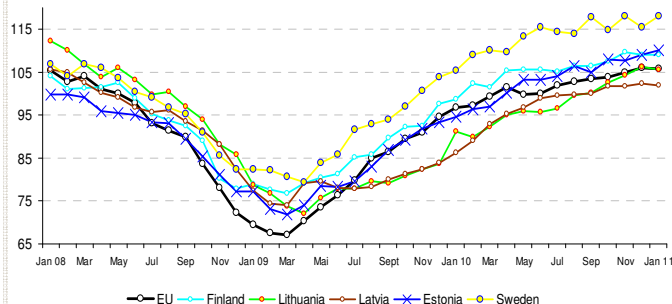


# Monthly Market Review

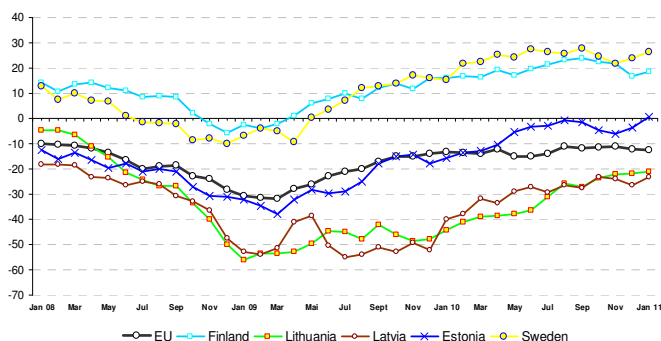
February 2011

## ECONOMIC SENTIMENT INDICATOR



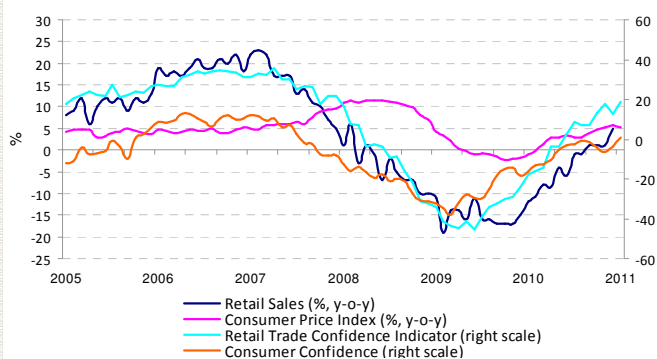
Source: European Commission

## CONSUMER CONFIDENCE



Source: European Commission

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



Source: Statistics Estonia, European Commission

## Economic Sentiment remained broadly unchanged

In January 2011, the **Economic Sentiment Indicator (ESI)** remained broadly unchanged, at 105.8 in the EU and 106.5 in the euro area. After 7 months of uninterrupted improvement, the indicator stands well above its long term average.

Increase in sentiment in **industry** (by 1.1 points in the euro area and by 0.6 point in the EU) continues to contribute positively to the overall results. Sentiment in the **retail** sector weakened substantially in both the EU (-4.2) and the euro area (-4.4), after the significant gain registered in December.

The **Economic Sentiment Indicator** in **Estonia** rose by 1.1 points to 100.2 in January. Positive development of the indicator in Estonia in January was affected mostly by a significant rise in confidence in **retail** (+6.1) and among **consumers** (+4.4).

The decrease in **consumer** confidence that had lasted for three months in a row turned to rise in December and continued to improve in January. Consumers' expectations about Estonia's future economic situation continued to improve; people are more positive concerning their ability to make savings over next 12 months and the unemployment fears started also to ease.

In **Lithuania** and in **Latvia** the ESI decreased in January by 0.6 and 0.4 points, respectively. Consumer confidence in Lithuania continued its improvement in Lithuania (+0.9 points) and turned also to growth in Latvia by 3.2 points.

According to the **Real Estate Confidence Index** (+18 in January) provided by the Estonian Institute of Economic Research, the situation in real estate sector improved compared to December 2010 as every fifth company forecasts demand increase in the next three months and 35% of the sector companies were able to increase their sales during the last 3 months and about 12% of them believes that price level in the sector will start to decrease again.

