Latvia Real Estate Market Overview
Annual Review
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Dear Reader,

We are delighted to present the Colliers International Real Estate Market Review for Latvia, Lithuania and Estonia, wherein you will find much useful information about market trends and forecasts, the latest statistics and market insights. We are grateful to our partners - Sorainen and KPMG - for contributing to preparation of our real estate legal and tax reviews. Overall, this material will be useful in risk assessment before making the right business decisions in the Baltic States.

2015 was a record post crisis year in terms of investment amounting to over 1 billion EUR in the commercial real estate segment of all three Baltic States. Despite worries by some investors about geopolitical risks, the markets saw further improvements in the economy, yield compression and entry of new investors with worldwide names. The pipeline of large transactions remains active and we forecast similar investment volumes for 2016 as well.

Comparing the three countries in the region, development involving new commercial space including offices, retail and industrial is clearly not the same everywhere. Development in Riga is still lagging behind Vilnius and Tallinn. Most development projects in Riga still remain on paper while in the capitals of Latvia’s two neighbours construction - especially in the office and retail segments - has led to discussion of possible oversupply of new space in the upcoming year or two.

Nevertheless, our forecast for each of these three countries remains positive. Meanwhile, we are here to serve your potential needs in the region.

Wishing you an interesting and successful year,

Deniss Kairans
Economic Overview

Summary

Economic growth was notably influenced by developments in external markets. These included geopolitical factors and a general slowdown in the euro area’s major economies. On the other hand, the fall in oil prices positively contributed to growth in consumption.

According to latest available estimates, Latvian real GDP growth in 2015 amounted to 2.6 per cent. In line with previous years, household consumption continued to be the main GDP growth driver, being responsible for close to 60 per cent of real GDP growth in 2015. Among the most successful real economy sectors in terms of average y-o-y quarterly growth in Q1 - Q3 2015 were accommodation and food services (average 5.9 per cent growth), taxes on products (average 4.9 per cent growth), the arts, entertainment and recreation sector (average 4.9 per cent growth) and the manufacturing sector (average 4.8 per cent growth).

Average 2015 inflation stood at 0.2 per cent. The global price drop in oil and food resources had a negative influence on inflation, while on the other side liberalization of the energy market and improvement of incomes increased it.

The fact of low inflation alongside a continued upswing in incomes has led to a rise in real wages, indicating a further increase in people’s purchasing power. During Q1 - Q3, 2015 real wages grew at an average rate of 7.1 per cent per quarter.

According to latest estimates, it is probable that unemployment will reach 9.8 per cent by the end of 2015, or one per cent less than at the end of 2014. In 2015, the share of young people among the unemployed continued to decrease.

Tendencies and Forecasts

- According to available forecasts, GDP is expected to grow by 2.7 per cent in 2016 with household consumption remaining the main driver. However, the outlook depends heavily on the external environment.
- In 2016, inflation is expected to remain below one per cent, of which an increase in excise tax is expected to be responsible for 0.5 per cent.
- Unemployment is expected to decline further in 2016. However, with the decline of active jobseeker numbers, the decrease in unemployment is expected to be lower than in 2015.
- A further expected unemployment decrease will continue to put pressure on wages in 2016 with employers continuously facing shortages of labour.
- Given relatively low inflation expectations and the expected decrease in unemployment, further positive real wage development is foreseeable.

Key Economic Indicators of Latvia

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<tr>
<td>GDP Current Prices, bio EUR</td>
<td>17.1</td>
<td>22.6</td>
<td>24.3</td>
<td>18.6</td>
<td>17.9</td>
<td>20.2</td>
<td>21.8</td>
<td>22.8</td>
<td>23.6</td>
<td>24.8</td>
<td>25.9</td>
</tr>
<tr>
<td>GDP Growth (Real), % yoy</td>
<td>11.6</td>
<td>9.8</td>
<td>-3.2</td>
<td>-14.2</td>
<td>-2.9</td>
<td>5.0</td>
<td>4.8</td>
<td>4.2</td>
<td>2.4</td>
<td>2.6</td>
<td>2.7</td>
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<tr>
<td>Industrial Production, % yoy</td>
<td>4.8</td>
<td>-1.0</td>
<td>-8.3</td>
<td>-17.7</td>
<td>14.0</td>
<td>11.5</td>
<td>9.4</td>
<td>0.6</td>
<td>-0.1</td>
<td>3.7</td>
<td>3.9</td>
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<tr>
<td>Share of Unemployed to the Active Population, %</td>
<td>6.8</td>
<td>6.0</td>
<td>7.5</td>
<td>16.9</td>
<td>18.7</td>
<td>16.2</td>
<td>15.0</td>
<td>11.9</td>
<td>10.8</td>
<td>9.8</td>
<td>9.2</td>
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<td>Total Central Government Debt, % of GDP</td>
<td>11.0</td>
<td>9.0</td>
<td>20.0</td>
<td>37.0</td>
<td>44.7</td>
<td>42.6</td>
<td>40.6</td>
<td>38.2</td>
<td>40.8</td>
<td>36.3</td>
<td>38.4</td>
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<td>PPI, % yoy</td>
<td>10.2</td>
<td>16.1</td>
<td>11.8</td>
<td>-4.7</td>
<td>3.1</td>
<td>7.7</td>
<td>3.6</td>
<td>1.6</td>
<td>0.4</td>
<td>-0.9</td>
<td>n/a</td>
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<td>CPI, % yoy</td>
<td>6.5</td>
<td>10.1</td>
<td>15.4</td>
<td>3.5</td>
<td>-1.1</td>
<td>4.4</td>
<td>2.3</td>
<td>0.0</td>
<td>0.6</td>
<td>0.2</td>
<td>0.8</td>
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<tr>
<td>Fiscal Deficit, % of GDP</td>
<td>-0.6</td>
<td>-0.7</td>
<td>-4.1</td>
<td>-9.1</td>
<td>-8.5</td>
<td>-3.4</td>
<td>-0.8</td>
<td>-0.9</td>
<td>-1.5</td>
<td>-1.5</td>
<td>-1.2</td>
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<tr>
<td>Export Change, % yoy</td>
<td>14.0</td>
<td>22.7</td>
<td>9.6</td>
<td>-18.7</td>
<td>30.3</td>
<td>27.8</td>
<td>13.9</td>
<td>2.2</td>
<td>2.3</td>
<td>2.3</td>
<td>5.1</td>
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<td>Import Change, % yoy</td>
<td>31.1</td>
<td>22.0</td>
<td>-3.2</td>
<td>-37.4</td>
<td>25.5</td>
<td>30.6</td>
<td>12.0</td>
<td>0.9</td>
<td>0.6</td>
<td>1.6</td>
<td>6.9</td>
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<tr>
<td>Current Account, % of GDP</td>
<td>-20.9</td>
<td>-20.8</td>
<td>-12.4</td>
<td>8.1</td>
<td>2.3</td>
<td>-2.8</td>
<td>-3.3</td>
<td>-2.4</td>
<td>-2.0</td>
<td>-1.4</td>
<td>-2.3</td>
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<tr>
<td>FDI Indicator, mln EUR</td>
<td>810.5</td>
<td>955.2</td>
<td>408.3</td>
<td>-1089.7</td>
<td>79.4</td>
<td>486.2</td>
<td>841.7</td>
<td>682.9</td>
<td>448.0</td>
<td>719.2</td>
<td>802.9</td>
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f - forecast
Source: Central Statistical Bureau, SEB, Swedbank
Investment Market

General Overview

› 2015 closed with a total annual investment volume of EUR 394.4 million - the best result since 2007.
› Investment in the retail segment was the driver of investment activity.
› Demand for potential investment targets was high, but a shortage of attractive cash flow investment targets served as a limit.
› Improvement in the investment climate contributed to further yield compression in all commercial property segments.

