



LITHUANIA REAL ESTATE MARKET REVIEW

2011

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REAL ESTATE MARKET REVIEW | 2011



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COMMERCIAL REAL ESTATE MARKET SHOWS PROMISING SIGNS



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

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

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

Economic Overview

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

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

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

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

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



KEY ECONOMIC INDICATORS OF LITHUANIA

f – forecast

Source: Department of Statistics to the Government of the Republic of Lithuania, Ministry of Finance, SEB, SWEDBANK.

Accounting methods of FDI were changed in Q1 of 2005. Data can not be compared yoy due to the change in the methods used.

GDP calculation methods were revised and data for 2007 - 2008 were updated.

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

FORECASTS

- ◇ Economic growth will continue, but the drivers of growth in 2011 - 2012 will not lead to long-term development. In the medium-long term huge emigration and lack of structural reforms will become the main factors hindering the country's economic development.
- ◇ Lithuania's economic recovery engine - exports will maintain its importance to the national economy, but its growth will be lower. Economic recovery will also be stimulated by accelerating domestic consumption.
- ◇ Consumption recovery in 2011 will be encouraged by improved expectations of the population and reduced savings. In 2012 the key factors of consumption growth will be rising real wages, increased employment and consumer confidence, improved lending conditions.
- ◇ Due to a growth in forecasted prices of raw materials, food and energy on global markets, inflation will continue to grow and become a major obstacle that must be met by Lithuania before joining the euro zone.
- ◇ The labour market will recover slowly. Although there is a high unemployment rate in the labour market there is little remedy currently. The biggest problem is a lack of skilled professionals due to emigration. Therefore, the situation in the labour market will depend on the ability of the unemployed to meet market needs, willingness to change qualifications and geographical mobility.

Office Market



OVERVIEW

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

SUPPLY

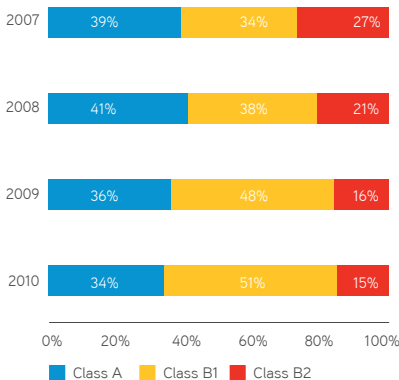
In 2010, the supply of Vilnius' office space grew by 6.3%, with 20,000 sqm being added to the market. The total supply of modern office space was 335,500 sqm at the end of the year. Supply growth increased 3-fold on

that added to the market in 2008 and 2009. Only one project in 2010 added B1 class premises for rent in Vilnius and it is likely that only class A will be opened in the business centre in 2011. At the beginning of 2010, 34 per cent of the total office space market in Vilnius was Class A and 66 per cent Class B.

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

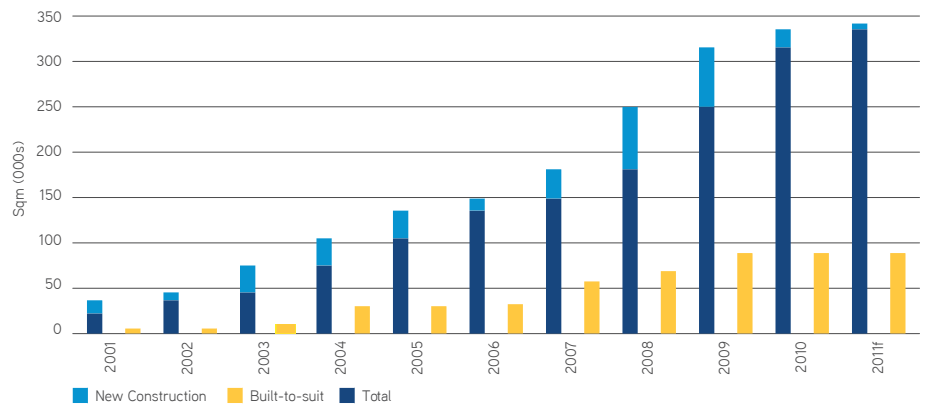
Due to economic conditions and the banks diminished willingness to grant financing, most of the new planned projects have been postponed. There is no speculative supply planned until market conditions support project feasibility.

DISTRIBUTION OF SPECULATIVE OFFICE SPACE IN VILNIUS BY CLASS



DYNAMICS OF OFFICE SPACE IN VILNIUS

f - forecast



COMPLETED SPECULATIVE PROJECTS IN 2010

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

LIST OF NEW SPECULATIVE PROJECTS UNDER CONSTRUCTION IN VILNIUS IN 2011

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



DEMAND

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

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

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

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

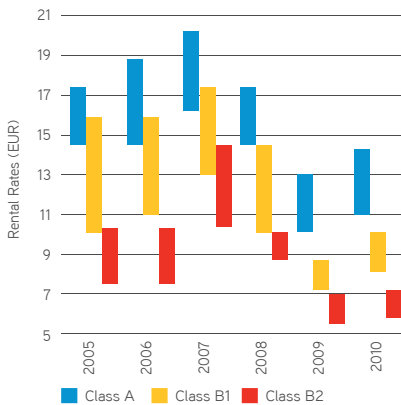
VACANCY

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

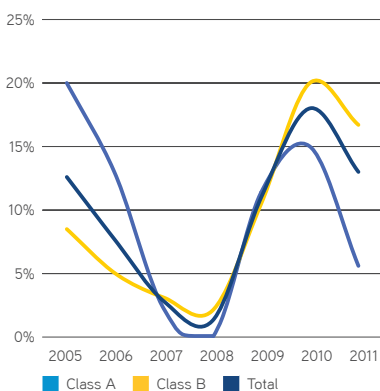
An increased supply of class B space did not have any impact in possible vacancy increases as all the premises were leased out prior opening.

