REVIEW OF BALTIC STATES REAL ESTATE MARKET

INTRODUCTION

Real estate market and its development is an extremely significant process for the economic development of the state. The role of real estate market in the promotion of economic processes cannot be denied, therefore a review of real estate market and analysis of the situation are of utmost importance.

The review of real estate market of the Baltic countries (hereinafter referred to as Review) covers the market previously neglected. Examining the Baltic countries – Estonia, Latvia and Lithuania separately, it is obvious that each country has a small number of consumers and relatively small territory which, if considered in the global and even European scale, is an insignificant real estate market. At the same time if these markets are united in the single economic space (totally 7.6 millions population, 174 600 km²), we can speak about the real estate market of the Baltic countries which covers a significant territory near the Baltic Sea and borders on Finland, Sweden, Russia, Belarus and Poland.

The common real estate market of the Baltic countries allows a more objective comparison of the fiscal and regional policies of the countries, of the effectiveness of chosen economic and political options as well as many other aspects. Estonia, Latvia and Lithuania are states, which can easily be compared not only as neighbouring and geographically close countries, but also as the states having common traits of historic development.

It is essential to compare the Baltic countries as a single economic space influenced not so much by borders of the states, home and foreign affairs, but rather by overall economic processes in the Baltic region.

The Review has been compiled on the basis of transactions performed in 1999.

The goal of the Review is to recognise the common real estate market and to compare the Baltic countries.

Spring 2000

HISTORICAL BACKGROUND

Estonia, Latvia and Lithuania as independent countries were recognised officially *(de jure)* after World War I in accordance with the Peace Treaty of Versailles.

Upon the beginning of World War II the Baltic countries were occupied and incorporated into the Soviet Union. The communism rule lasted till the former head of the Soviet Union M. Gorbachov announced *"perestroika"* and *"glasnostj"*. These reforms marked the beginning of the renewal of independence which was finally attained in 1991. Since then a transition period was commenced which contained various reforms aimed at the restructuring of economic, legal and social systems as well as thinking. Criteria of values, business approach and welfare of population changed.

The primary aim of property reform initiated in the Baltic countries was to establish a free real estate market, because in the former Soviet Union it was possible neither to buy nor lease the land. At the beginning of reform the owners had to face various difficulties on their way to the restoration of ownership. Now however the property reform is soon to be completed both in Estonia, Latvia and Lithuania.

Free market is possible only in a free country. We can speak about a free real estate market as understood in market economy only upon the renewal of independence, when a possibility to buy and sell freely not only buildings, but also land occurred. Eight years have passed since the regaining of independence in 1991. It is the end of the 20th century when the term Real Estate Market of the Baltic countries has been put forward for the first time. It denotes the Real Estate Market incorporating the best qualities of the three markets thus serving as proof of the attempts of the Baltic countries to achieve freedom in the political and economic spheres.

COUNTRY PRESENTATION - ECONOMIC AND LEGAL BACKGROUNDS

Equivalent geographical position of the Baltic countries and pace of their historic development at the end of the 20th century have prepared equal starting conditions when passing over from command economy to market economy.
Within a short time healthy competition has developed among the Baltic countries as regards the improvement of social and economic situation of the countries both by optimising their own resources and attracting foreign investors.

GENERAL DATA	**Estonia**	**Latvia**	**Lithuania**
Area, thousand km^2	45	64.6	65
Population (million)	1.5	2.4	3.7
In cities	69%	69%	68%
In countryside	31%	31%	32%
Capital	**Tallinn**	**Riga**	**Vilnius**
Population (thousands)	410	797	578
Currencies (on 02.01.2000)	EEK	LVL	LTL
1 EURO =	15.65	0.58	3.92

Economic indicators presented in the table below show that there is no distinct leader among the Baltic countries and it is possible to speak only about slower or more rapid development of particular branches.

The Baltic countries have declared the accession to the European Union as a priority to be observed when tackling economic and political issues. Upon several years of intense work and fulfilment of the main economic demands of the EU, the Baltic countries have received invitation to prepare for the accession negotiations with the European Commission.

The Baltic countries possess similar amount of natural resources. All production branches have started to recover from the crisis. Agriculture and forestry are popular branches, however, these have not received sufficient technical support.

When examining the Market of the Baltic countries from the legal point of view it is essential to note that there is an official Title Book* in each country. The legal registration mechanism of real estate is completely developed and registration with the Title Book testifies that absolute ownership *(ius in rem)* to the real estate has been acquired. At the same time the registration with the Title Book also ensures State's guaranteed protection for the respective property and owner.

It must be noted that upon regaining of independence of the Baltic countries real estate (land plots) had to be registered anew. Currently the registration continues and approximately 50% of all real estate have been registered with the Title Books of the Baltic countries.

