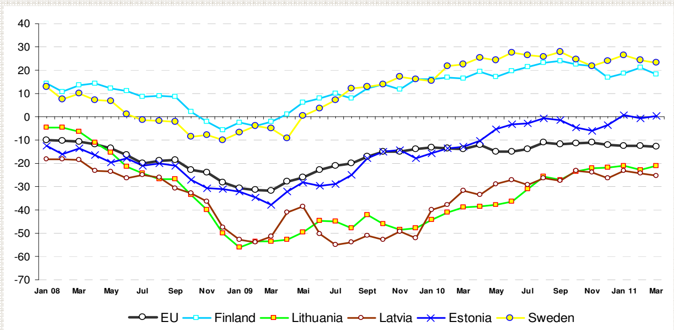
COLLIERS INTERNATIONAL ESTONIA I TALLINN

Monthly Market Review

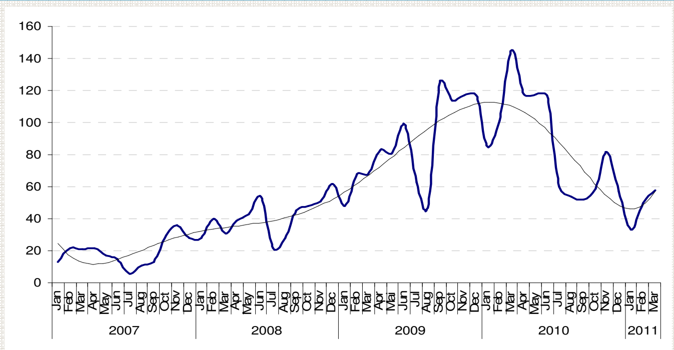
April 2011

CONSUMER CONFIDENCE INDICATOR



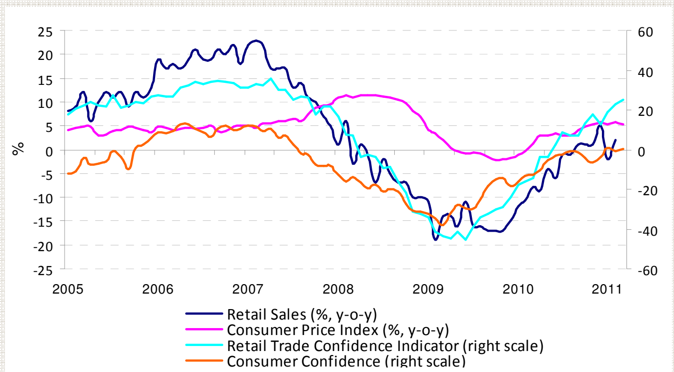
Source: European Commission

BANKRUPTCY IN ESTONIA



Source: Official notices

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



Source: Statistics Estonia, European Commission

Economic sentiment remains stable

In March 2011, the **Economic Sentiment Indicator** (ESI) remained broadly unchanged at 107.4 in the EU, while it decreased by 0.6 point to 107.3 in the euro area.

In the EU, **industry** (+0.6) and **services** (+0.6) remained on an upward trend while decline was observed in **retail trade** (-0.3), **construction** (-1.6) and among **consumers** (-0.4). At the same time, consumers in the EU reported slightly decreasing unemployment fears. All business sectors except for industry slightly declined in the euro area.

The **Economic Sentiment Indicator** in **Estonia** rose slightly by 0.5 points to 110.8 in March. Positive development of the indicator in Estonia in March was affected mostly by a rise in confidence in **retail** (+2.1), **construction** (+0.5) and among **consumers** (+1.0). Retailers still believe that business activity over the next 3 months continue to improve in Estonia.

After decline in February (-1.4), **consumer confidence** turned again to increase in March (+1.0) reflecting more optimism about the future general economic situation and reporting decreasing unemployment fears.

In **Lithuania** the ESI increased in March by 1.7 points and remained broadly unchanged in **Latvia** due to substantial improvement in confidence in construction sector in both countries. **Consumer** confidence improved by 1.7 points in Lithuania but continued to decline in Latvia (-0.9).

According to the **Real Estate Confidence Index** (+18 in March), provided by the Estonian Institute of Economic Research, the situation in real estate sector continues to remain satisfactory.