Two third of companies believes that a half-year later the overall situation in real estate market will be more favourable than it is now.

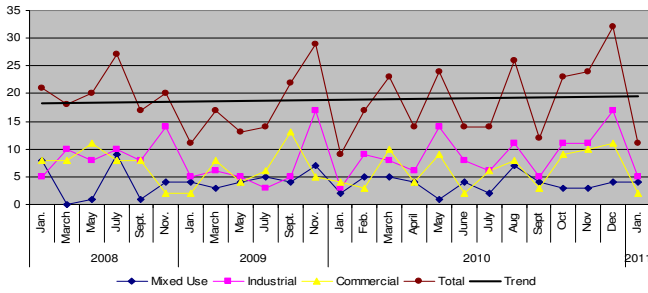
## Economic growth in 2010

According to Eurostat, compared with the same quarter of the previous year, seasonally adjusted **GDP** increased by 2.0% in the **euro area** and by 2.1% in the **EU27** in the fourth quarter of 2010, after +1.9% and +2.2% respectively in the previous quarter.

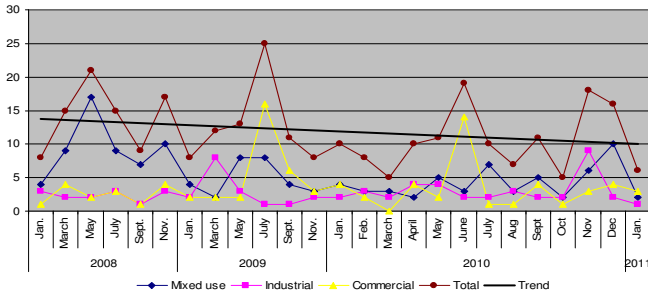
Statistics Estonia reports that **GDP** of **Estonia** increased by 6.6% in the 4th quarter of 2010 compared with the year-ago period. In 2010, the annual GDP grew by 3.1% compared to the previous year.

## TRANSACTION STATISTICS OF TALLINN AND HARJU COUNTY

Transaction statistics with commercial properties in Harju County

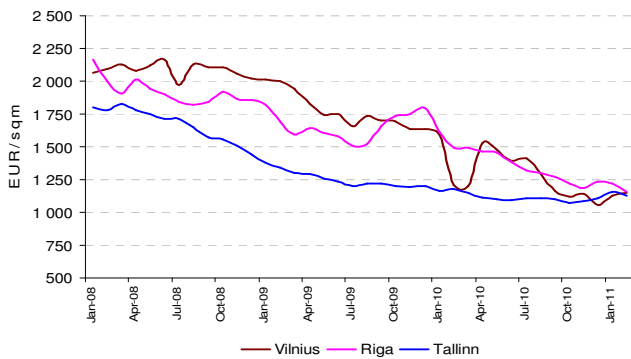


Transaction statistics with vacant land in Harju County



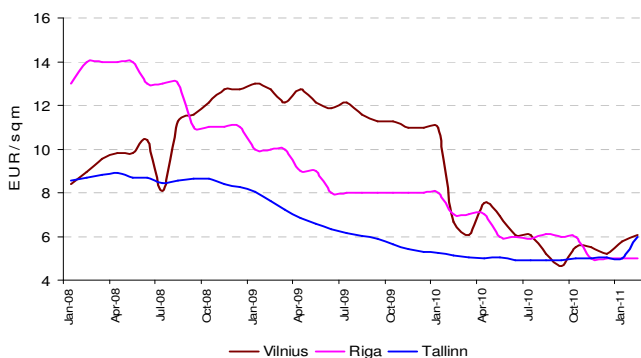
Source: Estonian Land Board

## AVERAGE PRICE DYNAMICS OF COMMERCIAL SPACE OFFERED FOR SALE IN TALLINN, RIGA AND VILNIUS



Source: city24.ee, city24.lv, city24.it

## AVERAGE RENT DYNAMICS OF COMMERCIAL PREMISES OFFERED FOR RENT IN TALLINN, RIGA AND VILNIUS



Source: city24.ee, city24.lv, city24.it

## Economy

According to Statistics Estonia, the **unemployment** rate in Estonia decreased to 13.6% in the 4th quarter of 2010. For the first time during the last one and a half year the unemployed persons numbered less than 100,000. The euro area (EA16) seasonally-adjusted unemployment rate was 10.0% in December 2010, while the EU27 unemployment rate was estimated at level of 9.6%.

