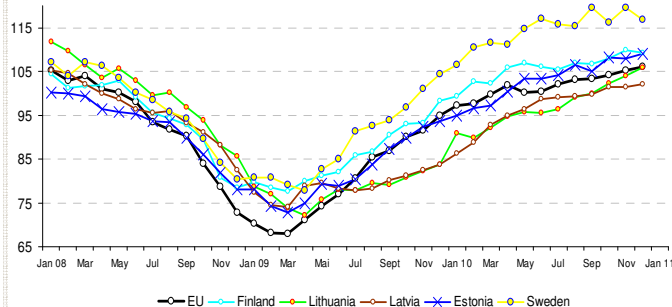


Monthly Market Review

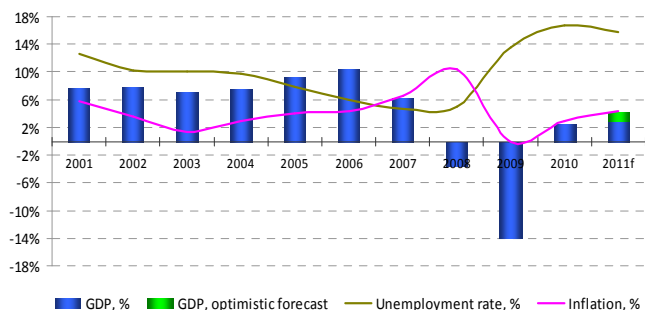
January 2011

ECONOMIC SENTIMENT INDICATOR



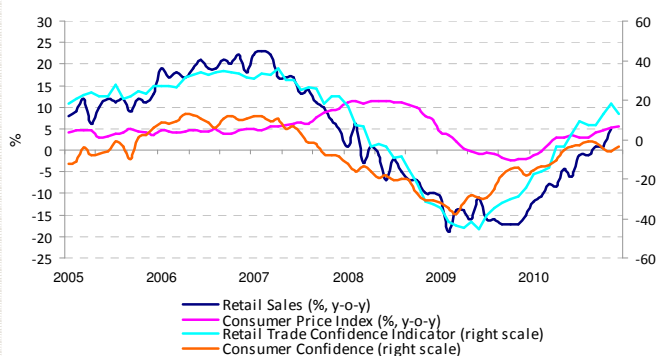
Source: European Commission

GDP, WAGES GROWTH AND UNEMPLOYMENT RATE



Source: Statistics Estonia, Bank of Estonia

VOLUME OF RETAIL TRADE, CPI AND RETAIL TRADE CONFIDENCE INDICATOR IN ESTONIA



Source: Statistics Estonia, European Commission

Economic Sentiment showed upward trend in 2010

2010 has seen a steady improvement in **economic sentiment** in both the EU and Estonia. The ESI in the EU improved almost every month during 2010 with only small decrease in May. The indicator increased significantly in December also, climbing by 1.0 point to 106.1 in the EU.

2009 saw the ESI reach its low at 72.8 points in Estonia after falling steeply in late 2008, before gradual recovery coming into 2010. 2010 saw sentiment continual improvement in Estonia, increasing more than 15 basis points (16%) over the year to reach 109.1 basis points – a figure on par with Finland, better than the other Baltic States and above the EU average. Improvement in 2010 was driven by recovery in all sectors.

The **Economic Sentiment Indicator in Estonia** rose by 1.2 points to 109.1 in December. Positive development of the indicator in Estonia in December was affected mostly by a rise in confidence in industry (+4.6) and among consumers (+2.5).

The decrease in **consumer confidence** that had lasted for three months in a row, turned to rise in December. Although consumers' expectations about Estonia's future economic situation improved and people are more positive concerning their ability to make savings over next 12 months, the unemployment fears has deepened instead.

According to the **Real Estate Confidence Index** (+5 in December) provided by the Estonian Institute of Economic Research, the situation in real estate sector became not so much favourable as it was in previous months due to worsened future outlook. Although third of the sector companies were able to increase their sales during the last 3 months, 40% of companies forecasts demand decline in the next three months and about 12% of them believes that price level in the sector will start to decrease again.