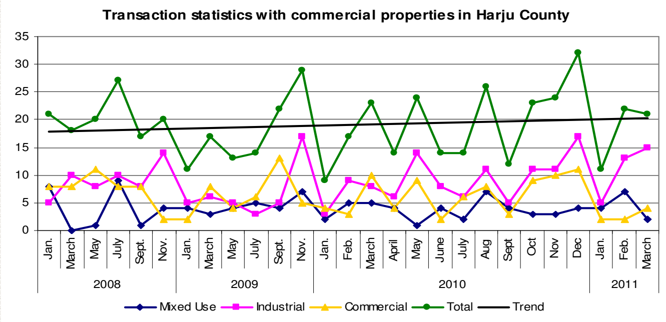
Every fifth company was able to increase its sales during the last 3 months and 55% of sector companies forecasts demand increase in the next three months. Every fifth company expects to hire new employees and about 13% of them believes that price level in the sector will start to increase in the future.

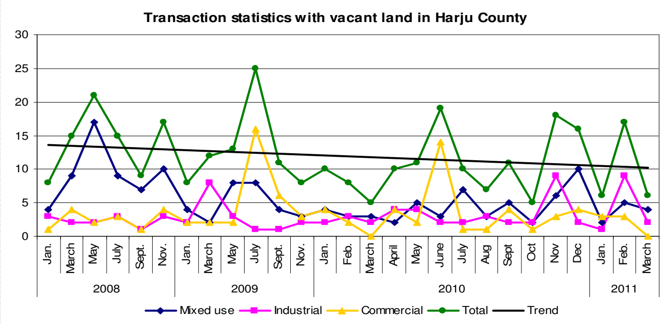
Retail trade in the EU and Estonia

In February 2011, compared with February 2010, the **retail sales** index increased by 0.1% in the euro area and by 0.9% in the EU27. “Food, drinks and tobacco” fell by 0.5% in the euro area and by 0.9% in the EU27 while the non food sector increased by 0.9% and 2.4% respectively.

Statistics Estonia reports that the retail sales of goods of **retail trade** enterprises in **Estonia** increased 2% in February compared with the year-ago period. The increase in retail sales of goods was most influenced by the stores selling manufactured goods while the retail sales in grocery stores decreased 3%.

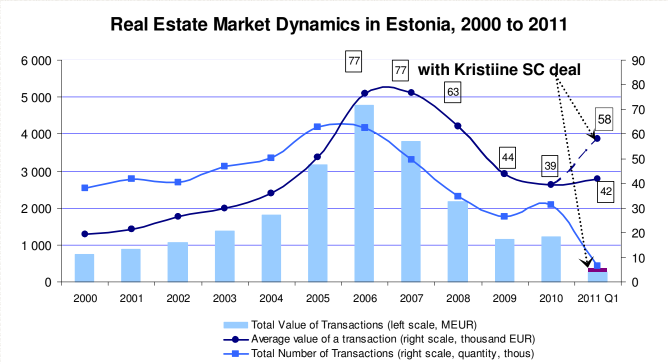
TRANSACTION STATISTICS OF TALLINN AND HARJU COUNTY





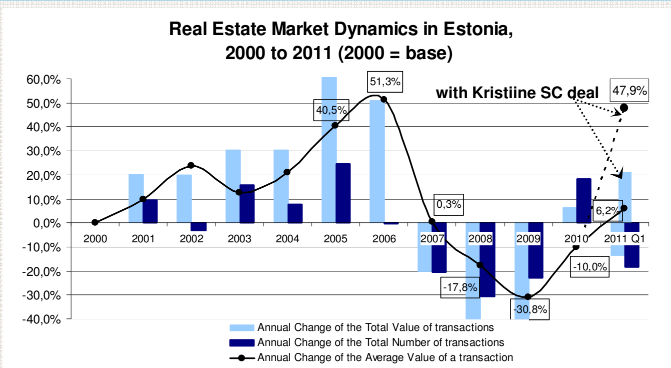
Source: Estonian Land Board

TOTAL VALUE, TOTAL NUMBER AND AVERAGE VALUE OF TRANSACTIONS IN ESTONIA, 2000-2011



Source: Estonian Land Board

ANNUAL CHANGE IN NUMBER AND VALUE OF TRANSACTIONS IN ESTONIA*, 2000-2011



Source: Estonian Land Board

* Note the graph above is based on the Estonian Land board, and charts the number and volume of direct real estate transactions. This does not include asset sales that involve real estate objects, or transactions of real estate objects transferred through 'special purpose vehicles'. These graphs are used as indicative, cross-section illustrations of market activity.

Economy

In February 2011, the **production of manufacturing** increased 31% compared to February 2010 thus indicating that the rapid growth of industrial production which had begun at the end of 2010 continued. Export sales of the manufacturing production grew 71% and almost three quarters (73%) of the whole production of manufacturing was sold on the external market. Simultaneously, the **domestic** sales increased 14% compared to February of the previous year, thus indicating continuing growth in the demand on the domestic market.

