## Contents

<table>
<thead>
<tr>
<th>Economic Overview</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary</td>
<td>4</td>
</tr>
<tr>
<td>Tendencies and Forecasts</td>
<td>4</td>
</tr>
</tbody>
</table>

### Investment Market

<table>
<thead>
<tr>
<th>General Overview</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Volumes and Key Market Players</td>
<td>5</td>
</tr>
<tr>
<td>Investment Properties</td>
<td>6</td>
</tr>
<tr>
<td>Investment Yields</td>
<td>6</td>
</tr>
<tr>
<td>Forecasts</td>
<td>7</td>
</tr>
</tbody>
</table>

### Office Market

<table>
<thead>
<tr>
<th>General Overview</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>8</td>
</tr>
<tr>
<td>Demand</td>
<td>9</td>
</tr>
<tr>
<td>Rent Rates</td>
<td>9</td>
</tr>
<tr>
<td>Vacancy</td>
<td>10</td>
</tr>
<tr>
<td>Tendencies and Forecasts</td>
<td>10</td>
</tr>
</tbody>
</table>

### Retail Market

<table>
<thead>
<tr>
<th>General Overview</th>
<th>12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>12</td>
</tr>
<tr>
<td>Demand</td>
<td>13</td>
</tr>
<tr>
<td>Rent Rates</td>
<td>13</td>
</tr>
<tr>
<td>Vacancy</td>
<td>14</td>
</tr>
<tr>
<td>Tendencies and Forecasts</td>
<td>14</td>
</tr>
</tbody>
</table>

### Industrial Market

<table>
<thead>
<tr>
<th>General Overview</th>
<th>16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>16</td>
</tr>
<tr>
<td>Demand</td>
<td>17</td>
</tr>
<tr>
<td>Rent Rates</td>
<td>17</td>
</tr>
<tr>
<td>Vacancy</td>
<td>18</td>
</tr>
<tr>
<td>Tendencies and Forecasts</td>
<td>18</td>
</tr>
</tbody>
</table>

### Hotel Market

<table>
<thead>
<tr>
<th>General Overview</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>20</td>
</tr>
<tr>
<td>Demand</td>
<td>21</td>
</tr>
<tr>
<td>Prices and Occupancy</td>
<td>21</td>
</tr>
<tr>
<td>Tendencies and Forecasts</td>
<td>22</td>
</tr>
</tbody>
</table>

### Legal Overview

<table>
<thead>
<tr>
<th>Tax Summary</th>
<th>23</th>
</tr>
</thead>
</table>
Dear Reader,

It is our pleasure to present the Colliers International real estate market review for Latvia, where you will find much useful information about market trends and forecasts, the latest statistics and market insights. We express our gratitude to our partners - Sorainen and Pricewaterhousecoopers (PWC) - for contributing to preparation of the real estate legal and tax reviews. We believe this material will be useful when evaluating all the risks before making the right business decisions.

2014 was a very active and interesting year. It was especially emotional in the residential segment, which faced a decrease in demand by both residents and non-residents, both heavily influenced by local legislative changes as well as a weakened Russian economy.

Commercial real estate was surprisingly stable last year, showing vivid activity in all its segments. Overall investment activity stayed high, with total investment volume very close to the 2013 results, exceeding EUR 300 mln. Despite the worries of several new investors about geopolitical risks, especially from those who are not yet in our region, our forecast for 2015 is cautiously optimistic. We will see new names in the market and more cash flow investment transactions compared to recent years.

At the same time, in comparison with our neighbouring countries, the Riga development market is lagging behind Vilnius, which is extremely active in construction of new office volume during recent years, and Tallinn, which is seeing modest growth in development activity in all commercial segments. The development pipeline in Riga for the next two years looks solid in all commercial real estate segments, so our wish is for timely realization of developers’ plans so we can catch up our neighbours in post-crisis development activity.

Thank you and we wish you an interesting and successful year,

Deniss Kairans
Economic Overview

Summary

During 2014, the Latvian economy faced a series of challenges associated with political tension plus the slowdown in the main external markets. Still, the Latvian economy experienced positive annual developments, even though to a more modest extent than initially predicted.

According to the latest available estimates, real GDP growth in 2014 amounted to 2.3 per cent. Growth was driven mainly by household consumption, in line with employment and remuneration growth in the recent years. Among the most successful real economy sectors in terms of average y-o-y quarterly growth in Q1 - Q3 2014 were the construction sector (average 13.7 per cent growth), the financial and insurance sector (average 7.6 per cent growth) and accommodation and food services (average 3.8 per cent growth).

The export sector, which has been among the main economy drivers during recent years, suffered from devaluation of the ruble and a decrease in demand on the main external markets. The situation is not expected to improve within the upcoming year.

Annual inflation for 2014 stood at 0.6 per cent, mainly driven by low energy prices. The highest price increases were observed in housing, water, electricity and gas product group, as well as alcoholic beverage and tobacco product group, while transport, communication and food and non-alcoholic beverages expressed deflation. The fact of low inflation had a positive influence on consumption through an increase in real wages in the context of steadily growing incomes.

Throughout 2014, unemployment continued to decrease, reaching 10.8 per cent by the end of 2014. Notably, the share of young people among the unemployed continues to decrease.

Along with the decrease in unemployment, wage growth is observed. During Q1 - Q3 2014, real wages grew at an average rate of 8.2 per cent per quarter, which indicates an effective increase in the consumption power of the population.

Tendencies and Forecasts

› According to available forecasts, GDP is expected to grow by 2.5 per cent in 2015. Household consumption will remain as the main driver.

› Unemployment is expected to decrease further, yet at a slower pace compared to previous years. This trend is expected to intensify the demand for skilled labour.

› Given continuation of low energy prices, the Latvian economy is expected to operate with inflation close to zero. A positive contribution to the inflation figure will come from liberalization of the energy market.

› Given low inflation expectations and the expected decrease in unemployment, further positive real wage development is foreseen. Additionally, in January 2015 the minimum wage was raised by 12.5 per cent and personal income tax was decreased by 1 per cent. All these considerations will continue to improve purchasing power.

<table>
<thead>
<tr>
<th>Key Economic Indicators of Latvia</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014F</th>
<th>2015F</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Current Prices, bio EUR</td>
<td>17.1</td>
<td>22.5</td>
<td>24.4</td>
<td>18.9</td>
<td>18.2</td>
<td>20.3</td>
<td>22.0</td>
<td>23.2</td>
<td>23.9</td>
<td>24.7</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>2.3</td>
<td>2.5</td>
</tr>
<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>1.0</td>
</tr>
<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>10.2</td>
</tr>
<tr>
<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>40.7</td>
<td>39.4</td>
</tr>
<tr>
<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>1.5</td>
<td>0.3</td>
<td>n/a</td>
</tr>
<tr>
<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>0.7</td>
</tr>
<tr>
<td>Fiscal Deficit, % of GDP</td>
<td>-0.5</td>
<td>-0.3</td>
<td>-4.2</td>
<td>-9.7</td>
<td>-8.2</td>
<td>-3.4</td>
<td>-0.8</td>
<td>-0.9</td>
<td>-0.9</td>
<td>-0.9</td>
</tr>
<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>1.2</td>
<td>1.1</td>
</tr>
<tr>
<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>0.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Current Account, % of GDP</td>
<td>-22.6</td>
<td>-22.4</td>
<td>-13.1</td>
<td>8.6</td>
<td>2.9</td>
<td>-2.2</td>
<td>-1.7</td>
<td>-2.3</td>
<td>-2.8</td>
<td>-2.6</td>
</tr>
<tr>
<td>FDI Indicator, mln EUR</td>
<td>810.5</td>
<td>955.2</td>
<td>408.3</td>
<td>-1,089.7</td>
<td>79.4</td>
<td>486.2</td>
<td>841.7</td>
<td>557.3</td>
<td>693.1</td>
<td>296.4</td>
</tr>
</tbody>
</table>

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

General Overview

➢ 2014 closed with a total annual investment volume of EUR 316.9 million, which is on the previous year’s level.
➢ Demand for professional commercial cash flow properties continued and materialized in a number of investment deals.
➢ In terms of most popular investment targets, cash flow-yielding commercial properties were in high demand. However, the largest transactions of 2014 involved mixed-use properties, which were the target of 25 per cent of investment deals and consisted mainly of properties with further development potential.
➢ Improvement in the investment climate contributed to further yield compression. Additionally, the Latvian S&P credit rating was upgraded to A- with a positive outlook.

Investment Volumes and Key Market Players

In 2014, the real estate investment market continued to be active. The year closed with a total investment volume of EUR 316.9 million, compared to EUR 331.5 million in 2013. The total number of investment deals closed during 2014 amounted to 112, exceeding the 2013 level by 19 per cent.

Similarly to previous years, the structure of investment volume was dominated by smaller investment transactions - 79 per cent of transaction numbers were below EUR 3 million, or 31 per cent of total annual investment volume. However, during 2014 the market saw an increase in both number and volume of transactions exceeding EUR 20 million.

