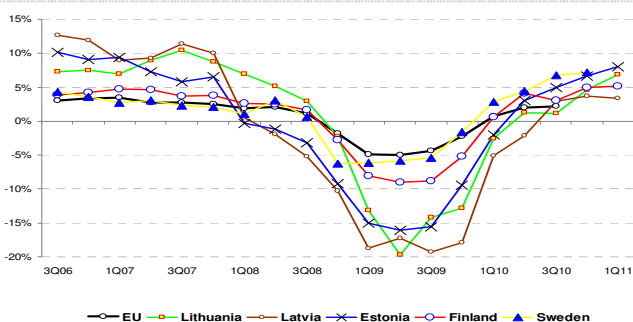


Monthly Market Review

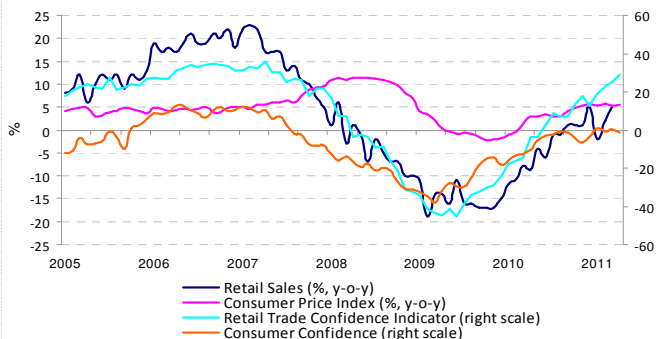
May 2011

GROWTH RATES OF GDP, 3Q 2006 – 1Q 2011



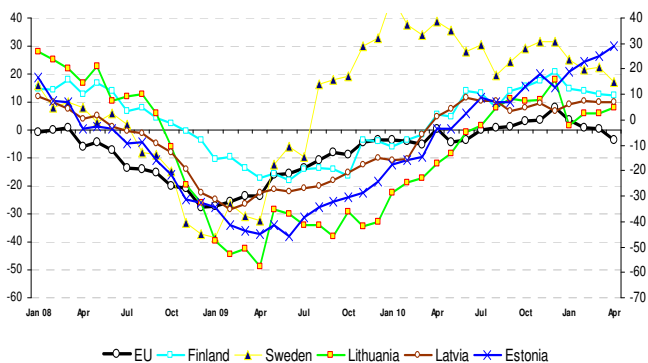
Source: Eurostat, Statistics Estonia, Statistics Latvia, Statistics Lithuania

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



Source: Statistics Estonia, European Commission

RETAIL TRADE CONFIDENCE INDICATOR



Source: Statistics Estonia, European Commission

Economic sentiment remains stable

In April 2011, the **Economic Sentiment Indicator (ESI)** declined by 2.3 points to 105.1 in the EU and by 1.1 points to 106.2 in the euro area, but remains well above its long-term average.

In both regions, confidence declined in all sectors except **construction**, where sentiment improved due to more favourable weather conditions. The sentiment in the **retail** sector worsened less in the euro area (-0.4) than in the EU (-4.1), while confidence among **consumers** decreased equally in both regions (-1.1 in the EU and -1.0 in the euro area).

The **ESI** in **Estonia** decreased slightly by 1 point to 109.8 in April. The fall in the ESI in Estonia stemmed from a decline in confidence in **industry** (-1.7), **services** (-1.0) and among **consumers** (-1.9). Positive development was recorded in confidence in **construction** (+2) and continually in **retail** sector (+3.7) due to much better sales over the past 3 months than it was previously expected by retailers.

After increase in March (+1.0), **consumer** confidence turned again to decrease in April (-1.9) - reflecting a less optimistic assessment of financial and macroeconomic developments.

In **Lithuania** the ESI increased in April by 1.1 points but decreased in **Latvia** by 1.5 points. **Consumer** confidence improved by 2.7 points in Lithuania but continued to decline in Latvia (-4.4).

According to the **Real Estate Confidence Index** (+27 in April), provided by the Estonian Institute of Economic Research, the situation in the real estate sector remains satisfactory.

