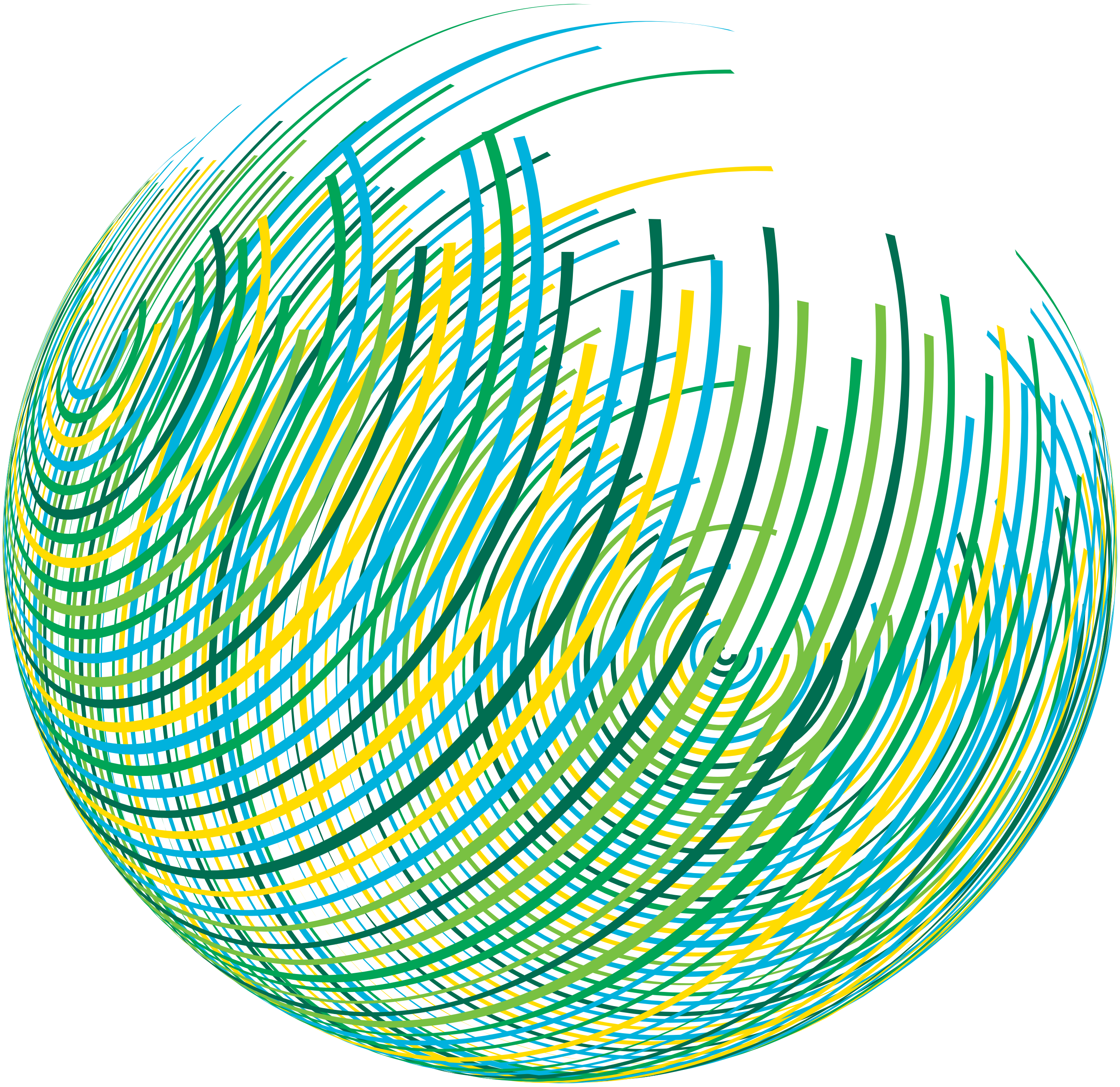
BALTICS
INVESTMENT GUIDE 2019

CBRE RESEARCH



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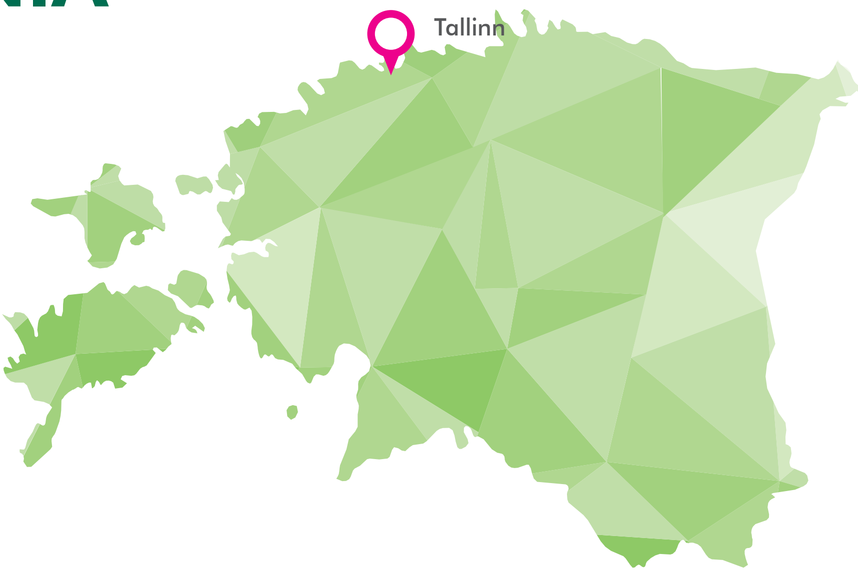
ESTONIA



Market Strengths[1]

Transparency

Investment Liquidity

Legal Protection

Foreign Investor Restrictions

Major Players[2]

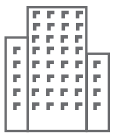
Domestic

Private Investors

Property Funds

Foreign

European Property Funds



European Property Companies

Most Invested Assets[3]

Shopping Centres

Tallinn Offices

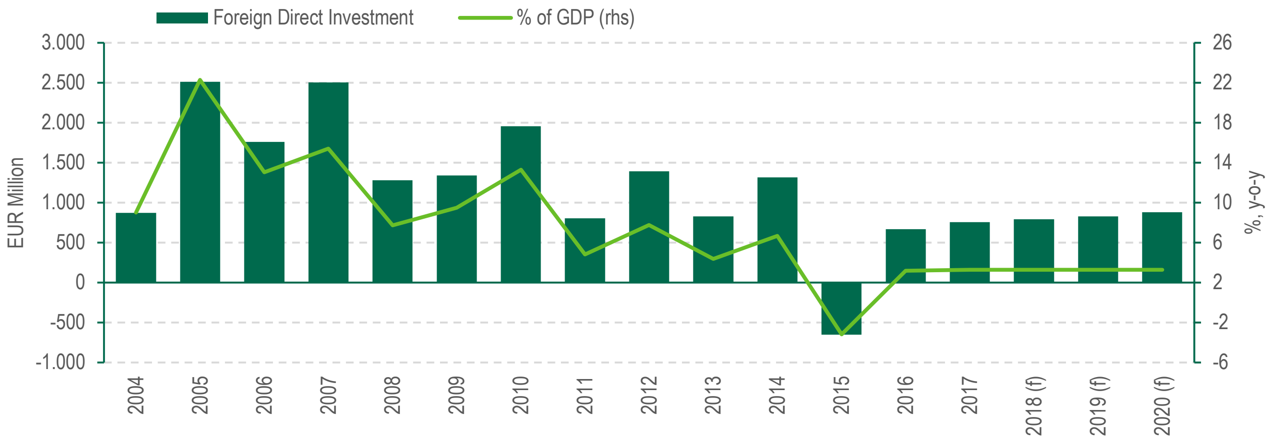
[1] Source: CBRE Research, Transparency International, iHS, World Economic Forum, World Bank, OECD, 2018.
[2,3] Source: CBRE Research, CBRE Baltics, Real Capital Analytics, 2018.