Estonia's **exports** amounted to 8.75 billion euros at current prices in 2010 while **imports** to Estonia made up 9.27 billion euros. In 2010 compared to 2009, exports from Estonia increased 35% or by 2.27 billion euros, Imports to Estonia increased 27% or by 1.99 billion euros.

Compared to the same month of the previous year, the **consumer price index** (CPI) in Estonia increased 5.3% in January 2011. Goods were 6.5% and services 3.0% more expensive, while prices of food products rose annually by 11.4%. The prices of fresh vegetables, milk and potatoes have increased 36%, 35% and 30.6%, respectively. Euro area annual inflation is expected to be 2.4% in January 2011 according to Eurostat.

The **retail sales** in Estonia increased annually by 5% in December 2010. Retail sales grew for the fourth month in succession. According to Statistics Estonia, the retail sales in grocery stores increased 1% compared to the December of the previous year while the retail sales of stores selling manufactured goods increased by 11%. In December 2010, compared with December 2009, the retail sales index dropped by 0.9% in the euro area and by 0.1% in the EU27.

## Statistics of transactions with business objects

In January 2011, 11 transactions of commercial property and 6 transactions of vacant land were recorded in Harju County - 8 and 5 (respectively) of which were located in Tallinn. The total number of transactions of commercial properties is more or less on the same level as a year ago.

Although the number of sales in January decreased compared to the end of 2010, the overall trend continued its upward movement thus indicating growing interest in buying and selling of commercial properties.

## Commercial space price and rent dynamics

Average asking rent and price continue to remain more or less stable in all three countries capitals. According to City24.ee, the average asking rent rate in Tallinn has increased from 5 EUR/sqm/moth to 6 EUR/sqm/month making a small jump in January while the average price decreased from 1,158 EUR/sqm to 1,132 EUR/sqm. At the same time it should be mentioned that starting from January 2011 the statistics in Estonia is given with an accuracy of one euro instead of prior accuracy class of one Estonian kroon (difference is 15.6466 kroons) thus significantly influencing changes in average price and rental rates dynamics. Nevertheless, it can be seen that no dramatic changes have in reality occurred in the markets in the beginning of the year.

## OFFICE SPACE RENT AND VACANCY IN TALLINN

Class	Rent (EUR)	Trend	Vacancy	Trend
A	8.9-15.1	→↗	12-14%	→↘
B1	5.5-10.6	→→	14-18%	→→
B2	3.2-6.5	→→	15-20%	→→

## RETAIL SPACE RENT AND VACANCY IN TALLINN

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

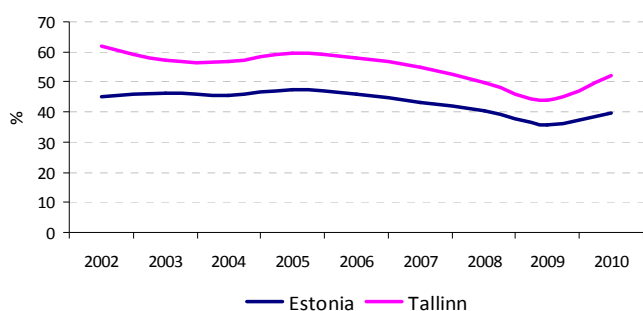
## WAREHOUSE AND INDUSTRIAL SPACE RENT AND VACANCY IN TALLINN AND HARJUMAA

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

## PRIME YIELDS IN TALLINN

Sector	Prime yield	Tendency
Office	8.5%	→→
Retail	8.5%	→↘
Warehouse and industrial	9.5%	→→

## AVERAGE ROOM OCCUPANCY RATE IN ACCOMMODATION ESTABLISHMENTS



Source: Statistics Estonia

## Office market

Activity in the office sector has increased amongst companies looking for office areas over 1,000 sqm, and subsequently vacancy rates in modern office buildings are steadily declining.