Investment Volumes

In 2015, the Latvian real estate investment market was at its most active since 2007. The year closed with a total investment volume of EUR 394.4 million, compared to EUR 316.9 million in 2014. It should be noted that 60 per cent of investment volume was driven by acquisition of the Alfa, Mols and Dole shopping centres by the world’s leading alternative asset management company – Blackstone, as a part of the acquisition of ten Nordic real estate funds managed by Obligo Investment Management.

During 2015, 71 per cent of total investment volume was generated by transactions exceeding EUR 20 million – a significant increase compared to 26 per cent a year ago. Despite large total volumes, investment transactions below EUR 3 million still constitute 76 per cent of transaction numbers. At the same time, these transactions generate only 14 per cent of total annual investment volume.

Additionally, 2015 was marked by comparably higher activity among end-users acquiring properties for their own business or occupation needs. These transactions added a further EUR 120 million to the transaction volumes noted above.

In 2015 the Latvian real estate investment market saw four new names – Blackstone, Hili Properties, Partners Group and Colonna Capital - which together were responsible for 64 per cent of total annual investment volume. In contrast, among players already present, EfTEN Capital was the most active with eight per cent of total annual investment volume generated by its acquisitions.

In addition, the market saw increasing activity by local private investors, mainly aiming at EUR 1 - 4 million transactions, whose investment decisions are mainly driven by their particular expertise or preference. In general, 2015 showed that the Latvian property market can again be interesting for leading international investors, subject to availability of products of sufficient size and quality.

Investment Properties

During 2015, the share of investment in retail, office and industrial commercial properties increased from 48 per cent in the previous year to 97 per cent. Such a change in composition of the weight of these property segments was driven mainly by a noticeable decrease in demand for historic buildings acquired for redevelopment, or buildings with no clear concept and existing cash flow, for example properties in the residential segment.

Changes in the immigration law regarding the temporary residence permit programme, which came into force in September 2014, as well as a decrease in demand from Russian buyers, made the residential sector relatively less attractive and had an immediate effect on respective investment volume.

Investment Turnover by Size in 2015

Dynamics of Investment Volume in Latvia

* The number of transactions includes both asset and share deal transactions exceeding EUR 0.4 million, excluding land, distressed property and end-user deals.
The retail segment became a dominant investment target in 2015, generating 77 per cent of total investment volume for the period. This was driven by several large transactions and by the higher number of individual transactions above EUR 3 million, resulting in a higher overall average. The share of office investment deals accounted for 15 per cent and even though we mostly saw transactions below EUR 3 million during the first half, the year concluded with quite a few large transactions in this segment. The industrial segment continued to be less active compared to the office and retail sectors. This led to industrial segment investment volume in 2015 of just 4 per cent of total annual investment volume.

**Investment Yields**

Prime asking yields continued to show improvement. This was driven by several factors. Among these are the general improvement in the Latvian economy, reducing the country’s risk profile, a favourable interest rate environment and availability of leverage, as well as demand for good quality cash flow generating buildings. By the end of 2015, prime yield for industrial objects reached 8.75 per cent, with prime retail and office yields experiencing a decline to 7 per cent and 7.25 per cent respectively.

**Forecasts**

- We expect investment activity to continue, with trends initiated in 2015 carried over to 2016. The transaction pipeline indicates that comparable volumes can be expected next year.
- In 2016, new names might appear on the local investment market. In addition, we expect an increase in activity by investment funds, which previously did not consider our region a target.
- Prime yields are expected to experience further downward pressure in 2016 with quality supply as the main limiting factor.
- Due to lack of cash flow properties, the market will start to enter the commercial property development stage.
Office Market

General Overview

- A strongly pronounced shortage of large office premises was noted in 2015. In terms of shortage of vacant premises, several professional building acquisitions for owner occupation purposes were observed.
- Disregarding limited construction, some developers started to work on office project plans. Capital Mill, Hanner, ELL, Vastint, NCH and Pillar are an example of players driving market development.
- During the year the market saw commissioning of two speculative office properties and continuing development of properties initiated in 2015 with commissioning planned for 2016.
- A tendency to prelease properties at the construction stage was observed during the year. Medium sized tenants expressed their readiness to engage in prelease agreements already at that early stage.
- The total vacancy rate remained at the 2014 level; however, a slight increase in A class rent rates was observed.

Supply

By the end of 2015, the total space of office premises in Riga amounted to approx 596,900 sqm. Speculative space dominates with 405,300 sqm or 68 per cent, while built-to-suit (BTS) office buildings account for 191,600 sqm or 32 per cent.

In 2015, office space was supplemented by two speculative B1 class office buildings - the reconstructed 13 Janvara Street 3 (GLA 2,100 sqm) and Jauna Teika 2nd stage (GLA 2,400 sqm). Both properties were already partially preleased during the construction stage.

Three smaller B class office buildings are under construction at the moment, including Katrinas Osta on Katrinas Dambis 20 (GLA 1,700 sqm), as well as the Tele2 BTS project (GLA 1,700) and a speculative office building (GLA 2,000 sqm) both located in Mukusalas Business Centre territory. All three properties are expected to be commissioned by the end of the first half of 2016. Moreover, the A class office property Place 11 (GLA 15,000 sqm) on Sporta Street 11 is expected to be delivered to the market in Q4 2016 and approx 10,000 sqm of A class office premises are under construction in Z-Towers, due for commissioning in Q2 2017.

Apart from all buildings under construction, a number of developers announced their willingness to enter the market with new projects. In total more than 140,000 sqm of professional office premises are at the planning stage and taking into account the lack of vacant space we anticipate the materialisation of some of these over the next three to five years. Even though the development pipeline for the upcoming three years is starting to grow, it still lags behind Tallinn and Vilnius.

By the end of 2015, a number of planned projects were approaching the final stages of technical planning. Among these the 1st stage of the New Hanza City project, consisting of an A class speculative office building of 14,000 sqm and a BTS office building of 18,500 sqm, have already received a building permit and the start of preparatory work can be expected in Q2 2016. Additionally, Business Garden Riga 1st stage, consisting of two buildings and being developed by Vastint with total planned GLA of approx 14,000 sqm, is expected to approach the construction stage in 2016.

After commissioning of Jauna Teika 2nd stage, Hanner continued planning the next Jauna Teika stage.

Dynamics of Office Space in Riga*

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

Source: Colliers International

Distribution of Speculative Office Space by Class in Riga in 2015

Source: Colliers International
Demand

According to Colliers International estimates, absorption of total office space in 2015 amounted to 4,000 sqm. This relatively low figure is explained by the fact that most leasing was generated by tenants rotating within professional space.

The financial sector and IT companies are the most active in terms of leasing, willing to consolidate in single locations with further expansion opportunities. Additionally, the BPO / SSC sector continued to be active, looking at the Latvian market to establish their presence, but interest did not materialize due to lack of large vacant premises, typically above 3,000 sqm, and competition with neighbouring countries.

Overall, during 2015 a third of the take-up in professional and non-professional office premises consisted of deals targeting areas above 1,000 sqm, while another third was focused on areas between 500 and 1,000 sqm.