National Statistics

Estonia	2017	2018 (f)	2019 (f)	2020 (f)
Total Population (millions)	1.3	1.3	1.3	1.3
GDP Growth (real, year-on-year)	4.9%	3.5%	3.5%	3.4%
GDP Per Capita (real, EUR, 2010 prices)	14,322	14,823	15,345	15,866
Interest rate, long-term, end of period	n.a.	n.a.	n.a.	n.a.
Fixed Asset Investment (real, millions: 2010 prices)	4,760	5,028	5,274	5,533
Inflation Rate	3.7%	3.1%	2.7%	2.5%
Unemployment Rate	5.8%	6.2%	6.0%	5.7%

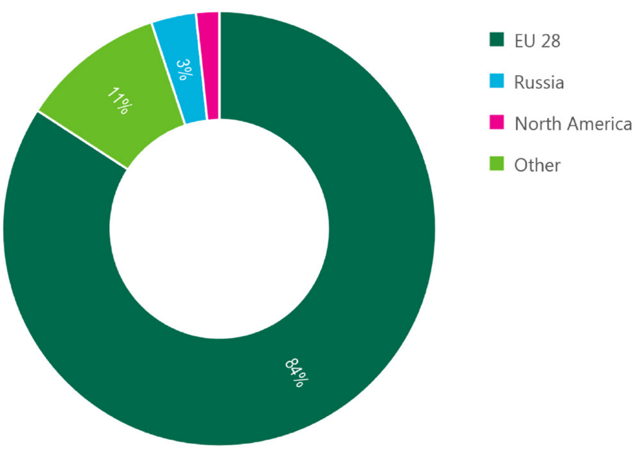
Source: Oxford Economics, Q3 2018

Foreign Direct Investment

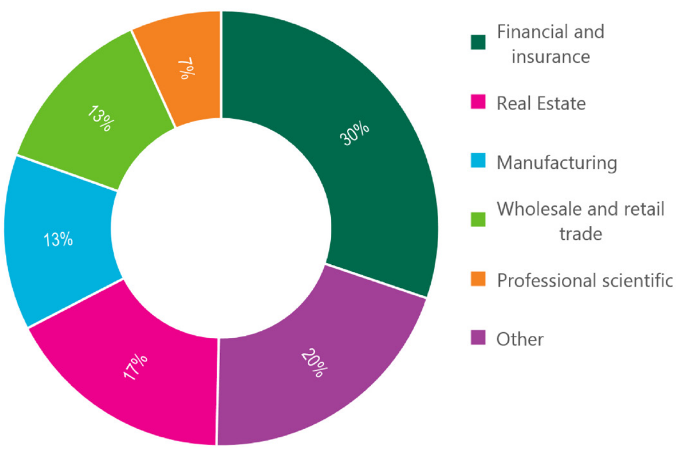


Source: CBRE Research, CBRE Baltics, Oxford Economics, 2018

Investment Turnover by Investor Origin (H2 2018)



Investment Turnover by Sector (H2 2018)



Source: CBRE Research, CBRE Baltics, 2018

Typical Sale and Purchase Terms

Price quotation	EUR based on sellable area.
Agent fee	Generally between 2.0% to 5.0% of the price plus 20% VAT.
Legal fee	Usually each party covers its own legal costs. The notary fee is usually split between the parties. The state fee is paid by the purchaser.
Tax on transaction	Notary fee and state fees, paid as described above (see legal fees). Income tax on the profits gained by the sale of a property is payable by the seller.
Loan terms	Commercial property loan terms depend on the loan amount, LTV ratio, loan term, type of collateral, credit history, etc. • For commercial properties 60-75% LTV for loans with collateral. Land financing is not common. • For development projects, pre-leases amounting to 15-50% (depending on the type of property) are usually required. • For residential properties, the maximum LTV ratio for the first outstanding loan is 80-85%. Loan tenures are capped at 30 years. The maximum amount of a borrower's monthly credit repayment and interest (under all obligations), as to date, must not exceed 40% of sustainable monthly income.
Borrowing rate	Typically based on EURIBOR plus interest margin in between of 1.7-3.5% for private individuals and 1.7-4.0% for companies.
Mode of payment	Balloon payment is quite popular for commercial property loans. Residential mortgages are repaid on an amortisation schedule, usually on a monthly basis.

Typical Leasing Terms

Rent quotation	EUR/sq m/month; usually quoted based on lettable area and excluding maintenance fees, utilities and VAT. A standard lease contract usually provides a double-net lease structure for speculative leases.
Lease term	Office, retail and industrial lease terms: (i) for secondary projects terms start from 3 years (ii) for built-to-suit terms range from 5-15 years, and (iii) for pre-leases within brand new projects terms start from 5 years.
Frequency of payment	Rent is usually paid once a month/quarter to the bank account of the landlord.
Rent-free	It is not market practice, but a step rent could be applied as a discount for the first year of rent.
Deposit	Security deposit or bank guarantee of 1-3 months' rent is generally required. Landlords rarely accept a parent company guarantee.
Rent reviews	Typically parties agree upon annual indexation which is tied to CPI and/or capped to 1-3%.
Renewals	For commercial lease renewals options negotiable according to lease agreement clauses. If, in the case of a residential lease contract entered into for a term of at least two years, neither party gives notification at least two months before expiry of the term that the party does not wish to extend the contract, the lease contract becomes a lease contract entered into for an unspecified term after expiry of the term.
Right to sublet	Depends on the agreement of the parties.
Break options	The lease contract can be terminated by either party should breaches of the terms of lease occur. If the lease is of indefinite duration, both parties shall have the right at any time to terminate the contract with prior written notice of three months served on the other party.
Fit-out	The tenant is responsible for any damage exceeding normal wear and tear.
Agent fee	Tenant representation between 8.0-12.5% of the annual rent paid by the tenant

Land System

Land ownership and land use tenure

Freehold/Ownership: Ownership of title to land provides the owner with the right to possess, use and dispose of the land and to demand the prevention of violation of these rights and elimination of the consequences of violation by all other persons. Ownership is registered in the Land Register (in Estonian: *"Kinnistusraamat"*).

Leasehold (in Estonian: 'üür/rent'): Leasehold title is the contractual right to use the land or parts of it (i.e. buildings on the land or premises in these buildings) as specified in the lease agreement.

Common hold/Usufruct (in Estonian: 'kasutusvaldus'): Common hold entitles the holder to the right to use and profit from the use of the property. Common hold has to be registered in the Land Register.

Apartment/Condominium ownership (in Estonian: 'korterihoonestusõigus'): Means ownership of the physical share of a building (apartment) together with a legal share of co-ownership of a land and communal areas of the building.

Immovable (in Estonian: 'kinnistu' or 'kinnisasi'): An immovable is a delimited part of land (plot of land). The essential parts of an immovable are objects on the land which can not be relocated, such as buildings, constructions, standing crop, other vegetation and unharvested fruit.

Real rights – the main real rights are ownership (right of ownership) and restricted real rights: Servitudes, real encumbrances, right of superficies, right of pre-emption and right of security, which have to be registered in the Land Register.