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

DYNAMICS OF RENTAL RATES IN VILNIUS



DYNAMICS OF VACANCY RATES IN VILNIUS



RENTAL RATES

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

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

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

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

VACANCY RATES FOR 2010 IN VILNIUS AND TRENDS FOR 2011

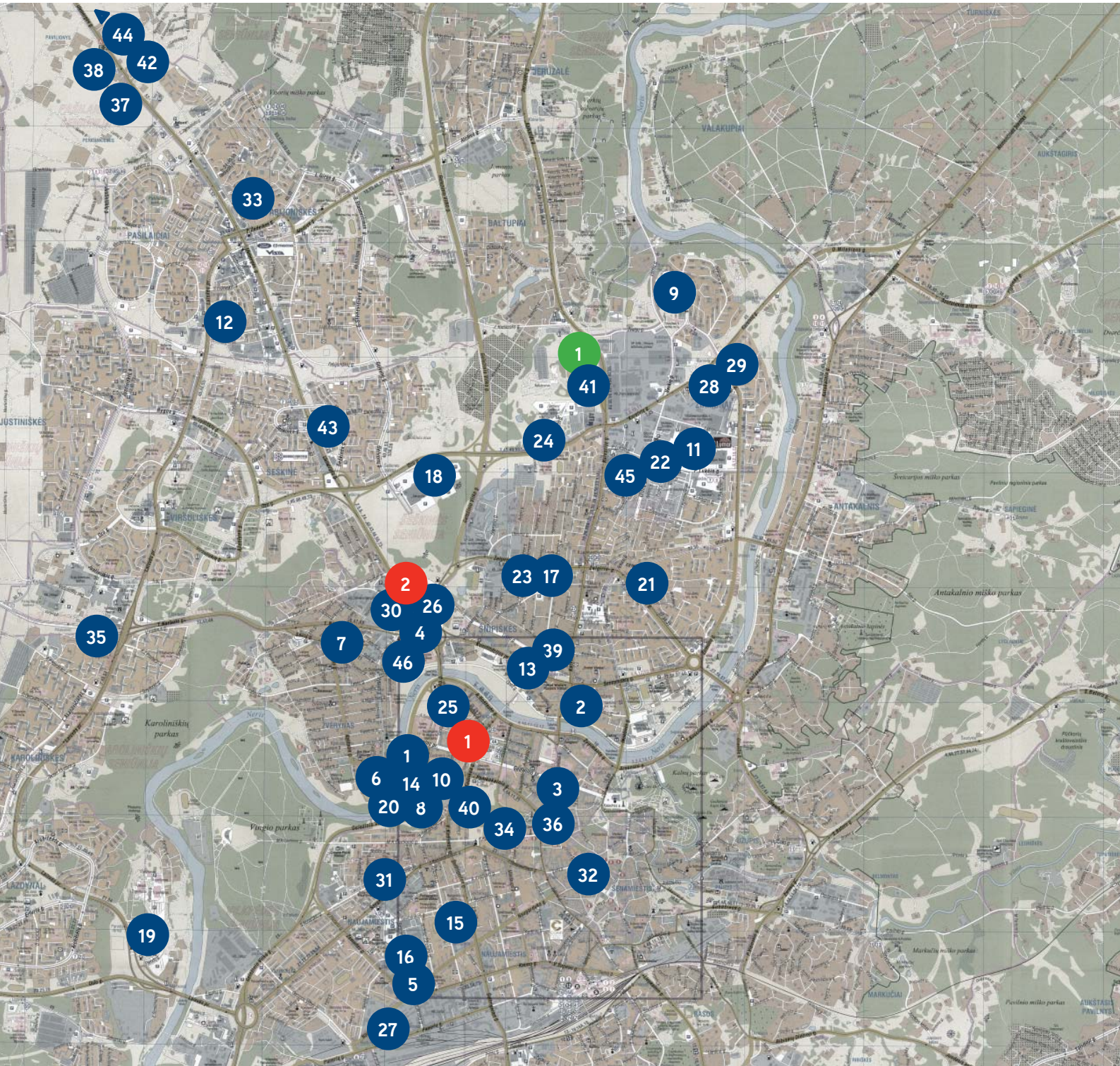
→→ - stable, →↘ - slight decrease

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



TRENDS AND FORECAST

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



BUSINESS CENTRES IN VILNIUS

● Existing Developments

- 1. BPT BC
- 2. IBC BC
- 3. BC 2000
- 4. Hanner BC
- 5. Skraja BC
- 6. MG Baltic BC
- 7. Marenta BC
- 8. Baltic Center
- 9. Zirmunu BC
- 10. Eika BC
- 11. Domus Centre
- 12. Commercial & Administrative Building
- 13. Europa
- 14. Office Plus