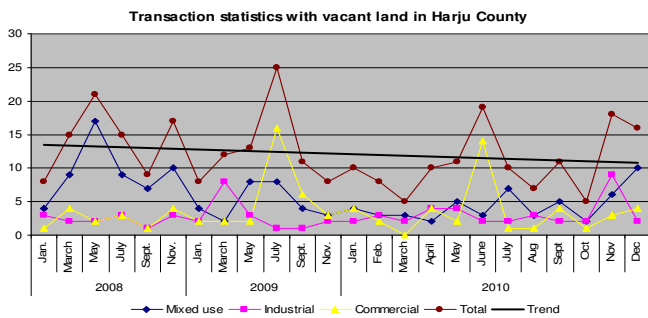
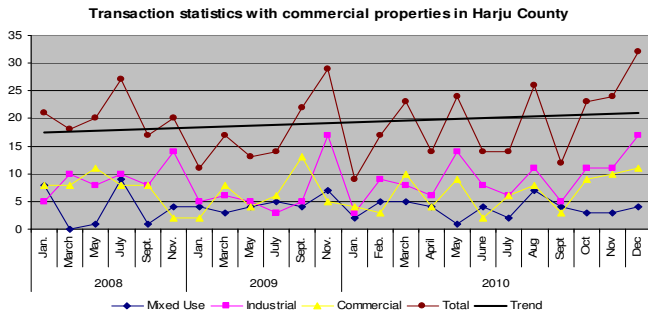
Consumer price index

According to Statistics Estonia, the **consumer price index** increased 3.0% in 2010 compared to the average of 2009. Starting from March 2010, consumer price index has been increasing by 3 percent on average caused by growth in the price of motor fuel, electricity, heat energy, food and beverages.

In 2010 compared to the average of the previous year, fresh vegetables were 40%, fuel oil 35%, coffee 15.9% and milk 14.7% more expensive.

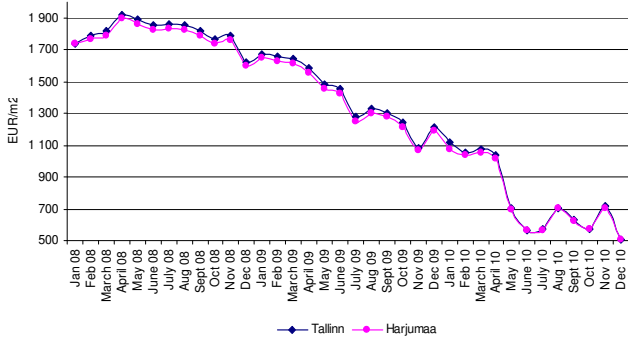
Rapid inflation (as it was in the second half of 2010) is not expected to continue in **2011** and remain only slightly above the euro-area average although Euro adoption will also have its impact on price growth in 2011.

TRANSACTION STATISTICS OF TALLINN AND HARJU COUNTY



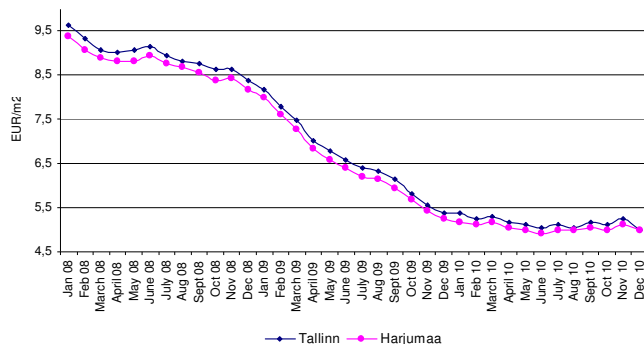
Source: Estonian Land Board

AVERAGE PRICE DYNAMICS OF COMMERCIAL SPACE OFFERED FOR SALE IN TALLINN AND HARJU COUNTY



Source: kv.ee

AVERAGE RENT DYNAMICS OF COMMERCIAL PREMISES OFFERED FOR RENT IN TALLINN AND HARJU COUNTY



Source: kv.ee

Retail trade, export and import

The decrease in **retail sales** of retail trade enterprises that had lasted for almost two and a half years compared to the same month of the previous year, turned to 1% rise in September and October in 2010. A slight growth continued also in October. In November the growth in retail sales slightly accelerated.