Right of superficies (in Estonian: 'hoonestusõigus'): An immovable may be encumbered in such a way that the person for whose benefit a right of superficies is constituted has a transferable and inheritable right for a specified term to own a construction permanently attached to the immovable. Right of superficies has to be registered in the Land Register.

Joint/Co-ownership: Co-ownership is ownership belonging to two or more persons concurrently. Ownership of the land as well as other property rights (condominium ownership, right of superficies etc.) is always registered in the Land Register. Registering of leases is optional - if the lease agreement has been registered in the Land Register, the new owner of the leased premises has no right of early termination of the lease agreement which is otherwise provided by law. However, it is not common to register lease agreements in the Land Register.

Land sales system

Ownership of the land and other property rights is always registered with the Land Register. The Land Register is public and provides absolute evidence of title and shows a description of the land, the identity of the owner, and any matters beneficial or detrimental to the land.

The legal title passes over upon registration in the Land Register. The sale and purchase agreement of land is subject to notarial authentication.

Most real estate transactions take place between private individuals. Public auctions are possible and are commonly used by trustees and bailiffs or by the local government and the state.

Land use

Any significant land or building developments require approval from the local municipality in the form of a detailed plan or design criteria. Construction permits are issued following detailed plans or design conditions issued by local municipality. In the case of unauthorized developments, the local government may require to that such buildings/structures be demolished or can apply significant fines.

Property ownership

Property ownership is registered at the Land Register. The legal title passes over upon registration in the Land Register. The sale and purchase agreement of real estate is subject to authentication by a notary.

Foreign Investment

Foreign ownership restrictions

According to the law there are restrictions on acquiring plots of land which include ten or more hectares of agricultural or forest land or are situated in state border areas for persons not residing in the EU. Such persons may acquire land only with the consent of a certain state agency. Such limitations are often overcome by making investments via legal entities.

Incentives to foreign investors

Estonia has concluded favourable tax treaties with some foreign countries.

Profit is taxed only on disbursement (i.e. profit can be accumulated and re-invested).

Foreign investors have easy access to e-services (banks, Land Register, commercial register, tax office etc.), including via e-residency.

Currency controls

None in place.

Market strengths

- Close connections with the Swedish and Finnish economies
- Favourable interest rate environment
- Well linked to Helsinki (population of approximately one million) and St Petersburg (population of approximately five million)
- Stability and steady growth
- Well known as a favourable environment for tech companies
- Logistics hub between Russia and Europe

Property Taxes

Taxation on owners

Land tax: The only property tax imposed in Estonia is Land Tax. Upon the encumbrance of land with a right of superficies or a usufruct, land tax is paid by the superficiary or usufructuary. The tax rate on land is 0.1%-2.5% of the taxable value of the land annually. Local municipalities have the right to determine the level of the exact rate. The value of land is set by a regulation given by the Minister of the Environment. The value of land differs across Estonia.

Mortgage: Notary fees and state fees are applied upon registering.

Local tax: Generally additional local taxes do not exist.

Corporate Income Tax (CIT): Resident companies and non-resident legal persons who have registered permanent establishments in Estonia are obligated to pay Corporate Income Tax. This is payable only upon dividend payments or other payments which are considered as profit distribution.

The corporate tax system in Estonia differs from that used by many countries, in that corporate income is taxable only upon distribution. The profits earned and retained by a company are not subject to taxation. The income tax rate for 2018 on gross dividends is 20%, although the tax is based on the net amount of dividends by applying a proportional tax rate of 20/80. Thus a company not distributing any profit is not obliged to pay income tax. Taxable expenses and payments are taxed at the rate of 20/80 as well.

Personal Income Tax (PIT): Income tax on the rental income and on the profits gained by selling a property is payable on an annual basis only by private individuals. Non-residents are only taxed on their Estonian-source income. PIT has a flat standard rate of 20%.

Value Added Tax (VAT): The standard VAT rate in Estonia is 20% (for land and building sale) and 9% (for accommodation services). Generally, the sale of property is VAT exempted. The exemption does not apply to:

- Property with a building or a part thereof, which is sold before the first use of the building
- Land with an established detailed plan, design criteria or building permit if there is no existing buildings
- A building which is significantly improved and which is sold before the first use of the building after improvement

Further, regardless of the exemption, a VAT registered person may voluntarily, by informing the tax authorities, add VAT to the sale of real estate, other than a dwelling. Upon voluntary application of VAT, the VAT is declared and paid by the buyer in place of seller (reverse charge VAT).

Taxation on transfer

A state fee or transfer tax: State fee is calculated on the basis of the transaction value. For transaction values in excess of EUR 639,120, the state fee is 0.16% of the transaction value but not more than EUR 2,560.

Notary fee: A notary fee is calculated on the basis of transaction value. When the transaction value is over EUR 6,391,165, the amount of notary fees is EUR 5,368.55 + 0.02% of the amount of the transaction value exceeding EUR 6,391,165. In the case of the transaction value being more than EUR 6,390,000, it is considered that the transaction value is EUR 6,390,000. If there is more than one party to the transaction, the notary fee has to be multiplied by two.

The value of the real estate or right being the object of the notarial act is the basis for determining transaction value.

Income tax on transfer of property: In general, income tax on the profits gained by selling a property could be applied. Capital gains are included in the computation for taxable income, and taxed at the standard rate of 20%. Income tax is charged on gains derived by a non-resident from sale or the transfer of property located in Estonia.

The gains derived from the sale of property are the difference between the acquisition cost and the selling price of the sold property. A taxpayer has the right to deduct certified expenses directly related to the sale or exchange of property from the taxpayer's gain or to add such expenses to the taxpayer's loss.

Gains from the sale of real estate are not subject to income tax if:

- The property is a dwelling which was used by the taxpayer as a residence until transfer
- The property was acquired through a privatisation process with the right of pre-emption and the size of the registered immovable property does not exceed two hectares
- The property has been transferred to the taxpayer's ownership through restitution of unlawfully expropriated property
- A summer cottage or garden house has been in the taxpayer's ownership for more than two years and the size of the land plot doesn't exceed 0.25 hectares

Value added tax: The standard VAT rate for land and building sales is 20% in Estonia. Generally, sale of real estate is VAT exempted. In some cases the VAT generated by selling the property could be applied, for example, for the supply before the first occupation of buildings or their parts or for significantly renovated buildings or their parts or for plots detailed plans if there are no construction works on such plots.

Legal Information provided by Eversheds:

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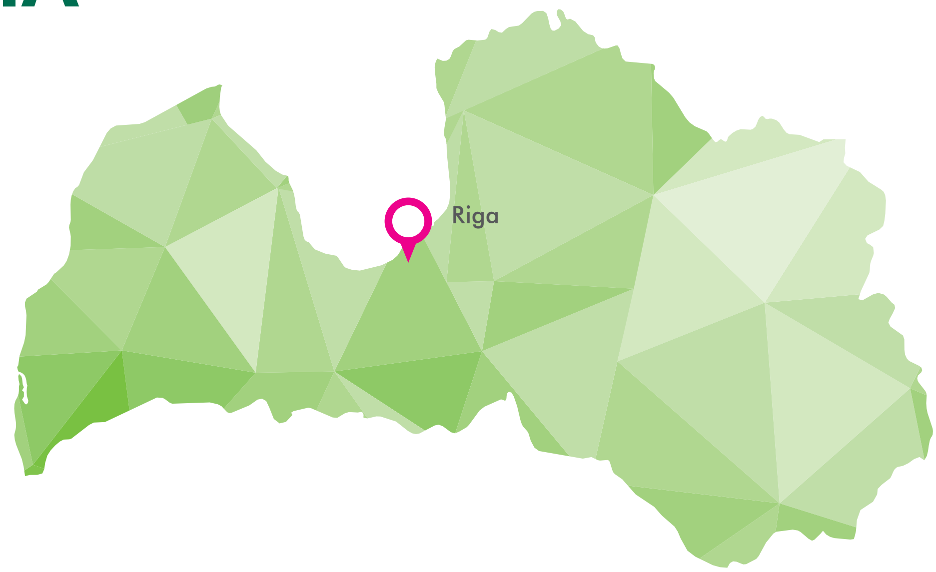

