide the opportunity to increase **hotel room prices**, which will remain on the same level as in 2009.

Number of Classified Hotels and Rooms in Lithuania for 2009

Stars	Lithuania		Vilnius		Kaunas		Klaipeda	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
5-star	8	724	6	569	-	-	-	-
4-star	74	3,778	19	1,466	9	652	7	533
3-star	144	3,978	23	1,214	8	188	10	294
2-star	56	2,074	13	734	1	86	2	68
1-star	13	295	2	46	-	-	1	22
Total	**296**	**10,849**	**63**	**4,029**	**18**	**926**	**20**	**917**

Source: Colliers International and Lithuanian Department of Statistics

Lithuania Legal Overview

Title to Real Estate, Real Estate Register

Ownership of real estate may be acquired by transfer of title to real estate on the basis of different transactions, such as sale-purchase, grant, or exchange (swap).
Title to real estate is registered with the Real Estate Register. Although no obligation exists to register a transfer of title, or an agreement to transfer title, to real estate, the transaction must be registered before it can be invoked against a third party.
Data recorded with the Register is considered true and comprehensive until proven otherwise under the procedure established by law. The Real Estate Register stores information on the legal status of real estate, including all encumbrances, mortgages, pre-emption rights, and other relevant rights and obligations; the information it contains is publicly available.

Acquisition of Real Estate

General

Generally, ownership of immovable property can be transferred to another person if it is formed as a separate real estate object, has a unique number, and is registered with the Real Estate Register. Examples of real estate objects include land plots, buildings, and premises.
On sale of a building, the buyer's rights to the land plot occupied by the building and necessary for use of the building must also be specified. An agreement which does not cover the rights of the buyer 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 recorded by executing a transfer-acceptance deed that may either be signed as a separate document or incorporated into 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 that 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 tax as well as other tax issues;
- existing management structure, employees, and contractual obligations of the company may be not in line with buyer expectations.

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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 on change of owner of leased property;
- an asset deal may in some cases be treated as sale of an entire company, in which case additional mandatory legal requirements apply, such as specific content of the agreement, notification of creditors;
- limited scope of due diligence investigation as it covers only the target asset.

Form of Agreements

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

Language Requirements

Transactions by Lithuanian legal and natural persons must be in Lithuanian. However, translations into one or more languages may be attached. Transactions with foreign natural and legal persons may be in Lithuanian and another language acceptable to both contracting parties. However, if the transaction requires approval of a notary, it usually follows that the Lithuanian version must prevail.

Due Diligence

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

Pre-emption Rights

In some cases, pre-emption rights are established by law. Examples include a co-owner's pre-emption right to acquire a share in the sale of commonly-owned real estate, except if the sale takes the form of a public auction; the state's pre-emption right 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 a land plot to be sold enjoys a pre-emption right to acquire the land plot, and vice versa.

The parties may also agree on contractual pre-emption rights. If real estate is sold in violation of those rights, the holder of the pre-emption right is entitled to claim for transfer of the buyer's rights and obligations.

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Typical Purchase Price Arrangements

The price of real estate must be shown in the sale-purchase agreement, otherwise the agreement is ineffective. The parties are free to agree on how to arrange payment of the purchase price. Payment may be made in one lump sum or divided into several instalments. For example, a portion of the payment may be transferred in order to secure the preliminary agreement or on the day the sale-purchase agreement is executed, with the remainder paid after certain conditions precedent are fulfilled, such as release from mortgage. 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 notary fee for notarisation of the agreement on real estate acquisition amounts to 0.45 per cent of transaction value, with a maximum of EUR 5,792. The stamp duty for legal persons to register transfer of title to real estate ranges from EUR 23 to EUR 1,448 depending on the average market price 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

Restrictions on real estate acquisition in Lithuania apply to land plot purchases only. Buildings and other constructions are not subject to restrictions.

Non-EU Citizens and Legal Entities

Foreign legal and natural persons may acquire title to land provided they comply with European and Transatlantic criteria (see subsection below).

EU Citizens and Legal Entities

Foreign legal entities are taken 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 taken 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 for a transitional period of seven years from 1 May 2004, 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 organizations which have established representative or branch offices in Lithuania.

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Concentration Control

Transfer 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 aggregate turnover of a foreign undertaking (i.e. not incorporated in Lithuania) participating in a concentration, where only income received from sales in Lithuanian product markets is taken into account.

Encumbrances

Real estate may be encumbered with servitudes (easements), pre-emption rights, 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 to secure fulfilment of contractual obligations. A mortgage is created by executing a mortgage bond signed by the debtor, the creditor, and the owner of the mortgaged real estate (if necessary), and attested by a notary. The creditor, whose claim is secured by the mortgage, enjoys priority against third parties to redeem the debt from the mortgaged property. A mortgage also survives transfer of title to real estate.
A mortgage comes into effect when registered with the Mortgage Register. Currently, mortgage reform is being introduced in the Lithuanian parliament. This is expected to simplify formal procedures and broaden the types of property that may be mortgaged or pledged.

Property Management

Maintenance of real estate is usually carried out by the owner or a 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. However, parties to lease agreements may freely agree on most lease-related issues. A lease agreement survives transfer of title to a leased real estate object, provided the lease agreement was registered with the Real Estate Register before title transfer.

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Duration and Expiry of Lease Agreement

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

Tenants who have discharged their obligations under lease agreements enjoy a pre-emption right against third parties to renew the lease agreement after expiry of the term.

Lease Payment and Accessory Expenses (Utilities)

Tenants pay rent on the terms and conditions established in the lease agreement. Usually, rent is paid monthly.

Payments for maintenance of leased real estate and utilities (e.g. water, heating, gas, electricity) are paid on top of the rent. The landlord may also require a deposit, guarantee, surety or other similar security ensuring payment of rent.

Distressed Assets Purchase

Sale of distressed assets is currently a buyer's market. This situation offers more opportunities to invest in assets that in better economic times would 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 solvency in view of the risk of a real estate transaction being revoked in later insolvency proceedings for, e.g., violating the rights of the seller's creditors.

Banks, as the biggest creditors in the market, have already begun to identify non-performing loans and to foreclose on collateral. Foreclosure 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 bids 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. 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.

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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, will not be taxable. In other cases, withholding tax of 10 per cent will be 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, Lithuania has partly waived its right to the transitional periods granted. Accordingly, the current 10 per cent general rate on interest will apply until 30 June 2009; thereafter, the rate on qualifying interest payments is reduced to 5 per cent until 30 June 2011 and to 0 per cent thereafter. The current 10 per cent general 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.

Capital Gains

Capital gains earned by Lithuanian entities are included in taxable income for income tax purposes. Capital gains are taxed at the general 15 per cent tax rate, unless a 5 per cent rate may be applied due to the limited number of employees and income of the company.

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

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less than 1.5 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 generally subject to VAT at a rate of 21 per cent. Under some conditions the sale of second-hand land and buildings may be exempt from VAT. Buildings are regarded as second-hand if they were used for more than 24 months. Sale of new immovable property (an unfinished building or a finished building 24 months after completion) is subject to VAT at the standard rate.

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 I 2010

COLLIERS INTERNATIONAL

SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS

A Year of Euro Expectations

Past years in Baltic Real Estate market gave to all players a tremendous experience. Global financial and economical environment has tested business models in all sectors in Estonia in a crises and recession period. As we said a year ago, crisis helped to filter out of the market an impressive number of properties, which are not competitive and cannot offer long term benefits for the tenants. We see that the quality and professional management of the buildings are again playing a crucial role.