- 15. Vilbra BC
- 16. Smolensko BC
- 17. Zalgiris BC
- 18. Akropolis BC
- 19. L3 BC
- 20. Victoria
- 21. Tuskutenai BC
- 22. Danola BC
- 23. Kernave BC
- 24. Ozo BC
- 25. Vertas
- 26. Business Centre, Saltoniskiu St.
- 27. Skraidenis BC
- 28. Business-Residential Complex, Zirmunu St.
- 29. Business-Commercial Centre, Zirmunu St.
- 30. Saltoniskiu Trikampis

- 31. Helios City
- 32. VIH
- 33. Unimodus BC
- 34. Administrative Building, Roziu St.
- 35. Jin & Jan
- 36. Plaza 31/1
- 37. Trio BC
- 38. MB Projects BC
- 39. Vilnius Business Harbour
- 40. Taurakalnis BC
- 41. Alfa BC
- 42. Kamane BC
- 43. Evolution
- 44. Orange Office BC
- 45. North Star
- 46. Green Hall

● Completed in 2010

- 1. Beta

● Declared for Completion in 2011 - 2012

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

Retail Market



OVERVIEW

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

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

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

more than 5,000 sqm to the total retail space supply. Growth in the retail space supply market is not expected in the nearest future: although projects are at the preparation process, development would face especially high competition in the market.

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

DEMAND

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

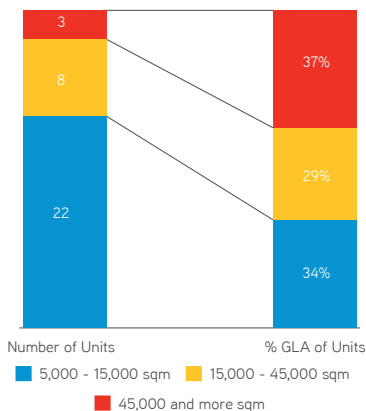
SUPPLY

Supply of leasable retail space in Vilnius grew by 14,000 sqm of (2.7 per cent) to reach 535,000 sqm. Only one new shopping centre (Link Moletu, 8,800 sqm) was developed, in the outskirts of Vilnius. The expansion of outlet centre Parkas added

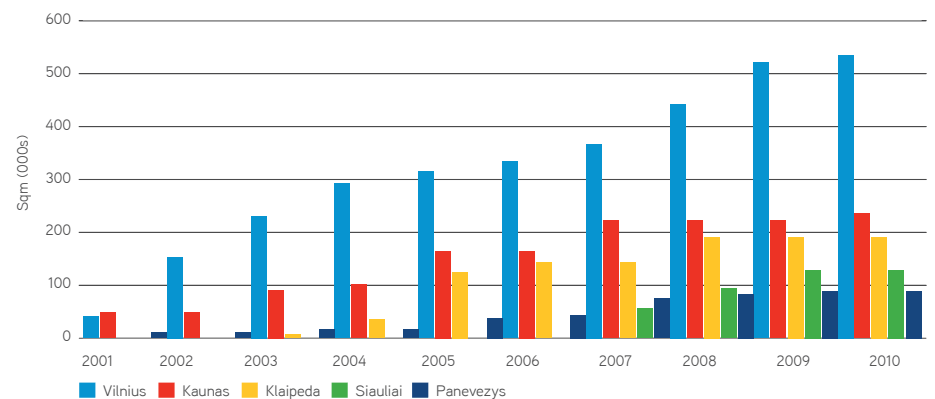
COMPLETED PROJECTS IN LITHUANIA FOR 2010

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

DISTRIBUTION OF RETAIL SPACE IN VILNIUS BY SIZE



DYNAMICS OF RETAIL SPACE





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

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

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

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

RENTAL RATES

Following a significant drop in rental rates during 2009; 2010 can be described as a period of stabilisation, though unfortunately at only a low level. A sluggish rental market offered discounts and incentives for certain periods in order to attract prospective

tenants. Favourable rent and terms set up for the short term were revised again, with only a fraction of them extended further.