Market Strengths[1]

Transparency

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Legal Protection

Foreign Investor Restrictions

Major Players[2]

Domestic

Private Investors

Property Companies

Foreign

Non - European Institutions

European Property Funds

European Property Companies

Most Invested Assets[3]

Riga Shopping Centre

Riga Offices

Distribution & Logistics

Regional Offices

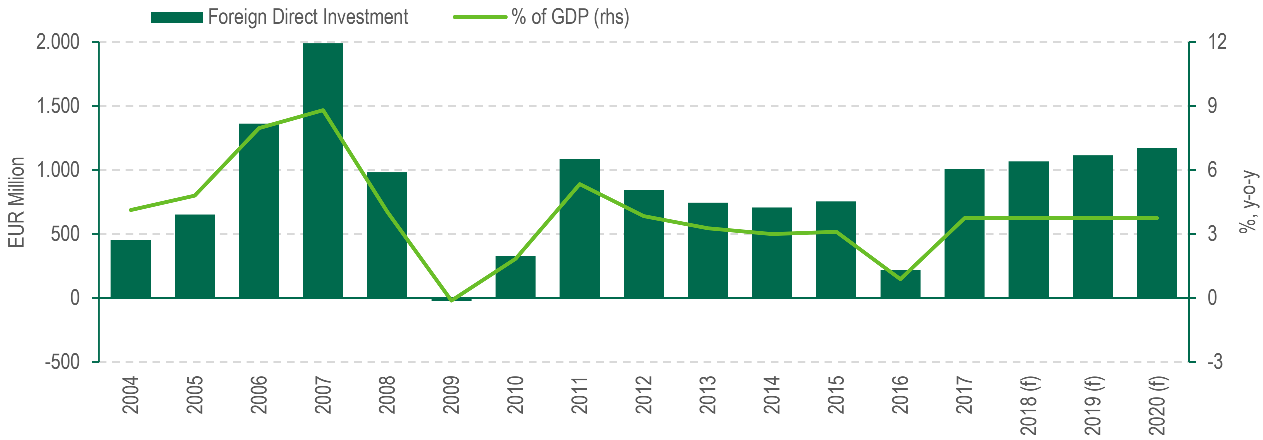
[1] Source: CBRE Research, Transparency International, iHS, World Economic Forum, World Bank, OECD, 2018. [2,3] Source: CBRE Research, CBRE Baltics 2018.

National Statistics

Latvia	2017	2018 (f)	2019 (f)	2020 (f)
Total Population (millions)	2.0	2.0	2.0	2.0
GDP Growth (real, year-on-year)	4.5%	3.9%	3.1%	3.1%
GDP Per Capita (real, EUR, 2010 prices)	11,421	11,925	12,358	12,808
Interest rate, long-term, end of period	0.8%	0.9%	1.4%	1.9%
Fixed Asset Investment (real, millions: 2010 prices)	4,553	4,958	5,295	5,619
Inflation Rate	2.9	2.5	2.7	2.2
Unemployment Rate	8.7%	8.1%	8.0%	7.8%

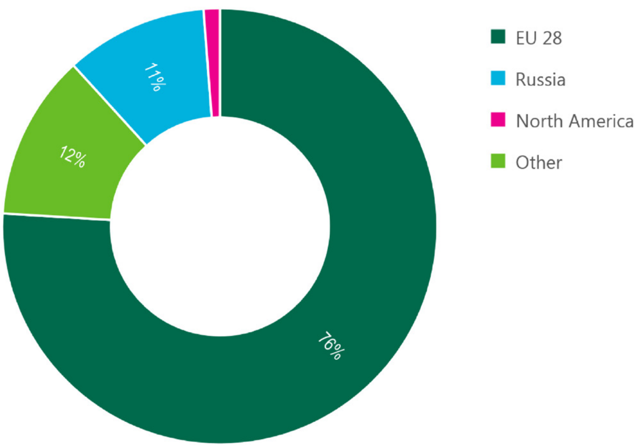
Source: Oxford Economics, Q3 2018

Foreign Direct Investment

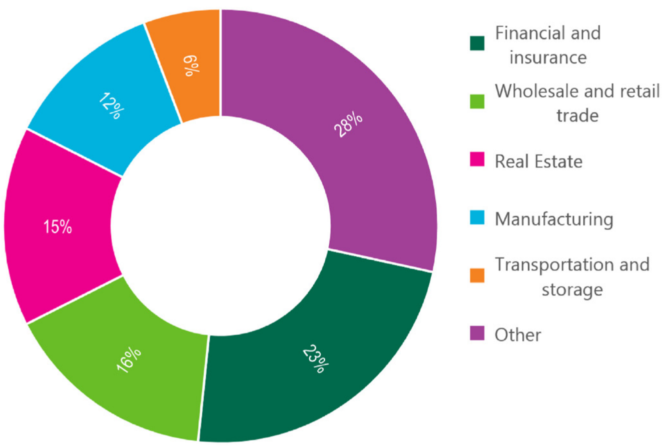


Source: CBRE Research, CBRE Baltics, Oxford Economics, 2018

Investment Turnover by Investor Origin (H2 2018)



Investment Turnover by Sector (H2 2018)



Source: CBRE Research, CBRE Baltics, 2018

Typical Sale and Purchase Terms

Price quotation	Price quoted in EUR, exclusive of purchase costs.
Agent fee	Approx. from 1.0 to 4.0% of the selling price plus 21% VAT.
Legal fee	Usually each party covers its own legal costs. Generally the buyer is responsible for the real estate transfer and notary fees.
Tax on transaction	The acquisition of real estate is subject to real estate transfer stamp duty, a notary fee and registration in the Land Registry fee, usually paid by the buyer. Capital gains tax is paid by the seller.
Loan terms	Commercial property loan terms usually depend on the loan amount, LTV ratio, loan term, type of collateral, credit history, etc. • For commercial properties 60-80% LTV for loans with collateral. • For development projects pre-leases amounting to 30-50% (depending on the type of property) are usually required. • For residential properties, the maximum LTV ratio for the first outstanding loan is 85%. Loan tenures are capped at 30 years. The maximum amount of a borrower's monthly credit repayment and interest (under all obligations), as to date, must not exceed 40% of sustainable monthly income.
Borrowing rate	Typically based on EURIBOR plus an interest margin of between 2.0 - 4.0%.
Mode of payment	Balloon payment is popular for commercial property loans. Residential mortgages are repaid on an amortisation schedule, usually on a monthly basis.