The key market players responsible for the major part of 2014 annual investment volume can be divided into three general groups: Nordic investors, investors from CIS countries and Russia in particular, and local Baltic investors. Each group has its own investment preferences and targets specific investment properties. Nordic investors are mostly represented by investment funds and fund managers, which target cash flow-yielding properties with long term income potential and tend to place investments not only on a single asset transaction base but also on a cross Baltic portfolio base.

New Agenda Partners (Nordic investors) and Eften Capital (Pan-Baltic investors) were most active in Latvia during 2014. The presence of private investors from CIS countries and Russia is a fact that distinguishes the Latvian market from the Estonian and Lithuanian markets. Private investors from CIS countries and Russia aim at more risky projects, compared to institutional investors, as well as considering properties with development opportunities.

The Latvian investment market was marked by some newcomers, which announced their deals in early 2015. These included Partners Group, which acquired a portfolio of properties in the Baltics and Poland with one shopping centre in Latvia, and Hili...
Properties BV, which acquired nine smaller shopping centres in Riga and Latvian regional cities. In addition, the Latvian investment market is seeing increasing interest from investors seeking investment opportunities on a Pan-Baltic level but previously focusing on Lithuania and Estonia. Although private investors from the CIS remained active and during the first half of 2014 the market even saw new names, activity by this group of investors showed a decreasing trend during the second half of the year.

Investment Properties

During 2014, the share of investment in retail, office and industrial commercial properties decreased from 61 per cent in the previous year to 48 per cent. The share of investment in mixed-use properties, which includes mostly properties acquired for redevelopment purposes, significantly increased to 25 per cent of total investment volume compared with 9 per cent in 2013. However, it should be noted that most of the investment volume in the mixed-use property segment was accumulated by two Skonto Stadium deals.

In 2014, average transaction size decreased in all segments, except mixed-use, which was driven by two large deals. Still, average transaction size in all segments exceeds the figures for 2012.

Stable interest in cash flow-yielding properties continued. However, a shortage of good quality investment properties mainly due to lack of development in the crisis years prevents demand from materializing into actual investment deals.

Investment Yields

An improving investment climate and positive market expectations contributed to slight yield compression in 2014. The prime yield for industrial objects remained on the 2013 level of 9 per cent, while prime retail and office yields experienced a decline to 7.5 per cent and 7.75 per cent respectively.

Still, many transactions in the Latvian market continue to be “price per square meter” based. But as asking and offering yield spreads shrink, we expect to see more yield-based transactions in the future.

Top 10 Investment Deals in Latvia in 2014

<table>
<thead>
<tr>
<th>NO.</th>
<th>PROPERTY NAME</th>
<th>ADDRESS</th>
<th>SECTOR</th>
<th>SELLER</th>
<th>BUYER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Skonto Stadium</td>
<td>E. Melngaila St., Riga</td>
<td>Mixed-use</td>
<td>SSA</td>
<td>MANI Group</td>
</tr>
<tr>
<td>2.</td>
<td>Rimi Distribution Centre</td>
<td>A. Deglava St., Riga</td>
<td>Industrial</td>
<td>Niam III Holding</td>
<td>Plesko Real Estate</td>
</tr>
<tr>
<td>3.</td>
<td>SC Damme</td>
<td>Kūrzmēres Pr., Riga</td>
<td>Retail</td>
<td>Plesko Real Estate</td>
<td>New Agenda Partners</td>
</tr>
<tr>
<td>4.</td>
<td>Nordic Technology Park</td>
<td>Jūrkalnes St., Riga</td>
<td>Industrial</td>
<td>NORDIC TECHNOLOGY PARK</td>
<td>EITEN NTP</td>
</tr>
<tr>
<td>5.</td>
<td>Skonto Stadium</td>
<td>E. Melngaila St., Riga</td>
<td>Mixed-use</td>
<td>NIF Projekts 5</td>
<td>SSA</td>
</tr>
<tr>
<td>6.</td>
<td>LNK Centre</td>
<td>J. Dāina St., Riga</td>
<td>Office</td>
<td>Bank SNORAS</td>
<td>JD 15</td>
</tr>
<tr>
<td>7.</td>
<td>Blaumaņa 5a</td>
<td>Blaumaņa St., Riga</td>
<td>Office</td>
<td>Private person</td>
<td>Blaumaņa Centrs</td>
</tr>
<tr>
<td>8.</td>
<td>Welton Old Riga Palace Hotel</td>
<td>Minstrejas St., Riga</td>
<td>Hotel</td>
<td>Homeland</td>
<td>Arktika Nord</td>
</tr>
<tr>
<td>9.</td>
<td>Erglu 2</td>
<td>Erglu St., Jurmala</td>
<td>Mixed-use</td>
<td>JŪRMALAS PRIEDES</td>
<td>Seagull Investments</td>
</tr>
<tr>
<td>10.</td>
<td>Pilis 23</td>
<td>Pils St., Riga</td>
<td>Office</td>
<td>Bank SNORAS</td>
<td>UNISEB</td>
</tr>
</tbody>
</table>
Forecasts

- In 2015, the investment market is expected to remain active with investment volumes remaining on the 2014 level.
- Office and retail commercial properties will become the main investment focus of 2015, while activity in the mixed-use and residential segment is expected to decrease.
- Prime yields are expected to remain stable in 2015.
- The Latvian investment market might see the entry of new players, especially those that were previously focusing their activity on Lithuania and Estonia.
Office Market

General Overview

> The Latvian business environment continued to develop. Existing companies persistently faced staff expansion alongside overall improvement in business sentiments.

> Foreign companies, having built up activity and resources and seeking relocation opportunities for their service centres and process outsourcing in Eastern Europe, consider Latvia as a potential place for establishment due to a well-qualified and relatively cheap labour force plus a decent business environment, including supply of professional office areas.

> The Latvian office market saw the first noticeable office stock increase since 2010. However, general development activity is considered to be lagging behind Estonia and Lithuania in the context of similar vacancy figures.

> Alongside the appearance of new properties, previously frozen objects re-entered the market. These were quickly absorbed, indicating high demand for professional office premises on the local leasing market.

Supply

By the end of 2014, the total stock of office premises in Riga was estimated at 592,400 sqm. Speculative stock dominates with 400,800 sqm or 68 per cent, while built-to-suit office buildings account for 191,600 sqm or 32 per cent.

During 2014, four newly developed and existing buildings were added to office stock. A major part of the stock increase falls on the newly developed HQ of the State Revenue Service (GLA 43,000 sqm), commissioned in April 2014. This led to freeing up of premises previously occupied by the institution across Riga, including professional office buildings and historical objects. Among these are premises in properties located at Jeruzalēmes Street 1, SWH Business Centre, Brīvības Street 214 and 11 Novembra Krastmalas 17, which require investment in reconstruction in order to restore competitiveness, but landlords were not yet willing to take this risk in the absence of tenants.

Apart from that, a new administrative building located at Vainodes Street 1 (GLA 7,400 sqm) supplemented office stock after its commissioning in Q4 2014. Additionally, the existing M4a office building (GLA approx 3,000 sqm) at Mednieku Street 4a was added to professional office stock after it had undergone investment and was actively placed on the leasing market.

The year was marked by a number of comebacks of existing professional office buildings. After a change of owners, the office building at G. Astras Street 1c (GLA 7,000 sqm) was placed on the leasing market at the beginning of 2014. Moreover, the former Krajbanka HQ office property located on J. Dalīna Street was acquired by LNK Group and re-entered the active leasing market under the name of LNK Centre with approx 7,200 sqm of GLA. The owners have reserved 2,400 sqm for their own needs, while the remaining 4,800 sqm were offered for lease.

Change of office building owners throughout the year triggered improvement of these properties. Good examples of this tendency are office buildings at Dzelzavas Street 117 and 13 Janvāra Street 3, which were acquired by the Nordic and Baltic Property Group. The Dzelzavas Street 117 property underwent an improvement of internal systems, while 13 Janvāra Street is undergoing full refurbishment.

The development pipeline for the upcoming next three years is starting to grow, but still lags behind Tallinn and Vilnius. Hanner is continuing construction works for the 2nd stage of the Europa Business Centre, which includes 2,400 sqm of B1 class office premises and is expected to arrive on the market in Q2 2015. Moreover, approx 10,000 sqm of A class office premises are under construction in Z-Towers, expected to be commissioned in Q4 2016 / Q1 2017.

Dynamics of Office Stock in Riga*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Stock (both spec. basis and built-to-suit)</td>
<td>520</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500f</td>
</tr>
<tr>
<td>Additions to Stock (both spec. basis and built-to-suit)</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400f</td>
</tr>
<tr>
<td>Expected Construction (both spec. basis and built-to-suit)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0f</td>
</tr>
</tbody>
</table>

* - office stock at the end of the period
f - forecast
Source: Colliers International
Apart from the anticipated additions already mentioned, an A class office building on Sporta Street 11 with planned GLA of 14,000 sqm, announced as due to enter the construction phase in 2015, is being developed by Hanner and is expected to appear on the market in the second half of 2016.