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

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

VACANCY

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

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

RENTAL RATES FOR 2010 AND TRENDS FOR 2011

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

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

VACANCY RATES FOR 2010 AND TRENDS FOR 2011

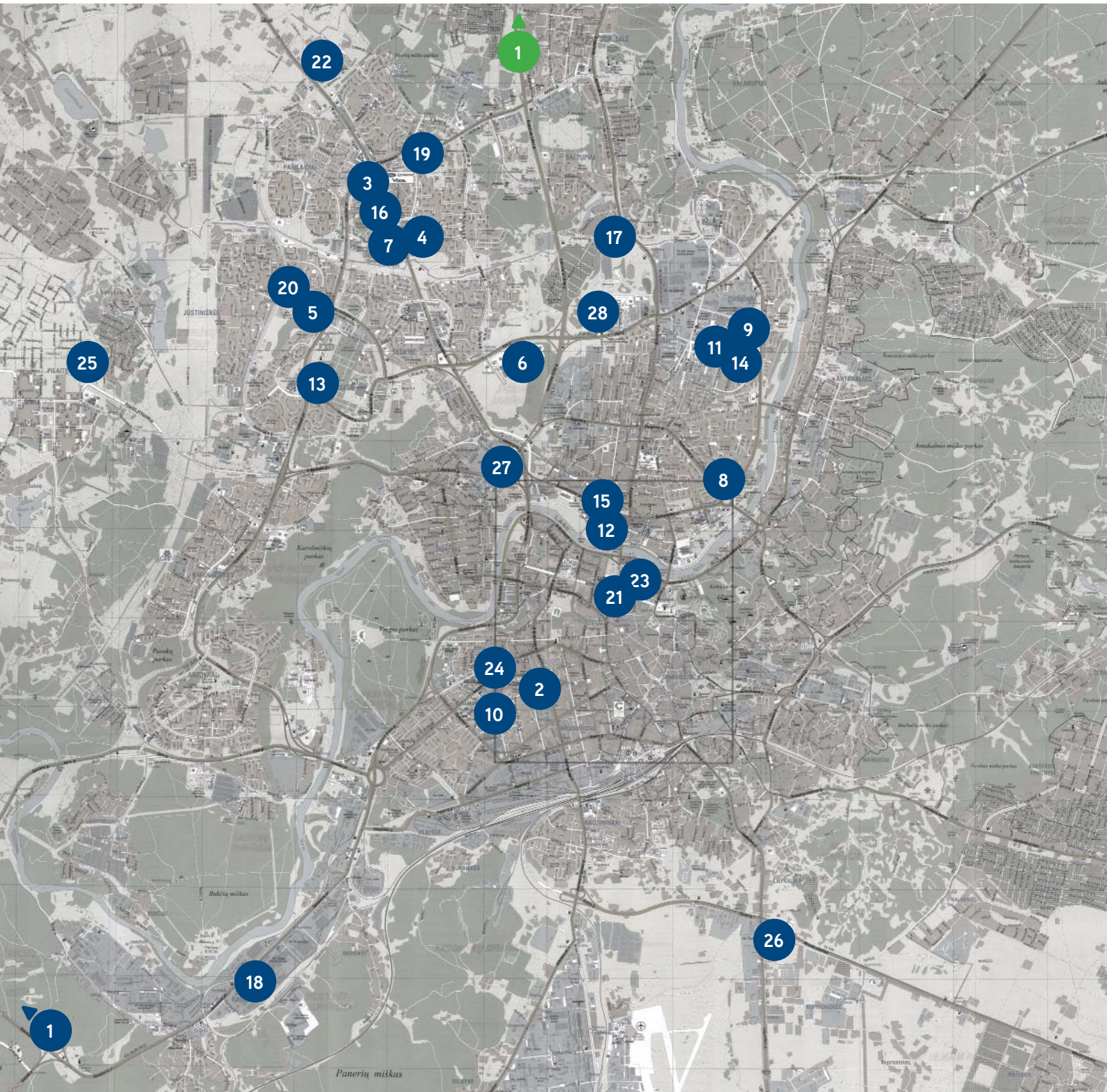
→→ - stable

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

TRENDS AND FORECAST

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





RETAIL PROJECTS IN VILNIUS

● Existing Developments

- 1. Maxima-Baze XXX
- 2. Maxima XXX
- 3. Maxima XX
- 4. IKI Fabijoniskes
- 5. Laisves Shopping Centre
- 6. Akropolis
- 7. Senukai
- 8. IKI Minskas

- 9. RIMI Hypermarket
- 10. RIMI Hypermarket
- 11. Domus Galerija
- 12. VCUP
- 13. MADA
- 14. Banginis
- 15. Europa
- 16. SBA Idejos Namams
- 17. Norfa XXL
- 18. Furniture Gallery

- 19. Mandarinas
- 20. Norfa XL
- 21. Flagman
- 22. BIG
- 23. Gedimino 9
- 24. Helios City
- 25. Pupa
- 26. MaximaXX
- 27. Panorama
- 28. Ozas

● Completed in 2010

- 1. Link Moletu

Warehouse Market



OVERVIEW

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

SUPPLY

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

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

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

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

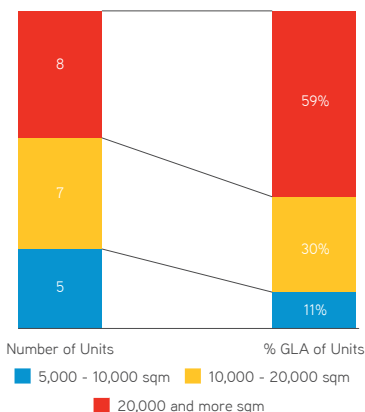
No warehouse projects were implemented in the Kaunas and Klaipeda regions, leaving the supply volume at 160,200 and 102,600 sqm respectively. A similar market situation is expected in 2011. Due to prolonged economic recession development of new projects will continue to be risky.