While the main changes in all real estate sectors in Estonia took place in the first half of 2009 when many companies started to restructure their activities and look aggressively for cost saving opportunities, the overall situation at the market till September 2009 could be literally described as lethargy. The end of 2009 showed clear signs of stabilisation and revival as the investors' and owners' expectations about transaction terms started equalizing.

Beginning of 2010 in Estonia will be driven by the Euro expectations. The clear perspective of joining the euro zone is of utmost importance for supporting Estonia's economy and increasing Estonia's credibility for the investors. We expect the Estonian real estate market to be more active in 2010 with the attractive yields and lower prices than in Western Europe and Scandinavia together with clear signs of market stabilisation create a unique opportunity to take advantage and benefits of current situation.

Best regards,

Avo Rõõmussaar

Managing Director, Estonia

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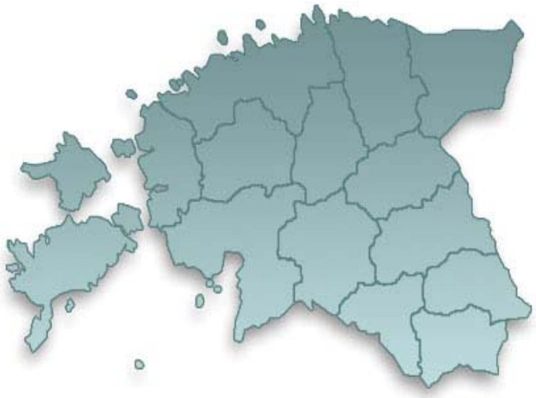

Economic Overview

- After several years of rapid economic development the Estonian economy is experiencing a period of decline. The global economic crisis together with substantially decreased domestic demand brought along a significant downturn. 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 14.5 per cent.
- According to a forecast from the Bank of Estonia, the situation is expected to improve in 2011, as domestic demand is predicted to recover, stabilizing economic development but sustained recovery is going to take time.
- Retail sales decreased 14 - 16 per cent compared to the same time a year ago. In June the decrease in retail sales slowed down to some extent but since July the decrease in retail sales has been relatively year-on-year stable reaching minus 16 - 17 per cent on average.
- The consumer price index decreased by 0.1 per cent in 2009 compared to the average of 2008.
- The Estonian labour market started to experience more drastic changes in 2009. The rate for 2009 increased to 13.7 per cent from 5.5 per cent in 2008, and is expected to grow up to 14.8 per cent in 2010.
- In Q3 2009, the average monthly gross wage had reached 11, 770 kroons, which indicated a 5.9 per cent year-on-year decrease.
- The adoption of the euro is believed to be crucial in contributing to the revival of investment activity.

Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010f
GDP current prices, EUR billion	6.1	6.9	7.8	8.7	9.6	11.1	13.1	15.3	15.9	13.6	13.4
GDP growth (real), % yoy	9.7	7.7	7.8	7.1	7.5	9.2	10.4	6.3	-3.6	-14.5	-0.1
Industrial production, % yoy	14.6	8.8	8.4	11.0	10.4	11.0	9.9	6.4	-6.3	-26.3	1.9
Unemployment rate, % avg	13.6	12.6	10.3	10.0	9.7	7.9	5.9	4.7	5.5	13.7	14.8
Total central government debt, % of GDP	5.2	4.8	5.7	5.6	5.0	4.6	4.5	3.8	4.6	7.3	7.6
PPI, % yoy	4.9	4.4	0.4	0.2	2.9	2.1	4.5	8.3	7.1	-0.5	n/a
CPI, % yoy	4.0	5.8	3.6	1.3	3.0	4.1	4.4	6.6	10.4	-0.1	0.4
Fiscal deficit, % of GDP	-0.2	-0.1	0.3	1.7	1.7	1.6	2.3	2.6	-2.8	-2.6	-2.2
Export, EUR billion	3.6	3.7	3.6	4.0	4.8	6.2	7.7	8.0	8.5	7.6	7.8
Import, EUR billion	4.6	4.8	5.1	5.7	6.7	8.2	10.7	11.4	10.9	8.1	8.0
Current account, EUR billion	-0.3	-0.4	-0.8	-1.0	-1.1	-1.1	-2.2	-2.8	-1.5	0.6	0.8
Current account, % of GDP	-5.4	-5.2	-10.6	-11.3	-11.7	-10.0	-16.7	-18.1	-9.4	4.5	5.9
FDI, EUR million	424.7	602.7	306.8	822.2	770.8	2,302.2	1,431.7	1,962.2	1,317.4	1,105.5	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	15.6
EEK/USD, aop	17.0	17.5	16.6	13.9	12.6	12.6	12.5	11.4	10.7	11.2	n/a

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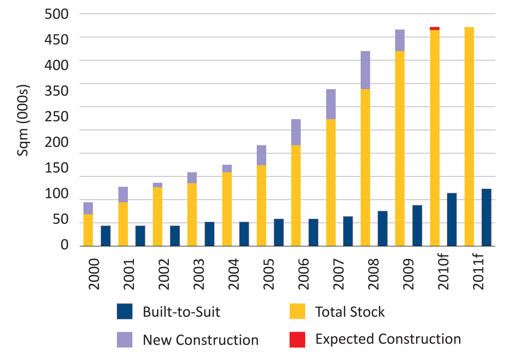
Source: Statistics Estonia, Bank of Estonia, Ministry of Finance of the Republic of Estonia, Swedbank

Office Market

Dynamics of Office Space in Tallinn



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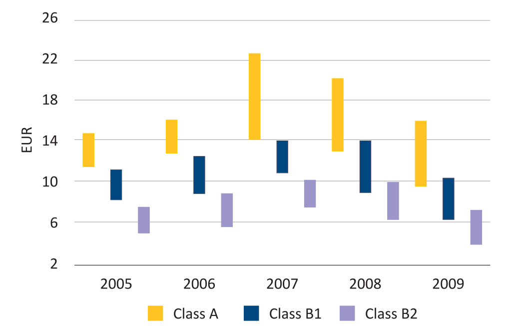
Rental Rates and Trends in Tallinn

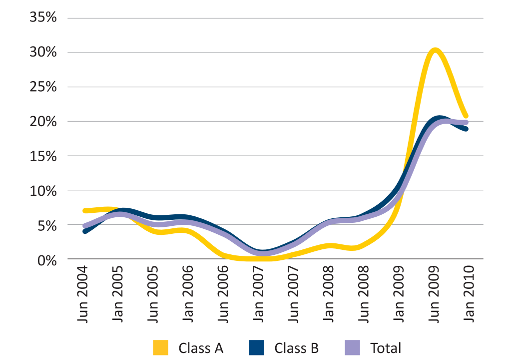
Class	Rental Rates*	Trends for 2010
A existing	9.6-16.3	→→
B1 existing	6.4-9.6	→→
B2 existing	4.0-7.9	→↘

