



# Deloitte.

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Real Estate

## Integrated advisory services

### Securing probability of success

July 2007

Audit • Tax • Consulting • Financial Advisory •



# Introduction

We believe that our experience and knowledge allow us to provide professional services of the highest quality, exceeding the expectations of our clients and helping them to excel in their investment projects. We provide solutions aimed at the following most common issues within real estate investment projects:

- Secure accurate and timely delivery management information, financial statements and other statements required by the Latvian legislation;
- Execute robust and efficient assessment and planning for investment projects, including:
  - Analysis of returns on investments and their potential fluctuations applying statistical methods;
  - Analysis of tax risks and tax planning;
  - Analysis of legal risks.
- Manage legal risks arising from complex legislation, local traditions and regulatory environment;
- Reduce tax charges related to your real estate investments through tax planning and assistance to ensure compliance with requirements;
- Attract finance to increase the overall profitability of your investments;
- Define the most appropriate moment for the exit from your investments and maximisation of returns on investment during the transaction; and
- Support in the administration of project management to reduce administrative burden on your staff members and ensure smooth and efficient communication and delivery.

The scope of these services, where necessary, is increased through collaboration with well known real estate consultants to assess the feasibility of the real estate project. Potential attractiveness for the intended client audience, plans for positioning in the market, selling to clients and assistance in improving these plans to increase the probability of success are all taken into account.

We can provide these services in almost any country or territory using our extensive network of Deloitte offices across the world.

If you would like further information on how we can assist you, our services or our experience, please do not hesitate to contact us.

Gavin Hill  
M&A Transactions Services Leader in Poland and the Baltic States

# Key challenges and our solutions

While every real estate investment project is unique, all involve a number of similar challenges in one form or another. Failure to deal with these challenges may result in a significantly lower return on the investment than was expected at the planning stage, or even net loss due to high taxation charges, legal issues, administrative burden and other matters.

Below, we provide a summary of key challenges we have encountered while helping our clients in their real estate:

<b>Challenge</b>	As with any business, real estate projects require timely and accurate information management and financial statements for investors as well as delivery of information required by state institutions.
<b>Our Solution</b>	<p>We provide assistance in setting-up or enhancing the accounting function to optimise its activities (book-keeping, budgeting, closing books, reporting) and maximise the support provided to management in terms of information and insights provided based on an analysis of information.</p> <p>We also provide audit services for financial statements to ensure their compliance with the requirements of Latvian legislation, International Financial Reporting Standards or any other generally accepted accounting principles.</p>

<b>Challenge</b>	The outcome of investment opportunities is rarely certain and investors usually have to choose between a number of opportunities. Thus they need a clear view on the balance between risks and potential gains involved.
<b>Our Solution</b>	<p>We have extensive experience in building financial models based on your projections to provide an overview of cash inflows and outflows. With the use of Monte-Carlo simulations, we help our clients to identify the key risks involved in potential investments and get a view on the potential value range of this investment within a number of potential scenarios.</p> <p>With assistance from real estate consultants, we also perform assessments of the new properties' concept and the planned strategy for its positioning in the market.</p> <p>Our financial models include assumptions related to relevant legal and tax matters and their potential impact, and thus provide an all-encompassing view of potential outcomes.</p> <p>These models allow us to assess the attractiveness of each investment opportunity based on the following information available from the financial model:</p> <ul style="list-style-type: none"> <li>• Feasibility of the project,</li> <li>• Net cash flow within a certain period of time,</li> <li>• Discounted cash flows and net present value based on the rate of return defined by the investor,</li> <li>• Sensitivity analysis and key risks involved in this investment, and</li> <li>• Profit and loss analysis and balance sheet over a certain period of time.</li> </ul>

<b>Challenge</b>	Project management for an investment project requires a well organised function to ensure timeliness and accuracy of documentation and effective communication with all parties involved. This also require knowledge of local customs and a good approach towards public institutions.
<b>Our Solution</b>	<p>We help our clients to establish a Project Management Office, which provides the following benefits:</p> <ul style="list-style-type: none"> <li>• Ensures timely and effective communication amongst the parties involved, using modern and secure web technologies and assistance,</li> <li>• Control over time schedule and completion of tasks, and</li> <li>• Quality assurance for documentation involved.</li> </ul>