Meanwhile, shortage of available premises caused big companies to acquire buildings for BTS purposes. In this context, Evolution Gaming acquired the Ziemelu Varti office building on Brivibas Street, Euro Live Technologies acquired the Triangular Bastions office property on 11 Novembra Krastmala, Compensa acquired its former rented location on Vienibas Gatve 87h, and Regionala Investiciju Banka acquired an office building in Jura Alunana Street. Lastly, the property at Jeruzalemes Street 1 was bought from Latectus potentially for single tenant occupancy. Total area within all these transactions amounted to approx 39,500 sqm.

In 2015, we observed continuation of activity from medical centres. These are acquiring administrative buildings for reconstruction with the purpose of expanding their business. At the same time, 2015 saw an increase in demand for 400 - 600 sqm premises suitable for medical practice.

Taking into account the shortage of professional office space, landlords stand at a greater advantage in lease negotiations compared to tenants.

Rent Rates and Vacancy

During 2015, rent rate spreads for B1 and B2 class office premises remained at the 2014 level, while the upper bounds of A class rent rate spreads experienced an increase. Rent rates amounted to 13 - 16 EUR/sqm per month for A class premises, 8 - 12 EUR/sqm per month for B1 class office premises and 6 - 9 EUR/sqm per month for B2 office premises.

As of January 2016, the total vacancy rate for both speculative and BTS projects comprised 5.7 per cent, that is, on the same level as the previous year. Vacancy calculated only for speculative office buildings stood at 8.4 per cent. This fact is explained by the situation in the A class segment, where by the end of 2015 total vacancy reached 5 per cent, compared to 3.2 per cent at the end of 2014.

Tendencies and Forecasts

- While project completion in 2015 was scarce, development is expected to improve in 2016. Properties under construction might become a target of prelease agreements.
- Rent rates are expected to remain stable until the end of 2016.
- Vacancy is expected to remain stable in 2016.
- Despite improving construction and anticipated completions in 2016, demand is expected to remain limited due to shortage of larger premises available for lease.
- Properties which were the target of acquisition for owner purposes in 2015 are expected to be improved and upgraded in 2016.
Existing and Development / Planned Office Projects in Riga

Existing Developments
1. Valdemara Centre
2. Swedbank HQ
3. Office Complex “Ostas skati”
4. Rietumu Capital Centre
5. Alojas Business Centre
6. DNB Bank HQ
7. Pasta Banka, Brivibas 54
8. Office Centre at Citadeles St. 12
9. Ziemelu varti
10. Kronvalda Bulvāris 3
11. Bazuņas 20/22
12. Valdo Office Complex
13. Gertrudes Centrs, Gertrudes 10/12
14. Terbatas Centre, Terbatas 30
15. Helio Birži
16. Terbatas Business Centre
17. Marine Business Centre
18. Astra Biržu
19. Baltas Veji
20. Barons Kvartals
21. PBLC Business Centre
22. Modern City
23. Duntes Nams
24. GMP Business Centre
25. Mukusalas Business Centre, 2nd stage
26. Duntes Biržu Biznesams
27. Mūtas 1a Office Building
28. Dzeltavas Biržu Nams
29. SWH Business Centre
30. Unity Business Centre
31. Reaton Office Building
32. Panorama Plaza
33. Lūkstas Biržu
34. Indi Centrs
35. Asu Centre
36. Mūtas 1 Office Building
37. Zūmu Biržu
38. Zāļa 1 Office Building
39. Duntes Biržu Centrs
40. Dzeltavas 120 Office Building
41. Europa Business Centre
42. Office Complex Mukusalas 41
43. Jupiter Centre
44. Energoefektiva Biržu Eks
45. Astra Biznesa Centrs
46. Open Centre
47. Citadele HQ
48. RSTA Office Building
49. Bussines Center Mukusala
50. WTC "Riga"
51. Dominante Office Building
52. Domina Office
53. Brivibas 171 Office Building
54. NTP Business Centre
55. Torenberg
56. Magnet Business Centre
57. Toms Business Centre
58. Lubanas Centrs
59. Valdemara Pasazas
60. M4A Office Building
61. State Revenue Service HQ
62. LNK Centre
63. Varioces 1
64. Kalnu 15
65. Jauna Teika, 2nd stage
66. NBP Central Offices
67. American Embassy
68. Valdemara Pasazas

New Speculative and Built-to-Suit Projects Under Construction/Reconstruction and Most Realistic Projects for Development in Riga
1. Z-Towers
2. Place 11
3. New Hanza City, 1st stage
4. Katrīnas Osta
5. Origo Retail and Business Centre
6. Krautas 99, 1st stage
7. Jauna Teika, 3rd stage
8. Business Garden Riga, 1st stage
9. Ulīšana Office Park, 1st building
Retail Market

General Overview

› Positive development of the retail segment was contributed to by a continually improving economic environment. Additionally, the market saw a constantly increasing share of e-commerce trade, which is becoming a direct competitor for conventional retailers.

› During 2015, Riga retail space was supplemented by a new Depo DIY store. Work continued on SC Riga Akropole, as well as Alfa and Origo project preparation.

› Activity in the grocery segment remained buoyant, resulting in the opening of new stores plus existing store upgrades by leading players Rimi and Maxima.

› Improvement of the tenant mix continued in leading shopping centres. Choice of appropriate tenants is being made more scrupulously, with a preference for recognizable international brands and synergy with existing occupiers, as well as the overall particular shopping centre concept.

› Increasing activity was evident in street retail, where the premises most in demand were located on Terbatas Street between Elizabetes and Dzirnavu Streets.

Supply

By the end of 2015, total leasable retail space amounted to approx 639,400 sqm, consisting of shopping centre premises (380,800 sqm), big boxes (226,600 sqm) and department stores (32,000 sqm).

In 2015, retail space was supplemented by a new do-it-yourself Depo location on Krasta Street (GLA approx 12,000 sqm). Additionally, in 2015 the market saw a number of smaller hypermarket developments, among which Rimi was the leader by opening nine stores in different Latvian cities, including four locations in Riga. In addition, Maxima opened two Maxima X stores on Dammes Street in Riga and Plavinas. Moreover, in the context of tenant mix optimization and concept improvement, Stockmann department store started the partial lease of its premises in 2015 by attracting several new tenants.

In 2016, we anticipate new addition to retail space in the face of expansion of SC Damme by 1,000 sqm.

Apart from this anticipated addition, the shopping centre segment continued its activity. Akropolis group has continued work on the technical project for SC Riga Akropole on Maskavas street in the neighbourhood of the Southern Bridge. One of the leading market players - Linslow - continued to work on expansion plans for existing shopping centres - SC Alfa and SC Origo. SC Alfa is expected to expand by an additional 17,500 sqm of lettable retail space, whereas expansion of SC Origo is designed as a multifunctional complex consisting of office space (GLA 9,015 sqm) and retail premises (GLA 15,750 sqm).

Additionally, a new do-it-yourself Depo store on Kurzemes Prospects can be expected for 2017 / 2018.

In 2015, the retail market saw a major change in shopping centre ownership structure, with acquisition of shopping centres Alfa, Mols and Dole by the world’s leading alternative asset management company – Blackstone. In addition, SC Olimpia was acquired by Partners Group at the beginning of the year.

Dynamics of Retail Space in Riga*

Distribution of Retail Space in Riga by Type in 2015
Landlords of shopping centres, who were previously focused on filling vacancy, now continue to work on tenant mix by choosing the most appropriate tenant for a specific position. The leading shopping centres choose tenants that meet their concept and contribute to existing tenant synergy.