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

Dynamics of Rental Rates in Tallinn



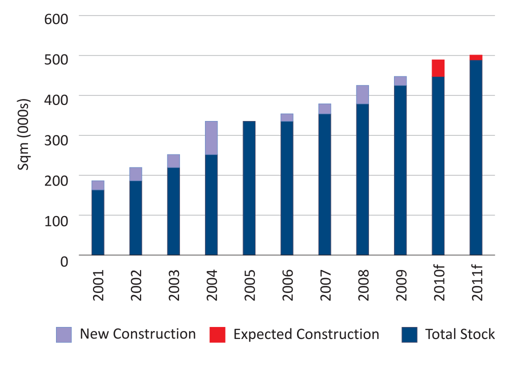
Dynamics of Vacancy Rate in Tallinn



- Approximately 46,000 sqm of **new office stock** was delivered to the market in 2009, bringing the total to 465,500 sqm. Most of the new supply (95 per cent) introduced in 2009 entered the market during the first half of the year.
- As to location, half of **new supply** in 2009 was developed in CBD. As much as 33 per cent of new office space in 2009 came on to the market in Kristiine district due to completion of Tammsaare Business Centre.
- In 2009 a total of 22,655 sqm of **built-to-suit projects** were put into commission.
- Delivery of **new office facilities** in the near future clearly depends on further economic progress. This explains why construction activity can be seen mainly in the public sector. According to the Building Register, in 2009 approx 75 - 80 per cent of construction projects under way were public sector office and administrative premises.
- Steady growth in **demand** over recent years was replaced by an office market surplus in 2008. The economic downturn continued to influence demand for office space in Tallinn during 2009 while firms continued to downsize and cut costs by decreasing and subleasing excess space. 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.
- During the first six months of 2009, the Tallinn **office market** witnessed more tenants moving out of space than tenants moving in. The highest contribution to take-up volume in 2009 came from companies in the Financial Services sector (23 per cent) and the Public sector (19 per cent).
- **Office rental rates**, which started to decline dramatically only in 4Q 2008, dropped significantly during the first six months of 2009 when A and B properties showed an average year-on-year drop of 25 - 40 per cent, while rental rates for new premises outside CBD decreased up to minus 50 per cent.
- **Average asking rents** in Tallinn plunged to EUR 9.6 - 16.3 per sqm in A Class buildings; EUR 6.4 - 9.6 in B1 Class and EUR 4.0 - 7.9 per sqm in B2 Class buildings in the second quarter of 2009.
- By the end of 2009 the **vacancy rate** had decreased compared to the first half of the year due to rental decreases and attractive incentives which stimulated demand for buildings already delivered to the market, especially in the CBD area, and the small amount of new supply delivered to the market in the second half of 2009. By the end of 2009, the average vacancy rate for Class A offices varied in the range of 19 - 23 per cent and for Class B offices from 17 per cent, reaching 19 - 22 per cent on average.
- The **dynamics of existing vacancy** depends on developments in the economic situation, as well as on landlords' continuing willingness to rent premises out at highly attractive starting prices, especially in A-class premises.
- A decrease in the **vacancy rate** is unlikely before the end of 2010, when a further small decrease of rents and attractive incentives may stimulate demand for buildings already delivered to the market, especially in the CBD area.

Retail Market

Dynamics of Retail Space in Tallinn



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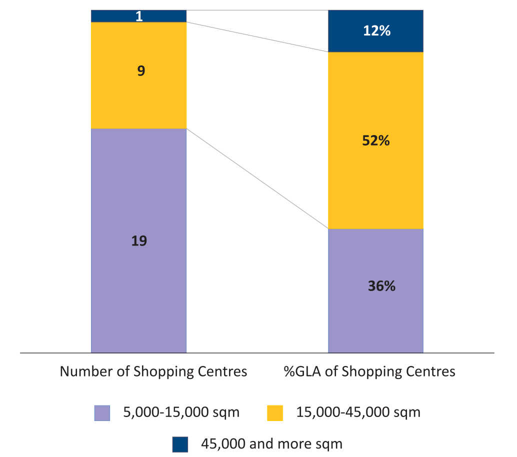
Street Retail Rental Rates in Tallinn

Unit Size	Rental Rates*	Trends for 2010
Street retail	9.6-32.0	→↘

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

Distribution of Retail Space in Tallinn by Size



- In contrast to office and warehouse premises, at the beginning of 2009 it seemed that the crisis had almost not affected **shopping centre** (where most retail stock is located) owners at all, although clothing and footwear retailers were suffering from continuous discounts, decreasing turnover, and downward profits. Several shopping centres completed their enlargements (Rocca al Mare in Tallinn, Lõunakeskus in Tartu); big retail chains such as Rimi, Prisma, and Selver opened their stores all over Estonia and will continue to expand in 2010.
- At the same time throughout the year **department stores and supermarkets** continued to experience a steady decline in sales (up to 20 per cent year-on-year decline on average). Depending on the location, the turnover of bigger shopping centres in Tallinn was 16 - 26 per cent down in 2009 compared to the same period of the previous year.
- By the end of 2009, the **stock** of Tallinn retail space had increased by approx 22,500 sqm to a total of 442,500 sqm (1.09 sqm per capita). Delivery of new retail space occurred due both to expansion of existing retail centres (Rocca al Mare, II and III stages) and completion of the new Solaris centre.
- Development in **the retail sector** is expected to continue mainly with expansion of existing shopping centres (expansion of Kristiine Shopping Centre, renovation and enlargement of Mustikas Centre and development of the second phase of Tähesaju City).
- In 2009, **demand** for modern retail space in bigger shopping centres still exceeded supply. It is possible to characterise 2009 as a time when no free space was available in Tallinn's existing large shopping centres, and the vacancy rate remained almost zero. New retail space delivered in 2009 was almost fully leased out before completion. At the same time, rotation of tenants in the retail market has considerably grown, while the number of vacant premises in less successful projects has increased.
- **Rents** remained stable in main shopping centres till summer 2009, as demand continually exceeded supply (the vacancy rate in bigger shopping centres in Tallinn varied from 0.5 to 2 per cent). While the number of debtors in shopping centres had started to grow by the beginning of summer 2009, some shopping centres started to reduce rents by up to 10 - 15 per cent for a few shops, although rent reductions did not become a widespread trend. In the second half of the year average rental rates per square meter in retail premises in Tallinn decreased by 15 - 18 per cent compared to the previous year.
- From the second half of the year, **rental and vacancy rates** will probably start to stabilize, similarly to the office market. However, no positive changes can be predicted before 2011.

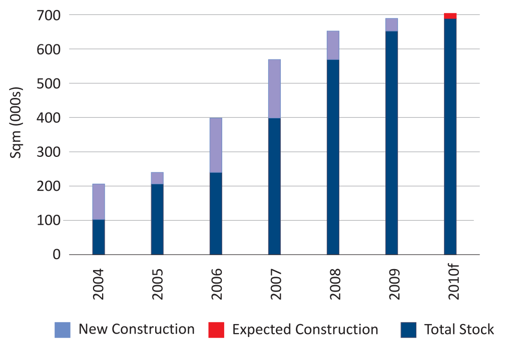
Rental, Vacancy Rates and Trends in Tallinn

Unit Size	Rates 2009*	Trends for 2010
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)	12.5-44.8	→↘
Vacancy (major shopping centres)	1%	→→