*Title Book = Land Register in UK

GDP (million EURO at current prices, annual growth compared to previous year)						
	Estonia		Latvia		Lithuania	
1996	3351	3.9%	4878	3.3%	7892	4.7%
1997	4110	10.6%	5647	8.6%	9585	7.3%
1998	4685	4.7%	6506	3.6%	10736	5.1%
*1999	4876	0.4%	6591	0.2%	10663	-2.1%

GDP per capita in EURO	Estonia	Latvia	Lithuania
1996	2270	2032	2133
1997	2811	2253	2590
1998	3223	2711	2902
*1999	3373	2746	2882

Unemployment rate	Estonia	Latvia	Lithuania
1996	10.0%	7.0%	7.1%
1997	9.7%	7.5%	5.9%
1998	9.9%	7.6%	6.4%
1999	11.7%	9.1%	10.0%

Inflation	Estonia	Latvia	Lithuania
1996	23.1%	17.6%	13.1%
1997	11.2%	8.4%	8.4%
1998	8.2%	4.7%	2.4%
1999	3.3%	3.2%	0.3%

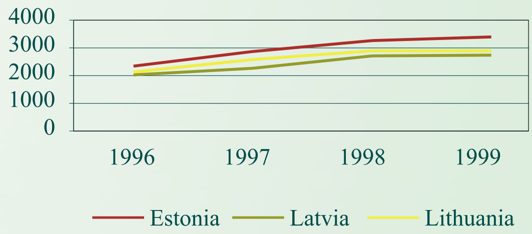
Average gross wages and salaries EURO/month	Estonia	Latvia	Lithuania
1996	212	170	155
1997	257	210	196
1998	280	230	238
*1999	307	250	263

Interest rates for commercial loans	Estonia	Latvia	Lithuania
1997	19.0%	17.2%	14.4%
1998	17.0%	13.3%	12.2%
1999	9.5%	12.9%	13.1%

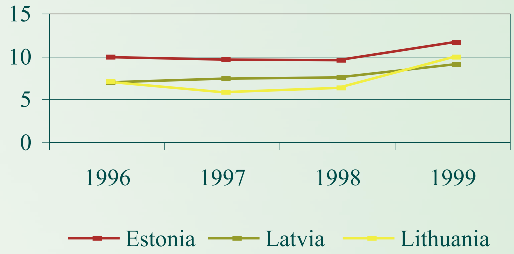
Tax rates	Estonia	Latvia	Lithuania
Income tax (for physical persons)	26%	25%	33%
Profit tax (for legal person)	26%	25%	24%
Value Added Tax	18%	18%	18%

Source: National Statistic Departments, Central Bank, Ministry of Finance
* forecast, not approved

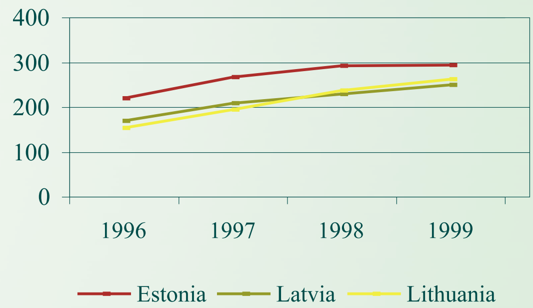
GDP per capita in EURO



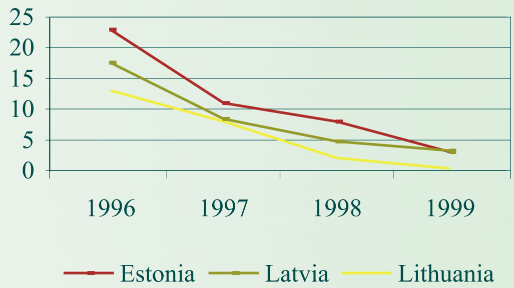
Unemployment rate %



Average salaries EURO/month



Inflation %



REAL PROPERTY CADASTRE AND TITLE REGISTRATION

The experience of many countries shows that an established and well functioning real property formation and administration system ensures a successful operation of real property market, guarantees the security and inviolability of owner's rights to the real property belonging to him, also promotes the investment in real property as a reliable investment form. The collected data about real property allow to estimate assessed values using common principles based on market.

As in many other Central and Eastern European countries, the reform is going on in the Baltic countries too. One part of the reform is the restoration of rights in real property and the privatisation. To ensure an effective operation of this process and an efficient collection and provision of data, the real property administration system is developed. The system includes recording of real property ownership and other legal rights in and over land. In all three Baltic countries real property cadastre is linked or integrated with Register of Ownership. Registration of rights consist of:

- Registration of real property of natural and legal entities
- Registration of ownership and other real rights (including mortgages) in real property
- Registration of restrictions on the rights to posses, use and dispose real property
- Registration of obligations of property owners and rights of other persons in real property
- State security of all owners rights in real property

Systems are wholly or partly computerised. The table indicates the main elements and differences of Real Property Cadastre and Rights Registration systems in the Baltic countries.