Typical Leasing Terms

Rent quotation	EUR/sq m/month; usually quoted based on lettable area. Maintenance fees, utilities and VAT are usually excluded and to be paid additionally. A standard lease contract usually provides a double-net lease structure.
Lease term	The minimum or maximum mandatory term for private individuals or companies generally is not established by law, thus it is determined by the parties. Usual office, retail and industrial lease terms: (i) for secondary projects terms start from 3 years (ii) for built-to-suit terms range from 5-15 years, and (iii) for pre-leases within brand new projects terms start from 5 years.
Frequency of payment	Rent is usually paid once a month/quarter to the bank account of the landlord.
Rent-free	Depends upon the agreement of the parties and the initial investment level by either party.
Deposit	As agreed upon by the parties. Security deposit or bank guarantee of 1-3 months' rent is generally required. 2 month rent for the first and last month in advance for residential premises.
Rent reviews	As agreed upon by the parties. Typically made upon renewal of the lease agreement. Rents are often subject to annual indexation – local or EU inflation (HICP) rates or capped at a pre-agreed fixed rate.
Renewals	The tenant may have the pre-emption right to renew the lease agreement after the expiry of the term in the event that it he has duly performed all of the obligations of the agreement. Option of renewals on other grounds can be proposed by either tenant or landlord.
Right to sublet	Depends on the agreement of the parties.
Break options	Parties are free to vary lease lengths, breaks and other terms. A lease agreement entered into for an indefinite period of time shall terminate, unless otherwise agreed, upon a six months' prior notice. The law sets several reasons which allow termination of the lease agreement. Usually parties agree on the relevant compensation if terminating the agreement before the agreed lease term.
Fit-out	Fit-out contributions are subject to negotiation and depend on the agreement of the parties. Standard fit-out is covered by the landlord.
Agent fee	Tenant representation between 8.0-12.5% of the annual rent paid by tenant.

Land System

Land ownership and land use tenure

Freehold (ownership), leasehold, common hold (usufruct), condominium ownership and joint ownership tenures exist in Latvia.

Freehold/ownership is the full right of control over property i.e. the right to possess and use it, obtain all possible benefits from it, dispose of it and, in accordance with prescribed procedures, claim its return from any third person.

Lease rights entitle the leaseholder to use the real estate or parts of it according to the agreement and applicable law. The lease can be registered in the Land Registry.

A **usufruct or common hold** is a right granted to a person to receive benefits from, to use and to acquire fruits from the property of another person.

Condominium ownership means rights to a flat (apartment), which is a particular, identified part of a house/apartment building. Connected to that is the ownership of an intangible part of land under the building and of the common premises (proportionate to the area of the flat in the house).

Joint/Co-ownership according to Civil Law, is ownership rights which belong to several persons in respect of one and the same undivided property, not as shares divided in real life, but as undivided shares - so that only the substance of the rights is a dividend. In the case of co-owned real estate, one owner may perform any actions in respect to the real estate only with the consent of the other owner/s. If the owner acts separately without any such consent (alienates, encumbers the real estate etc.), this act is void. Furthermore, the person who performed the act is under an obligation to pay damages to the other co-owner/s.

About three quarters of all the land is owned by the private sector. The rest is owned by state institutions or local municipalities.

Land sales system

Most real estate transactions are completed between private entities. Public auctions are possible and are commonly used by banks selling mortgaged property or by the state.

The ownership of real estate by a particular person is registered in the Land Registry, together with any other optional and mandatory characterizing features of the real estate. The person registered as the owner in the Land Registry is legally presumed to be the true and lawful owner of the real estate.

Information in the Land Registry is available to everyone for a small fee. The entries of the Land Registry have public credibility.

Land use

Any significant land or building developments require an approval by state institutions or local municipalities. In the case of unauthorized developments or construction, significant fines may be applied, as well as an obligation to take down/demolish the illegal construction.

Property ownership

Real estate ownership is registered in the Land Registry of Latvia. The ownership is passed over upon an entry in the Land Registry. The sale and purchase agreement of real estate is not an obligatory subject to notarial authentication. The parties may choose whether to sign the agreement privately or with the presence of a public notary, however the request for corroboration has to be signed in the presence of a public notary.

From a legal point of view, a building is regarded as part of the land it lies upon. A building can be a legally separate entity from the land it lies upon, however this is generally regarded as an undesirable occurrence and there are ongoing attempts to end it, particulary in respect of residential buildings. Since 1 January 2017, a new concept of building rights has been introduced allowing the construction of engineering objetcs, as well as non-residential buildings on other person's land plot and for the registration of such objects in the Land Registry as a separate objects of a property if a long-term building rights contract is concluded. Otherwise, please refer to land ownership as the same rules apply.

Foreign Investment

Foreign ownership restrictions

Latvian legislation does not limit the scope of persons who may acquire the ownership of buildings and constructions. However, there are some limitations regarding the acquisition of land.

In the cities of the Republic of Latvia land may be acquired into ownership by:

- Citizens of Latvia and other EU member states
- The state and municipalities of Latvia
- State and municipal companies
- Other companies incorporated in Latvia or other EU countries (some conditions apply)

In rural areas of the Republic of Latvia land may also be acquired into ownership by farms and individual undertakings registered as tax payers or performers of commercial activity in the Republic of Latvia, if they are owned by citizens of the Republic of Latvia, EU or EEA.

For other persons not mentioned above, a separate consent from the city or district council is necessary for the acquisitions of the ownership of land. However, these persons cannot acquire the ownership of:

- Land in the state border zone
- Land in the Baltic Sea and Gulf of Riga coastal protection zone
- Land in the protection zones of other public bodies of water or watercourses, except when the land is planned to be built on according to the general plan of the city
- Agricultural and forest land according to the spatial plan of the local government
- Land in strict nature reserves and in zones of strict nature reserves in other protected territories
- Land in deposits of mineral resources of national significance

Special restrictions apply to agricultural and forestry land. Only limited amounts of such land may be bought by any person (one natural or legal person may acquire only up to 2,000 hectares of agricultural land; related parties may acquire up to 4,000 hectares of agricultural land). When acquiring agricultural land, a legal entity must comply with the following: 1) it shall certify in writing that use of such land in agricultural activity will be commenced within a definite period of time; 2) is able to indicate its ultimate beneficial owners and confirm that all beneficial owners are citizens of the Republic of Latvia, EU member state, EEA or Swiss Confederation; 3) its total tax debt in Latvia or its registartion country does not exceed EUR 150; 4) comply with the requirements regarding the proficiency of the national language. The Latvian Land Fund has pre-emptive rights on almost all agricultural or forestry land sold.

Incentives to foreign investors

Under certain circumstances, investing in real estate in Latvia may result in the grant of a Residence Permit.

Lease deposits are permissible. It is a common practice for lessors to use lease deposits to secure the performance of lease agreements by lessees.

Technically, sureties may be used in real estate transactions. However, it is not common.

Bank guarantees may be exercised for commercial leases.

Currency controls

None in place.

Market strengths

- Strategic location among the Baltic States
- Favourable interest rate environment
- Availability of leverage
- Stability and steady growth
- Most of Europe can be reached from Riga International Airport in just a few hours

Property Taxes

Taxation on owners

Real estate tax: The objects that are subject to real estate tax are those located in Latvia and which cannot be moved from one place to another without causing structural damage (i.e., land and buildings). The tax is paid by Latvian and foreign private individuals and legal entities, and the groups formed from these entities on a contract basis or their representatives, who own or legally hold the real estate.

Commercial buildings are subject to **building tax** of 1.5% of the cadastral value of a building annually. 1-3% real estate tax is levied on buildings degrading the environment and on human security-threatening houses or buildings in order to force the owner to maintain the property according to the law. The real estate tax rate for residential houses and apartments not used to conduct business activities varies from 0.2% to 0.6% depending on the cadastral value of the real estate. An additional 1.5% real estate tax is levied on uncultivated agricultural land. The cadastral value is defined by the State Land Service, whereas the amount of the tax payable is set by the municipality where the real estate is located.