International brands and widely recognized tenants also remained active in 2015. The period was marked by a number of new entrants establishing their locations in leading shopping centres. Such brands as Michael Kors, La Perla, and Imaginarium opened in SC Spice. The first Kazar shoe store opened in SC Alfa. Calzedonia and Intimissimi opened their stores in SC Riga Plaza, SC Domina Shopping and Spice. The first Sportsdirect store entered the market in August 2015 with its location in SC Olimpia. Two international shoe brand stores - Sketchers and Dune London - opened in SC Alfa and SC Galerija Centrs respectively. In 2015, a tendency was noted for newcomers aiming to enter the market through regional shopping centres - a tendency that is expected to continue during the coming year.

Apart from newcomers, existing market players were expanding their presence and are working on store concept improvement. Kotryna Group, which is familiar to the Riga retail market through the Baby City / Toy City, KidzOne and Lego brands, introduced a new concept - Toy Planet - in two shopping centres. Additionally, Lindex and Reserved introduced fitness apparel in their collections, following the increasing popularity of healthy lifestyles.

Despite the fact that Centro and Seppala have left the Latvian retail market by closing all stores in Riga shopping centres, their premises were quickly taken up by other tenants.

During 2015, vigorous activity came from the catering segment with Hesburger starting construction work on a new restaurant on Krasta Street, as well as a new McDonald’s restaurant opening on Karla Ulmane Gate. In August 2015, the first KFC restaurant was opened in Riga on Audeju Street. Additionally, Subway opened two locations in SC Riga Plaza and SC Alfa. Moreover, 2015 was marked by activity from coffee shops, with Costa Coffee and Coffee Inn the leaders of expansionary activity in the segment.

Following the increasing popularity of healthy lifestyles, the fitness sector showed activity in 2015. Change of ownership of the former City Fitness brand has led to its rebranding as the My Fitness concept and improvements to services. Another fitness chain - Impuls LT - announced plans to establish its budget class sports clubs chain - Lemon Gym - in Riga during 2016 with the first club opening in January 2016. Other fitness clubs new to the market are actively looking for opportunities to enter the Baltic States with new concepts.

Strong demand continued to be noted for premises located on Terbatas Street between Elizabetes and Dzirnavu Streets. This cluster has finished its formation and we might expect further activity along Terbatas Street during 2016. Within this cluster, a City multi-brand store was opened in premises previously occupied by the Hugo Boss flagship. Additionally, an Andrey Silchenko hair salon was opened across the road on Terbatas Street. The luxury brand Moreschi and Peuterey store was opened at the end of 2015.

Apart from that, new concepts in street retail started to develop in 2015. For example, Rimi has opened its first new concept store in the Old Town. Statoil Fuel & Retail plans to open its first convenience store in the Old Town in 2016 and has further plans for other strategic locations.

Closure of Barona Street for reconstruction has negatively influenced its retailers. On the other hand, reconstruction of the street is expected to positively influence its retail environment in the long run.

Rent Rates and Vacancy

During 2015, rent rates did not change compared to 2014. By the end of 2015, the total vacancy rate in all shopping centres stood at 2.7 per cent, compared to 2.3 per cent a year ago. Vacancy in less successful shopping centres exceeded the 10 per cent mark, while most successful shopping centres operated with vacancy of close to zero per cent.

Rent Rates* for 2015 in Riga and Trends for 2016

<table>
<thead>
<tr>
<th>CLASS</th>
<th>2014</th>
<th>2015</th>
<th>TRENDS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large retail unit (anchor tenant)</td>
<td>4 - 11</td>
<td>4 - 11</td>
<td>➔ ➔</td>
</tr>
<tr>
<td>Medium retail unit (150 - 350 sqm)</td>
<td>15 - 35</td>
<td>15 - 35</td>
<td>➔ ➔</td>
</tr>
<tr>
<td>Small retail unit (up to 100 sqm)</td>
<td>30 - 55</td>
<td>30 - 55</td>
<td>➔ ➔</td>
</tr>
</tbody>
</table>

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

Dynamics of Vacancy Rate in Major Shopping Centres in Riga

* - asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
Source: Colliers International
Gradual improvement of the Latvian retail market will continue to be driven by positive economic developments.

In 2016, total professional retail space is expected to be supplemented by the SC Damme expansion. Additionally, we expect continuation of activity coming from the grocery segment.

Activity by major shopping centre owners is expected to continue and might result in materialization of expansion plans, as well as plans for new construction.

New potential entrants are expected to remain interested in entering the Latvian market. This may result in new openings during 2016. Brands already represented will preserve stable demand for the best shopping centre and street retail locations.

No significant changes in rental level are anticipated during 2016.

The vacancy rate is expected to decrease further mainly on account of less successful shopping centres.
Retail Shopping Centres in Riga

Shopping Centres, Hypermarkets and DIY
1. Alfa
2. Spice
3. Spice Home
4. Riga Plaza
5. Domina Shopping
6. Mols
7. Origo
8. Atrium Azur
9. Olimpia
10. Dole
11. Stockmann
12. Gallerija Centrs
13. Galeria Riga
14. Mc2
15. Podium
16. Sky and More
17. Prisma “Spora”
18. Prisma “Deglava”
19. Imanta Retail Park
20. Rimi “Milgravia”
21. Damme
22. Rimi “P. Brieza”
23. Rimi “Valdemara”
24. Rimi “Bikerniekas”
25. Rimi “Stirnu”
26. Rimi AT near Kekava
27. Zoom
28. Maxima at A. Deglava St. 67
29. Maxima at K. Ulmana St. 88a
30. Maxima at Slokas St. 115
31. Maxima at Bikernieku St. 143
32. Depo at Krasta 36
33. Depo at K. Ulmana 96
34. Elikor Plaza
35. Depo Berzi
36. Elikor Mebelu centrs
37. Maxima at Vienibas St. 113
38. K-Rauta at Maskavas 418A
39. K-Rauta at Lucavsala 3
40. Maxima at A. Saharova 20A
41. Penta
42. K-Rauta at Priedaines 37
43. Maksima at Mukusalas 73
44. Depo at Lubanas 150
45. Depo at Krasta 52
46. Meistars at Maskavas 322D
47. SKY at Krasta 56
48. Orange Cash and Carry
49. cenuklubs.lv

New Projects, Projects Under Construction and Most Realistic Projects for Development in Riga
1. Akropolis
2. Depo at Kurzemes prospekts
3. Alfa expansion
4. Origo expansion
Industrial Market

General Overview

> Continuing development activity resulted in six industrial properties commissioned, with more under construction to be commissioned the following year.
> Stable demand continued during 2015 with shortage of available premises serving as an activity limiter.
> 2015 saw a continuation of the trend that started in 2013, with companies centralizing their business and relocating in one place, thus improving logistics and optimizing their functionality.
> Negative market sentiment due to geopolitical tensions between Russia and Western countries has improved since the end of 2014. Business is adapting by partially switching to other markets. Nevertheless, hidden vacancy occurs with sublease opportunities offered in the array of premises occupied by companies serving eastern markets.

Supply

By the end of 2015, total leasable industrial space amounted to approx 895,300 sqm, consisting of 615,300 sqm of speculative premises and 280,000 sqm of built-to-suit (BTS) premises. Around 40.0 per cent of total space is located in Riga city limits. The other 60.0 per cent is located around the Riga Ring Road (near Kekava, Olaine, Marupe, Salaspils and Jelgava).