Additionally, a number of projects announced their willingness to start the construction phase on the threshold of 2015/2016. Among these is Business Garden Latvia 1st stage, being developed by Vastint with planned GLA of approx 14,000 sqm. Moreover, Linstow announced plans to develop expansion of the Origo shopping centre, containing 9,000 sqm of B class office premises. Lastly, the 1st stage of the New Hanza City project, consisting of an A class office building of 16,500 sqm and a built-to-suit office building of 16,300 sqm, has entered the final technical design stage.

**Demand**

According to Colliers International estimates, absorption of total office space in 2014 amounted to 50,900 sqm. Nevertheless, the total absorption volume to a great extent consists of the State Revenue service occupying 42,700 sqm in its newly constructed built-to-suit building. This indicates that the absorption volume generated by other market players amounts to 8,200 sqm. This relatively low figure is explained by the fact that remaining leasing activity was generated by tenants rotating within professional stock plus a lack of good quality available premises.

Demand for good quality premises remained high. The situation is best characterized by developments which occurred around LNK Centre after it re-entered the active leasing market in September 2014. The property was fully leased out during the last quarter of 2014.

In 2014, the most active tenants in the market were public institutions, IT and professional service companies, altogether accounting for more than 75 per cent of all market leasing transactions. Shared service centres continued to constitute a notable part of demand.

The trend remains, with companies seeking expansion opportunities in surrounding areas additional to their current locations. This persists due to lack of expansion opportunities within existing locations. Additionally, a lack of large premises above 1,000 sqm available for lease continues. In this context, landlords are starting to feel their strength in lease negotiations.

**Rent Rates**

By the end of 2014 the market saw an increase of rent rate spreads in all property classes. Rent rates were equal to 13 - 15 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. Shortage of qualitative office premises was the main driver of rent rate increases in 2014. We expect the upper bounds of rent rates to remain stable in 2015, although the lower bounds could slightly increase.

**Top 10 Office Lease Transactions of 2014**

<table>
<thead>
<tr>
<th>NO.</th>
<th>TENANT</th>
<th>INDUSTRY</th>
<th>OBJECT / ADDRESS</th>
<th>AREA, SQM</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>State Revenue Service</td>
<td>Public</td>
<td>State Revenue Service HQ</td>
<td>42,700</td>
</tr>
<tr>
<td>2.</td>
<td>Latvijas Valsts Mezi</td>
<td>Public</td>
<td>Vainodes St. 1</td>
<td>7,000</td>
</tr>
<tr>
<td>3.</td>
<td>Exigen</td>
<td>IT</td>
<td>LNK Centre</td>
<td>4,200</td>
</tr>
<tr>
<td>4.</td>
<td>ATEA</td>
<td>IT</td>
<td>Mukusalas St. 15</td>
<td>3,500</td>
</tr>
<tr>
<td>5.</td>
<td>LNK Group</td>
<td>Manufacturing / Construction</td>
<td>LNK Centre</td>
<td>2,400</td>
</tr>
<tr>
<td>6.</td>
<td>Cabot Corporation</td>
<td>Manufacturing / Construction</td>
<td>Upmalas Biroji</td>
<td>1,588</td>
</tr>
<tr>
<td>7.</td>
<td>TVS</td>
<td>Media</td>
<td>Rigas Industriālais Parks</td>
<td>1,500</td>
</tr>
<tr>
<td>8.</td>
<td>ELKO</td>
<td>IT</td>
<td>Toma St. 4</td>
<td>1,500</td>
</tr>
<tr>
<td>9.</td>
<td>Allnex</td>
<td>Manufacturing / Construction</td>
<td>Astras Biznesa Centrs</td>
<td>1,300</td>
</tr>
<tr>
<td>10.</td>
<td>Premera Air</td>
<td>Professional Services</td>
<td>Astras Biznesa Centrs</td>
<td>1,200</td>
</tr>
</tbody>
</table>

Source: Colliers International
Vacancy

By the end of 2014, the total vacancy rate for both speculative and built-to-suit projects comprised 5.7 per cent, compared to 5.3 per cent one year ago. Vacancy calculated only for speculative office buildings stood at 8.4 per cent, compared to 7.4 per cent one year ago. Minor increases in vacancy figures were mainly caused by the relocation of the State Revenue Service to its new built-to-suit property.

Vacancy in the A class segment stood at 3.2 per cent, which is a decrease compared to the 5.6 per cent recorded in 2013. The decrease was mainly driven by the successful lease out of the LNK Centre.

<table>
<thead>
<tr>
<th>CLASS</th>
<th>2013</th>
<th>2014</th>
<th>TRENDS FOR 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>5.6%</td>
<td>3.2%</td>
<td>↓</td>
</tr>
<tr>
<td>B1</td>
<td>5.1%</td>
<td>6.3%</td>
<td>↓</td>
</tr>
<tr>
<td>B2</td>
<td>5.7%</td>
<td>5.3%</td>
<td>↑</td>
</tr>
</tbody>
</table>

- slight decrease  
Source: Colliers International

Tendencies and Forecasts

- While anticipated project completion for 2015 is scarce, development activity is expected to improve in 2016.
- Upper bounds of rent rates are expected to remain stable in 2015, while lower bounds could slightly increase.
- We anticipate a decrease in total vacancy figures, especially in the B1 class segment.
- Demand for office premises over 1,000 sqm will continue in 2015.
- The focus has returned to Skanstes Street area, marked by interest in both land properties and existing buildings. The area is expected to see further development in upcoming years.
High Class Speculative and Built-to-Suit Office Centres in Riga

Existing Developments
1. WTC “Rīga”
2. Business Centre “Mukusala”
3. Pasta Banka, Brivibas 54
4. Valdemara Centrs
5. Office Centre at Citadeles St. 12
6. Eirik BC
7. Kronvalda Bulvāris 3
8. Gertrudes Centrs, Baznicas 20/22
9. Valdo Office Complex
10. Dominante Office Building
11. Gertrudes Centrs, Gertrudes 10/12
12. Terbatas Centrs, Terbatas 30
13. Helio Biroji
14. Swedbank HQ
15. Domina Office Centre
16. Terbatas BC
17. Marine BC
18. Astras Biroji
19. North Gate, 1st/2nd stage
20. Baltas Veļi
21. Brivibas 1T1 Office Building
22. Office Centre at Venibas St. 87
23. NTP BC
24. PBL BC
25. Modern City
26. Dunties Nami
27. Office Complex “Ostas skatī”
28. Gredu, 4a BC
29. Mukusolās BC, 2nd stage
30. Office Centre at Terbatas 14
31. Toresberg
32. Dekelzas Biroju Nams
33. SIV BC
34. Unity BC
35. Rietum Capital Centre
36. Reiton Office Building
37. Magnat Business Centre
38. Panorama Plaza
39. Indi Centrs
40. Upmalas Biroji
41. Dunties Biroji
42. Barons Krultals
43. ASU Centre
44. O’Live BC
45. Lubanas Centrs
46. Valdemara Pārāda
47. Maitas 1 Office Building
48. Dekelzas 120 Office Building
49. Zuma Biroji
50. Europa BC
51. Tomo BC
52. Alojas BC
53. Office Complex “Ostas Skatī”, 3rd stage
54. Office Complex Mukusolās 41
55. Zāļa 1 Office Building
56. Citadele Bank Headquarter
57. Drīz Nord HQ
58. Office Building of Riga Sanitary Transport Depot
59. American Embassy Administrative Building
60. LNC Centre
61. Office building at Kāklu St. 15
62. Jupiter
63. Energoefektīva Biroju Ela
64. Mednieku 4a
65. HQ of State Revenue Service of Latvia
66. Vairodes 1
67. Astras BC

New Speculative and Built-to-Suit Projects, Projects Under Construction / Reconstruction and Most Realistic Projects for Development in Riga
1. Z-towers
2. Sporta 11
3. Europa Business Centre, 2nd stage
4. Ofigo Retail and Business Centre
5. New Hanza City, 1st stage
6. Business Garden Latvia, 1st stage
7. Umans Office Park
Retail Market

General Overview

> In the context of a steady economic improvement in 2014, which led to an increase in wages and general consumer confidence, the retail sector enjoyed favourable conditions compared to other commercial real estate sectors.
> During 2014, major shopping centres continuously pursued a tenant-mix improvement, giving priority to widely recognized international brands, and tenant rotation for optimal disposition and synergy within existing locations.
> Activity around the new SC Akropolis continued during the first half of 2014, although construction has not yet begun. In addition, a leading shopping centre owner - Linstow - officially announced plans to expand the Origo and Alfa shopping centres.
> The grocery sector was marked by continuous activity, including acquisition of the IKI grocery chain, part of the REWE group, purchased by local grocery chain Mego in Spring 2014, plus construction of new properties by leading market players.
> Street retail was marked by significant new openings and the emergence of a new prime location within Riga city centre.