<b>Challenge</b>	A complex legal system, with respect to acquisition, ownership and disposal of land and properties, may create risks which investors are not aware of and are not protected against.
<b>Our Solution</b>	<p>We provide legal advisory services at all stages of a real estate investment project. Our team involves both International Law and local legislation expertise to ensure careful analysis and advice in all areas of potential risk.</p> <p>We analyse all related legal matters and risks, including local customs and traditions in settling legal disputes, and help to design the most effective protection against these risks through:</p> <ul style="list-style-type: none"> <li>• Investors contracts,</li> <li>• Contracts for the purchase of land and buildings,</li> <li>• Contracts for the properties management and rental contracts, and</li> <li>• Contract for the sale of investments.</li> </ul>
<b>Challenge</b>	Most of our clients want to leverage funds they are ready to invest with either additional equity financing or debt financing as this increases their return on investment. The cost and availability of external financial resources greatly depends on relationships with potential investors and the quality of the presentation of the investment opportunity.
<b>Our Solution</b>	<p>Our connections within the investors community (both institutional and personal) in all major economies allows us to offer unparalleled help in raising additional financial funds for you investment project. Our assistance typically involves the following:</p> <ul style="list-style-type: none"> <li>• Assistance in designing a business plan and other materials for the presentation of the investment project,</li> <li>• Selection of investors who could be interested in participating,</li> <li>• Assistance in organising a “road show” with potential investors to raise their awareness and interest in participating, and</li> <li>• Assistance in negotiations with potential investors to reach mutually beneficial terms and conditions.</li> </ul>
<b>Challenge</b>	Every country has developed its own universe of taxation rules and regulations. Selection between one approach or another while making a transaction may turn profit number into loss.
<b>Our Solution</b>	<p>Our tax specialists in Deloitte offices across the world provide assistance in designing tax planning solutions, which provide the most effective approach considering both jurisdictions where investments are made and the jurisdiction of the investor.</p> <p>Our solution will include the following:</p> <ul style="list-style-type: none"> <li>• Tax planning for acquisition and disposal of investments – local and international, and</li> <li>• Assistance in the set-up and management of corporate vehicles.</li> </ul> <p>Monitoring operations of corporate vehicles to ensure compliance with relevant regulatory and tax legislation requirements.</p>
<b>Challenge</b>	One of the most critical moments in securing the overall return on your returns is its disposal and price achieved within the transaction.
<b>Our Solution</b>	We have strong experience in sell-side advisory services, which together with the network of our contacts among potential investors, allow us to provide effective support during the exit phase of your project.

# Our Experience

Below are a few of the largest real estate projects, where we have helped our clients through our integrated service approach within the Baltic states:

Project	Place	Our role	Size of the project (euros)
Two high-rise multi-functional buildings for office premises and apartments for sale and rental	Riga, Latvia	Financial modeling to assess feasibility of this project and assistance in designing a business plan to attract bank loans; Tax efficient structuring	80+ million
Investments in commercial and residential real estate by a foreign real estate investment fund	Riga, Latvia Vilnius, Lithuania	Tax structuring and planning for investments and exit strategies during the last 5+ years; ongoing tax advisory	65+ million
Structuring and setting up a real estate fund	Riga, Latvia	Advice on the most efficient holding structure for real estate investments from a tax, financial and legal perspective; Setting up a real estate fund and investment management company, including full legal support	300+ million
Disposal of three commercial properties	Riga, Latvia	Full scope sell-side advisory to find investors and assist in the completion of a transaction	36 million
Acquisition of a shopping mall	Riga, Latvia	Tax, legal and financial due diligence, tax and legal advisory services for two planned acquisitions of a shopping mall in Latvia	25 million
Acquisition of a shopping center	Riga, Latvia	Transaction support, including tax, legal and financial due diligence, tax and legal advisory services for a number of acquisitions of shopping centers in Latvia; Financial modeling	2-5 million each
Acquisition of A class office building	Riga, Latvia	Tax, legal and financial due diligence of 2 A class office buildings in Riga; Full legal support, including but not limited to drafting the purchase agreements; representing the client in negotiations	8+ million each
Acquisition of commercial property	Riga, Latvia	Due diligence of a commercial property (trade space and warehouses) owner in Riga	8 million
Acquisition of large real estate development projects	Riga, Latvia Riga region, Latvia Jūrmala, Latvia	Tax and financial due diligence of several large residential real estate development projects in Riga; Valuation advisory services regarding valuation of the respective land lots; Legal support during the sales process; Tax efficient structuring of the transaction, including VAT and corporate income tax	N/A
Acquisition of a forest management company	Riga, Latvia	Financial and tax due diligence of a forest management company, which is one of the largest private forest land owners in Latvia	20 million
Acquisition of a construction company	Riga, Latvia	Tax, legal and financial due diligence of two large construction companies	N/A