During the year, the professional industrial market saw the largest space increase since 2009. Industrial space was supplemented by six properties with total GLA of 110,000 sqm, among which 84,000 sqm of GLA were located in BTS properties. The largest commissioned object was a BLS BTS industrial property in Kekava parish consisting of 44,000 sqm of A class GLA.

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

Distribution of Industrial Space by Size in Riga and Riga Region

By the end of 2015, a number of projects were under construction with total volume close to 30,500 sqm of GLA, most of which were speculative premises. In general, all properties at the construction stage by the end of 2015 became a target for potential customers. Among these properties the largest is the 2nd stage of the A class speculative industrial property Balt Cargo Solutions, consisting of approx 15,000 sqm of GLA.

Moreover, by the end of 2015 a total of 84,500 sqm of GLA were at the planning stage in a number of potential properties, among which the largest speculative project is VGP 1st stage in Kekava.

Projects Under Construction in 2016

<table>
<thead>
<tr>
<th>PROJECT NAME</th>
<th>ADDRESS</th>
<th>DESCRIPTION</th>
<th>GLA, SQM</th>
<th>DEVELOPER</th>
<th>EXPECTED YEAR OF COMMISSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>UA Investor (2nd stage)</td>
<td>Daugavgrivas 77</td>
<td>Speculative</td>
<td>3,700</td>
<td>UA Investor</td>
<td>Q1 2016</td>
</tr>
<tr>
<td>Pitche</td>
<td>Pienicema 33</td>
<td>Speculative</td>
<td>2,300</td>
<td>Pitche</td>
<td>Q1 2016</td>
</tr>
<tr>
<td>Balt Cargo Solutions (2nd stage)</td>
<td>Dreilini</td>
<td>Speculative</td>
<td>15,000</td>
<td>Balt Cargo Solutions</td>
<td>Q3 2016</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>21,000</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Colliers International
parish (GLA 20,000 sqm). Developers of most of the planned projects are ready to start construction as soon as a prelease agreement is signed. Additionally, shortage of premises above 1,000 sqm is observed.

Distribution of Industrial Space by Type in Riga and Riga Region

Demand

Total take-up of industrial premises amounted to approx 70,000, or 40 per cent more compared to 2014. Three major deals took place in 2015, with Latakko, Trialto and Rimi occupying almost 40,000 sqm in total.

During the first half of 2015 the market saw several prelease agreements for projects which were then at the construction or final planning stages. Therefore, most projects commissioned during 2015 entered the market with minimum vacancy.

Warehouse consolidation in a single location, as well as the decision to relocate to better quality premises, both initiated in 2013, continued throughout 2015. Companies are looking mainly at consolidation into single professional properties, moving away from non-professional ones. As an example, tyre seller Latakko signed a rent agreement with Baltkors with the purpose of consolidating activity in a single location.

Similarly to previous years, potential tenants were not prone to engage in potential lease negotiations until construction had started. However, given that the largest tenants have already left non-professional space, it can be said that the process of consolidation in single locations is finalizing.

With the government co-founding a number of production premises, construction was triggered outside Riga, targeting local production companies currently occupying non-professional premises. However, these target companies are not ready to move to those premises due to budget limitations so that developers are forced to stimulate demand by attracting foreign companies, which are not at present on the local market.

Rent Rates and Vacancy

During 2015, rent rates in both in A and B class industrial premises remained unchanged. Rent rates for A class industrial premises stood at 3.5 - 4.5 EUR/sqm per month and rent rates for B class industrial premises at 3 - 3.6 EUR/sqm per month. However, we observed a tendency for the upper bounds of A class rent rates for premises located outside Riga to be up to 20 per cent less compared to those located in Riga.

Taking into account expected speculative completions in 2016, rent rates might experience downward pressure in the upcoming year in the context of tightened competition with properties entering the market with vacant premises.

By the end of 2015, the total vacancy rate of industrial space had increased to 4.2 per cent, compared to 2.2 per cent at the end of 2014. The increase in total vacancy was driven by commissioning of a number of speculative industrial projects, which arrived on the market with available vacancy.

Dynamics of Rent Rates* in Riga and Riga Region

Rent Rates* for 2015 in Riga and Riga Region Trends for 2016

<table>
<thead>
<tr>
<th>CLASS</th>
<th>JAN 2015</th>
<th>JAN 2016</th>
<th>TRENDS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.5 - 4.5</td>
<td>3.5 - 4.5</td>
<td>→↑</td>
</tr>
<tr>
<td>B</td>
<td>3.0 - 3.6</td>
<td>3.0 - 3.6</td>
<td>→↑</td>
</tr>
</tbody>
</table>

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

Source: Colliers International

Dynamics of Vacancy Rates in Riga and Riga Region

Vacancy Rates for 2015 in Riga and Riga Region and Trends for 2016

<table>
<thead>
<tr>
<th>CLASS</th>
<th>JAN 2015</th>
<th>JAN 2016</th>
<th>TRENDS FOR 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.6 %</td>
<td>6.2 %</td>
<td>→↑</td>
</tr>
<tr>
<td>B</td>
<td>0.3 %</td>
<td>0.8 %</td>
<td>→↑</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2.2 %</td>
<td>4.2 %</td>
<td>→↑</td>
</tr>
</tbody>
</table>

→↑ - stable, →↑ - slight increase
Source: Colliers International
Tendencies and Forecasts

➢ Business sentiment is anticipated to continue improving and market players will continue to adapt to new market realities.
➢ Development will continue, especially in the context of BTS projects. Most projects currently in the construction pipeline will be commissioned in the first half of 2016.
➢ The general trend remains that developers are willing to engage in new construction only after a prelease agreement is signed.
➢ Nonetheless, with properties after commissioning already largely leased out, we expect a further slight increase in vacancy, mainly on account of new professional speculative properties in the pipeline.
➢ Rent rates are expected to remain stable in 2016, although in the second half A class rent rates might experience some downward pressure upon commissioning of new arrivals.
Speculative and Built-to-Suit Projects in Riga District Over 5,000 sqm

Existing Developments
1. Valdo Logistikas Komplekss
2. Riga Industrial Park
3. Nordic Industrial Park in Olaine
4. PBLC Business Centre
5. Dominante Park
6. BLS
7. Dommo Biznesa Parks
8. Eirkel Business Park
9. Rolands S Warehouse Complex
10. Lauki Warehouse Complex, New Building
11. Olaines Logistic Park
12. Bergi Logistics Centre
13. Elipse-BLC
14. Nordic Technology Park
15. Abova Biznessa Parks
16. Karsten Latvia Logistic Centre
17. Izoterms
18. DLW
19. NP Business Centre
20. Man Tess
21. Baltkors, 1st and 2nd stages
22. Avers Centrs Logistic Park
23. Maykel Business Park
24. System Logistics
25. Atlas Logistic Centre
26. Granita Industrial Park
27. DSV Transport
28. Maxima Latvia Logistic Complex
29. Rimi Administrative and Warehouse Complex
30. DHL Logistic Centre
31. Sanistal Retail and Logistic Centre
32. Beweship Latvija Warehouse in Marupe
33. Baltijas Industriabiks Parks
34. Kroni
35. BLRT
36. Polpak
37. Reaton Logistikas Centrs
38. Coca Cola Logistics Complex
39. G31
40. Veju Roze
41. NP Jelgavas Biznesa Parks
42. Balt Cargo Solutions
43. UA Investor, 1st stage
44. Plienciema 16
45. Lexel Fabrika

Projects under Development
1. UA Investor, 2nd stage
2. Pitch
3. Balt Cargo Solutions, 2nd stage
Hotel Market

General Overview

- During the first three quarters of 2015, the number of visitors to Latvian hotels and other accommodation establishments grew for the fifth year in a row. Reduced numbers of Russian tourists were compensated by visitors from other countries.
- Continuous development of tourist attractions and big public events (e.g. Latvian Presidency of the Council of the EU) positively influenced the hospitality market in 2015.
- Hotel market stock in 2015 was supplemented by the new 4-star Wellton Hotel Riga and Spa hotel with 174 rooms.
- International chains which are already represented in Latvia continued their development plans; for example, two Accor Hotel Group hotels are expected to be commissioned in 2016 / 2017.
- Despite May and August being marked by the best occupancy figures in the last decade, average hotel room occupancy in the first eleven months of 2015 fell slightly compared to the same period in 2014.
- 2015 saw a reduction in the trend of hotel acquisitions by investors from CIS countries observed in 2012 - 2014.