While 28% of companies were able to increase it's sales during the last 3 months, every fifth company reported the opposite. 62% of companies forecast demand increase in the next three months and every fifth company expects to hire new employees and about 17% of them believes that price level in the sector will start to increase in the near future.

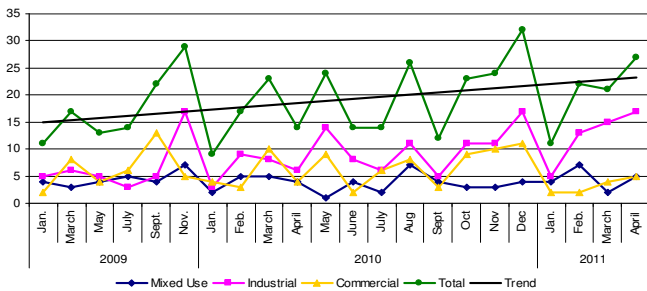
Retail trade in the EU and Estonia

In March 2011, compared with March 2010, the **retail sales** index **decreased** by 1.7% in the euro area and by 1.0% in the EU27. "Food, drinks and tobacco" fell by 2.1% in the euro area and by 2.3% in the EU27. The non food sector fell by 0.8% in the euro area, but increased by 0.4% in the EU27.

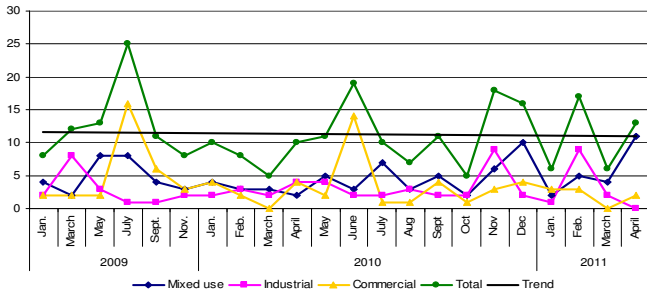
Statistics Estonia reports that the retail sales of goods of **retail trade** enterprises in **Estonia** increased 5% in March compared with the period one year ago. The increase in retail sales of goods was mostly influenced by stores selling manufactured goods while in grocery store sales decreased 1%.

TRANSACTION STATISTICS OF TALLINN AND HARJU COUNTY

Transaction statistics with commercial properties in Harju County

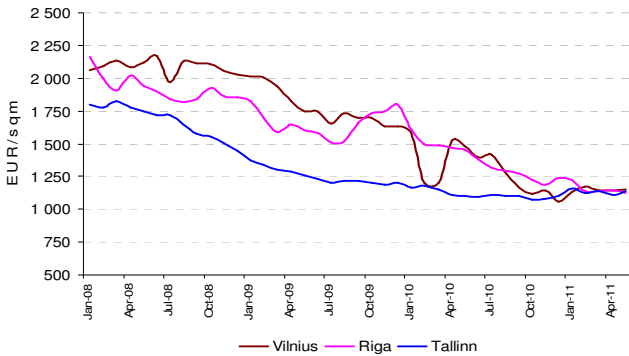


Transaction statistics with vacant land in Harju County



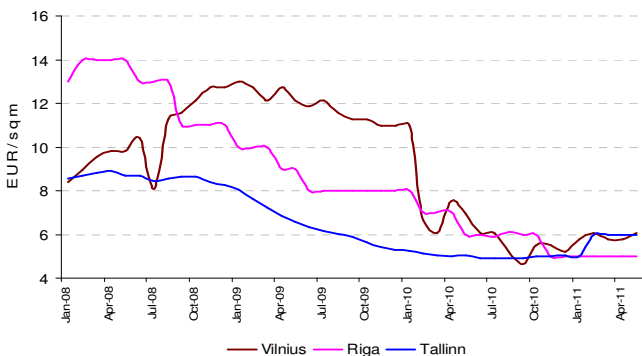
Source: Estonian Land Board

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



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

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



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

Economy

While the gross domestic product (GDP) increased by 2.5% in both the **euro area** and the **EU27** in the first quarter of 2011 compared with the same quarter of the previous year, the **GDP of Estonia** increased by 8% during the same period. According to Statistics Estonia, manufacture of radio, TV and communication equipment and apparatus and fabricated metal products had the biggest impact on the growth of the value added of this economic activity.