Supply

By the end of 2014, total leasable retail stock amounted to approx 627,400 sqm, consisting of shopping centre premises (380,800 sqm), big boxes (214,600 sqm) and department stores (32,000 sqm). Retail stock has been revised in order to match the most up-to-date layouts of existing retail objects.

In 2014, retail stock was supplemented by a new Maxima XX on Bliernieku Street (GLA approx 5,900 sqm). Additionally, 2014 was marked by realisation of a number of new concepts, including Sky&More opening the first part of its shop-in-shop concept in spring.

Currently, retail stock is expected to be supplemented by a new Depo store on Krasta Street and a new Rimi store located in Zolitude, both of which are under active construction, as well as a Maxima grocery store on Dammes Street, which is waiting to be commissioned.

The shopping centre segment was also building up development activity throughout 2014. Currently, one of the leading market players - Linstow - officially announced plans to expand its existing shopping centres - SC Alfa and SC Origo. SC Alfa is expected to expand by an additional 11,150 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). In addition, preparation is ongoing for construction works of SC Altopolis on Maskavas street in the neighbourhood of the Southern Bridge. The announced retail GLA of the new shopping centre is 60,000 sqm.

Dynamics of Retail Stock and Vacancy in Riga*

Distribution of Retail Stock in Riga by Property Type*
ELL, another major retail market player in Riga, is also considering potential expansion of its own shopping centre, Spice Home, although no clear development schedule has yet been announced.

Finally, at the beginning of 2015, SC Olimpia was purchased from Northern Horizon Capital by a Swiss investment group - Partners Group. This could indicate that in the nearest future the market might see news regarding the 2nd floor of the shopping centre, which is currently closed for rearrangement as a new concept for a fashion section.

**Demand**

International brands and widely recognized tenants remained active in 2014. H&M remained one of the most active tenants, opening three new stores, including a store in SC Spice, occupying approx 2,300 sqm, in February 2014, then in April a store with an additional H&M Home product line department in SC Riga Plaza, occupying approx 2,900 sqm, and finally a store in SC Domina, occupying approx 2,100 sqm, in November. In April the first Debenhams store in Riga opened in SC Spice, occupying almost 3,000 sqm. Then in December a new Elkors store was opened in SC Riga Plaza, occupying approx 1,000 sqm.

Activity by international brands was also marked by improvement of existing brand concepts. A good example is the opening of the expanded Reserved store in April 2014, occupying approx 1,400 sqm and introducing an improved concept.

Well known international retailers see the Baltic region as a prospective development area to expand to within the next 2 - 4 years, i.e. after fully establishing their positions in the developed markets. Most international retailers will choose a franchise partner for safer market entry.

The catering segment continued its expansion and modernization. The trend of appearance of new names remained throughout the year. In February, a new Lido restaurant opened in SC Domina. In June, the market saw the opening of the first Subway restaurant in Riga Centre, followed by the opening of an additional two Subway locations across the city. Additionally, CanCan Pizza introduced a new concept for their restaurant located in Old Town at Kungu Street. Finally, the latest news indicates that KFC 2014 was also marked by activity in the street retail segment. In May, Reserved opened a new flagstore on Kalku Street. This occupies more than 1,600 sqm and is the largest store of the brand in the Baltics. Strong demand is noted for premises located near the crossroads of Terbatas and Elizabetes Streets. Within this year, the same location saw the opening of Baldessarini and Chopard boutiques, relocation of a Hugo Boss boutique from its previous location on Terbatas Street directly to the corner of Terbatas and Elizabetes Streets occupying more than 500 sqm and the opening of a new Elena Miro brand store.

Increasing activity is evident among local entrepreneurs, establishing business in street retail locations and dispersing the ongoing expansion of chains and international brands. By the end of the year, activity by local entrepreneurs and international brands in the street retail segment had almost levelled up.

**Rent Rates**

Compared to 2013, rent rates did not change except for the upper bounds of the rent rate spread for anchor tenants in shopping centres and prime Riga Old Town locations.

Rent rates (without all additional costs) for anchor tenants in shopping centres range from 4 to 11 EUR/sqm per month; from 15 to 35 EUR/sqm per month for medium-sized retail units (area between 150 and 350 sqm); and from 30 to 55 EUR/sqm per month for smaller-sized retail units (up to 100 sqm). Street retail rent rates in the active centre range from 20 to 40 EUR/sqm per month and from 25 to 50 EUR/sqm per month in Riga Old Town.
Vacancy

As of January 2015, the average vacancy rate in all shopping centres was 2.3 per cent. During 2014 vacancy decreased by 1,000 sqm. Vacancy continued to be biased among shopping centres, accounting for close to zero per cent in the most successful shopping centres, 2 - 5 per cent in the less successful ones.

Towards the end of 2014, Seppala announced plans to exit the Latvian market, which similarly to the 2013 situation around the market exit of Dressmann, BikBok and Cubus, is not expected to have a negative effect on vacancy throughout 2015.

Tendencies and Forecasts

➤ The retail sector is expected to continue development along with growth of the general economy, though at a more modest pace compared to 2014.

➤ In 2015, Riga retail stock is expected to be supplemented by a number of hypermarkets and a new DIY store, as well as new fast food chain locations.

➤ Shopping centre development is building up and the market will experience processes around the development of an expansion of SC Origo and SC Alfa as well as a new SC Akropolis, which is expected to materialize in current stock additions in the medium run.

➤ Demand for retail premises will remain high. However, in the context of very low vacancy, activity will most probably materialize in additional tenant mix improvement and design of new concepts for existing brands.

➤ Vacancy is expected to decrease further, mainly on account of less successful shopping centres.

➤ Rent rates will remain stable at least until the middle of 2015.

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

Dynamics of Rent Rates* in Riga

<table>
<thead>
<tr>
<th>Year</th>
<th>Large Retail Unit</th>
<th>Medium Retail Unit</th>
<th>Small Retail Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>2010</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>2011</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>2012</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>2013</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>2014</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
</tbody>
</table>
Retail Shopping Centres in Riga

**Regional Centres**
1. Alfa
2. Spice
3. Spice Home
4. Riga Plaza
5. Domina

**Community Centres**
6. Mols
7. Origo
8. Atrium Azur
9. Olimpia
10. Dole

**Fashion Centres and Department Stores**
11. Stockmann
12. Galeria Centrs
13. Galleria Riga
14. Mc2
15. Podium
16. Sty and More

**Hypermarket - Anchored Neighborhood Centres**
17. Prisma “Sporta”
18. Prisma “Deglava”
19. Imanta Retail Park
20. Rimi “Migraija”
21. Rimi “Damme”
22. Rimi “P. Brieza”
23. Rimi “Valdemara”
24. Rimi “Bikernieku”
25. Rimi “Stirnu”
26. Rimi A7 near Iekava
27. Zoom
28. Maxima at A. Deglava St. 67
29. Maxima at K. Ulmana St. 88a
30. Maxima at Siolais St. 115
31. Maxima at Bikernieku St. 143

**New Projects, Projects Under Construction and Most Realistic Projects for Development in Riga**
1. Akropolis
2. Depo
Industrial Market

General Overview

During the first half of 2014, the Latvian industrial real estate sector continued to be active in terms of demand. The beginning of the year was marked by generally optimistic expectations and the start of construction of several industrial properties, which are expected to supplement industrial stock by an additional 120,000 sqm of professional space.

In the middle of the year, in terms of ongoing global political tension between Russia and Western countries, market sentiment shifted towards a more cautious attitude.

Closer to the end of the year, although the industrial sector continued to be unstable, the negative momentum started to steadily settle down and market players were adjusting their processes to current realities.

Throughout the year a significant amount of market activity was driven by the business requirements of industrial market players, which were consolidating and optimising their businesses in single locations.

Despite the presence of some volatility, the market saw a further decline in vacancy to 2.2 per cent.

Supply

By the end of 2014, total leasable industrial stock amounted to approx 785,800 sqm, consisting of 589,300 sqm of speculative premises and 196,500 sqm of built-to-suit premises. Around 40 per cent of total stock is located within Riga city limits. The other 60 per cent is located around the Riga Ring Road (near Kekava, Olaine, Marupe, Salaspils and Jelgava).

Development activity, which resumed in 2013 after almost three quiet years, continued and built up in 2014. During the year, industrial stock was supplemented by two newly commissioned A class industrial properties: UA Investor on Daugavgrivas Street, consisting of approx 5,800 sqm of GLA, and Balt Cargo Solutions, located in Dreilīni and including approx 24,000 sqm of GLA. Moreover, industrial stock was supplemented by the existing G31 industrial complex on Ganibas Dambis Street 31 (GLA approx 11,500).

A number of projects, currently at the construction stage, with total GLA close to 120,000 sqm are planned for commissioning in 2015. Among these, the most significant is a BLS industrial
complex totalling approx 44,000 sqm of GLA and the new Polipaks built-to-suit property currently under construction by Merks.