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

Industrial Market

Dynamics of Warehouse Space in Tallinn and Harju County



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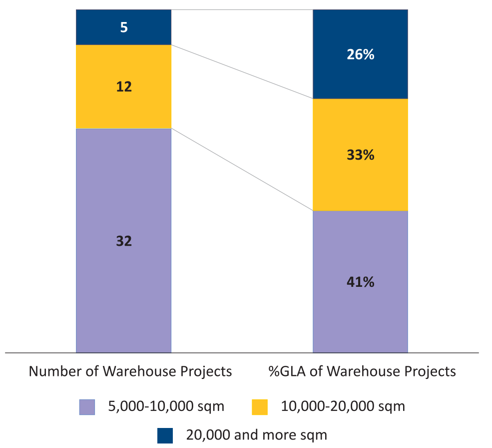
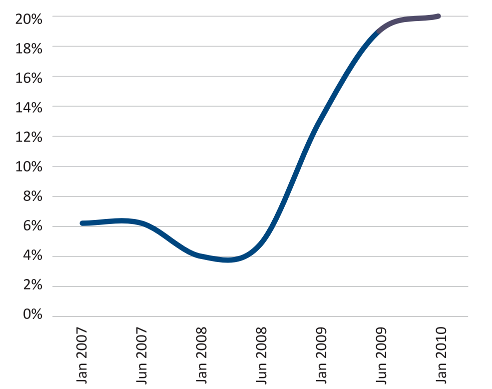
Distribution of Warehouse Space in Tallinn



Dynamics of Vacancy Rates in Tallinn



- The general behaviour of the **warehouse and industrial space market** has been similar to the office market - due to a significant decrease in consumption, export volumes and transit, vacancy rates increased and rental rates fell even up to 50 per cent in the first half of 2009 compared to previous years, resulting in absence of major activity in the market.
- By 2009, total **supply** of new industrial premises was estimated at approx 36,800 sqm. The estimated total stock of industrial facilities exceeded 688,800 sqm (approx 195,000 sqm of generic facilities plus 493,800 sqm of built-to-suit facilities).
- Although **projected new supply in 2010** is approx 22,000 sqm, the volume of industrial projects depends on acquiring tenants in advance of development, due to tighter financing, higher risks, and low profitability.
- While 2009 was a rather quiet year for tenants looking for industrial and warehouse premises, the last quarter of 2009 showed that low prices have started attracting foreign industrial companies again. At the same time, highest market **demand** throughout the year was for smaller industrial premises of around 250 - 1,000 sqm, due to continuing interest of companies in moving to smaller sites in order to reduce operating costs. As a result, landlords were forced to offer rent-free periods and other freebies in order to keep or attract new tenants, because rising vacancy rates have seriously depressed prices.
- In 2009 **rental rates** decreased year-on-year by 20 - 36 per cent while the **vacancy rate** grew up to 20 per cent.
- **Average rental costs** for modern logistics warehouses stand at between EUR 3.0 - 5.8 per sqm/month. Average rental costs for old logistics warehouses stand at between EUR 1.3 - 3.2 per sqm/month. A tangible correction of commercial land prices occurred due to an increase in supply, dropping by up to 50 per cent in some locations. No signs indicate vacancy decrease over the next two years.
- Despite reduced demand, the drop-off in supply should allow rents to remain more stable in 2010, although **hidden or secondary vacancy** might become more visible in 2010 when companies that have managed to cope with surplus area will start to offer it for sublease.
- The situation in the **warehouse and industrial market** in 2010 depends greatly on export, transit, and consumption growth. Many changes have already occurred in 2009, so hopefully the current year will be more stable in the context of rental and vacancy rates.

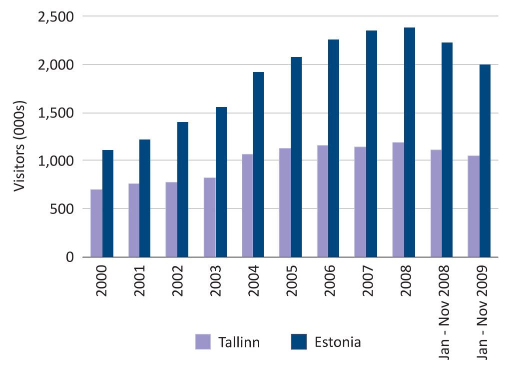
Warehouse and Industrial Space Rents and Vacancy in Tallinn and Harju County

Building Condition	Rental		Vacancy	
	Rates*	Trends for 2010	Rates	Trends for 2010
New and renovated buildings	3.0-5.8	→→	20%	→↗
Older buildings	1.3-3.2	→→	20%	↗↗

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

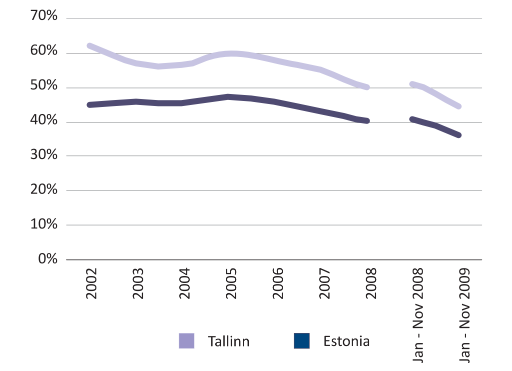
Hotel Market

Dynamics of Visitors



Source: Estonian Statistics, 2009

Dynamics of Average Room Occupancy Rate

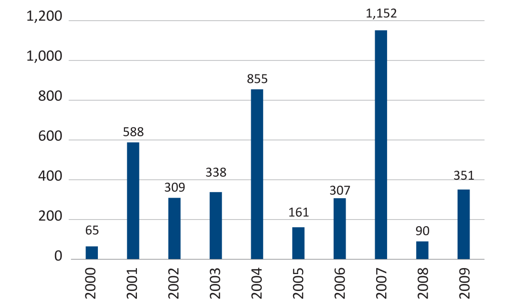


Source: Estonian Statistics, 2009

Price Range per Night for Standard Double Hotel Rooms in Tallinn

Number of Stars	Minimum Price	Maximum Price
5-star	EUR 80	EUR 180
4-star	EUR 50	EUR 110
3-star	EUR 35	EUR 75

Number of Rooms Accrued to the Tallinn Market in 2000 - 2009



- Tallinn's **hotel segment** expanded in 2009 with the opening of two hotels belonging to the Meriton Hotels Chain. The new 301-room, 4-star Meriton Conference & Spa Hotel opened in April 2009, while Meriton Old Town Garden Hotel opened its doors before Christmas, in December 2009.
- The 4-star segment comprises the largest percentage of Tallinn's available rooms, consisting of 26 hotels with 3,783 rooms, or 57 per cent of total **supply**.
- During the first 11 months of 2009, Estonia had a total of 1,996,630 guests in the **accommodation segment**, of whom 1,044,852 stayed in the capital city, Tallinn, indicating a decrease of approx 10.5 per cent compared to the same period in 2008. Foreign tourism in Estonia decreased year-on-year by 4.6 per cent and in Tallinn by 3.6 per cent while the number of local visitors simultaneously decreased by approx 19 per cent in Estonia overall as well as in Tallinn, following a general slackening of domestic demand.
- Some shifts were observed in foreign tourism demographics, as British tourists have lost interest in Estonia - approximately a third fewer tourists came from the United Kingdom. Significantly fewer **tourists** compared to the same period last year came from Italy, Germany, Lithuania, Latvia, Norway, and Sweden. A positive change can be observed in the number of Russian tourists, which has increased by 14 per cent. The number of tourists from Finland has also slightly increased. Finland accounts for approx 54 per cent of all Estonia's recorded tourism business.
- In 2009, an overall decrease in occupancy rates directly caused a decrease in room rates. **Room rates** have fallen 15 - 20 per cent year-on-year, forcing existing hotels to be more cost-effective and flexible with pricing. In November 2009 the average price for a night in Estonia was EUR 27.7 and EUR 32.7 in Tallinn. Five-star hotels began to offer more competitive price options in order to increase occupancy and compensate for economic problems.
- **Average occupancy rates** during the first eleven months of 2009 for all accommodation establishments were 36.2 per cent in Estonia and 44.3 per cent in Tallinn. Due to a substantial increase in total supply (approx 23 per cent) of rooms between 2007 and 2008 and the economic situation, the occupancy rate during the first eleven months of 2009 declined compared to the same period in 2008 by 11.8 per cent in Estonia and 13 per cent in Tallinn.
- The **expectation** is that no new hotel chains will enter the Tallinn hotel market and no new hotels will be established in the nearest future (in the 1 - 2 year perspective).
- The average **daily room rate** will continue to decline due to increased competition and low occupancy levels.