In February 2011 **exports** grew by 34% and **imports** by 45% compared to the same month of the previous year. Currently the growth rate of imports is exceeding the growth rate of exports thus increasing the trade deficit.

Compared to the same month of the previous year, the **consumer price index** (CPI) in Estonia increased 5.2% in March 2011. Goods were 7.0% and services 2.1% more expensive, while prices of food products rose annually by 11.6%. The prices of milk, apples and potatoes have increased 31%, 40% and 84%, respectively. **Euro** area annual inflation is expected to be 2.6% in March 2011 according to Eurostat.

According to Bank of Estonia, **car leases** are clearly picking up - new car leases doubled, year-on-year, for the second month in a row. New sales amounted to 14.2 million euro, which is comparable to the start of 2004. Vehicle sales in 1st quarter of 2011 increased by 105% compared to the same period of 2010 further demonstrating increase in consumer confidence.

At the same time, **corporate lending** decreased annually by 4% in February. Lending declined in most sectors, including real estate, logistics and manufacturing but increased in the trading sector.

Statistics of transactions with business objects

The **number of recorded transactions** of commercial property and vacant land in the 1st quarter of 2011 was more or less at the same level as a year earlier. The number of transactions of vacant land In Harju County decreased by 2 transactions from 22 to 20 and the number of transactions of commercial property increased by 5 transactions from 49 to 54.

In March there were 21 **transactions of commercial property** in Harju County, 8 of which were located in the city of Tallinn. The corresponding numbers for **vacant land** were 8 and 6 respectively.

In 1st quarter of 2011 the average monthly **number of transactions** decreased by 18% compared to 2010. However, 1st quarter showed improvement in terms of average value and volume of transactions. Compared to 2010 the monthly average **value of transaction** in Estonia has increased by approximately 48% from EUR 39.3 to 58.1 thousand (if Kristiine shopping centre deal is also included to the total value of transactions), indicating growing interest for real estate investments. At the same time, without Kristiine shopping centre deal, the annual growth in average value of transactions in Estonia in 1st quarter of 2011 comprised only 6.2%, thus indicating significant influence of the one large single deal on the whole market.

OFFICE SPACE RENT AND VACANCY IN TALLINN

Class	Rent (EUR)	Trend	Vacancy	Trend
A	8.9-15.1	→↗	11-14%	→↘
B1	5.5-10.6	→↗	13-16%	→↘
B2	3.2-6.5	→→	14-18%	→→

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	9.0-29.0	→→
Vacancies (major shopping centres)	1%	→→

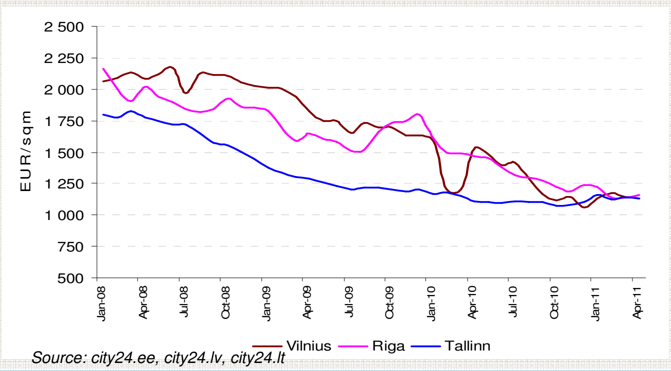
WAREHOUSE AND INDUSTRIAL SPACE RENT AND VACANCY IN TALLINN AND HARJUMAA

Building condition	Rent (EUR)	Tendency	Vacancy	Tendency
New and renovated warehouses	2.8-5.0	→→	14-18%	→→
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 PRICE DYNAMICS OF COMMERCIAL SPACE OFFERED FOR SALE



Source: city24.ee, city24.lv, city24.lt

Office market

Vacancy in well-located, modern office buildings is constantly decreasing and there are no larger rental premises currently available on the market. Construction of new built-to-suit buildings is becoming more and more realistic. One such example is the planned construction of a new office on Paldiski Road for the leading international security solutions group G4S, on the site which was acquired at the end of 2010 from Estonian real estate company Arco Vara Real Estate.

Developers continue to express interest in acquiring strategic sites in the CBD area.

The main drivers of office sector demand are continually the IT and communication sectors, who lease the largest volume of non built-to-suit office space in Tallinn.