Apart from that, an additional 127,000 sqm is at the planning stage in several potential projects which are expected to begin arriving on the market starting from 2016. Among these planned projects the largest are VGP phase I in Kekava parish (GLA 33,000 sqm), the second phase of Balt Cargo Solutions (GLA 15,000 sqm) and expansion of Dommo Business Park (GLA 15,000 sqm).

Notable support for development has come from the Latvian Investment and Development Agency (LIAA), which issued approx EUR 8 mln co-funding, utilising EU fund support towards several industrial projects, including NP Jelgavas Biznesa Parks, Plienciema 16, among others. In contrast, Uralvagonzavod, which was planning to invest approx EUR 20 mln in expansion of their property in Jelgava, decided to put development plans on hold due to economic sanctions.

As a result, in 2015 we anticipate the most significant increase of industrial stock since 2009. Even so, the general trend remains that developers are willing to engage in new construction only in the event of having a predefined client. Additionally, shortage of premises above 1,000 sqm is observed.

**Demand**

In 2014, demand activity followed the usual seasonality trend with the highest activity achieved in the first part of the year. Total take-up of industrial premises amounted to approx 50,000 sqm, most of which happened during the first quarter and last months of 2014.

Decrease of demand activity in the middle of the year can be explained by the fact that it has been a typical busy season for logistics companies, representing a significant part of demand. Therefore companies focused on their core business rather than on acquisition or relocation of new warehouses.

**Rent Rates**

During 2014, rent rates in both A class industrial premises showed a decrease of their lower bounds compared to the previous year, while B class rent rate bounds remained unchanged compared to the previous year. As a result, by January 2014 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 3.0 - 3.6 EUR/sqm per month.

**Rent Rates* for 2014 and Trends for 2015**

<table>
<thead>
<tr>
<th>CLASS</th>
<th>JAN 2014</th>
<th>JAN 2015</th>
<th>TRENDS FOR 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.6 - 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

With the opening of Balt Cargo Solutions industrial property, both tenants - Amber Logistics and Via3L Latvia - relocated their warehouses from various facilities in Riga under one roof. This fact supports a trend in warehouse activity consolidation to single locations, which was initiated in 2013 and is expected to continue in the future.

Potential tenants continued the tendency of searching for optimal value-for-money leasing offers and were tending to negotiate prices, which was one of the main factors limiting the amount of leasing deals.

**Projects Under Construction in 2015**

<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>BLS</td>
<td>Kekava</td>
<td>Built-to-suit</td>
<td>44,000</td>
<td>Sanitex</td>
<td>Q2 - Q3 2015</td>
</tr>
<tr>
<td>Polipaks</td>
<td>Marupe</td>
<td>Built-to-suit</td>
<td>30,000</td>
<td>Polipaks</td>
<td>Q2 2015</td>
</tr>
<tr>
<td>Plenciema 16</td>
<td>Marupe</td>
<td>Speculative</td>
<td>4,000</td>
<td>Plenciema 16</td>
<td>Q1 2015</td>
</tr>
<tr>
<td>Lexel Fabrika</td>
<td>Krustpils 35, Riga</td>
<td>Built-to-suit</td>
<td>10,000</td>
<td>Lexel Fabrika</td>
<td>Q2 2015</td>
</tr>
<tr>
<td>Frigo Terminal</td>
<td>Riga Sea Port</td>
<td>Built-to-suit</td>
<td>9,670</td>
<td>Frigo Terminal</td>
<td>Q2 2015</td>
</tr>
<tr>
<td>Jelgavas Biznesa Parks</td>
<td>Jelgava</td>
<td>Speculative</td>
<td>22,000</td>
<td>NP Properties</td>
<td>Q3 2015</td>
</tr>
</tbody>
</table>

**TOTAL**

119,670

Source: Colliers International

---

**Volume Indices of Industrial Production (2010=100)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>130</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>120</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>110</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>90</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau

**Amount of Goods Carried**

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau
Vacancy

In January 2015, the total vacancy rate of industrial stock reached 2.2 per cent, compared to 2.7 per cent the previous year. The decrease in total vacancy was driven by the B class segment. In 2015, the commissioning of an impressive number of industrial properties, consisting mainly of built-to-suit, is expected to have a short term negative effect on vacancy, as companies will be relocating from non-professional premises. Although the vacancy figures are signalling a very small number of vacant premises left available for the market, some tenants occupying industrial premises are offering sublease opportunities.

Dynamics of Vacancy Rates

Source: Colliers International

<table>
<thead>
<tr>
<th>CLASS</th>
<th>JAN 2014</th>
<th>JAN 2015</th>
<th>TRENDS FOR 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3.7 %</td>
<td>3.6 %</td>
<td>➔➔</td>
</tr>
<tr>
<td>B</td>
<td>1.4 %</td>
<td>0.3 %</td>
<td>➔➔</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2.7 %</td>
<td>2.2 %</td>
<td>➔➔</td>
</tr>
</tbody>
</table>

➔➔ - stable, ➔➔ - slight increase
Source: Colliers International

Tendencies and Forecasts

➢ Development of the global political situation will continue to influence the general situation in the Latvian industrial real estate sector and the expectations of market players.
➢ The current vast planned project pipeline will begin to materialize as soon as tenants ready to engage in prelease contracts are found.
➢ Most projects expected to arrive on the market in 2015 are leased out, so that a major increase in vacancy is not expected.
➢ Rent rates are expected to remain stable in terms of their upper bounds, although a minor decrease of lower bounds might be expected.
Speculative and Built-to-Suit Projects in Riga District Over 5,000 sqm

Existing Developments
1. Valdo Logistik Kompleks
2. Riga Industrial Park
3. Nordic Industrial Park in Olaine
4. PLBC Business Centre
5. Dominante Park
6. Ronu ieleja 2
7. Dommo Biznesa Parks
8. Ertel Business Park
9. Rolands S Warehouse Complex
10. Wellman Logistics Centre
11. Lauki Warehouse Complex, New Building
12. Olaines Logistic Park
13. Bergi Logistics Centre
14. Elpse-BLC
15. Nordic Technology Park
16. Abava Biznesa Parks
17. Ulbrokas 38 Warehouse Complex
18. Isoverts
19. DLV
20. NP Business Centre
21. Man Tess
22. Baltiosta, I and II phases
23. Avers Centrs Logistic Park
24. Mayel Business Park
25. System Logistics
26. Atlas Logistic Centre
27. Granita Industrial Park
28. DSV Transport
29. Maxima Latvia Logistic Complex
30. Rimi Administrative and Warehouse Complex
31. DHL Logistic Centre
32. Sanistal Retail and Logistic Centre
33. Bieweship Latvija Warehouse in Marupe
34. Baltijas Industrialais Parks
35. Iiron
36. BLRT
37. Kreiss Transport
38. Reaton Logistikas Centrs
39. Coca Cola Logistics Complex
40. Glastek Industrial and Warehouse Building
41. Vollers Riga
42. DB Schenker Logistic Centre
43. LE/ROM Business Centre
44. Veju Roze
45. NP Jelgavas Biznesa Parks
46. Balt Cargo Solutions
47. UA Investor

Projects under Development
1. Polikaps
2. BLS
3. VGP, phase I
4. Plienciema 16
5. Lexel Fabrika
6. Frigo Terminal
Hotel Market

General Overview

> During the first three quarters of 2014, the number of visitors to Latvian hotels and other accommodation establishments grew for the fifth year in a row. Despite negative trends and political tension, Russian and CIS country tourists continued to constitute a significant part of accommodation industry clients.

> Positive visitation dynamics were significantly supported by continuous development of tourist attractions and big public events (e.g. the World Choir Games, Riga as European Capital of Culture in 2014) taking place throughout the year.

> During the first three quarters of 2014, the Riga hotel market saw a number of openings, which increased the total stock of 4-star hotels by 401 rooms.

> A new international chain entered the Latvian hotel market - Accor Hotel Group.

> Notwithstanding that hotel occupancy in low-season months - January, February and November - decreased compared to the same period in the previous year, average occupancy and performance indicators for the first 11 months of 2014 were higher than for 2013.

Supply

By the end of Q3 2014, the supply of hotels in Latvia stood at 222, among which 114 were not certified. Half of the hotels and 70.3 per cent of hotel rooms were located in Riga and Jurmala. Additionally, the most significant part of hotel room supply is dominated by 4-star hotel rooms, constituting 56.4 per cent and 66.7 per cent respectively of Latvia’s total hotel room stock and the total of Riga hotel stock. During the first three quarters of 2014, Riga’s certified hotel room stock increased by 141 rooms. The Latvian hotel market continued to be dominated by local hotel operators; however one additional international chain – Accor Hotel Group – entered the Latvian hotel market in 2014 opening the upper class 4-star hotel Mercure and the budget 3-star hotel Ibis Styles Hotel in Riga. Thus five international hotel chains are present: Rezidor, Wyndham, Choice Hotels, Best Western and Accor. An additional international chain in the shape of Hilton is expected to enter the market in 2015 / 2016.