Institutions Responsible for Real Property Cadastre and Register

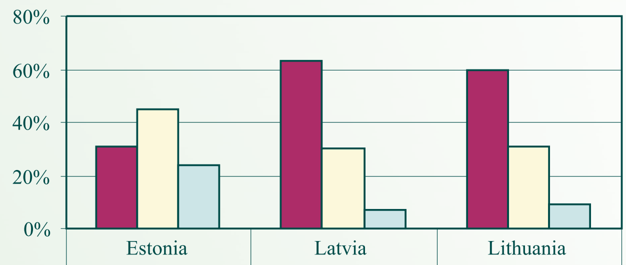
	Estonia	Latvia	Lithuania
Land Cadastre	National Land Board	State Land Service	State Land Cadastre and Register
Building Register	Ministry of Economy	State Land Service	State Land Cadastre and Register
Mortgage	Title Book Office	Title Book Office	Mortgege Institutin
Real Property Rights Register	Title Book Office	Title Book Office	State Land Cadastre and Register

STRUCTURE OF REAL ESTATE STOCK

Land Market

Land in all three Baltic States is classified by main land use types, which are confirmed by municipality. Obviously the Baltic States were tended to be agricultural countries, this is why the largest part of territories is covered by agricultural land. Also the percentage of forest areas is high, thus average forest areas are bigger than in other European countries.

Structure of Land %



	Estonia	Latvia	Lithuania
Agricultural land	31%	63%	60%
Forestland	45%	30%	31%
Other	24%	7%	9%

SALE OF LAND

Country	Forest land EURO/ha	Agricultural land EURO/ha
Estonia	**560 – 780**	**100 – 400**
Latvia	**520 – 860**	**150 – 440**
Lithuania	**1000–3000**	**230 – 730**

In the table the great price difference in forest land prices is due to the fact that in Lithuania the forest land price is equal to the price of mature forest (forest ready for felling)

Estonia

Land Sales

Market activity is 5-6% per year, i.e. 5-6% of properties change owners. The "most active" land use types are residential land (44% of all transactions) and forest land (37% of all transactions). The big number of transactions with forest land is caused by the fact that timber is the major export article in Estonia and almost half of Estonia's territory is covered with forest.

Compared with Finland and Sweden the land prices are considerably lower in Estonia. Foreigners are active buyers, they find coastal areas and islands to be especially attractive. In 1998 the share of foreigners (as buyers) from the total number of transactions was 2%, in 1999 3%.

Comparing different regions, the number of transactions is clearly biggest in Harjumaa including our capital Tallinn (30% of all transactions, the rest is divided between remaining 14 counties). By the value of transactions Harjumaa is leading even more. About 63% of the total value of transactions fall on Harjumaa including Tallinn.

Land Sales in Cities

There were more than 1700 transactions performed in the biggest cities of Estonia (Tallinn, Tartu, Pärnu, Haapsalu, Kuressaare, Rakvere) in 1999. Of them over one thousand transactions were carried out in Tallinn. 75% of all transactions were with residential land. Prices of land in Tallinn and other cities are very different, it depends on district. E.g the price of residential land in Tallinn is 5 - 40 EURO/m², other cities 2 - 30 EURO/m²; commercial land in Tallinn 10 - 135 EURO/m², other cities 2 - 70 EURO/m²; industrial land in Tallinn 10 - 35 EURO/m², in other cities about 5 EURO/m². The dominating size of plots of residential land is between 800 - 2000 m², commercial land between 1100 - 4000 m².

Agricultural and Forestland

In 1999 about 3000 transactions with agricultural and forestland were performed in Estonia. Altogether 45 000 hectares of agricultural and forestland with the value of 29.5 million EURO changed owners. Majority of these transactions was transactions with forestland (1900 transactions). The transactions with forestland covered 36 500 ha, of it actually covered with forest were 22 500 ha. The average size of sold parcel was 20 ha of which the share of forest was 12.5 ha. The average price of forest land including the price of growing stock was 780 EURO/ha.

As to selling activity, forest land was followed by agricultural land bought with the aim of building a summer-house on it. Such transactions took place mostly in coastal areas. On islands the price level was between 0.2-0.6 EURO/m² and in mainland 0.1-0.3 EURO/m².

The prices of land purchased for agri-cultural productions were mainly 100 - 400 EURO/ha. The average size of an agricultural land parcel was 13.9 ha.

Estonian landscape

Latvia

Land Sales in Cities

In cities the sales prices for land were not influenced by the Russian economic crisis which left significant impact on the production. However, the impact of Russian economic crisis was present in such sectors as agricultural land and forestland.

The land market continued to develop in cities and it kept the prices at the same level. Nevertheless, there were considerable differences between the prices for industrial land, which was explained by the shortage of information available to the buyer and different future prognoses.

The standard plots for a residential land are from 700 m² - 2000 m² in the major cities of Latvia and 500 m² - 1400 m² in Riga. The prices for these plots are respectively 7 - 40 EURO/m² and 9 - 40 EURO/m².