DEMAND

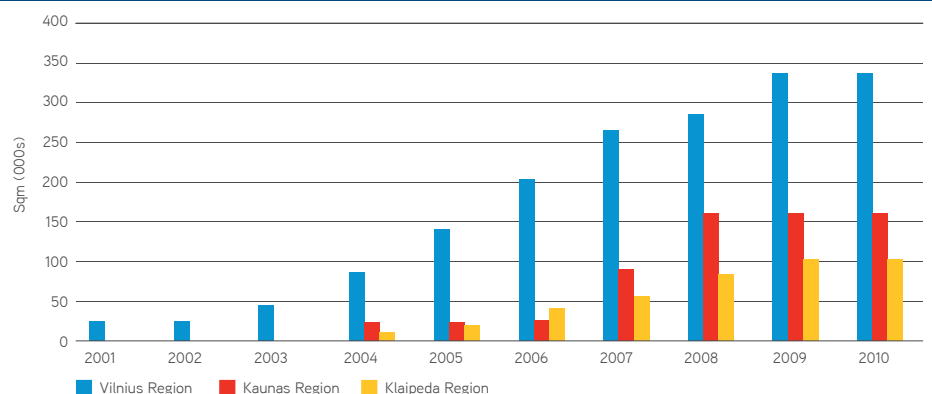
Warehouse operators, logistics companies, and retailers remain the main tenants. In 2010 these tenant groups occupied around 90 per cent of the total leased area of speculative warehouses. Due to such a tenant structure, the probability of a decrease in demand and a fluctuation in vacancy exists. Despite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

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

DISTRIBUTION OF WAREHOUSE PROJECTS IN VILNIUS BY SIZE



DYNAMICS OF WAREHOUSE SPACE



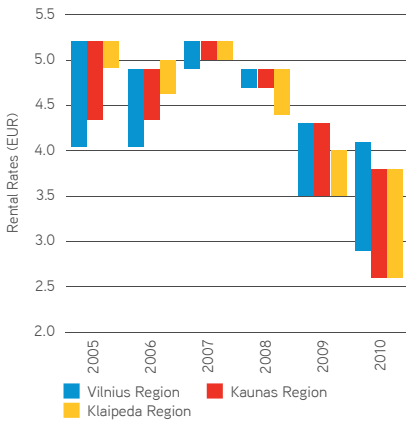
WAREHOUSE RENTAL RATES

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

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

DYNAMICS OF RENTAL RATES*

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

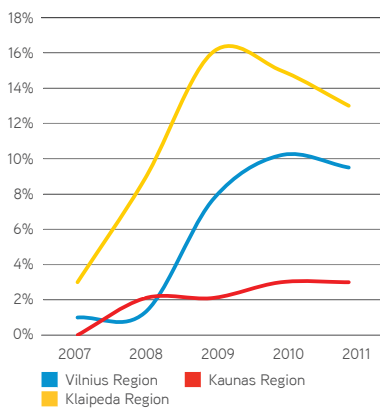


VACANCY RATES AND TRENDS

→↘ - slight decrease

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

DYNAMICS OF VACANCY RATES



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

RENTAL RATES

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

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

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

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

VACANCY

In 2010 slight fluctuation in the vacancy rate were seen. Since new supply was not added to the market, existing vacant space was

absorbed by relocation, expansions, or new companies entering the market. By the end of the year the vacancy level was approximately 9 - 10 per cent.

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

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

TENDENCIES AND FORECAST

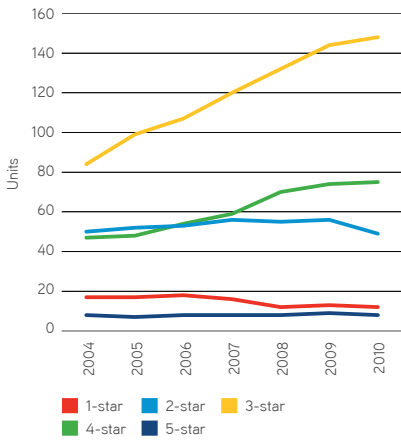
- ◇ The prolonged economic slowdown and credit policy of banks for warehousing projects will impact the feasibility of new developments. New projects will be started only after finding tenants (the construction on built-to-suit basis), and in their absence, project implementation will be postponed.
-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



Hotel Market

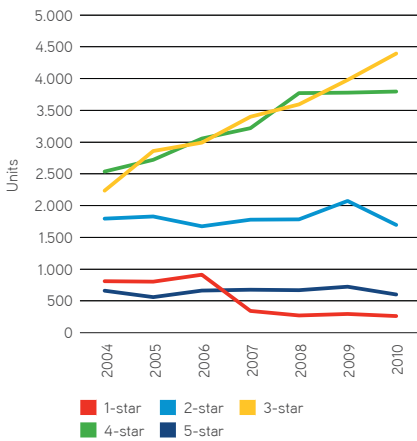
HOTELS IN LITHUANIA

Source: Lithuanian Department of Statistics



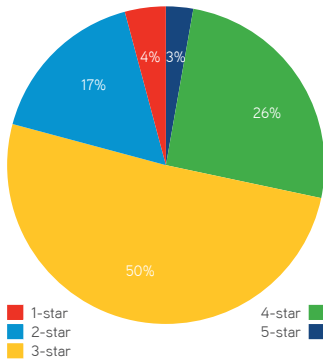
NUMBER OF ROOMS IN HOTELS IN LITHUANIA

Source: Lithuanian Department of Statistics



DISTRIBUTION OF HOTELS BY NUMBER OF STARS IN LITHUANIA

Source: Lithuanian Department of Statistics



OVERVIEW

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

SUPPLY

According to the Department of Statistics, Lithuania had 292 classified hotels and guesthouses at the end of 2010, a 1.4 per cent decrease from 2009. No new hotel projects have been offered in the main cities of Lithuania (Vilnius, Kaunas, and Klaipeda) as the market has been experiencing hard times.