Compared to the recovery of export income in 2010, a pickup in domestic demand will take place with a substantial lag depending on strengthening consumers' confidence and recovery in lending. The growth of private sector **consumption** expenditure in **2011** will remain lower than the average growth of the economy;

The sales turnover and profitability of most export-sector companies (**export** is the main driver of economy recovery in Estonia) has started to pick up in the first half of 2010. At the same time, the rapid growth in production recorded in 2010 was partly influenced by the low reference base in 2009. During **2011-2013** the **growth in exports will stabilize** in accordance with the developments of main export markets and it is then it is indeed a positive sign that future economy growth in the Nordic countries should (2,5%) exceed the EU average expected growth (1,8%).

Statistics of transactions with business objects

In 2010 altogether 16,761 **real estate transactions** were made in Harju County, 78% or 13,153 of which were purchase-sale transactions. The number of purchase-sale transactions in Estonia increased by approximately 20% compared to 2009 and the average transaction price more or less stabilised. The average transaction price in Harju County decreased by 6% and in Tallinn by 3% compared to 2009.

December was the best month in 2010 in terms of numbers of transactions with **commercial properties** – 32 transactions in Harju County were made, half of which were located outside of Tallinn. The number was somewhat lower for transactions with **vacant land** – 16 transactions were made in December.

While the number of transactions with vacant land in Harju County in 2010 decreased annually more than 38%, the number of transactions with commercial properties moderately increased instead.

It can be expected that **2011** will show **higher numbers** in terms of transaction numbers and total volume of investments.

Commercial space price and rent dynamics

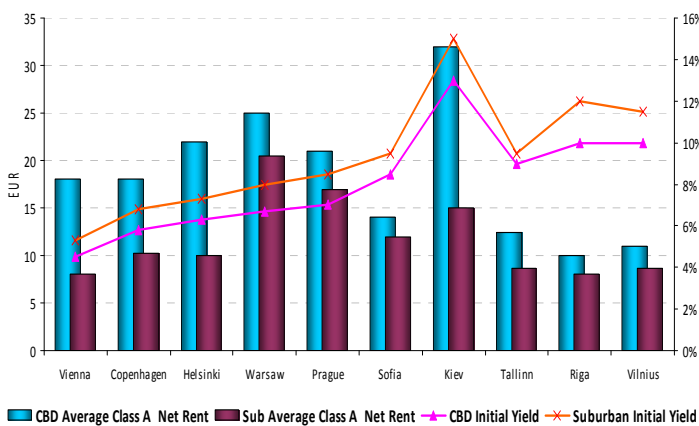
In 2010 the **average selling prices** were expected to continue a **downward** trend as a large proportion of asking prices remained unrealistic. When January's average asking price in Tallinn was 1,118 EUR/sqm, then during the year the price continued a downward slide and by the end of 2010 it ended at 508 EUR/sqm, making a drastic drop of over 50%. Falling trend was also observed in **average asking rental rate**.

In **2011** increasing **construction prices** will have strong pressure on both rental rates and asking prices, as it is not feasible to build new premises at current price levels any more. The probable price increase of new commercial premises will possibly lead also to price increase of older commercial premises.

OFFICE SPACE RENT AND VACANCY IN TALLINN

Class	Rent (EUR)		Trend	Vacancy		Trend
	Jan 10	Jan 11		Jan 10	Jan 11	
A	9.6-14.1	8.9-15.1	→↗	15-20%	14-18%	→↘
B1	6.5-9.6	5.5-10.6	→→	15-25%	15-20%	→→
B2	4.0-7.6	3.2-6.5	→→	15-25%	15-22%	→↗