During the first three quarters of 2014, one new hotel opened in Riga: the 4-star Mercure Riga Centre with 143 rooms. Hotel reconstruction continued and as a result one hotel was reconstructed and three more were rebranded, among which two joined hotel chains. Thus Hotel Metropolie opened as SemaraH Hotel Metropolie after reconstruction while FG Royal Hotel was rebranded as Hotel Roma. Additionally, two hotels joined hotel chains: Karavella joined the international Accor chain and was rebranded as Ibis Styles Hotel while Hotel Centra joined a local hotel chain and was opened as Wellton Centra. More hotel stock additions are planned in 2015 / 2016, when at least two newly developed hotels, Hilton Garden Inn located in Pardaugava near Vansu Bridge and an additional Wellton Hotel Riga located on Valnu Street, plus a reconstructed Grand Hotel Kempinski Riga located at Aspazijas Boulevard 22, are expected to be commissioned. Moreover, in the upcoming years Wellton Hotel Group is planning to open two more hotels in Old Riga, while the 5-star Pullman Riga Centre hotel is planned at Jekaba Street 24. One more hotel is expected, at Raina Boulevard 5 and 6.

### Number of Hotels and Rooms

<table>
<thead>
<tr>
<th>STARS</th>
<th>RIGA</th>
<th>LATVIA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HOTELS</td>
<td>ROOMS</td>
</tr>
<tr>
<td>5-star</td>
<td>6</td>
<td>258</td>
</tr>
<tr>
<td>4-star</td>
<td>29</td>
<td>3,529</td>
</tr>
<tr>
<td>3-star</td>
<td>26</td>
<td>1,486</td>
</tr>
<tr>
<td>2-star</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1-star</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td><strong>TOTAL CERTIFIED</strong></td>
<td><strong>62</strong></td>
<td><strong>5,288</strong></td>
</tr>
<tr>
<td>Non-certified</td>
<td>31</td>
<td>1,091</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>93</strong></td>
<td><strong>6,379</strong></td>
</tr>
</tbody>
</table>

Source: Central Statistical Bureau

### Distribution of Hotels by Number of Stars in Latvia

- 5-star: 11%, 4-star: 34%, 3-star: 40%, 2-star: 5%, 1-star: 2%

Source: Central Statistical Bureau
Demand

During the first three quarters of 2014, the number of people serviced by Latvian hotels and other accommodation establishments experienced positive growth. A total of 1.68 mln visitors were serviced by the Latvian hotel industry, among which 1.15 mln or 68.6 per cent were foreign visitors. The total amount of visitors in the first three quarters of 2014 grew by 14.9 per cent and the amount of foreign visitors grew by 15.2 per cent compared to the same period in 2013.

Russian, German, Lithuanian and Estonian visitors accounted for half of all foreign visitors in the first three quarters of 2014, with Russian visitors alone standing out with 21 per cent. As compared to the same period in 2013, in the first three quarters of 2014 the number of visitors from Great Britain grew by 43 per cent, German visitors - by 36.9 per cent, Belorussian visitors - by 26 per cent and French visitors by 24.4 per cent.

Even so, the average number of nights spent by foreign visitors in a hotel or other accommodation establishment decreased from 2.1 in the first three quarters of 2013 to 2.0 in the same period in 2014. The leaders in terms of hotel stays were visitors from Belorussia with 3.1 nights spent per visitor, the USA with 2.4 nights and Russia with 2.2 nights. Compared to the previous year, in 2014 visitors from Estonia, Lithuania, Germany and Poland spent on average more nights in Latvian hotels and other accommodation establishments. The decrease in average nights’ stay is affected by business trips, which typically last just one day.

Distribution of Foreign Visitors by Country of Origin

The positive visitation dynamics were significantly supported by continuous development of tourist attraction objects and big public events taking place throughout the year. Remarkable events that contributed to tourist inflow were the Nordea Riga Marathon, the World Choir Games, the New Wave song festival and the Riga city promotion programme presenting Riga as the 2014 European Capital of Culture. However, hotels continued to suffer from seasonality of demand, with high seasons reached in winter holiday time and in May - August and a low season observed in the second half of January and February.

Prices and Occupancy

According to City Cost Barometer, Riga continued to be one of the cheapest travel destinations not only among other European capitals but also among the Baltic States in terms of overnight stay costs. Minimum room prices for 3-star and 4-star hotels are on the same level, which indicates that some 4-star hotels are trying to compete with budget hotels, thus decreasing their potential revenues.

The occupancy rate continued to improve during the first three quarters of 2014. Average occupancy of hotels and other accommodation establishments stood at 57.1 per cent in Riga and 47.7 per cent in Latvia, returning to pre-crisis levels. One recent trend aimed at increasing occupancy in low seasons is active introduction of SPA services and conference hall facilities by local hotels, which aims to help hotels differentiate their income streams.

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

Source: City Cost Barometer
We do not expect hotel visitation figures to grow in the upcoming year. The reason for this is devaluation of the ruble, which will negatively affect a major tourist group, though on the other hand this will be outweighed by the fact that Latvia holds the status of Presidency of the EU Council.

We expect Riga hotel room stock to be supplemented by at least 450 rooms, when new developments now under construction and reconstruction are commissioned in 2015/2016.

We might expect one more international hotel chain to join the Latvian hotel market in the medium run. Additional activity might come from already present international and local hotel chains which are expected to expand their presence.

Increasing activity by professional hotel chains will force individual hotel owners to put their properties on sale.

In terms of the present market situation, hotel market players need to seriously consider differentiation of visitation and revenue streams, which will be especially crucial in the second half of the year.
Legal Overview

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

Asset Transfer Deals

Main Steps

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

1. The parties sign a single purchase agreement.

2. Sometimes, in the case of a larger real estate transaction, prior to the final purchase agreement, another agreement (letter of intent or preliminary purchase agreement) is concluded. The preliminary agreement sets out the main terms of the deal (eg, purchase price, payment mechanism, main deadlines to complete due diligence of the real estate and sign the final agreement).

3. The seller offers the municipality or third parties the chance to exercise their right of first refusal to acquire the property on the same conditions as agreed in the signed purchase agreement. The municipality has up to 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 the property, then the purchase agreement signed between the parties terminates in respect of real estate acquired by third parties.

5. Simultaneously with the purchase agreement, the parties negotiate and conclude an agreement with a bank on opening and maintaining an escrow account at the bank.

6. The seller notifies the buyer on receipt of refusals from all third parties with a right of first refusal to acquire the real estate or alternatively the seller confirms that third parties have not replied to the offer to exercise their right within the given term.

7. If third parties (eg, the municipality) do not exercise their right of first refusal, the buyer transfers the purchase price (100 per cent) 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 the real estate. The buyer pays state and stamp duties.

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

10. After the buyer’s title is registered with the Land Book, the bank transfers the purchase price to the seller.

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

Main Advantages and Drawbacks

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

Share Transfer Deals

Main Steps

The main steps for share transfer deals are:

1. Initial agreement on the transaction. This involves the understanding by both parties of the sale process.

At this stage, the parties would sign a Letter of Intent (usually non-binding apart from confidentiality and exclusivity clauses) that will in general state the understanding of both parties on the subject of the sale and the potential price (including price calculation).

Usually at this stage a due diligence of the target company starts. Depending on the volume and business activities of the target company, the buyer performs legal due diligence, financial due diligence, tax due diligence, as well as technical, environmental, and other due diligences.

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

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

2. Agreement on terms and conditions of the transaction.

If the results of the due diligence are satisfactory, the parties start work on the transaction documents. In practice, the first draft of the share purchase agreement is provided by the buyer.

Depending on the complexity of the transaction, negotiations on the terms and conditions of the transaction documents can take from several weeks to several months.

3. Closing the transaction.

When the parties have agreed on all terms and conditions of the transaction agreements, signing of documents takes place.

Depending on the complexity of the transaction and the business type of the target company (eg, whether this is a regulated company) as well as on whether the purchase of target company shares is considered as a merger under Latvian Competition Law, the time required for closing the transaction can vary from a couple of weeks to several months after signing the transaction agreements.

The time for closing is required for the target company to obtain, eg, any consents required for change of control or merger clearances, as well as to provide other documents and
perform other acts required for closing so that the title to the shares and control of the target company can be transferred from the seller to the buyer on the closing date. These include, eg, change of the target company management board to ensure transfer of control to the buyer on the closing date.

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

4. Registration of changes in the Latvian Company Register.

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

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 the 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.

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

General

A building erected on land is considered to be a part of the land. However, as a result of land reform, situations occur where a land plot and a building situated on it are in different ownership. Generally, transfer of title to a building or land separately from each other is not possible unless the land plot and the building are registered with the Land Book as separate property objects.

Change of Ownership

Transfer of title to real estate may be restricted by a number of factors, including restrictions on foreign ownership of land, rights of first refusal as well as encumbrances registered with the Land Book, 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, eg, operation of schools, kindergartens, certain types of social housing. The state has a right of first refusal upon sale of cultural monuments of state importance, land plots in protection zones as well as in ports and special economic zones.