Number of Hotels and Rooms by Stars in Tallinn

Stars	Hotels	Rooms
5-star	5	414
4-star	26	3,783
3-star	16	1,631
2-star	10	770
1-star	1	11
Total	**58**	**6,609**

Source: Colliers International Advisors, Estonian Hotel and Restaurant Association

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 - 3 weeks as of filing an application with the Land Book along with the signed and notarised agreement.

Asset Transfer vs Share Transfer

Asset deals and share deals relating to real estate are both commonly used in practice.
Issues to consider when planning a share transfer of a company holding target real estate:

- notarial 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 notarization via banks and ECRS;
- ownership of shares is transferred as agreed in the sales 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 - 3 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;
- 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;
- notarized agreements are seldom made in English, and sometimes notaries do not facilitate negotiations;
- limited scope of due diligence investigation since the review concerns only the target real estate unless the transaction qualifies as a transfer of an entire company;

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- 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;
- an asset transaction may qualify as a transfer of an entire company, in which case all obligations associated with the enterprise 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 are usually contained in one document. 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 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

The sale agreement and real property rights agreement are drafted and verified by a notary, in Estonian. If requested by the parties, a notary may prepare agreements in another language, if the notary is proficient enough in that 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 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.

Pre-emption Rights

Pre-emption rights may be created by contract or law. For example, a co-owner of real estate enjoys a statutory pre-emption right upon sale of a legal share of the real estate to third persons. Further, the state or local government enjoys a statutory pre-emption right 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.
Pre-emption rights may be exercised within two months after receiving notification of a sale agreement.

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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: brokerage fees, real estate valuation, bank fees, fees for legal due diligence and reviewing the sale and security agreements, notary fees, and state duty.
The notary charges a fee for verifying a transaction. 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 319,000 (EEK 5,000,000) is roughly EUR 973 (EEK 15,220) 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 319,000 (EEK 5,000,000) is approximately EUR 372 (EEK 5,800).

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. Even though Estonia is a member of the EU, some restrictions on EU citizens and companies will exist until 1 May 2011. Acquiring real estate the intended purpose of which is profit-yielding land consisting of 10 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.

Concentration Control

Transfer of real estate (both asset and share transfers) may be subject to concentration control by the competition authorities - please check current requirements when planning the deal.

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Public Restrictions

Public restrictions may apply to use of real estate in the following: coastal 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, operator, or the governing body (e.g. heritage protection authorities, local government).

Encumbrances

The following rights, which are entered in the Land Book, may encumber real estate: usufruct, servitudes, building title, pre-emptive rights, 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 buyer or seller, third persons, or neighbouring real estate.
The Land Book may register notation of a lease agreement, which ensures that upon transfer of the 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 by a notarised agreement as security in favour of the bank financing the purchase. The mortgage agreement is 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 redeeming 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

Residential leases - the law protects the rights of the tenant and provides extensive mandatory regulation. If a residential lease contract with a term exceeding one year is not entered into in writing, the contract is taken to have been entered into for an unspecified term. 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 (e.g. changes in local CPI). 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.

Distressed Assets Purchase

In distressed asset purchases the buyer has the upper hand and can therefore dictate terms of the transaction. Distressed sales may be facilitated or controlled by banks that have been financing development 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. The asset is then sold "as is", which makes thorough due diligence even more important.

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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.

Rental Income

Under Estonian unique corporate income tax system, rental payments to resident corporate taxpayers are considered as regular corporate income and taxed only when profits are distributed.
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, i.e. substantial debt financing at market rate interest is tax-neutral.

Withholding Tax

Dividends (there is no 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.

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ESTONIA LATVIA LITHUANIA BELARUS

BALTIC LAW FIRM OF THE YEAR
Awarded by:
International Financial Review (2009, 2010)
PLC Which lawyer? (2009)
Financial Times & Mergermarket (2008)

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.

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Belarus

Real Estate Market Review I 2010

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The Year When Changes Came

The last year was indicative for the local real estate market.

At the beginning of the year the market participants were anticipating for the impact of the global financial crunch on Belarus. The activity in the market was reduced and mainly boiled down to the completion of contracts concluded in 2008.

In the middle of the year the market completely went into a passive phase. Participants didn't realize the character of changes.

The end of the year brought hope for the revival of activity of developers, tenants and investors. The overall rent rates reduction amounted to one-third of the previous year level. The decline affected, first of all, rent rates in low-quality offices. In fact, modern shopping centers and warehouses weren't affected because of limited supply. In the office market there was increased activity of tenants: re-negotiations with owners and removal in alternative locations.

At the same time developers managed to supply on the market considerable amount of office areas in 2009. Some of these offices were leased at the end of 2009, others are leasing this year and are characterized with high vacancy rates.

In the last year a lot of "paper" projects were also mothballed. These projects appeared when the market was hot and the most eccentric projects were immediately thrown into the trash.

We hope that 2010 will be a year of recovery and stabilization of the commercial real estate market. The State simplifies entry procedures for foreign investors, obtaining land titles and construction regulations. Moreover, it can be noted that Belarusian projects are attractive to investors because of higher rates of return, low levels of market saturation and the relative stability comparing with neighboring markets. Beginning of 2010 demonstrates that these unique opportunities are being used by foreign investors.

Best regards,

Andrey Pavlyshko

Managing Director, Belarus

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Economic Overview

- In 2009 the Belarusian economy faced with influence of worldwide financial crunch. As a result GDP didn't grew, latent unemployment increased and population's real incomes decreased. One of the most remarkable macroeconimic events is devaluation of Belarusian rouble in the begging of 2009 by 20%. In general, in 2009 the growth of the U.S. dollar exchange rate to Belarusian rouble was more substantial comparing with previous years and amounted 8% per annum. The National Bank of Belarus decided to link Belarusian rouble rate to three currencies: US dollar, Euro and Russian rouble. Previously Belarusian rouble was linked with US dollar. To reduce demand for foreign currency as well as to reduce borrowers' risks it was decided that citizens may obtain a loan from bank only in roubles but not in foreign currency.
- The process of privatization in Belarusian economy has continued despite the interest of foreign investors significantly reduced. Landmark event of the year was the sale of BPS-Bank share, which was state-owned, to Sberbank of Russia.
- Liberalization of Belarusian economy is ongoing quite actively. As a consequence, according to World Bank's Doing Business-2010 report Belarus moved upward in overall rating by 24 points: from 82nd to 58th place. There are some plans to amend taxation legislation to simplify taxation system that is overcomplicated.