The taxation period is one calendar year. Real estate tax is payable once a quarter by quarterly amounts (1/4 of the yearly payment). The tax can be similarly paid once a year as an advance payment. Real estate tax is payable starting from the next taxation year after obtaining the ownership or legal possession of the real estate, and the obligation to pay real estate tax ends from the next taxation year after the termination of the ownership or legal possession of the property (exceptions may apply). Real estate tax is accounted for in the budget of the municipality where the property is located.

Land tax: The real estate tax is applied to buildings and land plots separately. Vacant land is also subject to real estate tax of 1.5% of the cadastral value.

Lease tax: No specific lease taxes exist. Private individuals/legal entities are only taxed with the Personal Income Tax (PIT) for the income gained through the lease of the real estate within the scope of their commercial activity.

Mortgage: There is a state (stamp) duty for the registration of any mortgage on the real estate. Stamp duty for the registration of a mortgage in the Land Register is set at the rate of 0.1% of the sum of the loan as according to the loan agreement.

Corporate Income Tax (CIT): Company Income Tax is paid by residents, non-residents and the permanent representative offices of the non-residents. Company Income Tax is calculated at 20% from the profit gained from commercial activities in Latvia and abroad for residents and the permanent representative offices. Regarding non-residents taxable is income gained in Latvia from economic activity or related activity. Tax shall be deducted from payments paid by residents and permanent representations to non-residents if personal income tax has not been previously deducted from such payments. The taxation period is one calendar month. The Income tax amounting to 20% (few exceptions apply) is deducted from payments made to the low-tax or tax-free countries or territories stipulated by the regulations of the Cabinet of Ministers.

Personal Income Tax (PIT): Latvian personal income tax payers are Latvian tax residents and non-residents for tax purposes. The PIT has a progressive rate for commercial activities - 20% for income below EUR 20,004, 23% for the part of the income exceeding EUR 20,004, but less than EUR 55,000 and 31.4% for the part of the income exceeding EUR 55,000. Capital gains as well as income from capital, which is not a capital gain (i.e. dividends, interest and similar income) is taxed at 20%. The general principle followed within the taxation of private individuals is that Latvian tax residents are taxed on their worldwide income, but Latvian non-residents for tax purposes are taxed on their Latvian sourced income, i.e. income attributable to Latvia. The taxable income of residents includes the income from the lease and sublease of any real estate as well as from alienation of real estate (few exceptions apply). Private individuals also pay income tax for the income gained from their commercial activities (including real estate management).

The taxable income of non-residents – private individuals – is the income from the use and lease of the property located in Latvia as well as income from the alienation of such real estate and the income gained from the improvement of the real estate by the lessee during the lease of the property belonging to the non-resident. As the non-resident's income from the alienation of the real estate is considered to be also such income that is gained from the alienation of the shares in a Latvian or foreign company if during the year of alienation or the immediately previous year more than 50% of such company's assets directly or indirectly have been the real estate located in Latvia.

Value Added Tax (VAT): VAT is applied to the lease of the real estate. The VAT rate is 21%. The taxation period is either 1 month or 3 months depending on the total sum of the transactions carried out in the pre-taxation year or on the territory of carrying out the transactions (i.e., whether in the country of the merchant's general place of business or in another EU member state). The following persons can be registered in the VAT Payers' Register of the State Revenue Services: 1) private individuals; 2) legal entities; 3) partnerships; 4) authorized representatives of groups of persons carrying out economic activities on the grounds of agreement; 5) VAT groups; 6) fiscal representatives; 7) persons from other EU member states or non-EU member states and their authorized representatives in Latvia.

Taxation on transfer

Stamp duty: For every registration of title rights with the Land Register resulting from the sale/transfer of property stamp duty must be paid. The amount of stamp duty depends on the type of transfer. The stamp duty is applied per property and is charged as a percentage of the real estate value (sales price or cadastral value, whichever is higher).

For the transfer of property to:

- Relatives – 0.5% of real estate value
- Other private individuals or and legal entities – 2% of real estate value
- Other private individuals or legal entities as a gift – 3% of real estate value
- Transfer of a resdiential property (flat) to a legal entity performing a commercial activity – 6% of real estate value

The stamp duty on real estate transferred as an investment in kind into the equity of a company is chargeable at a rate of 1% from the amount of investment.

Notary fee: The notary fee depends on the value of the transaction. For example, if the transaction value is more than EUR 142,289, the fee ceiling is EUR 705.89 plus 0.1% of the transaction value that exceeds EUR 142,289.

Land registry fee: The registration fee is minimal. The fee for corroboration of a new right is EUR 14.23.

Capital Gains Tax: Profit gained by a private individual or a company from the real estate upon its alienation (sale) is subject to Capital Gains Tax, the rate of which is 20%. Non-resident companies are taxed with 3% income tax from the income gained from the sale of the real estate located in Latvia. Non-resident's income from the alienation of the real estate located in Latvia is also considered to be such income that is gained from the alienation of the shares in a Latvian or foreign company if during the year of alienation or the immediately previous year more than 50% of such company's assets directly or indirectly are or have been formed by real estate located in Latvia. For further reference please see the section on Income tax.

Income from the sale of real estate is not taxable if ownership of the real estate has continued for more than 60 months and the real estate was the person's primary declared place of residence for at least 12 months before the date the sales agreement was concluded. The income is also not taxable if the ownership of the real estate has been for at least 60 months and during the last 60 months before the alienation of the only real etstae it has been the person's only real estate or if the income gained form the alienation of the only real etstae is invested in a functionally similar real estate within 12 months after or before the alienation. Also, other exceptions exist.

Value Added Tax (VAT): Transactions that are taxable by value added tax (VAT) also include the first sale of any unutilised real estate (for example, a newly constructed building or structure, a building or structure after renovation, reconstruction or restoration works, a construction in progress etc.) and the sale of the land for construction.

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LITHUANIA

Market Strengths[1]

Transparency

Investment Liquidity

Legal Protection

Foreign Investor Restrictions

Major Players[2]

Domestic

Property Funds

Property Companies

Private Investors

Foreign

European Property Funds

European Property Companies

Non - European Institutions

Most Invested Assets[3]

Vilnius Offices

Regional Shopping Centres

Vilnius Shopping Centres

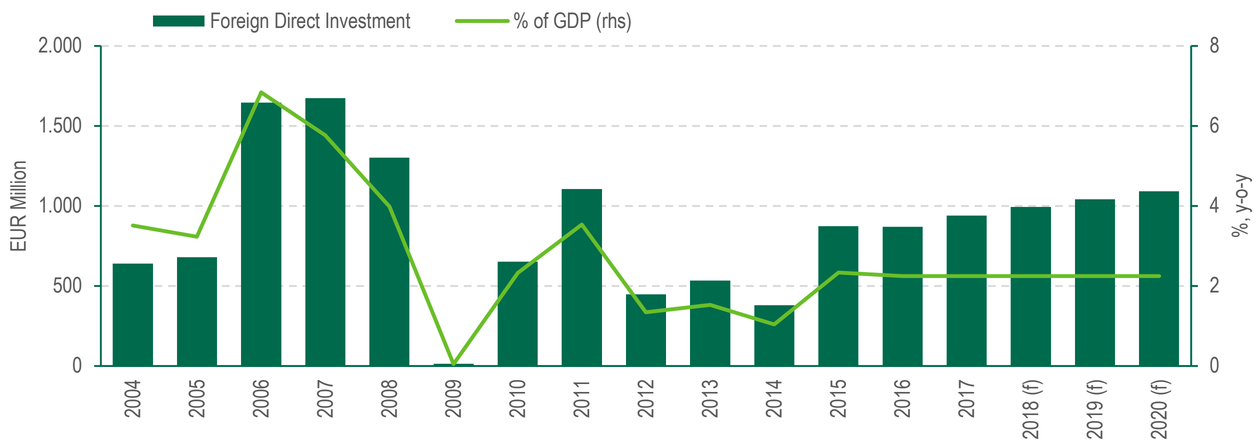
[1] Source: CBRE Research, Transparency International, iHS, World Economic Forum, World Bank, OECD, 2018. [2,3] Source: CBRE Research, CBRE Baltics, 2018.