The growth of prices indicates that there is a demand for land for commercial building, however, the tendency of prices for retail premises gives the reason to assume that the market participants are not satisfied with the existing premises and it is more advantageous for them to construct new. Growth of price for commercial land has been stable and a constant increase of demand is a more vital factor for these types of land, while supply remains limited.

Standard plot of commercial land are from 1000 m² - 1100 m² in Riga and 600 m² - 5000 m² in the major cities. Certainly, lack of vacant land is essential in Riga, therefore bigger plots were sold in Riga's suburbs.

Similarly to commercial land, standard plot size for industrial land is bigger in Riga's suburbs (3000 - 8000 m2), and 2500 - 12000 m2 in major cities.

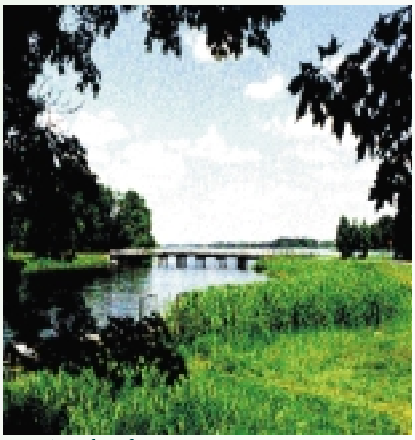
It is almost impossible to determine concrete demand and supply of industrial land. In most cases industrial land is bought for transformation to another land use type. Construction of new factories is very seldom because production as branch of business is not profitable.

Prices of Agricultural Land

Generally in the rural areas the price of land is proportional to the average cadastral values of agricultural land. The market of agricultural land is slack. The low prices for agricultural products are considered to be the main reason for the slack market of agricultural land. Larger activity is recorded in those regions where fertility of soil is better than on the average in Latvia. Most of these districts are situated in the South of the country where there are the highest prices (400 - 440 EURO/ha). In other regions the prices are floating between 150 - 380 EURO.

It must be noted that in the South of the country there are some international joint-stock companies established incorporating Latvian and Swedish enterprises. It is apparent that if such a company purchases real property, the price for land is higher.

The price for forestland is closely linked to the timber value as well as accessibility of land and distance to the nearest sawmill, port or other trading place. It is observed that disregarding the quality of soil and due to the fact that prices for agricultural products traditionally have been low in the northern districts, the price for forest land is one of the highest in these districts - from 517 - 862 EURO. In the eastern districts the price for forestland rises as high as 1034 EURO. Market of forestland is considerably livelier than market of agricultural land, because of time in which it is possible to profit from the sales of forestland.



Latvian landscape

Lithuania

Land Sales in Cities

More than 1800 land parcels for households were sold during 1999 in 5 largest cities. More than 500 of them in Vilnius, around 400 in Kaunas and the same number in Klaipėda. The average price for residential land in Vilnius for 1 square meter was 40 EURO, in Klaipėda and Kaunas - 25 EURO, in Šiauliai and Panevėžys - 10 EURO. Average plot size for household in cities is 1000 - 1500 m².

Industrial land is obtained in auctions aranged by municipalities or from private persons. Industrial land price in cities is 9-15 EURO for 1 square meter depending on the location.

The price for private parcels in the best places for commerce in Vilnius exceeds 150 EURO for square meter.

Agricultural and Forestland

In 1999 around 14 thousand land parcels changed their owners. The total area of these parcels makes more than 33 thousand ha. The largest amount of transactions took place in Kaunas county (23%) and Vilnius county (20%). The highest prices for agricultural land are in Vilnius county (730 EURO/ha), Kaunas and Klaipėda counties (410 EURO/ha), the lowest - in Tauragė and Telšiai counties (230 EURO/ha).

Lithuanian landscape

Small land parcels up to 1 ha not so far from Vilnius and Kaunas and on the lakeshores are popular for households and summerhouses and are much more expensive. Prices for such parcels are 3-5 thousands EURO per ha in Molėtų and Švenčionių regions, and even more in Trakai region.

Forestland prices are almost the same over the whole territory of Lithuania and depend on amount, age and quality of wood. Mostly it is 1 to 3 thousand EURO per ha for mature forests. For oaks wood price is up to 6000 EURO/ha. Only in western Lithuania prices are higher by 5-10 percent because of lower transportation costs to the seashore.

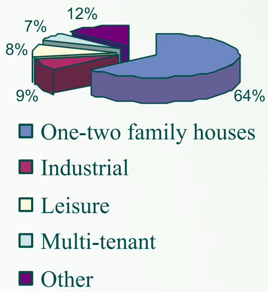
SALES OF BUILDINGS AND APARTMENTS

Estonia

Buildings classification used in all Baltic countries is harmonised with the EU classification (CC) made according to the building type. The diagram below shows the distribution of buildings according to the different use type. Type other includes commercial, cultural, leisure and other.