Rights of first refusal also exist in favour of co-owners of real estate if any of them transfers their 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**

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

**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*

Amendments have been made to the law in force since 1 November 2014 limiting acquisition by foreigners of agricultural land in Latvia (these amendments will be fully applicable from 1 July 2015). As a result of these amendments an EU citizen will be able to acquire not more than 10 ha of agricultural land without any limitations. A citizen 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 1 or 3 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 acquired a specific agricultural education or (2) has received single area payments during the last 3 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 be registered in any EU country and as a taxpayer in Latvia, all the shareholders of the entity are EU 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 citizens.
  - The entity has no tax debts in Latvia or its country of domicile.
  - Confirm that the entity has received single area payments during the last 3 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 1 or 3 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. To ensure wider control over transactions with agricultural land, from 1 July 2015 the Latvian Land Fund will start its activities and will have rights of first refusal to agricultural land if more than 5 or 10 ha (respectively) are being purchased.

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 European Economic Area or the 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 territories 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. The merger may take the form of either a share transfer or an asset transfer and must be notified for approval to the LCA if at least one of the following criteria is satisfied:

- Aggregate turnover of the companies involved in the transaction exceeds approx EUR 35.6 million for the financial year preceding the merger; or
- Joint market share of the companies exceeds 40 per cent of the relevant market.

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

**Property Management**

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

**Lease Agreements**

**General**

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

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

**Duration and Expiry of Lease Agreement**

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

**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

Latvian Corporate Income Tax System

Latvia has a traditional profit based corporate taxation system where 15 per cent corporate income tax (CIT) is assessed on a company’s financial profit (loss) that has been adjusted by certain corrections required by law. Resident companies are taxed on their worldwide income. Non-resident companies are taxed on their Latvia-sourced income either through permanent establishment (PE) at the standard 15 per cent CIT rate or by withholding tax at the rates varying between 2 per cent and 5 per cent.

Losses arising before and including the 2007 tax year can be used for the following 8 years. Losses arising in 2008 and later tax years may be carried forward indefinitely.

Acquisition

- Upon acquisition of land or land and buildings, or a building property which includes residential building (including function-related buildings), a 2 per cent stamp duty is levied on the property value.
- Upon acquisition of land or land and buildings, or a building property which includes only non-residential building or non-residential buildings and related engineering structures, a 2 per cent stamp duty is charged on the real estate value, capped at EUR 42,686.15.
- If legal title is transferred under a deed of gift, a 3 per cent stamp duty is levied on the property value.
- If the legal title on residential building is transferred to the commercial entity, a 6 per cent stamp duty is levied on the property value.
- If real estate is invested in the share capital of a company, a 1 per cent stamp duty is payable on the investment value.

In first three cases described above, if legal title is transferred to spouses, children, parents, siblings, stepsisters/stepbrothers, grandchildren, great-grandchildren and great-grandparents, for registration of legal title in Land Register, a 0.5 per cent stamp duty is charged on the real estate value.

The value of the real estate for the purposes of stamp duty is determined as the highest value of:

- The value stated for each property in acquisition agreement;
- The value of property with higher value in case of exchange agreement;
- The value of open-ended or eternal payment in case of sustenance agreement;
- The value of investment in case the estate is invested in share capital;
- The highest bid value of the property in case the auction has been carried, or, in case there was no auction - starting price;
- The cadastral value of each property and value of forested areas. The cadastral value of the property is valid for unlimited time, if it has not changed according to the written Notice or electronically available information from Land register.

There are number of persons exempt from paying the stamp duty for registration of legal title in Land Register, for example:

- A company, if the legal title has been obtained as a result of reorganisation;
- Companies, providing services for needs of society, such as public transport companies, ports, companies providing water, gas, electricity to society, etc.

Rent

Value Added Tax (VAT): In general, companies pay 21 per cent VAT on the rental value, with the exception of residential property leased to individuals for dwelling purposes, which is exempt from VAT.

Corporate Income Tax (CIT): Rental income is taxed at a rate of 15 per cent. Companies can deduct all expenses related to their rental business, and the value of real estate used for commercial purposes can be depreciated for tax purposes at a rate of 10 per cent a year under the reducing balance method.

Withholding Tax (WHT): If a non-Latvian resident company rents Latvian located real estate to a Latvian company, the proceeds attract a 15 per cent WHT in the recipient of this payment is resident in off-shore country and 5 per cent WHT in other cases.

Personal Income Tax (PIT): Rental income is taxed at a rate of 23 per cent. A person registered with the tax authorities for commercial purposes pays advance PIT four times a year, the final payment being due after the annual income tax return has been filed. In this case all expenses related to rental activities are deductible, and any loss can be offset over a period of three years.

A person that is not registered with the tax authorities for commercial purposes pays PIT at a reduced rate of 10 per cent after filing the annual income tax return, if the lease agreement is presented to Latvian tax authorities. The taxable income may be reduced by paid real estate tax, however other expenses are not deductible.

If person has not presented the lease agreement to Latvian tax authorities nor registered for commercial purposes with tax authorities, the income of lease will be subject of 23 per cent PIT with no deduction for expenses associated with rental activities.

Sale

Value Added Tax (VAT): The sale of used real estate is generally exempt, with the exception of new (unused) real estate or development land. As of 1 January 2014, the definition of new unused real estate includes:

- New unused buildings, or its part, and the related land, or part of related land;
- New building, or its part, that has been used and is sold for the first time in the first year of maintenance, and the related land, or a part of related land;
- A building, or its part, in case it has not been used after reconstruction, renovation, restoration, and the related land, or a part of related land;
- A building or its part, that has been used and is sold for the first time in the first year after reconstruction, renovation, restoration, and the related land, or a part of related land;
A building under construction, or its part under construction, that has not been maintained, and the related land, or a part of related land;

A building, or its part, that is under reconstruction, renovation, restoration, and has not been maintained, and the related land, or a part of related land.

As of 1 January 2014, the development land is defined as a piece of land that has a construction permit issued for building work or for the construction of engineering communications or roads. However, the parcel qualifies as development land only if the construction permit has been issued after 2009. The land is not meeting the definition of development land if the construction permit for construction works has been issued:

- Before 31 December 2009 and renewed or extended after 31 December 2009;
- After 31 December 2009, but the purpose of the land has been changed and no longer is intended for building purposes.

The applicable rate of VAT is 21 per cent.

In the case of reconstruction, VAT is levied on the difference between the selling price and the value before reconstruction.

The taxpayer may recover input VAT paid on the acquisition if the property is used to make taxable supplies. At the same time there is 10 years period during which the recovered input VAT should be repaid to the state budget if the taxable supplies are discontinued.

VAT registered traders may opt to charge VAT on supplies of used real estate if the sale is made to VAT registered person.

Construction services as defined in the VAT Act attract reverse charge VAT if:

- They are supplied in Latvia,
- The supplier and customer are both registered for VAT, and
- Non-cash payment is made.

In addition please note that Latvian tax authorities has issued an opinion that in the case the real estate and the related land belong to two different persons and one of the real estates is sold, VAT applies to this particular transaction if related real estate is subject to VAT (i.e. it is unused real estate or development land). The same conditions would apply in case of trilateral agreement.

Corporate Income Tax (CIT): If a company sells real estate, any capital gain is taxed at a rate of 15 per cent. Generally, the taxable gain is calculated as selling price less net book value and any balancing charge/allowance arising on the removal of the property from tax accounts.

Withholding Tax (WHT): If a non-Latvian resident company sells Latvian located real estate to a Latvian company, the proceeds attract a 2 per cent WHT. This tax must also be withheld on a non-resident company’s proceeds from the sale of shares in a Latvian or foreign company if Latvian real estate represents more than 50 per cent of the company’s asset value whether directly or indirectly (through participation in one or more other Latvian or foreign entities) in the tax period the sale is made, or in a previous tax period.

A recent State Revenue Service ruling exempts WHT on proceeds where shares in a real estate company are sold through a share exchange as part of a group reorganisation.

CIT Act allows the non-resident from EU or DTT countries to pay 15 per cent on profit from such sale, on condition that the company can justify the acquisition costs by documentary evidence.

Any payment for the sale of real estate made to off-shore entity would be subject to 15 per cent WHT.

Personal Income Tax (PIT): If an individual sells real estate for non commercial purposes, a 15 per cent PIT is charged on the difference between acquisition cost and selling price. In this case the amount of PIT due must be declared and paid on or before the 15th day of the following month if the capital gain exceeds EUR 711.44.

The exemptions:

- Real estate held for at least 60 months and registered as the seller’s primary residence for at least 12 consecutive months before the sale during the period of 60 months is exempt;
- Real estate held for at least 60 months and during 60 months prior to sale it has been the sole real estate of the taxpayer;
- The sole real estate has been reinvested during the 12 months period from the sale into another real estate of the same function.

Land Tax

There is no land tax in Latvia.