National Statistics

Lithuania	2017	2018 (f)	2019 (f)	2020 (f)
Total Population (millions)	3.0	3.0	3.0	2.9
GDP Growth (real, year-on-year)	3.9%	3.4%	2.7%	2.7%
GDP Per Capita (real, EUR, 2010 prices)	12,073	12,517	12,890	13,275
Interest rate, long-term, end of period	0.3%	0.3%	0.8%	1.3%
Fixed Asset Investment (real, millions: 2010 prices)	7,152	7,542	7,925	8,271
Inflation Rate	3.7%	2.8%	2.3%	2.1%
Unemployment Rate	7.1%	6.7%	6.3%	6.0%

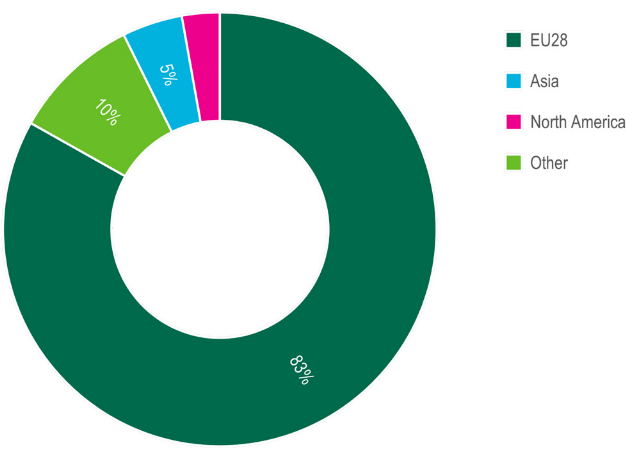
Source: Oxford Economics, Q3 2018

Total Investment Turnover

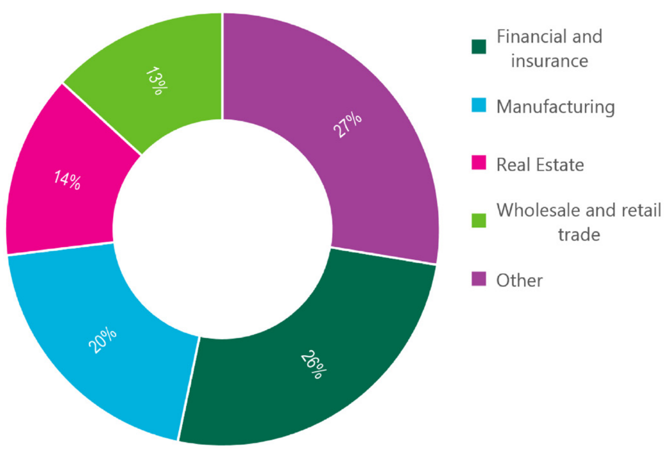


Source: CBRE Research, CBRE Baltics, Oxford Economics, 2018

Investment Turnover by Investor Origin (H2 2018)



Investment Turnover by Sector (H2 2018)



Source: CBRE Research, CBRE Baltics, 2018

Typical Sale and Purchase Terms

Price quotation	EUR based on sellable area.
Agent fee	Approx. from 1.0% to 3.0% of the price plus 21% VAT.
Legal fee	Negotiable, who covers the legal fees. Usually each party is responsible for its own legal costs. According to law – the buyer assumes the expenses, save for cases when the parties agree otherwise.
Tax on transaction	The buyer (if not agreed otherwise) is liable for the notary fee and registration fee while the seller is liable for value-added tax and tax payable for any gains realized from the sale of property.
Loan terms	Commercial property loan terms usually depend on the loan amount, LTV ratio, loan term, type of collateral, credit history, etc. • For commercial properties 60-70% LTV for loans with collateral • For development projects pre-leases amounting to 30-50% (depending on type of property) are usually required • For residential properties, the maximum LTV ratio for the first outstanding loan is 85%. Loan tenures are capped at 30 years. The maximum amount of a borrower's monthly credit repayment and interest (under all obligations), as to date, will not be above 40% of any sustainable monthly income
Borrowing rate	Typically based on EURIBOR plus an interest margin of between 1.8-3.6%.
Mode of payment	Balloon payment is quite popular for commercial property loans. Residential mortgages are repaid on an amortisation schedule, usually on a monthly basis.

Typical Leasing Terms

Rent quotation	EUR/sq m/month; usually quoted based on lettable area. Maintenance fees, utilities, marketing, administration fees (if applicable) and VAT are usually excluded and paid additionally. Triple-net leases have become as standard for Grade A offices.
Lease term	Office, retail, and industrial lease terms: (i) for secondary projects terms start from 3 years (ii) for built-to-suit terms range from 5-15 years, and (iii) for pre-leases within brand new projects terms start from 5 years.
Frequency of payment	Rent is usually paid once a month/quarter to the bank account of the landlord.
Rent-free	1-3 months - depending on the agreement of the parties.
Deposit	Security deposit or bank guarantee of 1-3 months' rent is generally required. Landlords rarely accept a parent company guarantee.
Rent reviews	Typically made upon renewal of the lease agreement. Rent may be reviewed annually in respect of any change of local or EU inflation (HICP) rates.
Renewals	Option of renewals on other grounds can be proposed by tenant or landlord.
Right to sublet	Depends on the agreement of the parties (i.e. consent included in the agreement, or separate consent of the landlord should be received).
Break options	The laws provides for a list of grounds of possible unilateral termination of the lease agreement prior to expiry of its term due to any breaches made by one party or it becomes impossibile to use the property. This list may be supplemented by the agreement of the parties. Usually parties agree on the relevant compensation if terminating the agreement before the agreed lease term due to the party's fault. If the lease is of an indefinite duration, both parties shall have the right at any time to terminate the contract with prior written notice of three months served on the other party.
Fit-out	Depends on the agreement of the parties, but typically the landlord agrees with the tenant upfront and performs the fit-out works. It is rarely that tenants do works by themselves.
Agent fee	Tenant representation between 8.0-12.5% of the annual rent paid by the tenant.

Land System

Land ownership and land use tenure

Land in Lithuania may be owned or rented. Ownership must be registered with the Register of Real Estate of the Republic of Lithuania. Lease agreements may also be registered in the Register of Real Estate. Registration of leases is not mandatory, but is usually beneficial to the parties since lease agreements may only be enforced against third persons if they are registered within the Register of Real Estate of Lithuania.

Other most common forms of use of the land: Loan for use, Usufruct, Right of Superficies, Emphyteusis, Right of trust.

Land sales system

Formed land plots are registered within the Register of Real Estate of Lithuania. All land, except exclusive ownership of the State (forests of State significance; historical, archaeological and cultural objects of State significance, internal waters of State significance, continental shelf of the territorial sea, etc.) may be sold/purchased or rented/leased, save for some exceptions and following other requirements of laws.

State land and Municipality land in Lithuania may be purchased following the requirements of auction procedures, save for some exceptions established by laws. Private land may be purchased following the agreement of the parties and mandatory rules of laws (i.e. following the requirements of the pre-emtion right to acquire private agricultural land, or others).

Any sale – purchase agreement in respect of any acquisition of the real estate is subject to a notary's approval and registration within the Register of Real Estate of Lithuania.