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

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

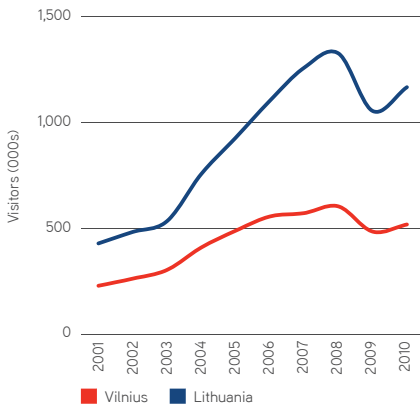
In the main cities of Lithuania (Vilnius, Kaunas, Klaipeda) certain changes took place in the market: 5-star Crown Plaza Vilnius became a 4-star hotel, 3-star Klaipeda hotel in Kaunas became 4-star Amberton Cozy, and 2-star Europa Stay Vilnius became a 3-star hotel. As a result, in 2010 compared to 2009,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

The key events of 2010:

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

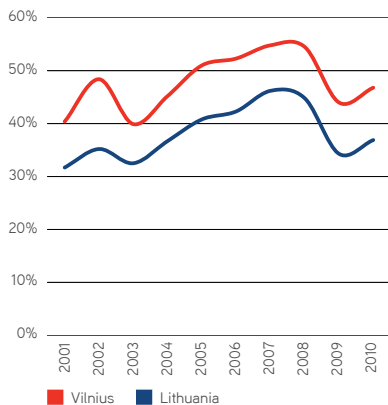
DYNAMICS OF VISITORS IN HOTELS

Source: Lithuanian Department of Statistics



DYNAMICS OF THE AVERAGE ROOM OCCUPANCY RATE IN HOTELS

Source: Lithuanian Department of Statistics



PRICE RANGE FOR DOUBLE STANDARD HOTEL ROOMS IN VILNIUS

* - rack rates, EUR
 →↗ - slight increase

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

- ◇ In mid 2010 construction of the Snoras Snow Arena in Druskininkai began. After completion in 2011 it will be one of the biggest indoor skiing facilities in Europe. A unique complex of winter services will increase tourist flows to the health resort and at the same time increase demand for accommodation services.
- ◇ More than EUR 39 mil in EU support funds were awarded to 34 tourism projects (spa, wellness, rehabilitation and tourist centres, hotels and other facilities to be established and reconstructed). This fact may be considered as the principal driver behind new accommodation projects.

DEMAND

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

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

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

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

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

OCCUPANCY

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

PRICES

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

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



TENDENCIES AND FORECAST

◇ We believe that the most difficult stage of the crisis has passed, and in 2011 the situation in the country's hotel market will improve slightly. Market recovery will be affected by factors such as global economic trends, the country's fiscal system and political stability and the country's accessibility by air transport. Upcoming events of national importance (FIBA European Basketball Championship, International Hansa days, the 35th AITO conference in Vilnius and others) will provide an excellent opportunity to raise awareness of Lithuania in the world and establish new business relationships.

- ◇ The popular low fares airlines Wizz Air and Ryanair are commencing service to Vilnius in 2011. This will increase the country's accessibility and choice of flights (at least 27 cities, and 31 airports will be directly reachable from Vilnius). According to the Ministry of Transport and Communications' estimates, it will attract approx. 120,000 additional tourists to Vilnius in 2011.
- ◇ Hotels will be able to improve their performance due to reduced VAT and upcoming events of national importance. As a result it is expected modest growth of hotel occupancy and room prices.
- ◇ Due to the prolonged economic recession and sluggish recovery in hotel market 2011 will remain favourable for hotel acquisitions.

Legal Overview

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

Ownership of real estate is acquired upon completion of construction or on the basis of different transactions, such as sale-purchase, grant, or exchange (swap).

Real estate and related rights are registered with the Real Estate Register. There is no mandatory requirement to register transfer of title; however, a transaction must be registered before it can be invoked against a third party.

The Real Estate Register keeps and manages information on the legal status of real estate, including all encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations; the information it contains is publicly available. Data recorded with the Real Estate Register is considered true and comprehensive until proven otherwise.

ACQUISITION OF REAL ESTATE

General

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

Upon sale of a building, the buyer's rights to the land plot occupied by the building and necessary for use of the building must be specified in the acquisition agreement. An agreement which does not deal with these rights to the land plot may not be approved by a notary and, even if certified, is still ineffective.

Change of Ownership

Title to real estate passes as of the moment of transfer of the property to the new owner. The transfer must be formalised by a transfer-acceptance deed that may either be signed as a separate document or incorporated in the agreement on real estate acquisition.

Asset Transfer vs Share Transfer

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

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

- ◇ a share deal does not involve notary fees and state duty for registration of real estate;

- ◇ the buyer takes over the entire company (assets and liabilities) including any matters and risks that may have occurred before change of ownership;
- ◇ due diligence investigations are more extensive as a share deal is about transfer of the entire company, as opposed to real estate only;
- ◇ deferred corporate income tax as well as other tax issues;
- ◇ existing management structure, employees, and contractual obligations of the company may be not in line with the buyer's expectations.

Asset transfer involves the following key issues:

- ◇ an asset deal may be more expensive than a share deal, as an asset deal involves notary fees and stamp duties;
- ◇ Lithuanian law entitles a tenant of the property to terminate the lease upon change of ownership of leased property;
- ◇ under certain circumstances an asset deal may be treated as a sale of the entire company, in which case the buyer may be exposed to additional risks related to validity of the transaction and liability to creditors and employees of the company which owned the target real estate;
- ◇ limited scope of due diligence investigation as it covers only the target asset.