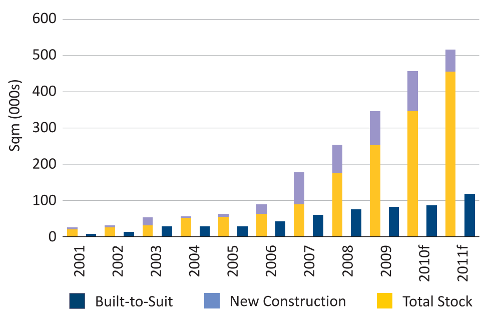
Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010f
GDP current prices, EUR billion	14.0	13.9	15.5	15.7	18.6	24.2	29.4	33.0	41.0	35.8	40.0
GDP growth (real), % yoy	5.8	4.7	5.0	7.0	11.4	9.4	10.0	8.6	10.0	0.2	13.0
Industrial production, % yoy	7.8	5.9	4.5	7.1	15.9	10.5	11.4	8.7	11.5	-2.8	12.0
Unemployment rate, % avg	2.1	2.3	3.0	3.1	1.9	1.5	1.2	1.0	0.8	0.9	1.2
Total central government debt, % of GDP	14.5	12.0	12.5	12.0	n/a	17.2	18.6	5.2	6.2	13.6	16.9
PPI, % yoy	175.6	71.8	41.4	37.5	24.1	12.1	8.3	16.2	12.8	14.5	n/a
CPI, % yoy	168.6	61.0	43.0	28.0	18.1	10.3	7.0	8.4	14.8	13.0	10.0
Fiscal deficit, % of GDP	-0.6	-1.6	-0.2	-1.7	0.04	-0.7	2.2	-1.5	1.9	-1.0	-1.5
Export, EUR billion	7.9	8.4	8.45	8.8	11.0	12.7	15.65	16.3	22.5	15.3	19.9
Import, EUR billion	9.4	9.3	9.5	10.2	13.2	13.3	17.7	18.5	27.0	20.6	24.7
Current account, EUR billion	-0.5	-0.4	-0.3	-0.4	-1.0	0.4	-1.2	-2.1	-2.5	-5.3	-4.83
Current account, % of GDP	-3.9	-3.2	-2.1	-2.4	-5.2	1.7	-4.1	-6.6	-8.0	-9.76	-8.3
FDI, EUR million	189.2	108.0	318.8	602.5	692.5	362.3	596.4	960.0	1,559.1	1,635.0	2,320.0
Cumulative FDI, mln EUR	1,344.0	1,586.0	1,910.0	2,500.0	3,200.0	3,550.0	4,250.0	3,986.0	4,470.0	3,856.1*	n/a
BYR/EUR, avg.	736.0	1,288.0	1,704.0	2,353.0	2,698.27	2,684.29	2,714.88	2,897.28	3,143.0	3,893.0	4,282.3
BYR/USD, avg.	800.0	1,447.0	1,804.0	2,075.0	2,163.73	2,155.13	2,146.28	2,144.76	2,136.6	2,791.8	3,070.9

f - forecast
** 1HY 2009*
Source: National Statistics Committee of the Republic of Belarus, National Bank

Office Market

Dynamics of Office Space in Minsk



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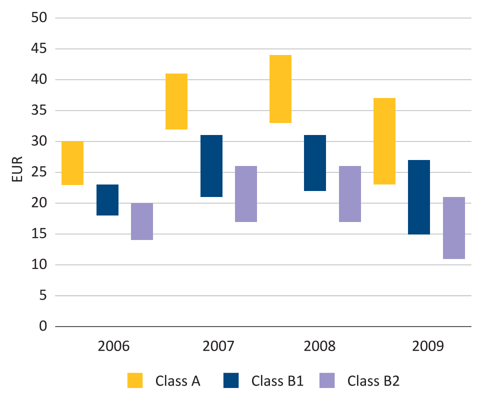
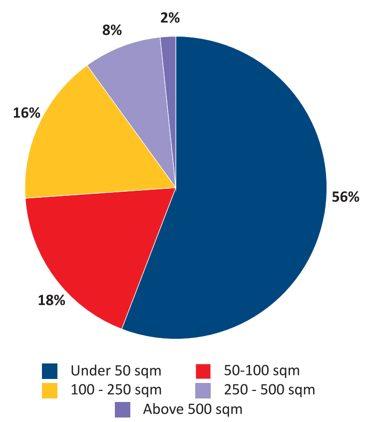
Dynamics of Rental Rates in Minsk*



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

Demand Structure in 2009



- During 2009, 11 new **business centres** with GLA of 92,000 sqm entered the market, comprising 121 per cent of new construction in 2008. Thus, 42 business centres are on the Minsk market as at 1 January 2010 with a total GLA 345,000 sqm.
- The **stock** offer of business centres in the city of Minsk is formed mainly of B class offices. No A class business centres were commissioned in 2009, so that the rate of high-quality office space compared with 2008 reduced from 14 per cent to 10 per cent.
- The **demand** structure for office space did not change considerably compared with 2008. Belarusian companies provide a major part of demand and mostly need areas up to 100 sqm. These areas are required in about three-quarters of all potential tenant applications.
- The **rental rates** reduction that started in 2008 continued in 2009 as well. This is one of the basic commercial market trends in 2009. The average reduction rate for the last year is about 25 - 30 per cent.
- It should be noted that most **office buildings** in Minsk are held by multiple owners, in some cases amounting to several dozen. This explains why it is usual for offices within the same building to have different quality of finishing and equipment. As a result significant differentiation exists in rents for similar premises located in the same business centre but held by different owners.
- Owners of offices faced a **vacancy** increase in 2008. Until 2008 vacancies were rare in office buildings due to limited supply and increasing demand. A significant increase in vacant areas has occurred since 2008 for several reasons: increase of supply of office premises up to 40 per cent and the influence of the financial crunch. Vacancies began to appear in previously occupied buildings because some new business centres provided more favourable conditions: lower rental rates and some additional bonuses such as rent-free periods, free services on transfer, and discounts on finishing and renovation.

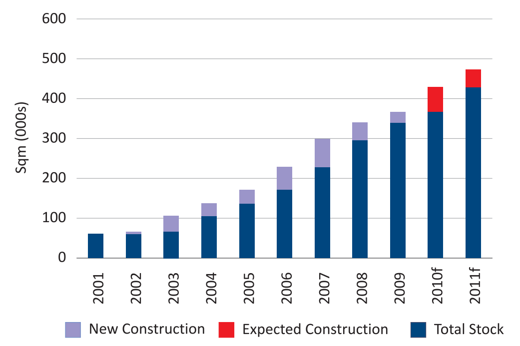
Rental Rates and Trends in Minsk in 2009

Class	Rental Rates*	Trends for 2010
A	23-37	→↘
B1	15-27	→↘
B2	11-21	→↘

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

Retail Market

Dynamics of New Retail Object Commissioning in Minsk



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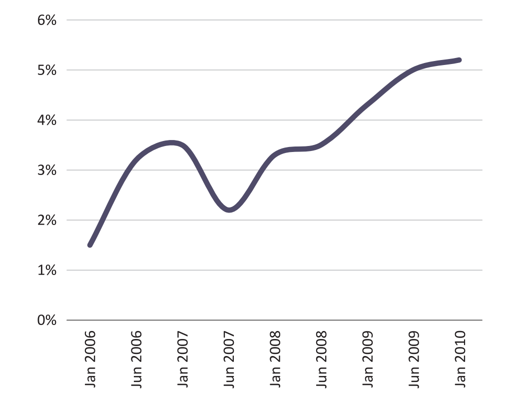
Share of Vacant Retail Premises in Minsk