Supply

By Q3 2015 Riga had 247 hotels, of which 123 were not certificated. 71 per cent of a total of 8,232 certified hotel rooms were located in Riga. In general, certified hotel room supply was largely dominated by 4-star hotel rooms, constituting 58.5 per cent and 69.3 per cent respectively of Latvia’s total certified hotel room stock and total Riga certified hotel room stock.

The Latvian hotel market is clearly dominated by local hotel operators. 2015 saw no new international hotel chain entries to the Latvian hotel market, where the two largest international hotel chains represented are Rezidor and the Accor Hotel Group.

In 2015, the Riga hotel market saw the opening of the new 4-star 174-room Wellton Hotel Riga and Spa in the Old Town operated by local company Mogotel.

Moreover, by the end of 2015 a number of projects were under development. An 11-storey hotel building on the left bank of the River Daugava and next to the Z-Towers project is expected to be commissioned by the end of 2016. Additionally, under development at the moment are the 5-star Kempinski Grand Hotel Riga and Pullmann Riga Hotel, the 4-star Semarah Hotel, as well as the Ibis Style Hotel. At the end of 2016 the increase in hotel room stock is expected to reach 635 rooms, while in 2017 hotel room stock is expected to be supplemented by an additional 150 rooms upon completion of a new hotel on Raina Street.

Demand

During the first three quarters of 2015, the number of people serviced by Latvian hotels and other accommodation establishments experienced positive growth. A total of 1.72 mln visitors were serviced by the Latvian hotel industry, of whom 119 mln or 69 per cent were foreign visitors. Total visitor numbers in the first three quarters of 2015 grew by 2.6 per cent and foreign visitor numbers grew by 3.4 per cent compared to the same period in 2014.

Russian, German, Lithuanian, Estonian and Finnish visitors accounted for half of all foreign visitors in the first three quarters of 2015. Visitor numbers from Russia fell by 33 per cent in the first nine months of 2015 compared to the same
period in 2014 and comprised only 13 per cent of all foreign visitors. The rouble’s devaluation caused spending reductions among Russian travellers. On the positive side, during the first three quarters of 2015 visitor numbers from Lithuania grew by 23 per cent, German visitors by 4 per cent and Estonian visitors by 16 per cent. We note that the tourism market has become more differentiated.

During the first nine months of 2015, the average number of nights spent by foreign visitors in Riga hotels or other accommodation establishments fell slightly to 1.8 compared to 1.9 in the same period the previous year. The leaders in terms of hotel stays were visitors from Belarus with 3.1 nights spent per visitor, the USA with 2.2 nights, and Russia with 2.1 nights. Compared to 2014, visitors from Sweden and Norway spent on average more nights in Latvian hotels and other accommodation establishments in 2015.

2015 saw growth in total foreign visitor numbers to Latvia. This was for several events, such as the Latvian Presidency of the Council of the EU in the first half of 2015, the men’s European basketball championship in September, NATO alliance activities, and specialist tourism promotional activities by the Latvian Tourism Development Agency. Moreover, in 2016 the extended NATO mission in the Baltics, Riga’s recognition as a former Capital of Culture, the Cooperation Between Central and Eastern European Countries and China 16+1 summit and other events might have had a positive effect on the Riga hotel market.

Prices and Occupancy

According to City Cost Barometer, Riga continues to be one of the cheapest travel destinations among other European capitals in terms of overnight stay costs. Thus, for the third consecutive year the Riga hotel market experienced a decrease in accommodation costs in 3-star hotels. While maximum room prices for 3-star hotels dropped by approx 5 per cent, maximum room prices for 4-star hotels are on the same level as in 2014. Despite the fact of increasing visitor numbers, the occupancy rate of accommodation establishments slightly decreased in 2015. During the first 11 months of 2015, average occupancy of hotels and other accommodation establishments stood at 56.5 per cent in Riga and 44.9 per cent in Latvia, which respectively is 0.7 per cent and 2.8 per cent less compared to the same period in 2014. The observed decrease in occupancy can be explained by the decrease of average nights spent by visitors in local accommodation establishments.

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

Source: City Cost Barometer

Distribution of Foreign Visitors by Country of Origin

Source: Central Statistical Bureau

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>13%</td>
</tr>
<tr>
<td>Germany</td>
<td>13%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>44%</td>
</tr>
<tr>
<td>Estonia</td>
<td>13%</td>
</tr>
<tr>
<td>Finland</td>
<td>10%</td>
</tr>
<tr>
<td>Norway</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau

Number of Visitors Served

Source: Central Statistical Bureau

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
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<tr>
<td>2015</td>
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</tbody>
</table>

Source: Central Statistical Bureau

<table>
<thead>
<tr>
<th>Price Range for Double Standard Hotel Room in 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUMBER OF STARS</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>5-star</td>
</tr>
<tr>
<td>4-star</td>
</tr>
<tr>
<td>3-star</td>
</tr>
</tbody>
</table>

Source: Colliers International

Dynamics of Average Monthly Room Occupancy Rate in Accommodation Establishments

Source: Central Statistical Bureau

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
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</tr>
<tr>
<td>2015</td>
<td></td>
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</tr>
</tbody>
</table>

Source: Central Statistical Bureau

<table>
<thead>
<tr>
<th>Price for a 2 Night Stay in 3-star Hotel for 2 Visitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price for a 2 Night Stay in 3-star Hotel for 2 Visitors</td>
</tr>
<tr>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>EUR</td>
</tr>
<tr>
<td>200</td>
</tr>
<tr>
<td>150</td>
</tr>
<tr>
<td>100</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

Source: City Cost Barometer
Tendencies and Forecasts

› We expect further market development both in terms of visits and hotel performance indicators. Additionally, we expect Riga hotel room stock to be supplemented by more than 755 rooms after commissioning of new developments in 2016 / 2017.

› International hotel chains are expected to continue to expand their presence in the local market.

› After hotel stock is supplemented by mainly 4-star and 5-star hotels, the competition is expected to tighten and might impact hotel performance figures.

› Russian outbound travel is not expected to pick up in 2016. However, an increase is envisaged in the number of visitors from other countries. This difference might be compensated during the year in both the leisure and business segments.