FORM OF AGREEMENTS

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

LANGUAGE REQUIREMENTS

Transactions between Lithuanian legal and natural persons must be in Lithuanian. However, translations into one or more other languages may also be attached. Transactions with foreign natural and legal persons may be in Lithuanian and another language acceptable to both parties. However, if a transaction requires approval of a notary, the Lithuanian language document prevails.

DUE DILIGENCE

Legal due diligence of target real estate is recommended. This includes, for example, title, encumbrances, third party rights,

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zoning and planning issues, existing lease agreements. Due diligence analysis may provide the buyer with certainty and information relevant to the transaction.

RIGHT OF FIRST REFUSAL

The right of first refusal is established by law or contract. Examples of the statutory right of first refusal include a co-owner's right of first refusal to acquire a share in the case of sale of commonly-owned real estate, except if the sale takes the form of a public auction; the state's right of first refusal to acquire land in, for example, national and regional parks, or state reservations. In addition, if a building and its land plot have different owners, the owner of the building situated on the land plot to be sold enjoys a right of first refusal to acquire the land plot.

The parties may also agree on a contractual right of first refusal. If real estate is sold in violation of that right, the holder of the right of first refusal is entitled to claim transfer of the buyer's rights and obligations.

TYPICAL PURCHASE PRICE ARRANGEMENTS

The price of real estate must be specified in the sale-purchase agreement, otherwise the agreement is ineffective. The parties are free to arrange payment of the purchase price. Payment may be made in one lump sum or divided into several instalments. For example, the first portion of the price may be transferred in order to secure the preliminary agreement or on the day of notarisation of the sale-purchase agreement, with the remainder paid after certain conditions are fulfilled, such as release from mortgage, vacation of property. Title to real estate may be transferred before or after payment of the full purchase price.

RELATED COSTS

It is up to the parties to agree on how they will bear the transaction costs. Usually, the buyer pays for state and stamp duties, whilst notary fees are shared equally between the parties.

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

RESTRICTIONS

Restrictions on Acquisition of Real Estate

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

Foreign legal and natural persons may acquire title to land provided they comply with European and Transatlantic criteria.

Foreign legal entities are deemed to comply with European and Transatlantic criteria if established in:

- ◇ Member States of the European Union or states parties to the European Treaty with the European Communities and their Member States; or
- ◇ Member Countries of the Organisation for Economic Cooperation and Development (OECD), states parties to the North Atlantic Treaty Organisation (NATO) or the European Economic Area Agreement.

Foreign natural persons are deemed to comply with European and Transatlantic criteria, if they are:

- ◇ citizens or permanent residents of any of the states specified above; or
- ◇ permanent residents of Lithuania although not holding Lithuanian citizenship.

Note: even if natural or legal persons comply with these criteria, they may not acquire agricultural and forestry land until 1 May 2011, except:

- ◇ foreign natural persons who permanently reside and are engaged in agricultural business in Lithuania for at least three years; and
- ◇ foreign legal persons and other foreign organisations which have established representative or branch offices in Lithuania.

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

Concentration Control

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

An intended concentration must be notified to the Competition Council, whose permission is required where the combined aggregate income of the undertakings concerned is more than EUR 8,688,601 for the financial year preceding concentration and the aggregate income of each of at least two undertakings concerned is more than EUR 1,448,100 for the financial year preceding concentration. Note: if a Lithuanian undertaking participates in a concentration, its worldwide income will be taken into account. This does not apply when determining

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

ENCUMBRANCES

Real estate may be encumbered with servitudes (easements), rights of first refusal, lease rights registered with the Real Estate Register, mortgages, and other encumbrances that limit its use or disposal.

MORTGAGE

A mortgage is a security aimed at securing fulfilment of contractual obligations. A mortgage is created by executing a mortgage bond signed by the debtor, the creditor, the owner of the mortgaged real estate, and notarised. A mortgage comes into effect at the moment of registration with the Mortgage Register.

A secured creditor enjoys priority against third parties to redeem the debt from the mortgaged property. A mortgage survives transfer of title to real estate.

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

PROPERTY MANAGEMENT

Management and maintenance of commercial real estate is usually carried out by the owner or a professional property management company. In the latter case the parties may agree on the scope of owner's rights and obligations to be delegated to the property management company by concluding a property management agreement.

LEASE AGREEMENTS

General

The main regulatory framework of lease agreements is laid down in the Lithuanian Civil Code. Parties to lease agreements, however, may freely agree on most lease terms. The lease agreement survives transfer of title to the leased real estate

object, provided the lease agreement is registered with the Real Estate Register.

Duration and Expiry of Lease Agreement

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

Tenants who have properly discharged their obligations under lease agreements enjoy a right of first refusal against third parties to renew the lease.

Lease Payment and Other Expenses (Utilities)

Terms and conditions for payment of rent and other expenses are subject to agreement between the parties. Rent is usually paid monthly. It is common to agree on annual indexation of rent on the basis of local or EU consumer price indices.

Payments for maintenance of leased real estate and other utility costs (eg water, heating, gas, electricity) are, as a rule, made on top of rent. The landlord may also require a deposit, guarantee, surety or other similar instrument securing payment obligations of the tenant.