Real Estate Tax

Real estate tax is levied on all land and buildings in Latvia owned by individuals or companies.

Starting from 1 January 2013 the local authorities in Latvian regions and cities are free to set rates on real estate in their area at 0.2 per cent - 3 per cent of cadastral value. A rate exceeding 1.5 per cent may be charged only on improperly maintained real estate. Applicable rates for the following year must be published by 1 November in the current year.

If the local authorities do not publish their own rates, RET on dwelling houses, auxiliary premises and garages not used for commercial purposes vary according to their cadastral value:

- 0.2 per cent of cadastral value below EUR 56,915;
- 0.4 per cent of cadastral value between EUR 56,915 and EUR 106,715;
- 0.6 per cent of cadastral value above EUR 106,715.

Relief is available to certain categories of taxpayers (such as families with three or more children under the age of 18). All other real estate, including land and property used for commercial purposes, attracts a 1.5 per cent RET.

A 3 per cent RET applies to structures that are environmentally degrading, have collapsed, or endanger human safety.

From 1 January 2014 the same rate of 3 per cent is also applied for newly constructed buildings in case the permitted construction period has expired. The tax is applicable from the next month following the expired date and will be charged till the months the building is maintained in line with statutory procedures. The rate will be charged on the highest of cadastral value of the related land and the cadastral value of building itself.
There is a specific transition period, covering the construction permits issued before 1 July of 2013 and not extended till 31 December 2014, according to which the tax will be payable.

Unused agricultural land is taxable:

- At the basic rate of 0.2 per cent - 3 per cent set by the local authorities or at 1.5 per cent if not set by the local authorities, plus
- A surcharge of 1.5 per cent.

As such, the total rate on improperly maintained agricultural land can reach 4.5 per cent of cadastral value.

From 1 January 2014 the living property owned by proprietors are eligible for reduced rates (0.2 per cent to 0.6 per cent), but only in cases the property is rented out and the rent rights are properly registered within the Land Register of Latvia. There is also new obligation to notify the local council in case the business activities are carried out in the living property. The same notification must be submitted in case the business activity has ceased.

**Notary Fees**

Fees for drafting the Land Book registration application and approving the parties’ signatures generally amount to EUR 92.

---

**Vita Sakne**

Senior Manager, Tax and Legal Services

PwC Latvia

Kr. Valdemāra St. 21, LV-1010 Riga

Phone +371 67 094 425

vita.sakne@lv.pwc.com

http://www.pwc.lv
### Partners Group
- **Advice on acquisition of real estate portfolio from real estate fund BPT Optima consisting of 7 major retail and office centres in Latvia, Lithuania, Estonia and Poland.** This is the largest real estate investment deal since the recent economic downturn.
  - **EUR 163 million**
  - **2015**
  - **Legal Adviser**

### Citycon
- **Advice on sale of Mandarinas shopping centre with gross leasable area of approx 7,900 m² in Vilnius, Lithuania.**
  - **EUR 12.5 million**
  - **2014**
  - **Seller’s Legal Adviser**

### Plesko Real Estate
- **Advice on Latvia’s largest real estate transaction in 2014 - sale of the Damme Shopping centre.**
  - **Gross leasable area 12,912 m²**
  - **2014**
  - **Seller’s Legal Adviser**

### Technopolis
- **Assistance in completing a transaction involving acquisition of Alfa, Beta and Gama office buildings in Vilnius, Lithuania totalling 42,300 m² of rentable space.**
  - **EUR 62 million**
  - **2013**
  - **Legal Adviser**

### Dasos Timberland Fund II
- **Advice on acquisition of large forest property portfolio in Latvia.**
  - **2014**
  - **Buyer’s Legal Adviser**

### Apollo Cinema
- **Advice on purchasing Solaris cinema in Tallinn city centre.**
  - **Multiplex 7-screen cinema**
  - **2014**
  - **Buyer’s Legal Adviser**

### Peikko
- **Advice on expanding activities in Lithuania, on acquisition of a company owning immovable property and lease right to state land in Kaunas, Lithuania.**
  - **Total investment EUR 5 million**
  - **2014**
  - **Legal Adviser**

### Embassy of the Kingdom of Norway in Riga
- **Advice on sale of real estate in Old Riga, Latvia, consisting of land plot and 3-floor building.**
  - **EUR 1.575 million**
  - **2013**
  - **Seller’s Legal Adviser**

### Olympic Entertainment Group
- **Advice on planned construction of new luxury hotel (to be operated by Hilton Worldwide) and entertainment complex in Tallinn, Estonia.**
  - **Approx EUR 36 million**
  - **2013**
  - **Legal Adviser**

### Nekilnojamojos turnų gama
- **Advice on selling Vilniaus verslo uostas, an office building with an area of approx 28,000 m² in Lithuania.**
  - **EUR 61.6 million**
  - **2014**
  - **Seller’s Legal Adviser**

### VCA Baltic Retail Fund
- **Advice on sale of shopping centre fully leased to Prisma hypermarket with lettable area of 11,600 m² and 650 parking places to East Capital Baltic Property Fund II in Riga, Latvia.**
  - **2013**
  - **Seller’s Legal Adviser**

### Rimi Eesti Food
- **Assistance on sale-and-leaseback transaction of logistics centre and headquarters building in Tallinn.**
  - **EUR 13.4 million**
  - **2014**
  - **Seller’s Legal Adviser**

### Vicus Capital Advisors managed fund
- **Advice on sale of a newly developed single tenant shopping centre in Tartu.**
  - **2014**
  - **Seller’s Legal Adviser**

### MG Valda
- **Advice on sale of North Star business centre building with approx 10,500 m² gross leasable area in Vilnius, Lithuania.**
  - **EUR 18.7 million**
  - **2015**
  - **Legal Adviser**

### YIT Ehitus
- **Advice on sale of office and production facility with gross leasable area of approx 10,000 m² - one of the first forward purchase agreements in Estonia.**
  - **2013**
  - **Seller’s Legal Adviser**

### ESTONIA
- [Pärnu mnt 15]
- [10141 Tallinn]
- Phone: +372 6 400 900
- [estonia@sorainen.com]

### LATVIA
- [Kr. Valdemāra iela 21]
- [LV-1010 Riga]
- Phone: +371 67 365 000
- [latvia@sorainen.com]

### LITHUANIA
- [Jogailos 4]
- [LT-01116 Vilnius]
- Phone: +370 52 685 040
- [lithuania@sorainen.com]

### BELARUS
- [ul Nemiga 40]
- [220004 Minsk]
- Phone: +375 17 306 2102
- [belarus@sorainen.com]
LATVIA

Legal Overview

LAINĖ SKOPIŅA
Partner, Head of the Real Estate & Construction Team
SORAINEN Latvia
Kr. Valdemāra iela 21, LV-1010 Riga
Phone +371 67 365 000
Laine.Skopina@sorainen.com

LITHUANIA

Legal Overview

AUŠRA MUDĖNAITĖ
Partner, Co-Head of the Real Estate & Construction Team
SORAINEN Lithuania
Jogailos Street 4, LT-01116 Vilnius
Phone +370 52 430 566
Ausra.Mudenaite@sorainen.com

KĘSTUTIS ADAMONIS
Partner, Head of the Real Estate & Construction Team in the Baltics and Belarus
SORAINEN Lithuania
Jogailos 4, LT-01116 Vilnius
Phone +370 52 649 320
Kestutis.Adamonis@sorainen.com

ESTONIA

Legal Overview

URMAS VOLENS
Head of the Real Estate & Construction Team
SORAINEN Estonia
Pärnu mnt 15, 10141 Tallinn
Phone +372 6 400 927
Urmas.Volens@sorainen.com

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

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

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

BELARUS
ul Nemiga 40
220004 Minsk
phone +375 17 306 2102
belarus@sorainen.com
Everyday application of tax laws is not an easy task. If you need assistance in tax and legal issues, please bear in mind that the team of PwC's tax consultants is one of the most experienced in your region. Half of us have at least ten years of work experience in the Baltic's market. Since we deal with taxes every day, we are familiar with the latest theory and practice in our country and abroad. This combined with specialization in specific areas, good access to international experience and close cooperation with other PwC offices all over the world leads to an excellent outcome - advice that justifies its price.

We provide advisory services in the following areas:

• Practical application of the Estonian, Latvian and Lithuanian tax law;
• International taxation and restructuring;
• Transfer pricing;
• Tax due diligence investigations;
• Management of tax audits and tax disputes;
• Preparation of tax ruling requests;
• Registration services;
• Accounting services and tax compliance.
485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

€1.5 billion in annual revenue

135.8 Commercial square meters under management

15,712 professionals and staff

About Colliers International

Colliers International is a global leader in commercial real estate services, with over 15,700 professionals operating out of more than 480 offices in 63 countries. A subsidiary of First Service Corporation, Colliers International delivers a full range of services to real estate users, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services, mortgage banking and insightful research. The latest annual survey by the Lipsey Company ranked Colliers International as the second-most recognized commercial real estate firm in the world.

colliers.com