Valuation	Dobele region, Latvia	Valuation of an agricultural land (640ha) owner company in the Dobele region	N/A
Tax efficient structuring	Riga, Latvia	We have performed a substantial number of tax efficient structurings for our real estate clients – both large corporate investors and funds as well as relatively small private investors. Our services include, but are not limited to, VAT optimization, VAT refund claims, corporate income tax planning, setting up holding structures, personal tax planning, tax reviews, requesting and obtaining binding rulings from tax authorities. We have represented both the sellers and the buyers.	N/A
Representation against tax authorities	Riga, Latvia	We have successfully represented a number of our real estate clients in disputes against the tax authorities	N/A
Legal support	Riga, Latvia	We are providing our clients with ongoing, full legal support during and after the acquisition and sale of real estate, including setting up a legal structure for the transaction, contract drafting, representation in negotiations, dealing with state authorities, etc.	N/A
Acquisition of three office buildings	Tallinn, Estonia	Financial and tax due diligence	N/A
Valuation of real estate company	Tallinn, Estonia	Valuation of large Estonian real estate company	N/A
Tax efficient structuring	Tallinn, Estonia	Tax efficient structuring of inbound investments into Estonian real estate – land and buildings (at least 5 projects)	20-100 million per project
Expansion of a five star hotel and building a village of homes for sale and rental	Vilnius, Lithuania	Full scope assistance in the capital raising process, including financial modeling, preparation of a business plan and marketing materials, promotion amongst potential investors and negotiations with potential investors	70 million
Potential acquisition of real estate sold by large financial company	Lithuania, Estonia	Tax structuring and planning for the investment. Financial and tax due diligence.	400 million
Acquisition of a shopping mall	Kaunas, Lithuania	Financial and tax due diligence followed by acquisition of a shopping mall in Kaunas.	25 million
Potential acquisition of a shopping mall	Siauliai, Lithuania	Financial and tax due diligence for the potential acquisition of a shopping mall with an integrated bus station.	23 million
Acquisition of a small shopping mall	Vilnius, Lithuania	Financial and tax due diligence followed by acquisition of a shopping mall in Kaunas.	15 million
Acquisition of a logistics centre	Kaunas, Lithuania	Financial and tax due diligence followed by acquisition of a new logistics centre. Tax structuring and planning advisory.	12 million

# Our Team Members

## **Gavin Hill** **M&A Transaction Services Leader, Poland and the Baltic States**

Gavin Hill leads Deloitte's M&A Transaction Services team in Poland and in the Baltic States. He will act as the engagement partner on this assignment and will be responsible for the overall quality of our services. Gavin is a UK Chartered Accountant, with over 25 reporting periods of experience in advising clients on corporate transactions, including due diligence.

Gavin has lead all the major Due Diligence engagements in the Baltics during the last 5 reporting periods, including banks, insurance companies, construction and real estate companies, oil and gas companies, and utilities.



## **Remi Troch** **International Tax Advisory Services, Baltic States**

Remi Troch is a Tax Partner in the Deloitte's Belgium firm, who has worked in Central Europe for more than 7 years. At present he is the director of Deloitte's Tax and Legal practice for the Baltic States, and is located in Riga. He specializes in international taxation, and has extensive industry specialization in the leisure and manufacturing industry, and serves several shipping companies in Antwerp, Belgium.

Remi has been involved in wide variety of projects, such as:

- Setting up a manufacturing plant of a Japanese company in Poland
- Mergers and acquisitions in Belgium and Central Europe
- Negotiations with EBRD representatives and the client regarding setting up a new hotel in Warsaw
- Advising a multitude of international clients on investing in Central Europe
- Tax advice for many years in Antwerp for various shipping and maritime companies
- Helping a Belgian bank to take over a bank in Slovenia
- Setting up tax advantageous international schemes for investing into Central Europe

Remi is co-author of the chapter on deferred taxes in the Belgian tax handbook, and has written the tax comments to the annual accounts. He is member of the association of accountants in Belgium, and a member of the Tax Chamber. He is a frequent lecturer at international Deloitte seminars. Remi holds a university degree in microeconomics.



**Jānis Čupāns**  
**Senior Manager, Tax & Legal, Latvia**

Jānis Čupāns is a Senior Manager in the Tax and Legal Department of Deloitte Latvia. He holds a Bachelor of Law from the University of Latvia, Faculty of Law, Riga, Latvia and is a certified tax advisor. Having started his career as a tax consultant with KPMG in 1997, he joined Deloitte in 1999 and became a manager in 2001. In 2003 Janis was seconded for three months to Deloitte Rotterdam to work in VAT Group.