AVERAGE RENTAL RATES AND YIELDS AS OF 3Q 2010

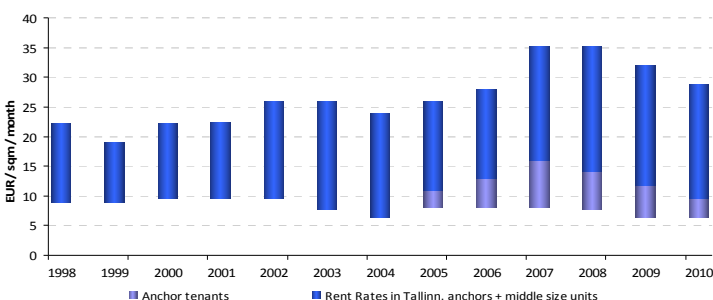


Source: Colliers International

RETAIL SPACE RENT AND VACANCY IN TALLINN

Unit Size	Rent (EUR)		Tendency
	Jan 10	Jan 11	
Large retail unit (anchor tenants)	6.4-9.6	6.4-9.6	→→
Medium retail unit (150-500 sqm)	9.6-28.8	9.6-28.0	→→
Small retail unit (up to 100 sqm)	12.5-44.8	12.5-42.2	→→
Street retail	9.6-32.0	9.0-28.0	→→
Vacancies (major shopping centres)	1%	1%	→→

DYNAMICS OF RETAIL RENT RATES IN TALLINN FOR LARGE AND MIDDLE SIZE UNITS, 1998-2010



Source: Colliers International

Office market

After poor conditions and high vacancy in 2009 the office market had begun to firm coming into 2010. Entering 2010 it appeared that rental and vacancy rates would remain relatively stable. However, coming into the year with a significant oversupply, no dramatic recovery was expected and no significant office projects were anticipated to be added to the market. The year saw vacancy rates gradually decrease - particularly in A and B1 class buildings in the city centre.

The highest contribution to take-up volume in 2010 came from companies in the IT and High Tech sector (29 percent) and the Manufacturing, Industrial and Energy sector (18 percent).

Rental rates decreased somewhat at the beginning of the year, however A class buildings in the city centre saw firming and a turnaround to some growth in the latter half of the year. Overall in 2010 average asking rental rates decreased slightly by 2-5% due to small decrease for average rental prices for A Class properties and decrease in the lower end prices for B1 Class properties.

The office sector has observed increasing interest for larger premises among BPO (Business Process Outsourcing) companies. However, due to significant oversupply in previous years, no rapid positive changes can be expected before the end of 2011 and no larger (above 5,000 sqm) speculative office projects will be started in the next few years. Sharply increased construction price will put pressure on average rental rates of new potential developments, though the landlords are not yet vital enough to increase their rental cost basis.

Retail market

2010 was expected to be more difficult for retail owners than other sectors, as considerable instability in tenant, rental and vacancy rates became apparent towards the end of 2009. The sales figures still remained lower YOY at the beginning of the year, but improved. Surprisingly, the market saw substantial development activity, with Bauhaus opening 20,000 sqm of new floor area in April, Rimi opening a supermarket in Tabasalu with total area of ca 2,200 sqm in June and in September Kristiine Shopping Centre opened its 20,000 sqm extension. Vacancy rates in larger shopping centres remained effectively zero, although high and perhaps still rising elsewhere.

Despite an improved global economic landscape, retailers are still expressing caution in terms of expanding and committing to new stores. As sales per GLA in Tallinn biggest shopping centres are positively correlated with wages growth, while wages growth is dependant on unemployment level in the country, increase of retail sales is expected to be very modest in 2011-2014. Retail sales are expected to grow in the first half of 2011 due to y-o-y low comparison basis, but starting from May the pace of growth will considerably slow down. Possible development in retail sector depends not only on recovery of consumption in Estonia but to a great extent on financing availability. Innovation and uniqueness will be more crucial than ever concerning supply of new premises in the future - new concepts of retail-leisure centres and new brands will gain an advantage.

Rent rates for anchor tenants are expected to remain stable, main changes are expected in rent level for small size retail units. Further level of rent rates will depend on retailers' performance as well as supply of new premises (completion of several big retail projects / retail parks).

* Asking rent rate (EUR/sqm/month), excluding VAT and operating expenses.