The total number of flats and

Building Structure in Estonia



residential space in Estonia is ca 623 000. Buying and selling of apartments and houses is more common than renting. Recently this market segment has become even more active because banks are more willing to offer loans. The market is most active in Tallinn and its vicinity. According to the size, the apartments can be divided into three groups:

- 1-2 room flats ca 30-55 m²
- 3-4 room flats ca 60-80 m²
- family houses ca 100-200 m².

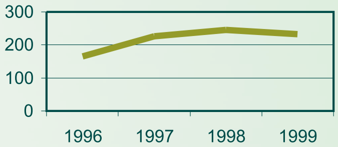
According to the Statistical Office of Estonia, the number of transactions with movable property in 1999 was about 1000 transactions per month (there is no information available for family houses).

Compared to the beginning of independence period, the construction

The Old Town of Tallinn

volumes of family houses have annually grown. Since 1995 the yearly increase has been about 100 000 - 105 000 m². In 1996, 103 500 m² of new residential space in family houses entered the market, in 1997 121 600 m², in 1998 99 300 m² and in 1999 76 400 m². The new construction of apartments has decreased in particular compared to 1980ies.

Prices of 2-Room Apartment EURO/m² in Tallinn



In comparison, 413 854 m² (1063 buildings) of new non-residential space entered the market in 1998.

As of 01 Jan. 2000, the total amount of residential space in Estonia was 31 154 204 m², of which 11 934 122 m² in dwelling houses, 19 909 034 m² in single family houses, row houses, two-family houses, homesteads, and 211 004 m² in non-residential buildings.

Latvia

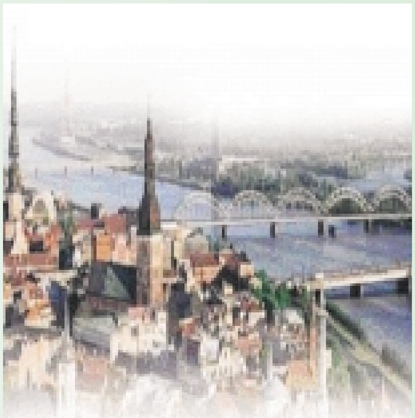
Riga City must be singled out as the most active and costly part of apartments market in Latvia. When analysing the market of apartments in other cities, the centre of the city must be distinguished from the rest of city.

By type of apartment the market of apartments can be divided in the following way: modern apartments in multi-tenant houses (built in 90ies), serial multi-tenant (built 60ies - 80ies), multi-tenant houses built in 50ies - 60ies of brickwork, houses built till 40ies (mostly wood constructions) and houses built till 20ies.

The construction of new apartments is passive, however, there is a small demand for apartments corresponding to the highest quality criteria of today.

By categories of owners the number of privately owned apartments has considerably increased and share of state and local governments has respectively decreased.

Due to the privatisation of residential houses large number of apartments came on the market making it more active. The demand for good and comfortable apartments has been developing gradually since 1997.



The Old Town of Riga

This year it is possible to state that the ratio of permanent demand and supply has formed. An apartment has become a commodity without any restrictions to its commercial circulation. The expiry of validity of privatisation vouchers at the end of 2000 allows assuming that supply in the market of apartments will decrease and alongside with the levelling of demand the stabilisation phase of market will set in.

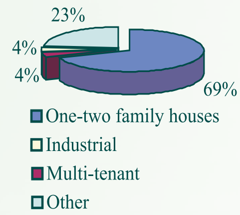
In case of Riga this division must be supplemented by Old Riga as a historic centre of the city. Large part of the apartment districts which surround the centre of Riga are the so called "sleeping districts" whose inhabitants leave them in the morning and return in the evening. There are 9 "sleeping districts" around Riga, which are described as communities with large amount of multi-tenant houses.

In Riga the differentiation of apartments by location and type of planning - standard or individual planning - is becoming more distinct. Various legislative acts have been adopted which promote the development of mortgage market. The adoption of these acts has left a definite impact on the real estate market. At the moment it is difficult to foresee whether the impact of these legislative acts will be negative or positive, however, one would like to believe in positive changes.

In other cities of Latvia the demand for apartments is lower and growth of prices is not that high. Despite the difficult financial situation, the market has preserved slight development tendency.

Till the completion of property reform whose final phase will set in after 2000, one cannot talk about the market of apartments as defined in the theory of economy.

Building Structure in Latvia



Lithuania

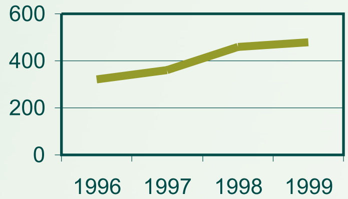
The Old Town of Vilnius

Buildings' market can be divided into residential (1-2 family houses and apartments) and non-residential (commercial and industrial). The apartment market is the most active. The stock of all apartment living space is about 80 million square meters. About 90 per cent of them are private. The two and three room apartment are most common and make almost 60 per cent of the total number of apartments. 1,000-2,500 transactions with apartments were registered in every month of 1999. Almost half of all transactions are registered in Vilnius, Kaunas and Klaipeda. In small towns and even in many district centres the market activity is not so high.