Distribution of New Project Area in Minsk Planned for 2010

- Retail real estate market development in 2009 was rather contradictory. The worst performance was demonstrated by newly constructed **shopping centres** with an outdated and weak concept. These are intended primarily for individual entrepreneurs and have no capacity to attract anchor tenants.
- The companies "Altersolutions" and "Tabakinvest" started construction of two huge **shopping-entertainment centres** in Minsk. According to plans, both properties are to be completed in 2012. Construction of the "Preston Plaza" shopping centre is in progress, with commissioning also planned for 2012.
- Five **new retail properties** of more or less considerable size appeared in Minsk during 2009. The total GLA of these projects is about 29,000 sqm, which constitutes 49 per cent of planned volume. By the end of 2009, GLA of all modern shopping centres in Minsk exceeded 366,000 sqm.
- The majority of **retail objects** to be opened in 2010 were to be opened in 2009 but commissioning was postponed for several reasons. Some properties that are formally not completed are already being advertised for lease or sale by their owners.
- The specifics of Minsk mean that most **retail premises** are mainly intended for minor tenants (individual entrepreneurs) and the number of such tenants can vary from several dozen to several hundred in one shopping centre. Small units of 10 - 25 sqm dominate in these shopping centres and anchor tenants are lacking.
- During 2009 a **rental rate** reduction occurred. The main reasons for reduction are lower demand from tenants and the appearance of new offers on the market. It should be noted that rental rate reductions were non-uniform and depended mostly on the quality of retail premises on offer. Thus, the weakest shopping centres from the conceptual point of view stood vacant for a long time and initial rent rates were reduced twice and more. Some retail premises commissioned in 1HY 2009 are still vacant.
- The overall growth of offers observed in the market in late 2008 and early 2009 mainly relates to the increased number of retail objects put into operation in 2008 and completed in 2009. But by the end of 1Q 2009 a trend towards appearance of vacancies emerged in shopping centres that traditionally had no **vacant space**. The existence of newly-constructed shopping centres that have not yet been commissioned might substantially influence market vacancy in the future.

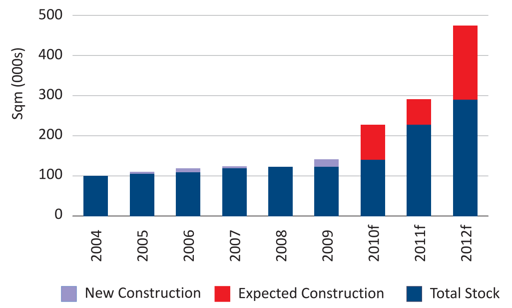
Rental Rates in Minsk Shopping Centres* in 2009

Type	Rental Rates**	Trends for 2010
Under 50 sqm	18-80	→↘
50-100 sqm	15-65	→↘
100-500 sqm	10-40	→↘
Over 500 sqm	8-18	→↘

** - relates to modern shopping centres*
*** - asking rental rate (EUR/sqm/month) excluding VAT and operating expenses*
→↘ - slight decrease

Industrial Market

Total Stock and Forecast Projects



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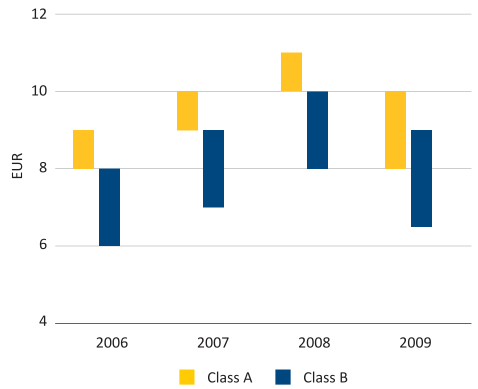
Warehouse Rental Rates Levels and Trends

Class	Rental Rates*	Trends for 2010
A	8.0-10.0	→→
B	6.5-9.0	→→

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

Dynamics of Warehouse Rental Rates* in Minsk

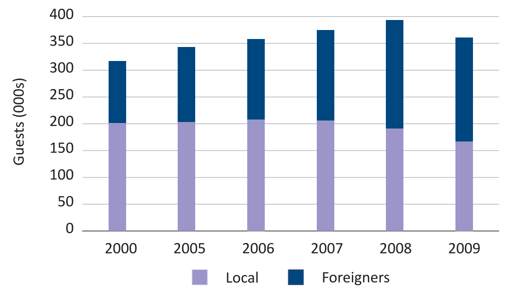


** - asking rental rate (EUR/sqm/month) excluding VAT and operating expenses*

- In 2009 there were 1,990 buildings and storage use structures (data from real estate registration agencies) with a total area of over 1,650,000 sqm. In most cases, these buildings were constructed before 1991. More than 80 per cent of premises are owned by public companies. The total area of **modern warehouses** in Minsk is estimated at about 125,000 sqm.
- In most cases, modern facilities were constructed as **built-to-suit projects** with an area of about 2 - 3 thousand sqm. Warehouses are owned by such companies as “Coca-Cola”, “McDonalds”, “Vitalur”, “Euroopt”, and “ProStore”. Developers targeted for re-sale of constructed warehouses started to appear only in 2007.
- At the beginning of 2010 some amendments were made to the “State logistics development program to 2015”. Three additional objects were included in the Program, to be constructed in Minsk District. In total 16 sites with a total area of around 450 hectares are scheduled for **development** in Minsk and Minsk District.
- During 2009 the **demand** structure for warehouses was unchanged. Premises most in demand for lease are up to 150 sqm. Because of lack of supply of good quality warehouses, some companies prefer to build warehouses for their own needs.
- However, other companies in the market need a significant volume of high quality warehousing with areas from 5,000 to 12,000 sqm. Total **demand** capacity can be estimated at several hundred thousand sqm. Colliers International alone has data on over 100,000 sqm of warehouse demand on the market.
- Temporary **vacancy** in some high quality complexes (including those previously used as built-to-suit objects) has increased the corridor of rent rate fluctuations. Nevertheless, due to limited supply and shortage of quality premises the warehouse market remains sustainable compared with the retail and office markets.
- Due to influence of objective macroeconomic factors in 2009, a **vacancy** increase was noticeable in warehouses of different classes. The highest vacancy rate is typical for numerous premises located outside specialised warehouse complexes.

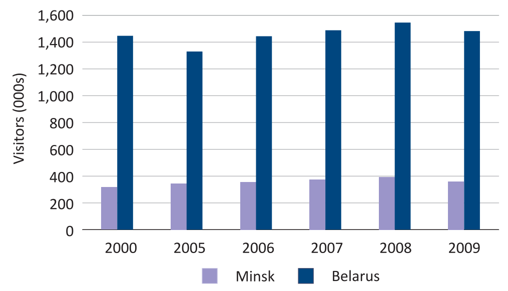
Hotel Market

Dynamics of Hotel Guests in Minsk



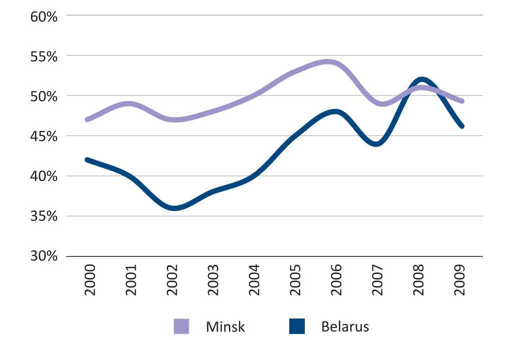
Source: National Statistics Committee of the Republic of Belarus