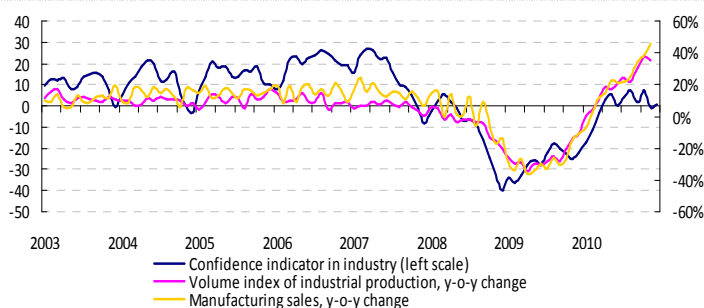
** →→ - stable; ↘↘ - decrease; ↗↗ - increase

→↗ - slight increase; →↘ - slight decrease

WAREHOUSE AND INDUSTRIAL SPACE RENT AND VACANCY IN TALLINN AND HARJU COUNTY

Building condition	Rent (EUR)		Tendency	Vacancy	Tendency
	Jan 10	Jan 11			
New and renovated warehouses	2.8-5.0	3.0-5.0	→→	15-20%	→→
Old warehouses	1.3-3.2	1.3-3.2	→→	15-20%	↗↘

MANUFACTURING SECTOR, 2003-2010

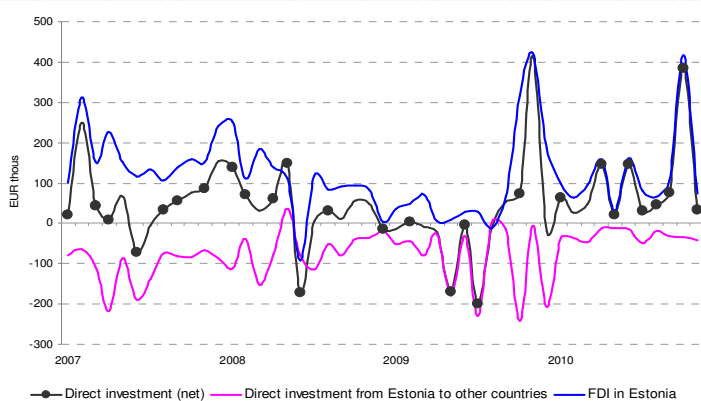


Source: Statistics Estonia

PRIME YIELDS IN TALLINN

Sector	Prime yield Jan 10	Prime yield Jan 11	Tendency
Office	10-12%	9%	→→
Retail	10-11%	8.5%	→→
Warehouse and industrial	12-14%	9.5-11%	→→

DIRECT INVESTMENT IN AND OUTFLOW 2007-2010



Source: Bank of Estonia

Warehouse and Industrial market

After 2009 saw diving rental rates and increasing vacancy, 2010 began with very little tenant demand and a high vacancy rate. The sector remained fragile with fears of bankruptcies or jumps in vacancy with hopes pinned on a growth in exports and transit and a stabilising market. Growing interest from foreign investors was a promising sign - attracted to the sector by low prices. However, as the year has progressed, construction prices have increased heavily (approximately 20%) and widened the gap between asking prices of developers and tenant expectations.

In 2010 the market remained in favour of occupiers. However, as the demand for larger premises located in Lasnamäe city district in direction of St. Petersburg Road exceeds the supply, the landlords of the premises were and still are in a position to set the price level for rental negotiations.

Even though the industrial market vacancy rate was quite high throughout 2010, the sector has become more active among Russian and Scandinavian clients, and there was some degree of demand shortfall in larger properties (above 5,000 sqm).

Although the sector has shown some positive signs of recovery, supported by strengthening exports and economic revival in neighbouring Nordic countries realistically, stable recovery in this market will be slow-moderate over the medium-term. Despite reduced demand, a drop-off in supply should allow rents to remain more stable in 2011. Occupiers are still cautious and generally show preference to leasing over purchase. In case of need for premises with specific parameters, due to shortage of such new buildings often older industrial premises are considered. Short-term rental contracts have become more common. Investor interest for industrial sector is improving but remains relatively low.

Investment market

Investment market resurrected in 2010 after hibernating through 2009. The total investment volume increased at least 5 times in 2010 y-o-y. The second half of the year witnessed international investors' growing interest - Finnish, Swedish and Russian investors being the most active. The largest deals (a € 10.5M) of 2010 were made in the second half of the year and by foreign investors. Real estate investment environment improved through improved fundamentals like vacancy, financing and lowered country risk (Euro!). The property of the choice in 2010 was retail, followed by office and industrial sector (the two largest deals). The prime yield compressed by 100-200 bps during the year, as the expression "double-digit" disappeared from the discussions.