Construction of new apartments is about 5 000-6 000 apartments per year, what makes about 500-600 thousand square meters per year and it has been quite stable in recent years. The area of new apartments is 70-120 square meters and is larger than average. Construction of 1-2 family houses has been quite stable from 1990 and was about 2300 houses per year in 1996-1999.

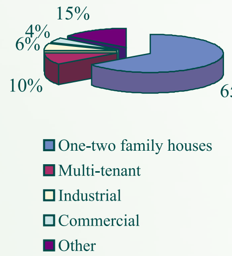
Prices for 1-2 family houses mostly depend on the location and are related to the prices of land for residential houses. Only for good quality space not too large and quite new houses in good locations the market price is close or a bit higher than the construction costs (added to the land's price). In other cases it is less than construction costs, sometimes up to 1.5 -3 times, especially further off from big cities.

Prices of 2-Room Apartment EURO/m² in Vilnius



It is difficult to judge about the average prices for industrial buildings and premises because of big variety and lack of transactions. The prices vary in a very wide range depending on location, area and condition. Average prices for industrial premises vary in range 15-30 EURO/ m². In the largest cities it can be several times higher, in the countryside remarkably lower.

Building Structure in Lithuania

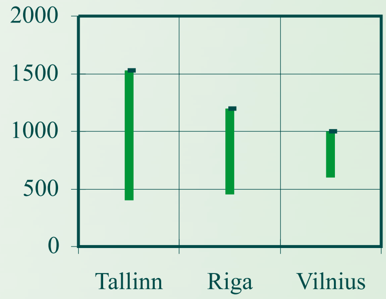


The supply of commercial and office space of good quality was for some time very limited but now it is rising rapidly. So happened because quite many residential and industrial buildings were restructured to meet new requirements. New construction of this kind property was growing too. Commercial and office space is most expensive in the central part and old town of Vilnius. The price for one square meter sometimes exceeds 4,000 EURO.

Average Prices for 1 m² in 1-2 Family Houses and Apartments, 1999 (EURO/m²)

Country	Town	1-2 room apartment	3-4 room apartment	Family houses
Estonia	Tallinn	220-530	200-800	470-1000
	Centre of Tallinn	400-1530	330-1535	
	Tartu	160-270	140-235	200-470
	Pärnu	190-270	150-250	200-670
Latvia	Riga	170 – 330	200 – 290	400 – 600
	Centre of Riga	500 – 1200	450 – 1200	
	Jurmala	100 – 450	100 – 350	550 – 920
	Ventspils	90 – 150	70 – 205	420 – 490
Lithuania	Vilnius	450-600	450-550	600-1000
	Centre of Vilnius	600-1000	600-950	1000-1500
	Klaipeda	400-450	350-400	500-800
	Kaunas	300-350	280-300	400-700

Prices of 2-Room Apartments in Centres of Capitals EURO/m²



RENT OF RESIDENTIAL SPACE

Estonia

Purchase and sale are more common on the market of apartments than renting. As the majority of apartments are rented without the help of agents, the analysis below is based on the estimation of real property experts.

As in the capital city of Estonia, Tallinn, the price differences are very big, the whole town is divided into two: the town's centre and the remaining areas of Tallinn.

The centre of Tallinn includes apartments in the Old Town and in the remaining central areas. The apartments in town's centre are usually in better repair and with a more original layout of rooms than the apartments in suburban areas.

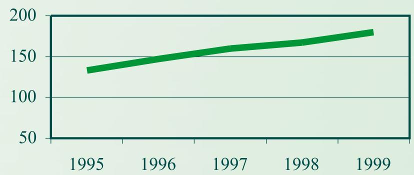
The apartments in the remaining parts of Tallinn can be characterised by following: panel houses built between 1960 and 1980, in average or good repair. On rental market the demand is highest for 2-roomed apartments (ca 45-50 m²), both in town's centre and suburban areas. The main difference between 1-, 2-, 3- and 4-room apartments is the size in square meters, i.e. the present analysis includes predominantly similar apartments of different size that have the highest demand and supply on the rental market of apartments.

Regarding 4-room apartments the situation is problematic in all above-mentioned towns. The demand for them is very low or entirely lacking. The rent is low because the costs for public utilities are high and they are also expected to be paid by the tenant.

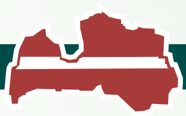
To the prices given in the table should be added costs for public utilities (electricity, heating, warm and cold water, garbage removal, etc.) that are approximately 1.5 - 2 EURO/m²/ month.

The following figure shows separately 2-room apartments that are predominating on the rental market. Average rents in Tallinn's suburbs are given. Generally, in 1995-1997 the increase was ca 10% a year, in 1998-1999 ca 5%.