Dynamics of Visitors in Accommodation Establishments



Source: National Statistics Committee of the Republic of Belarus

Dynamics of Average Occupancy Rates in Belarus and Minsk



Source: National Statistics Committee of the Republic of Belarus

- The basis of the **accommodation sector** in Belarus consists of hotels entirely or partially controlled by the government or those controlled by individual agencies. As of 1 January 2010 the number of hotels and other hospitality properties in Belarus amounted to 311 objects, of which 217 are state-owned.
- No **new hotels** were opened in 2009. Thus the newest hotel remains the Crowne Plaza, opened in 2008 on the basis of the reconstructed “Svisloch” hotel.
- The most significant event for further development of hotel business in Minsk is that the city has been chosen to host the Ice Hockey World Championship in 2014. This is the first sporting event on such a high level to be held in Belarus. It is assumed that, apart from sports teams, over 35 thousand fans will visit the city. By the beginning of 2009 **hospitality properties** in Belarus could provide simultaneous accommodation for 25,437 people. In Minsk the analogous figure is 5,606 people.
- The **average occupancy rate** in Belarus remains at 49 per cent, with insignificant upward and downward fluctuations. Occupancy rates in Minsk are 3 to 5 per cent above the country-wide average.
- The low inflow of tourists and the prevalence of business guests and guests attending events are peculiarities of hotel occupancy in Belarus. As a result, Belarusian hotels show a low **occupancy level** during periods of tourist activity, that is, July and August in summer and December and January in winter, as average occupancy in Belarus drops below 30 per cent. At the same time, the average occupancy rate exceeds 46 per cent, and in some hotels 65 to 75 per cent, during periods when business activity peaks, that is, March to May in spring and September to November in autumn. During some public events of an international character, even 4 - 5 star hotels might be up to 90 - 95 per cent occupied.

Hotel Rates in Minsk, Euros per Room per Night

Stars	Standard Room	Double Standard	Deluxe	Apartment
5-star	230-265	250-310	300-420	900-1,150
4-star	118-126	144-153	208-206	548-550
3-star	50-58	62-75	98-118	390-800

Projects Completed in Minsk in 2007 - 2008

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

Belarus Legal Overview

Title to Real Estate, Land Book

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 no legal entity possesses right of ownership to a land plot.

Land plots, transactions, and title 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 title 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 organization 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.

As a general rule, change of ownership to a land plot is allowed only when the owner receives documents certifying the right to the buildings on the land plot.

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 as of the date the company is notified of the share purchase

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agreement (for LLC) or registration of transfer of shares (for JSC);
- 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;
- possibility of exercise by the local authority of its pre-emption right to buy buildings situated within the respective administrative unit;
- 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 organizational 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 authorized 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 before change of ownership, so that extensive due diligence is recommended.

Form of Agreements

Transactions with real estate require written form, as well as registration with the Real Estate Register, except for lease agreements of buildings and constructions. Transaction documents should be either notarized or certified by the registrar of the Real Estate Register, depending on the actual circumstances of the particular case, including the status of the parties to the agreement.

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

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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.

Pre-emption Rights

Local authorities enjoy a pre-emption right to acquire buildings and other real estate within their territory. 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 pre-emption right. The plan is that from July 2010 only certain legally specified categories of real estate will be affected by local authority pre-emption rights.

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

Typical Purchase Price Arrangements

It is common for the seller to demand 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, 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 peculiarities 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 EUR 43 (BLR 175,000). A purchase agreement can be certified by the registrar of the Real Estate Register or a notary. If a purchase agreement is certified by a private notary, the parties also pay a notary fee of EUR 5 (BLR 21,000).

Payment for state registration includes payment for the purchase agreement and for termination, transition, and accrual of real property rights, amounting in all to EUR 149 (BLR 602,000).

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

Restrictions on Acquisition of Real Estate

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

A foreign legal entity can not be an owner of 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.

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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 (e.g. 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 only repayment of credit. Mortgagees (banks) should hold a licence from the National Bank to place attracted funds in their own name and for their own account on the condition of recurrency, interest payment, and maturity.
Mortgages must be registered with the Real Estate Register.

Property Management

Maintenance of real estate is usually carried out by the owner. In 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 Accessory 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 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 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, electricity) are usually paid by the tenant in addition to rent.

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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 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 (e.g. 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 paid by Belarusian companies.

Gross profit is profit from the sale of goods (including fixed assets and intangibles), 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 and intangibles, 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 foreign resident 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 constructions 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.

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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/. Depending on the location and type of use of land, tax rates vary from 0.015 per cent to 12 per cent.

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; and 6 per cent as to companies that pay VAT.

Withholding Tax On Income Of Non-Residents

Foreign residents that do not carry out activities through a 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 authorized capital of Belarusian companies - 12 per cent;
- oyalties (payments for use of property in Belarus or the right to use such property, fees for use of or the right to use property rights to copyright objects, objects of related rights, payments for patent, trade mark, service mark, firm name, drawing, scheme, formula, industrial design, process, or information relating to industrial, commercial, and scientific knowledge, 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 supply of various types of services) - 15 per cent.

Currently, Belarus has 59 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.

For more information on real estate services in Belarus, please contact:

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NOTEWORTHY REAL ESTATE TRANSACTIONS

www.sorainen.com

SORAINEN

BALTIC LAW FIRM OF THE YEAR

Awarded by:
Financial Times & Mergermarket (2008)
International Financial Law Review (2009)
PLC Which lawyer? (2009)

SORAINEN is a leading regional business law firm with fully integrated offices in Estonia, Latvia, Lithuania, and Belarus. Established in 1995, today SORAINEN numbers more than 100 lawyers advising international and local organisations on all business law issues involving the Baltics and Belarus. SORAINEN is the first law firm in the Baltic States and Belarus where a quality management system has been implemented under ISO 9001 standards (certified by Lloyd's Register Quality Assurance).

Akropolis Group

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

Seller's Legal Adviser

Baltic Property Trust Asset Management

Regularly advising leading international real estate asset manager in all three Baltic States

Legal Adviser

Catella Real Estate AG

Advising on sale-leaseback of property of Magnum Logistics with an area of 11,750 m²

Buyer's Legal Adviser

Euro Estates

Advising on acquisition of office building in centre of Minsk for reconstruction as modern office centre of some 16,500 m²

Legal Adviser

Heitman

Advising on acquisition of Dobrovole Logistics Terminal

Buyer's Legal Adviser

Helios

Advising on setting up joint venture for real estate development project

EUR 250 million

Legal Adviser

Hesburger

Expanding fast food restaurant business in the Baltics

Buyer's and Lessee's Legal Adviser

IBERDROLA Engineering and Construction

Advising on engineering procurement construction contract with Lietuvos Elektrinė for construction of combined circle gas turbine power plant

EUR 300 million

Legal Adviser

Irish Forestry Fund

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

Buyer's Legal Adviser

Raiffeisen Zentralbank Österreich

Acquisition of real estate development project in central Riga with an area of some 13,500 m²

Legal Adviser

Riga City Council

PPP Northern Crossing project

Legal Adviser
(in cooperation with Lovells)

SEB Group

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

EUR 200 million

Legal Adviser

Sodra Latvia

Acquisition of more than one hundred forest land plots in Latvia

total area in excess of 2,700 ha

Buyer's Legal Adviser

Star PM

Advising on acquisition of shopping centre in Bobruisk and commercial properties in Brest for development of trade and entertainment centres

Legal Adviser

TK Development

Sale of "Galerija Azur" one of Riga's main shopping centres

Seller's Legal Adviser

Vicus

Advising on purchase and development of site for hypermarket in Narva, Estonia

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