› The hospitality industry might well continue to experience a positive influence from international promotion and recognition of Latvia and Riga in particular.
Legal Overview

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

Asset Transfer Deals

**Main Steps**

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

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

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

Share Transfer Deals

**Main Steps**

The main steps for share transfer deals are:

1. Initial agreement on the transaction. This involves the understanding by both parties of the sale process. At this stage, the parties would sign a letter of intent (usually non-binding apart from confidentiality and exclusivity clauses) that will in general state the understanding of both parties on the subject of the sale and the potential price (including price calculation).
2. Agreement on terms and conditions of the transaction. If the results of the due diligence are satisfactory, the parties start work on the transaction documents. In practice, the first draft of the share purchase agreement is provided by the buyer. Depending on the complexity of the transaction, negotiations on the terms and conditions of the transaction documents can take from several weeks to several months.
3. Closing the transaction. When the parties have agreed on all terms and conditions of the transaction agreements, signing of documents takes place. Depending on the complexity of the transaction and the business type of the target company (eg, whether this is a regulated company) as well as on whether the purchase of target company shares is considered as a merger under Latvian Competition Law, the time required for closing the transaction can vary from a couple of weeks to several months after signing the transaction agreements.

Registration of title and thus payment of notarial fees as well as state and stamp duty is required.

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

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

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

Main Advantages and Drawbacks

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

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

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

Registration of title and thus payment of notarial fees as well as state and stamp duty is required. Limited scope of due diligence investigation is required since the review concerns the target asset only.

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

An asset transaction may in some cases be treated as sale of the entire company, in which case all obligations associated with the company may be transferred from seller to buyer.
shares and control of the target company can be transferred from the seller to the buyer on the closing date. These include, eg, change of the target company management board to ensure transfer of control to the buyer on the closing date.

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

4. Registration of changes in the Latvian Company Register.

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

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

**Issues to Consider**

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

- The buyer is considered to be the seller’s legal successor, so that registration of the buyer’s title to real estate (and payment of related expenses) is not required.

- Ownership of shares is transferred to the buyer at the time of signing the agreement or on registration with the Latvian Company Register, depending on the agreement. Registration of ownership of shares usually takes a few days.

- When implementing a transfer of a private limited liability company’s shares, the signatures of both the buyer and the seller of the shares must be notarised.

- Upon completion of share transfer, the buyer assumes responsibility for the whole company, including any matters that occurred before change of ownership.

- Due diligence investigations are more extensive than in asset transfers as the entire company (with all its rights and liabilities irrespective of whether they were known to the buyer at the time of concluding the agreement) is transferred, as opposed to transfer of the target real estate only.

- Applicability of financial assistance rules.

- Deferred tax issues.

**Title to Real Estate, Land Book**

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

Registration of title is carried out on the basis of a corroboration request signed by both seller and buyer in the presence of a notary. Payment of stamp and state duty on registration of title is also required. In addition to the corroboration request, the original purchase agreement and documents evidencing payment of state and stamp duties, other documents may have to be filed with the Land Book (eg, written consent of the seller’s spouse approved by a notary). Registration of title generally takes ten days as of filing all the necessary documents with the Land Book, although in more complex cases it may be prolonged for up to 30 days.

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

**General**

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

Generally, transfer of title to a building or land separately from each other is not possible unless the land plot and the building are registered with the Land Book as separate property objects. With recent amendments to laws, it is also possible to register certain engineering constructions, such as roads, bridges, and landfills, as independent real estate objects in the Land Book, thus ensuring broader financing opportunities, as these constructions can serve as fully-fledged collateral. In addition, there is also a specific regulation on acquisition of constructions which need not be registered with the Land Book as separate properties. The registration of legal possession in this case is performed and kept within the State Land Service. However, the public credibility of such registration is not yet clear.

**Change of Ownership**

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

**Form of Agreements**

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

**Language Requirements**

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

**Due Diligence**

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

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

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

The state has a right of first refusal upon sale of cultural monuments of state importance, land plots in protection zones as well as in ports and special economic zones. In addition, recent amendments to the law assign to the Latvian Land Fund and the lessee of the particular land plot rights of first refusal to agricultural land, whereby specific rules in execution of rights of first refusal apply.

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

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

Typical Purchase Price Arrangements

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

Restrictions

Restrictions on Acquisition of Real Estate

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

EU Citizens and Legal Entities

There are number of limitations with respect to acquisition of agricultural land in Latvia. A EU citizen (including a Latvian citizen), or a citizen of the EEA and Switzerland can acquire not more than 10 ha of agricultural land without limitations. A natural person who wishes to acquire more must do the following:

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

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

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

The maximum area of agricultural land that can be owned by one person is 2,000 ha.

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

Non-EU Citizens and Legal Entities

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

Merger Control

Real estate transfer may require prior approval by the Latvian Competition Authority (LCA) if it forms part of a company merger. According to the law, acquisition of assets or of the right to use those assets is considered to be a merger if it increases the market share of the buyer of the assets and the usage rights in any relevant market. The merger may take the form of either a share transfer or an asset transfer and must be notified for approval to the LCA if at least one of the following thresholds is met:

- aggregate turnover of the companies involved in the transaction exceeds approx EUR 35.6 million for the financial year preceding the merger; or
- the joint market share of the companies exceeds 40% of the relevant market.

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

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

Encumbrances

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

Property Management

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

Lease Agreements

General

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

In order for a commercial lease agreement concluded by the seller of real estate with a tenant to be binding on the buyer, it needs to be registered with the Land Book. Without registration, the buyer may terminate the lease agreement, in which case the seller must compensate the tenant for all losses caused to the tenant by early termination. Residential lease agreements, in turn, are binding on the buyer, irrespective of registration with the Land Book. However, only permanent residents of Latvia and persons who reside in Latvia based on a temporary residence permit may claim protection under this rule.

Duration and Expiry of Lease Agreement

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

Lease Payment and Other Expenses (Utilities)

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

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

Distressed Assets Purchase

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

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

Corporate Income Tax (CIT)

General Overview

The CIT rate in Latvia is 15% charged on taxable income, which is calculated as financial profit before tax increased by disallowable expenses and decreased by additional deductions.

Tax Depreciation

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

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

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

Land is not depreciated for tax purposes.

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

Rental Income

In general profit from rent of real estate is subject to the standard CIT rate of 15%.

Payments made to a non-resident for use of real estate located in Latvia is subject to 5% withholding tax (WHT). If the withholding tax is not withheld, the rent payments are considered as non-deductible expenses for CIT purposes.

Sale of Real Estate

Sale of real estate by a company that is Latvian resident.

There is no separate capital gain tax in Latvia. All capital gains including gains on disposal of real estate are taxed together with taxable income at the CIT rate of 15% on sales price less tax value.

Sale of real estate by a non-resident company to Latvian resident.

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

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

The same approach applies to the rental income of a non-resident.

Value Added Tax (VAT)

General Overview

The standard VAT rate in Latvia is 21%.

Sale of Real Estate

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

Sale of used real estate.

If a Latvian Company acquired or commenced operations in a building less than 10 years ago, and deducted input VAT from acquisition costs (acquired or constructed new buildings), then it is required to monitor and report to the Latvian Tax Authorities the proportion of taxable and VAT exempt income generated from that property.

If a building (or part of it) is sold within 10 years after the date of commencing operations, the company must repay part of the input VAT deduction claimed. The repayable input VAT is calculated by multiplying one tenth of the input VAT deduction claimed by the number of years which are left.

Alternative VAT treatment.

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

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

Rent

In general rent is subject to the standard VAT rate, except rent of residential property to individuals which is exempt.