In March 2011 **exports** grew by 71% and **imports** by 45% compared to the same month of the previous year. The monthly turnover of both exports and imports has never been as high in previous years.

Compared to the same month of the previous year, the **consumer price index (CPI)** of Estonia increased 5.4% y-o-y in April 2011. Goods were 6.9% and services 2.6% more expensive, while prices of food products rose annually by 12.3%. The prices of potatoes, coffee and apples have increased 86%, 55% and 45%, respectively. **Euro area** annual inflation is expected to be 2.8% in April 2011 according to Eurostat.

Banks in Estonia earned a **net profit** of 74 million euros in the first quarter. The net profit was more than three times larger than in the previous quarter and exceeded the total earnings of 2010 by 3 million euros. Swedbank Eesti ended the first quarter with a profit of EUR 46 million and Nordea Eesti made 11.4 million euros in profit. SEB AB, the second-largest bank in the Baltic states, said its first-quarter profit in Estonia was EUR 16.5 million, up from a loss of 3.3 mln euros in first quarter 2010.

At the same time **household borrowing** activity remains weak. Year-on-year, just 4% more housing loans were issued in the first quarter, according to Eesti Pank.

Statistics of transactions with business objects

The market trend of vacant land transactions has been more or less stable over the last few years, while the number of transactions of commercial properties is growing.

In April there were 27 transactions of commercial property in Harju County, which is 6 transactions more than in the previous month. The corresponding number for vacant land in April was 13, which is also 7 transactions more than in March. While 12 transactions of commercial property were located in the city of Tallinn, all the transactions with vacant land were concluded with plots located outside of the city.

Commercial space price and rent dynamics

Average **asking rent** and **price** continue to remain more or less stable in all three countries capitals since the beginning of the year. According to City24.ee, the average asking rent rate in Tallinn remains at 6 EUR/sqm/month while the average price showed small increase from 1,109 EUR/sqm in March to 1,138 EUR/sqm in April. The average price in Riga decreased marginally by 1.7% in April, thus making average prices in all three states to be more and more similar.

Nevertheless, it can be seen that since the beginning of the year real estate markets **remain to be stable** in all three countries.

* 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.

OFFICE SPACE RENT AND VACANCY IN TALLINN

Class	Rent (EUR)	Trend	Vacancy	Trend
A	8.9-15.1	→↗	9-13%	→↘
B1	5.5-10.6	→↗	10-14%	→↘
B2	3.2-6.5	→→	13-16%	→→

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%	→→

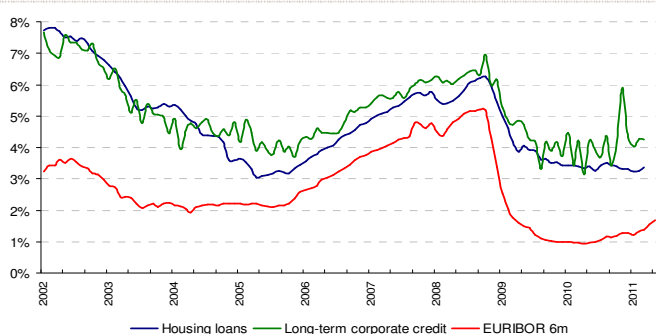
WAREHOUSE AND INDUSTRIAL SPACE RENT AND VACANCY IN TALLINN AND HARJUMAA

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	8.0%	→→
Warehouse and industrial	9.5%	→→

INTEREST RATES AND 6-MONTH EURIBOR



Source: Eesti Pank

Office market – ready for new developments?