2-Room Apartment EURO/ month in Tallinn



Latvia



The market segment of rent of residential space is very active in comparison with other segments. Nevertheless, it is difficult to obtain impartial information on the actual number of transactions within the segment what makes the rent market tough to forecast.

Payments for public services (electricity, sewage, heat, hot and cold water) must be added to the rentals, because usually these are paid by tenant.

Mainly the prices depend on the fact whether the apartment is repaired or not. If the residential space is furnished, the rental may be several times higher than for unfurnished apartment. At present the range of rental is rather wide, however, the number of unrepaired apartments tends to decrease.

Lithuania

Purchase and sale are more common on the market of apartments than renting. Despite this the rent of apartments in the Vilnius centre and Old City is quite profitable. Up to now the scarcity of well equipped apartments with furniture available for rent led to high rent prices - up to 15 EURO per square meter per month plus expenses for public utilities. Recently the supply of such apartments increased, part of them are vacant, but prices are still very high.

In districts of Vilnius farther away from the centre the rent of apartments in standard multistore buildings is much cheaper. The monthly rent for of 1-2-3-4 rooms apartments is about 100-150 EURO per month. An additional payment for public utilities is higher for larger apartments and depends on area. The supply is higher than demand therefore a lot of apartments are available. Similar situation is in other cities.

In other cities, except Vilnius, the demand for 4-room apartments is very low or entirely lacking because of the costs for public utilities. Most of 4-room apartments in Vilnius are in good shape and good location and are occupied.

Rents of Residential Space

Country	Town	1-room flat EURO/month	2-room flat EURO/month	3-room flat EURO/month	4-room flat EURO/month	Family houses EURO/month
Estonia	Tallinn	150 – 235	130 – 335	200 – 435	200 – 435	460 - 1670
	Centre of Tallinn	230 – 535	230 – 670	330 – 1000	330 – 1670	
	Tartu	60 – 150	150 – 135	150 – 170	150 – 135	160 – 800
	Pärnu	50 – 150	60 – 135	150 – 170	60 – 200	200 – 800
Latvia	Riga	70 – 172	90 –250	120 – 345	170 – 430	600 – 1800
	Centre of Riga	255 – 400	255 – 630	420 – 1000	420 – 1400	
	Jurmala	120 – 175	130 – 200	150 – 280	150 – 340	1200 – 1800
	Ventspils	50 – 80	70 – 95	85 –120	100 – 170	800 – 1100
Lithuania	Vilnius	100 – 120	120 – 150	150 –180	150 – 200	1000 – 2000
	Centre of Vilnius	240 – 500	300 – 600	400 – 1000	500 – 1200	
	Klaipeda	40–50	60 – 80	100 –120	100 –150	–
	Kaunas	50– 80	90 – 110	100 –120	67 –200	600 – 1000

RENT OF NON-RESIDENTIAL SPACE

Estonia

Non-residential space is divided according to use into three groups: office space, retail space, and industrial and warehouse space. Included are buildings and rooms that are in average or very good repair. In the prices of non-residential space are included only new leases, i.e. rents paid in the period July - December 1999.

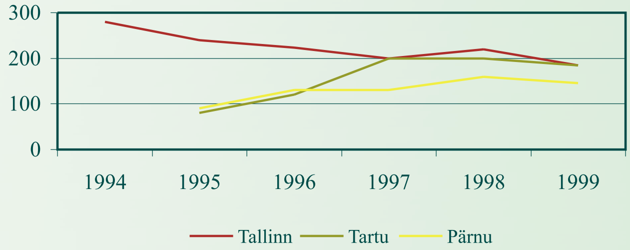
Even in this case, due to great differences in rents, Tallinn is divided into two: the town's centre and remaining parts of Tallinn.

The rental market of non-residential space is quite active in Estonia, particularly in Tallinn, where a lot of new office space has been completed in recent years, e.g. Hobujaama Centre, Ühispank, Kawe Plaza, etc. Especially appealing is space in very good location, i.e. in town's centre. An important factor is also the accessibility by car, i.e. in the Old Town, where there are restrictions for car traffic, no major new office space has entered or is expected to enter the market. Currently the supply is higher than the demand, mostly due to the fact that several bank buildings have remained empty. However, compared with 1998, the market has become more active, which is a result of stabilisation of economy.

The construction of trade centres, especially in suburban areas, has also intensified. In recent years a number of new objects, e.g. Rocca Al Mare trade centre, Kristiine Centre, Kadaka Selver, etc. have entered the market. The total area of them is 695 thousand m². The majority of new objects have become popular among customers, therefore there is no fear for loss of clients. Even this year five new objects of that kind are under construction.

As to warehouses and industrial space, the situation is not so good. So far the demand exceeds the supply. Only some new objects have entered the market and mostly for owner-occupation. As the rents are low, the situation is not favourable for developers.