Construction

For construction services a reverse charge VAT regime is applicable. VAT is calculated and accounted for by the customer. If the result of construction services is used to generate taxable income, there is no VAT effect as input tax on the construction services would be equal to the VAT payable.

Personal Income Tax (PIT)

General Overview

Latvia has a flat standard PIT rate of 23%. Capital gains are taxed at 15%. Income from capital, which is not a capital gain (e.g. dividends, interest and similar income) is taxed at 10%.
Rental Income

If a business activity is registered with the Latvian tax authority PIT of 23% should be calculated on the profit.

If the individual does not wish to register a business activity or the expenses related to the rent of property are insignificant, PIT of 10% on the rent received can be paid instead. In this case only real estate tax would be considered as a deductible expense.

Sale of Real Estate

In general in case of sale of real estate or shares in a real estate company PIT of 15% would be applied to the capital gains.

However, there are exemptions available such as:

1. Real estate owned for more than 60 months and for at least 12 consecutive months has been the declared place of living of the seller.
2. Real estate is owned for more than 60 months, and for the last 60 months before the sale it was the only real estate owned by the individual.
3. The income from the sale of an individual’s only property is used to acquire functionally similar real estate during the 12 months after or before the sale.

Real Estate Taxes and Duties

General Overview

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

The real estate tax rate is 0.2% - 1.5% of the value of the property as determined by the municipality. If the municipality has not set tax rates for real estate in its territory, 1.5% applies to all properties used for economic activity. A municipality may apply a real estate tax rate of up to 3% if a property is not maintained properly.

Duty on Acquisition or Transfer of Real Estate Properties

Real estate transfer tax (RETT) is applied per property and is charged at 2% of the value (sales price or cadastral value, whichever is higher). RETT for commercial property consisting of only non-residential properties (with or without land) is capped at EUR 42,686.15 per property.

RETT for a title that includes a residential building is 2% with no cap applied.

RETT on real estate transferred as an investment in kind into the equity of a company is chargeable at a rate of 1% from the amount of investment with no cap.

RETT for an apartment sold to a legal entity is 6% from the value of the flat.

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

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

RETT is payable by the buyer of the property.

RETT is calculated per title not per transaction.

Value of the property for RETT purposes is determined as sales price or cadastral value, whichever is higher.
Choose the right building blocks
**Hili Properties**
KPMG in Latvia Deal Advisory
performed financial and tax due diligence on Tukuma Projekts SIA and Apex Investments SIA holding and managing nine shopping malls in Riga and key cities in Latvia.

**Blackstone**
KPMG in Latvia Deal Advisory
performed tax due diligence and tax structuring with respect to a group of real estate holding companies owning the largest shopping malls in Riga as part of a global deal amounting to EUR 1 billion.

**East Capital**
KPMG in Lithuania Deal Advisory
acted as a financial advisor by performing tax due diligence with respect to NTG Holding and its subsidiaries (Vilniaus verslo uostas).

**Prisma**
KPMG in Lithuania Deal Advisory
acted as a financial advisor by performing financial due diligence procedures with respect to a target in the real estate industry.

**[Client confidential]**
KPMG in Lithuania Deal Advisory
acted as a financial advisor to the investors' committees of financial investor by providing a valuation report and financial and tax due diligence in relation to the transaction of commercial real estate object.

**Northern Horizon Capital**
KPMG in Estonia Deal Advisory
performed an international tax structuring and due diligence for the acquisition of a real estate portfolio in three countries from Geneba (SEB real estate).

**Partners Group**
KPMG in Estonia Deal Advisory
performed an international tax structuring and due diligence for the acquisition of a real estate portfolio in four countries from BPT Secura.

**BPT Real Estate**
KPMG in Estonia Deal Advisory
prepared a review of an international exit plan of a real estate fund from Estonia, including analysis of different strategies and tax assistance in the exit process.
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SORAINEN is a leading regional business law firm with fully integrated offices in Estonia, Latvia, Lithuania and Belarus. Established in 1995, today SORAINEN numbers more than 170 lawyers and tax consultants advising international and local clients on all business law issues involving the Baltics and Belarus.

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<th><strong>NOTEWORTHY SORAINEN REAL ESTATE TRANSACTIONS</strong></th>
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**Partners Group**
- Acquisition of real estate in all three Baltic States and Poland from the ‘BPT Optima’ real estate fund
- Total lease area 112,000 m² EUR 163 million
- 2015
- Buyer’s Legal Adviser

**MG Valda**
- Sale of North Star business centre in Vilnus, Lithuania
- Total area approx 10,500 m² EUR 18.5 million
- 2015
- Legal Adviser

**Linstow group**
- Extension of Alfa and ORIGO shopping centres in Latvia
- Total project value exceeds EUR 30 million
- 2015/2016
- Legal Adviser

**Technological Solutions**
- Construction of cogeneration plant and pellet plant in Brocēni, Latvia
- Total project value approx EUR 30 million
- 2015
- Legal Adviser

**AJ Produkti**
- Extension of office and warehouse in Latvia
- Total project value approx EUR 1.2 million
- 2016
- Legal Adviser

**Estonian Technical Regulatory Authority**
- Analysis of legal possibilities and principles for compensating potential adverse effects of Rail Baltica construction on affected landowners
- 2015
- Legal Adviser

**Baltic Opportunity Fund**
- Purchase of Europa shopping mall in Vilnus, Lithuania
- Total area 22,600 m²
- 2015
- Buyer’s Legal Adviser

**East Capital Baltic Property Fund II**
- Acquisition of Mustamäe Keskus shopping centre in Tallinn, Estonia
- Total area 21,000 m²
- 2015
- Buyer’s Legal Adviser

**Rimi Eesti Food**
- Sale and lease-back of 18 retail properties in Estonia, housing Rimi and Säästumarket shops
- Total lease area 16,818 m²
- 2015
- Seller’s Legal Adviser

**Inreal group**
- Acquisition of a nine-storey business centre located in convenient and rapidly developing part of Vilnus, Lithuania
- Gross area 14,850 m²
- 2016
- Buyer’s Legal Adviser

**Latectus**
- Reconstruction of multistorey office building in the historic centre of Riga, Latvia
- Total area approx 10,000 m²
- 2015
- Legal Adviser

**Minsterejas Projekti**
- Acquisition of properties in Riga, Latvia, for manufacturing purposes EUR 750,000
- 2015
- Buyer’s Legal Adviser

**AIG**
- Opening of shared services centre in Lithuania
- 2015
- Legal Adviser

**Inreal Valdymas**
- Sale of Verlingis business centre in Lithuania
- Total lease area 6,000 m²
- 2015
- Seller’s Legal Adviser

**Naesborg**
- Spin-off and sale of real estate to investor in Lithuania
- 2015
- Seller’s Legal Adviser

**Olympic Entertainment Group (OEG)**
- Entering the Maltese market and opening OEG’s largest casino
- Total area 2,700 m²
- 2015
- Legal Adviser

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502 offices in 67 countries on 6 continents

- United States: 140
- Canada: 31
- Latin America: 24
- Asia Pacific: 199
- EMEA: 108

€1.75 billion in annual revenue

160.0 million square meters under management

16,300 professionals and staff

About Colliers International

Colliers International is a global leader in commercial real estate services, with over 16,000 professionals operating out of more than 500 offices in 67 countries. A subsidiary of First Service Corporation, Colliers International delivers a full range of services to real estate users, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services, mortgage banking and insightful research. The latest annual survey by the Lipsey Company ranked Colliers International as the second-most recognized commercial real estate firm in the world.

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