After slow leasing activity in January, the take-up of office space in Tallinn is expected to significantly increase in February indicating improving demand. There is also growing interest in vacant land purchasing in the CBD area.

More detailed information concerning take-up volume, absorption of office space, rent rates and vacancy dynamics, tenants' structure and emerging trends in Tallinn office market could be found in new research report released by Colliers International Estonia.

## Retail market

For the larger shopping centres the year has started with the usual clothing and footwear sales campaigns, although the prices of basic goods are continually increasing. According to Kadri Lainas, marketing manager of Prisma Peremarket, a Finnish-owned chain of hypermarkets, indicates that gross sales figures had increased by a fifth in January y-o-y, but this was mainly due to higher prices. Estonian-owned supermarket group Selver said that this January was more successful than in 2010 or 2009, confirming that the Euro changeover did not cause about a decline in consumption as some had feared.

## Warehouse and Industrial market

Together with exports growth, the sentiment amongst production companies is growing. A significant share of industrial businesses are planning expansions in the future and therefore looking for additional or new premises. A favourable location continues to be the Peterburi road area, where demand now exceeds supply.

## Hotel market

While at the beginning of 2010 the hotel sector was still in a big recession and the future outlook was rather bad, then fortunately nice sunny summer and good publicity overseas saved many hotel operators from going to bankruptcy. Although in 2010 was already established a new record for the number of tourists in Estonia, the hotel operators are even more optimistic about 2011. Starting from autumn 2010 the average room price has started steadily to increase and is predicted that during 2011 the increase could be even up to 30%. One important event influencing hotel sector positively in 2011 is Tallinn's European Capital of Culture programme.

## Investment market

One of the largest transactions Tallinn has seen in many years is currently underway. East Capital Real Estate is set to obtain six firms of the holding company Capfield, each of which owns a shopping centre in Tallinn. The estimated price of the transaction is around 100 million EUR. According to information available to Colliers, further large real estate portfolios will come up for sale.

Lately, buying pressure has increased in the CBD office sector, since investors are aggressively looking for investment opportunities while owners are not willing to sell. Growing investment interest can be also observed from Western European investors.

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

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

→↗ - slight increase; →↘ - slight decrease

## 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.

## SELECTED NEWS RELATED TO COMMERCIAL PROPERTY MARKET

➤BPT Asset Management has launched a new fund, BPT Baltic Opportunity, which aims to invest in core real estate assets in the three Baltic countries. The new fund has a maximum equity base of 100 million euros equivalent to an investment capacity of 200 million euros.

➤Banks operating in Estonia made a total of 70.5 million euros in net profit in 2010, including 23.4 million euros in the fourth quarter. Third-quarter net profit was about 45 million euros, announced Estonian central bank Eesti Pank.

➤Estonian national carrier Estonian Air said that it carried altogether 582,320 passengers in 2010 of which 533,001 on regular flights. The airline carried 490,116 passengers from Tallinn. The total number of passengers increased 3.4% y-o-y, on regular flights 4.5%. The load factor was 61.3%.

➤According to a new survey of the European Travel Commission, Estonia was the fastest-growing tourism destination in Europe last year. This trend is expected to grow, largely because of Estonia's eurozone membership, the start of regular flights to and from Tallinn by Ryanair and Tallinn's title as European Capital of the Culture 2011.

➤The asset management company East Capital Real Estate is set to obtain dominant influence over six firms of the holding company Capfield, from which each own a shopping centre in Tallinn. The estimable price of the transaction is around 100 MEUR.

➤The turnover of ETK Group decreased in 2010 by approx 2.3% compared to 2009, while Maxima Estonia, Prisma Peremarket and ABC Supermarket (Comarket) showed an increase in turnover by 1.2%, 3% and 12.4% respectively.

Source: BNS, Äripäev

## FURTHER INFORMATION AND CONTACT:

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