Land use

State land in Lithuania may be leased for any term not exceeding 99 years in total (agricultural land may be leased for the maximal period of 25 years). Commonly, the term of the lease of State land is determined taking into account the economicially justified lifetime of the building or certain structure. Auction procedure is usually required for State land leases, except in some cases, for example, where the buildings/constructions owned by that person or entity are located on a certain land plot; where the land plot is necessary for concession or public-private-partnership projects and other reasons. The tenant is obligated to register the State land lease agreement with the Register of Real Estate of Lithuania within three months after conclusion of the agreement.

Municipality land may be leased in accordance to the procedure set down by the Council of the particular Municipality. Users of Municipality land are obligated to pay a land lease payment. The annual payment is set by the particular municipality within the range specified by the Government Resolution: from 0.1% to 4.0% of the taxable value of the land.

Terms and conditions of a lease of the private land depend on the agreement of the parties following the mandatory rules of laws.

Registration of a lease within the Register of Real Estate of Lithuania is highly recommended as it results in the protection of rights of the parties.

Property ownership

The Land fund of the Republic of Lithuania consists of State land, municipality land and private land, located in the territory of Lithuania.

The title to Real Estate passes upon its transfer (usually a transfer and acceptance deed is concluded, which is incorporated in the agreement or signed separately).

Maximum area of the owned agricultural land is 500 ha per person (or related persons) in total (except for the livestock farming purposes); and 300 ha of the agricultural land acquired from the State.

Foreign Investment

Foreign ownership restrictions

Generally, investors are entitled to acquire all types of property in the Republic of Lithuania. However, in accordance with the laws, only those individuals and legal entities that meet the criteria of European and Transatlantic integration are entitled to acquire land, internal waters and forests in the Republic of Lithuania (for instance, a legal entity is established/natural person resides in: member states (countries) of EU, OECD, NATO, EEA).

The laws establish some restrictions relating to the acquisition of agricultural land in Lithuania:

- Natural persons and legal entities (or related persons in both cases) cannot own more than 500 ha of agricultural land in total

- Natural persons and legal entities, who want to buy agricultural land in Lithuania must obtain consent from the National Land Service to buy agricultural land in order not to exceed the maximal amounts of the owned agricultural land (such a requirement is also applicable in respect of the acquisition of the shares in the company, owning agricultural land, where the buyer intends to acquire more than 25% of the company's shares)
- Natural persons and legal entities which intend to buy agricultural land, where the total area of agricultural land would be more than 10 ha, shall be obliged to ensure the use of this land for agricultural purposes only for no less than five years

Incentives to foreign investors

Similar to its Baltic neighbours, Lithuania imposes pretty relaxed legislation on foreign real Eetate ownership - property may be acquired without the requirement of Lithuanian residency, restrictions to acquire real estate in Lithuania for foreign subjects are relatively minimal, moreover, lately the development and regrowth in the real estate market is taking place and Lithuania is set to be within the top tier of the fastest growing countries in the EU.

Currency controls

None.

Market strengths

- Minimal restrictions for investors acquiring real estate in Lithuania
- Relatively cheap real estate in Lithuania
- Clear, transparent and quite simple procedures of purchase and registration of any real estate
- Taxes in Lithuania are modest compared to other EU members

Property Taxes

Taxation on owners

Real Estate Tax: The Real Estate Tax (with some exceptions and excluding land), registered in Lithuania, is payable by local and foreign legal entities and individuals, that own real estate in Lithuania or in certain cases – legal entities that use it.

The annual tax rate is set by the particular municipality within the range specified by laws: from 0.3% to 3.0% of the taxable value of the Real Estate. The tax is imposed on the basis of the average market value of immovable property, indicated by the Register of Real Estate of Lithuania or according to the individual valuation of the property, when individually the set value differs from the average market value by more than 20%.

Land Tax: Owners of private land (except forestry and afforested agricultural land), located in the territory of Lithuania, are subject to the Land Tax. Owners include individuals or legal entities, as well as collective investment undertakings which are not treated as legal entities. The annual tax rate is set by the particular municipality within the range specified by laws: from 0.1% to 4.0% of the taxable value of the land. The tax is imposed on the basis of the average market value of the land, indicated by the Register of Real Estate of Lithuania or according to the individual valuation of the property, when the individually set value differs from the average market value by more than 20%. The taxable value of the land is calculated by a mass valuation at least every 5 years.

Land Lease Tax: Users of State land are obliged to pay Land Lease Tax. The annual tax rate is set by the particular municipality within the range specified by the Government Resolution: from 0.1% to 4.0% of the taxable value of the land.

Corporate Income Tax (CIT): Lithuanian and foreign entities are subject to Corporate Income Tax. A rate of 15% tax is applicable to the taxable profits (including income from any sales transaction of real estate) of a Lithuanian entity and foreign entity through permanent establishments situated in Lithuania or otherwise than through permanent establishments when the income is received in Lithuania. The tax period is a calendar year and shall be paid by the first day of the sixth month of the following tax period.

Personal Income Tax (PIT): The following persons are subject to Personal Income Tax: (i) residents of Lithuania are taxed on income, and (ii) non-residents of Lithuania are taxed on Lithuanian sourced income, as prescribed in law. The standard rate is 15% on personal income. Special rules are applied for persons performing individual activities. The tax period is a calendar year and shall be paid by May of the following year.

Value Added Tax (VAT): Lithuanian and foreign natural and legal persons who carry out economic activities in Lithuania (or even not undertaking any economic activity in some cases); also undertakings for collective investment that do not have a status of a legal person and whose form of activity is an investment fund are subject to Value Added Tax (VAT), as prescribed in law.

Despite some exceptions, in general the rent of immovable property is exempted from VAT. However, the VAT payer has a right of option and may be charged if the tenant of the real estate is also registered as a VAT-payer. Such an option shall be declared and is considered as valid for certain transactions concluded by the VAT payer within the subsequent 24 months. Normally the tax period of a legal person is a calendar month and tax period of a natural person is a calendar half-year.

Taxation on transfer

Notary fee: The acquisition of real rstate is subject to a notary fee, which is set as 0.45% of the price but not more than EUR 5,792.40 (in the case of a sale-purchase of several real estate units, the fee is capped at EUR 14,481).

Registration fee: The acquisition of real estate is subject to a registration in the Register of Real Estate fee, which depends on the average value of the real estate, capped at EUR 1,448.10 for one unit.

Value Added Tax (VAT): Generally, the sale and other transfer of immovable property are exempted from VAT, save for the sale of the new buildings (unfinished or finished for a period of two years after its completion/improvement) and the land where such a building is (or the land for construction), or the real estate located in Lithuania is sold by the person/ legal entity which carries out the particular activity. The standard rate is 21%. The VAT payer has a right of option and may be charged if the buyer of the real estate is also registered as a VAT-payer. Such an option shall be declareed and is valid for certain transactions concluded by the VAT payer within the subsequent 24 months.

Corporate Income Tax (CIT): The standard rate of 15% tax is applicable to the income from a sales transaction of the real estate. A foreign entity, after having received income from the sale of the immovable property, shall have the right to apply to the local tax administrator for a recalculation of Corporate Income Tax that has been calculated and paid in respect of the property sold. In this case, Corporate Income Tax should be calculated in respect of the income received due to the increase in the value of the property and/or taxable profits due to the activities carried out in the Republic of Lithuania.

Personal Income Tax (PIT): A rate of 15% tax is applicable to the "earned" income from sale transaction of the real estate save for some exceptions specified in laws (for instance, income is exempted from tax where the real rstate for sale was acquired more than 10 years prior to its sale or less than 10 years but meeting other criteria, specified in law).

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