The Top Rents of Offices EURO/m²/ year in Estonia



Latvia

Rental for office space was influenced by construction of large A class offices (Valdemâra Centre) which meet the international standards. As a result the demand for rent of uncomfortable office space diminished, what consequently reduced also the rental for such offices. Nevertheless, the large investments have not paid off yet, because the new office space finds its lessees slowly. It is possible that the demand for the office space of highest class is low due to the high price which exceeds the average price in the city by 50%.

Outside the centre of Riga there is a tendency to use privatised apartments as office space what can be explained by shortage of reasonably cheap premises. In other cities than Riga rent of office space is not the most active market segment, therefore no significant changes have been recorded during the year.

The rental for retail space has increased in the centres of cities. Lessees of commercial space change actively, while stay those whose goods meet a ready sale and bring sufficient income to pay for the increasingly costly public services and rent. In the suburbs of city a tendency is observed to set up commercial space on the first floor of multistorey building or add subsidiary space to the single-family detached house.

In 1999 several supermarkets constructed on the foundations of old or unfinished buildings were opened in Riga. The lessees willingly chose such premises, because usually these are appropriately prepared for trading and conveniently situated. Supermarket is a new type of trading in Latvia with development prospects. Decreasing of sales in the traditional market places leads to the conclusion that supermarkets oust the traditional trading places.

The rental for production space has decreased, because it is often rented for trading. As already indicated in the previous paragraph, several new supermarkets were opened exactly on the premises of former production objects where upon the renewal of independence the production had decreased gradually and finally stopped completely. This allows to draw a conclusion that the existing premises do not meet the expectations of the potential lessee and it is more advantageous to invest in the construction of new premises than rebuild the old premises whose physical and functional deterioration is extremely high.

Lithuania

The most active cities are Vilnius and Klaipeda. Office rent prices in Vilnius centre are decreasing because several new modern buildings of large area were built and provided to market. On the other hand the economic situation in 1999 after the Russian crises in 1998 shows the same trends.

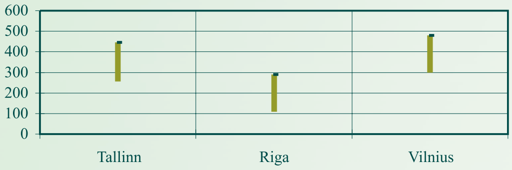
The rent prices for prestige shops and trading centres in the best places of Vilnius are high because of limited supply in this quite small area - Old City and Gedimino Avenue. Similar situation is with warehouses in this area.

Production premises and warehouses in other parts of Vilnius and other cities are available for very low prices. Many of these premises are in good location and have good infrastructure, but not always meet the requirements of modern production.

Rents of Non-Residential Space

Country	Town	Office EURO/m²/year	Retail EURO/m²/year	Industrial, warehouse EURO/m²/ year
Estonia	Centre of Tallinn	96 - 205	255 – 445	25 – 85
	Tallinn outskirts	66 – 160	180 – 360	12 – 60
	Tartu	60 – 180	180– 240	12 – 36
	Pärnu	55 – 155	105 – 230	12 – 30
Latvia	Centre of Riga	70 – 215	108 – 360	36– 70
	Riga outskirts	60 – 105	85 – 180	20 – 60
	Jurmala	20 – 105	20 – 165	12 – 30
	Jelgava	12 – 55	20 – 60	12 – 45
Lithuania	Centre of Vilnius	240 – 300	300 – 480	60 – 120
	Vilnius outskirts	80 – 180	95 – 240	15 – 60
	Klaipeda	60 – 120	95 – 180	24 – 30
	Kaunas	60 – 85	95 – 120	12 – 30

Retail Rents in Centres of Capitals in 1999 EURO/m²/year



Prices are given as net rents, i.e. the tenant should take into account that a part of operating costs (heating, electricity, water, garbage removal, security, etc.) will be added, the costs are approximately 24 -32 EURO/m²/month.

CONCLUSIONS

The Review has been produced in close co-operation between the land services of the Baltic countries: Estonian Land Board, State Land Service of the Republic of Latvia and State Land Cadastre and Register of Lithuania. The main tasks of the Land Services involve the registration of real estate and changes made to it as well as monitoring of the development of real estate market and defining of the cadastral value of real estate for taxation purposes.

The Review is a practical proof of the attempts of the Baltic countries to represent themselves in a united form at the same time preserving their cultural and social characteristics.

It is impossible to reflect all the details in the current Review and actually it was not our intention. As already indicated in the very beginning, the aim of the Review was to discuss the common Real Estate Market of the Baltic countries, which might be more advantageous than separate markets of each country.

This review was the first but surely it won't be the last one. We hope very much for feedback from you. If you have any comments or you take particular interest in any of the discussed issues or need more detailed review of the Real Estate Market of one or all the Baltic countries, you are welcome to contact us.

The review and additional information are available on Internet.

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