In 2011 some portfolios are expected to transfer ownership and market volume to grow at least by 3 times y-o-y. The market will be supported by stable fundamentals and signs of potential improvements - a pressure on rental rates is forming, supported by recovering economy, decreased vacancy, lack of new development and increased construction costs.

The main investment targets will be retail and office properties with strong cash-flow and core locations. Properties with added value are desired also. Prime yield is expected to compress further during 2011, but by Colliers' opinion it should remain at least 200 bps higher compared to the Scandinavian prime (presently 5%-5.5%) to preserve the attractiveness.

*Asking rent rate (EUR/sqm/month), excluding VAT and operating expenses.

** →→ - stable; ↓↓ - decrease; ↗↘ - increase

→↗ - slight increase; →↓ - slight decrease

SELECTED NEWS RELATED TO COMMERCIAL PROPERTY MARKET

Market tendencies by commercial property sector (1st Q2010 vs. 1st Q2011):

OFFICE Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	1Q 10	1Q 11	1Q 10	1Q 11	1Q 10	1Q 11
Demand	→	→ ↗	↘	→ ↗	→	↗
Supply	→	→	↗	→	→	→
Vacancy	→	↘	↗	↘	↘	↘
Construction	↘	→	↘	→	↘	→
Rental Rate	↘	→ ↗	↘	→	→	↗
Yield	→	↘	→	→	→	→

RETAIL Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	1Q 10	1Q 11	1Q 10	1Q 11	1Q 10	1Q 11
Demand	→	→	→	→ ↗	→	↗
Supply	↗	↘	↗	→	→	→
Vacancy	→	→	↗	→ ↘	→	↘
Construction	→	→	↘	→	↘	↘
Rental Rate	↘	→	↘	→	→	↗
Yield	→	↘	→	→	→	→

INDUSTRIAL & LOGISTICS Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	1Q 10	1Q 11	1Q 10	1Q 11	1Q 10	1Q 11
Demand	→	→	↘	→	→	↗
Supply	→	→	↗	→	→	→
Vacancy	↗	→	↗	→	→	↘
Construction	→	→	↘	↘	↘	↘
Rental Rate	→	→	↘	→	→	↗
Yield	→	→	→	→	→	→

Monthly market review is a joint work of the analysts and consultants of Colliers International Estonia. Should you require further information, please do not hesitate to contact us at your earliest convenience.

➤ On 1 January 2011, Estonia changed over to the euro, the single European currency. During the first two weeks of 2011, kroons and euros will be equally acceptable means of payment. Kroons will be exchanged for the euros with a conversion ratio of 1 euro = 15.6466 kroons.

➤ Estonia-based construction company Merko Ehitus established a fully owned subsidiary in Ukraine called LLC Merko Ukraine. The aim is to create a legal platform in order to start business transactions in Ukraine. The company will mainly specialize in the managing of construction projects in Ukraine.

➤ The volume of real estate that banks have acquired from troubled loan customers at real estate auctions has gone up sharply in one year. Estectus, real estate management company of SEB, has now four times as much real estate as it held a year ago, while Swedbank in Estonia now owns twice as much.

➤ Representatives of large banks operating in Estonia say that housing loan margins are unlikely to grow in the coming year and also the Euribor is not expected to rise rapidly.

➤ In October, Estonia's exports to Sweden were 2.2 times higher than a year earlier, mainly influenced by the increase in trade of machinery and equipment. Compared to October 2009, exports to Sweden increased by 1.4 billion kroons (87 million euros), according to Statistics Estonia.

➤ The turnover of Viru Shopping Centre decreased in 2010 by approx 0.5% compared to 2009, although Christmas sales showed an increase in turnover and number of visitors over 10%. For comparison, the sales revenue of Estonian retail trade concern Tallinna Kaubamaja Group drop by 1.3% in 2010.

Source: BNS, Äripäev

FURTHER INFORMATION AND CONTACT:

Colliers International Estonia

Lõõtsa 2a, 11415 Tallinn
Tel +372 6160 777
Fax +372 6160 771
colliers@colliers.ee
www.colliers.ee

Margus Tinno
Partner
Head of Valuation and
Investment Advisory
Tel +372 6160 773
GSM +372 505 9686
m.tinno@colliers.ee