Retail market

Foreign investor confidence in the Estonian retail sector was again illustrated by the transaction in March 2011 of one of the largest shopping centres in Tallinn – Kristiine Shopping centre, agreed to be transferred for approximately EUR 105 million (contract under the law of obligations is concluded, the 'real right' contract will be likely concluded during the first half of 2011). The capital received from the transaction will be invested by Pro Kapital in the construction of a major shopping centre in the vicinity of Ülemiste Shopping Centre, who has also indicated plans to start expansions with a mid-term perspective. Finnish-based grocery chain Prisma Peremarket has been and is renovating and expanding several hypermarkets in Tallinn and is looking for a suitable location for its second hypermarket in Tartu. Also, Lithuanian supermarket chain Maxima is considering possibilities to open a new hypermarket in Pärnu, clearly indicating a market share battle between grocery chains.

Warehouse and Industrial market

An increase in export figures has improved companies' future outlook and increased demand for industrial and warehouse space. According to information received from the market, companies looking for new premises are mostly with foreign-based and within the electronics, distribution or metal sectors.

Due to a sharp increase in construction cost, average asking rental prices have started to increase. For new built-to-suit projects the break-even rental price for developers starts from 4.0 – 4.5 EUR per sqm– up to 50% higher than 2009 levels and too high for the majority of potential tenants. Nevertheless, as many companies have special requirements for premises and there is a shortage of suitable industrial and warehouse space, companies with expansion plans will have to start accepting developers' rental terms.

Investment market

Considering Estonia's the largest investment deal yet, Kristiine Shopping Centre the total investment volume of 2010 has already been exceeded by around 150%, by the 1st quarter of 2011. In addition, negotiations for the sale of several real estate portfolio are in progress (e.g. East Capital). 2011 is promising to be the best year yet in terms of real estate investment volumes.

*Asking rent rate (EUR/sqm/month), excluding VAT and operating expenses.
** →→ - stable; ↘↘ - decrease; ↗↗ - increase
→↗ - slight increase; → ↘ - slight decrease

Market tendencies by commercial property sector (2nd Q2010 vs. 2n Q2011):

OFFICE Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	2Q 10	2Q 11	2Q 10	2Q 11	2Q 10	2Q 11
Demand	→	↗	↘	→↗	→	↗
Supply	→	→	→	→↘	↗	→
Vacancy	→	↘	↗	→↘	↗	↘
Construction	↘	→	↘	↘	↘	↗
Rental Rate	↘	→↗	→	→	→	↗
Yield	→↘	↘	→	→	→	↘

RETAIL Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	2Q 10	2Q 11	2Q 10	2Q 11	2Q 10	2Q 11
Demand	→	→	→	→↗	→	↗
Supply	↗	↘	→	→	↗	→
Vacancy	→	→	↗	↘	↗	→
Construction	→	→	→	→	↘	↘
Rental Rate	↘	→	↘	→↗	→	→
Yield	→	↘	→	→	→	→

INDUSTRIAL & LOGISTICS Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	2Q 10	2Q 11	2Q 10	2Q 11	2Q 10	2Q 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

➢In March real estate developer Pro Kapital sold its Kristiine Shopping Centre in Tallinn to Finnish real estate group Citycon for approximately EUR 105 million. The deal is expected to close during the first half of 2011. The money received from the transaction will be used by Pro Kapital for building a new major shopping centre on the former territory of the meat packing plant in the vicinity of Ülemiste Shopping Centre.

➢Stockholm-based investment firm East Capital has acquired hotel and spa property known as Laulasmaa Spa from a bankruptcy estate for EUR 3.3 million.

➢Ektornet Commercial Estonia, a real estate arm of Swedbank, has agreed to buy the Tallinn and Tartu production buildings of bankrupt window and door maker Glaskek. The bank that is the largest creditor of Glaskek purchased the buildings for an estimated EUR 6.39 million on a public auction.

➢The deal made between Capfield OÜ and East Capital Real Estate by which the latter will buy six shopping centres that belong to Capfield in Estonia for an estimated EUR 100 million has stalled as the two partners still continue to negotiate.

➢Estonian listed real estate developer Arco Vara announced that it has sold half of its subsidiary Tivoli Arendus to its partner in Russia. The new partner is expected to invest 6 million euros in the project thus allowing Tivoli Arendus to launch development of a new apartment house project in the waterfront Tivoli property in Kadriorg. In the first phase the company plans to build 170 apartments by the third quarter 2012.

Source: BNS, Äripäev

FURTHER INFORMATION AND CONTACT:

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