According to a Technopolis Group stock exchange release on 4th of May, the operations of Technopolis Ülemiste have developed favorably and the company is planning to launch the first expansion project of the Ülemiste City area this year, indicating Scandinavian and Finnish investor's belief in Estonian commercial market recovery.

The decreasing vacancy rate in CBD area is creating opportunities for property owners to start choosing their potential tenants and increase asking rental rates.

Retail market

Retail sector is currently the most active sector of the Estonian commercial real estate market in terms of planned expansions, new developments and investment. The battle between grocery chains has become more intense. In addition to expanding or developing new hypermarkets, grocery chains have had strong interest for establishing new local stores, which are becoming more and more popular among shoppers. At the beginning of May a new Maxima X local store was opened in the Mustamäe city district on Tammsaare Rd. April saw the opening of a new Grossi Toidukaubad grocery store in the Lasnamäe city district. Other popular grocery store chains plan to enter the market with new 'local store' concepts and brands and are therefore looking for strategically located retail premises of up to 500 sqm.

Although it seems that the 'bad times' are over in the retail sector, it must be observed, that the recent development activity of grocery stores has not been caused by increased demand, but by tight competition among retailers aiming to keep and protect their market share. While retail sales were up by 5% in March 2011, the retail sale volume of grocery stores was still 1% less than March of the previous year.

Warehouse and Industrial market

In mid-April Port of Tallinn and Estonian Railways signed a cooperation agreement with Chinese state-owned Sinotrans that will start channelling its transit flow through Port of Tallinn, using Estonian Railways' infrastructure. The agreement is expected to set the future for Tallinn to become a regional hub for Sinotrans' operations, which would result in additional need for logistics warehouse space. In general, the demand for large industrial units has been consistent. The most favoured are premises close to Tallinn with good public transport connections, which is very important in the context of labour force and business communication.

In addition to the development activity in American Corner Retail and Logistics Park, quite considerable size of speculative warehouse premise is expected to accrue to the market by the end of 2011 / beginning of 2012.

Investment market

On May 2nd Estonia's largest ever Investment deal was finalised. Finnish listed retail investor Citycon acquired Kristiine shopping centre in Tallinn for EUR 105 million from owners Pro Kapital. Although willingness among owners to sell good quality investment properties has increased, the growth in transaction activity and positive sentiment in the investment market has increased the optimism of property owners. This may once again lead to a large expectation gap between owners' and investors' expectations. A wider range of investment options has made investors more calculated and picky.

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

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

→↗ - slight increase; →↘ - slight decrease

Market tendencies by commercial property sector (2Q 2010 vs. 2Q 2011):

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

➤ Global real estate services firm DTZ has entered into an affiliate arrangement with Baltic Property Expert (BPE) to offer real estate services to DTZ clients in Estonia, Latvia and Lithuania. The company, named DTZ Baltic, will be operating immediately.

➤ Finns remain a critically important customer group in the Estonian economy since their share in Estonian domestic trade is estimated to have been 11% last year. Without Finnish customers, Estonian retailers would have lost 1.5 months worth of sales. Finns spent 390 million euros in Estonian stores last year, an increase of 11%.

➤ Credit rating agency Standard & Poor's raised Estonia's outlook to positive, saying that the country's entrance into the Eurozone, its strict budget measures and low foreign debt all contributed to Estonia's upgrading.

➤ In the middle of April the Port of Tallinn and Estonian Railways signed a cooperation agreement in Beijing with Chinese state-owned Sinotrans that will start channeling its transit flow through Port of Tallinn, using Estonian Railways' infrastructure. The agreement is expected to prepare the ground for Tallinn to become a regional hub for Sinotrans's operations.

➤ 446,000 tourists stayed in accommodation establishments in Estonia in the 1st quarter of 2011, which was 16% more than in the same period of the previous year. The number of both foreign and domestic tourists increased. 45% of foreign tourists came from Finland and one fifth from Russia. 48% more tourists from Russia stayed in Estonian accommodation establishments in Q1 2011 (y-o-y).

Source: BNS, Äripäev, Statistics Estonia

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
margus.tinno@colliers.com