DISTRESSED ASSETS PURCHASE

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

Foreclosure on mortgaged property is initiated by the creditor applying to the mortgage judge for an order for sale of the mortgaged asset at public auction. A public auction of real estate is announced at least one month in advance. A potential buyer should consider the need for swift action, which limits the time for more thorough due diligence investigations. At auction, real estate is sold to the person who offers the highest price.

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Tax Summary

RENTAL INCOME

Net income received by corporate taxpayers is taxable at the general Corporate Income Tax rate of 15 per cent from the 2010 tax year (a reduced 5 per cent rate may be applicable to small companies with income lower than LTL 500,000 (approx EUR 144,810) in one calendar year and less than ten employees). Generally, all expenses incurred by companies for the purpose of earning income are deductible for Corporate Income Tax purposes. However, Lithuanian Corporate Income Tax Law sets an exhaustive list of expenses not deductible for tax purposes, regardless of whether they are borne with these purposes or not, such as fines and money penalties, dividends, or gifts.

DEPRECIATION

Accounting depreciation procedures are similar to European standards. However, differences may arise between accounting and tax-deductible depreciation. The straight-line method is normally used for depreciation or amortisation of fixed business assets. Alternatively, the double-declining balance method is allowed for certain groups of fixed assets. New buildings and constructions, dwelling houses, and other buildings are depreciated, while land is not depreciated for tax purposes.

THIN CAPITALISATION

Interest and currency exchange losses on debt in excess of a debt/equity ratio of 4:1 are non-deductible for corporate income tax purposes. (Note: these rules apply even if withholding tax on interest is paid). This applies in respect of debt capital provided by a creditor who: (i) directly or indirectly holds more than 50 per cent of shares or rights (options) to dividends; or (ii) together with related parties, holds more than 50 per cent of shares or rights (options) to dividends, and the holding of that creditor is not less than 10 per cent. This rule does not apply if a taxpayer proves that the same loan could exist between unrelated parties. Financial institutions providing leasing services are not affected by this rule.

Note: under Lithuanian Company Law, the interest rate on shareholders' loans may not exceed the average bank interest rate current in the location of the lender's business.

LOSS CARRY FORWARD

Tax losses can be carried forward for an unlimited number of years as long as they are set off against income from the same type of activity. This does not apply to losses from disposal of securities, which can be carried forward for five years. As of 2010, the possibility to transfer losses within a group of companies for tax purposes is introduced, subject to specific requirements.

WITHHOLDING TAX

Dividends

Dividends distributed by a resident company to another resident company are subject to 15 per cent corporate income tax, which is withheld by the distributing company unless the participation exemption applies. The company may credit tax withheld against its corporate income tax liability. Dividends paid by a Lithuanian company to a foreign company holding at least 10 per cent of the shares granting the same percentage of votes for at least 12 months are tax-free, except dividends paid to tax haven countries and (except for companies in free economic zones) dividends paid from profit not subject to corporate income tax due to corporate income tax incentives.

Interest and royalties

As of 2010, interest paid to foreign taxable entities registered or otherwise organised in a state of the European Economic Area or in a state with which a treaty for the avoidance of double taxation has been concluded and applied are not taxable. In other cases, withholding tax of 10 per cent is applied, except established exemptions that apply to interest on government securities issued in the international markets, deposit interest, and interest on subordinated loans meeting the criteria prescribed by the Bank of Lithuania.

Under the domestic law implementing the EC Interest and Royalties Directive (2003/49/EC, as amended), which precludes taxation on interest and royalty payments to associated EU companies, 10 per cent withholding tax rate on royalties will apply until 30 June 2011. Thereafter, the rate on qualifying royalty payments is reduced to 0 per cent.

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

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CAPITAL GAINS

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

REAL ESTATE TAX

Real estate, other than land, located in Lithuania is subject to real estate tax. Real estate tax is payable by Lithuanian and foreign legal entities and organisations, as well as by Lithuanian and foreign individuals owning real estate located in Lithuania. Lithuanian and foreign individuals owning real estate should pay real estate tax if the real estate is used for their commercial activities (including rental of real estate to legal entities). The annual tax rate ranges from 0.3 per cent to 1 per cent of the taxable value of the real estate. Municipalities are entitled to establish a precise rate for each year.

Land tax, payable by the owners of private land, amounts to 1.5 per cent of the value of the land. Land tax does not apply to forest land, roads in common usage, and land owned by embassies.

Legal and private persons leasing state- or municipality-owned land must pay a land lease tax, which is not less than 0.1 per cent and not higher than 4 per cent of the land value. A precise tariff for land lease tax is established by the local municipality for each individual case.

REAL ESTATE TRANSFER PAYMENTS / VAT

Sale of land and buildings is normally exempt from VAT with the following exceptions: (i) sale of land for building; (ii) sale of land with new buildings; and (iii) sale of new buildings. Buildings are regarded as new if they were started to be used or were critically improved less than 24 months before the sale (uncompleted buildings are also regarded as new buildings).

VAT is not applicable to income from the lease of real estate except the lease of dwelling houses.

However, the Lithuanian VAT payer has the option to tax the sale of real estate, including land, or rental of real estate if the real estate is sold or rented to another Lithuanian VAT payer who is a tax payer performing a business activity. This option applies for a period of not less than 24 months.

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