Janis is responsible for providing tax services in Latvia to local and international clients. Janis has wide range of practical experience in both international and Latvian taxation matters. His main area of expertise in the tax field is value added tax, international tax planning and structuring of transactions. Janis has managed a significant amount of tax projects and developed tax solutions for a number of Latvian and multinational companies. The scope of assignments carried out includes but are not limited to consulting, tax planning, tax reviews and litigation.

Amongst his real estate clients are New Century Holdings, Colliers, BR Holdings, Direct Capital, Z-Towers, Mezaparks SPV, Tim Kelly, Bridge Capital, Pro Kapital, VIA Finance, Industriālais Termināls and many more.

Janis is co-author of the Latvian "Tax Guide" that Deloitte Latvia publishes in cooperation with the biggest Latvian business newspaper "Dienas Bizness".



**Mārtiņš Zutis**  
**Assistant Director, Financial Advisory, Latvia**

Martins Zutis is an assistant director in Deloitte Central Europe's Financial Advisory practice. He is a fellow member of the Association of Chartered Certified Accountants.

Martins has worked with real estate funds and other investors, developers and constructions companies for a number of years, including due diligence and transaction support on acquisitions and disposals, valuation and capital raising both for local and international clients.

Recently, he has been involved in capital raising for two high-rise multifunctional buildings in Riga for EUR 80 million, transaction support for acquisitions conducted by an Austrian real estate investment fund in Latvia, transaction support for seller of an office building in Riga for EUR 14 million.

His clients have included Linstow, CREDO Real Estate, Spēks Realty, Stavanger Eiensdom, Alta Real Estate Partners.

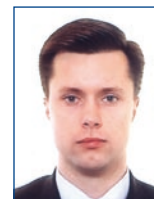


**Linas Galvele**  
**Manager, Financial Advisory, Lithuania**

Linas Galvele is a manager in Deloitte Central Europe's Financial Advisory practice and is responsible for M&A Transaction Services in Lithuania. Linas is based in the Vilnius office specializing in due diligence, valuation and business analysis assignments.

Linas has worked with real estate funds, major developers and constructions companies for a number of years, including due diligence and transaction support on acquisitions and disposals, valuation and capital raising both for local and international clients. He has recently worked on transaction support assignments on behalf of foreign investors in the real estate, energy, pharmaceutical, transportation, and manufacturing sectors. Major real estate clients are Genesta, Homburg, Citycon etc.

Linas has a Master's degree in International Business from Vilnius University, Lithuania, a Bachelor's degree in International Business from Concordia International University Estonia (Hons), Estonia, and a Bachelor's degree in International Business from Concordia International University Wisconsin, USA. Linas is also qualifying to become an accredited member of American Society of Appraisals (passed four technical exams out of four).



**Andrius Kavoliūnas**  
**Manager, Tax, Lithuania**

Andrius Kavoliūnas is a Manager in Deloitte Lithuania's Tax & Legal Department.

Andrius has worked with real estate funds and other investors, developers and constructions companies for a number of years, including due diligence and transaction support on acquisitions and disposals, tax structuring. His major clients include Homburg and Genesta.

Recently, he has been involved in cross-border tax structuring and due diligence procedures for a number of local and foreign investors.



**Anneli Simm**  
**Senior Associate, Financial Advisory, Estonia**

Anneli Simm is a Senior Associate in the Financial Advisory Services Department of Deloitte Estonia. She holds a Bachelor's in International Business from the Concordia International University in Estonia. Anneli is currently doing her MBA in the Tallinn Technical University. She joined Deloitte in 2000 as a Management Consultant and became a Senior Associate in Financial Advisory in 2005.

Anneli is responsible for managing the Financial Advisory Services Department in Estonia since March 2006. She is responsible for providing financial services in Estonia to local and international clients. Anneli has participated in a number of due diligence, valuation, business advisory and planning, financial modelling projects locally as well as on international level. Her major clients in real estate includes Q-vara, Brekke Industrier AS, Pro Kapital, Oberhaus.



**Mait Riikjarv**  
**Manager, Tax Advisory, Estonia**

Mait Riikjarv is a Manager in the Tax & Legal Department of Deloitte Estonia. He holds a Diploma in Business Law from the Academy Nord in Estonia and now he is studying LLM program in international taxation in the Jonköping University in Sweden. He joined Deloitte in 2000 as a Tax Manager.

Mait is responsible for providing Tax and Legal services to local and international clients. He has participated in a number of projects in real estate sphere including due diligence, tax planning, optimization and consulting. Main real estate clients are Ober-Haus, Aberdeen Property Investments, Broadgate Capital, Estonian Property Opportunities Fund, Oxford Investments.



He is co-author of the IBFD country chapter, a member of Estonian Lawyers Association and a member of the foundation board of the Estonian Branch of the International Fiscal Association.

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