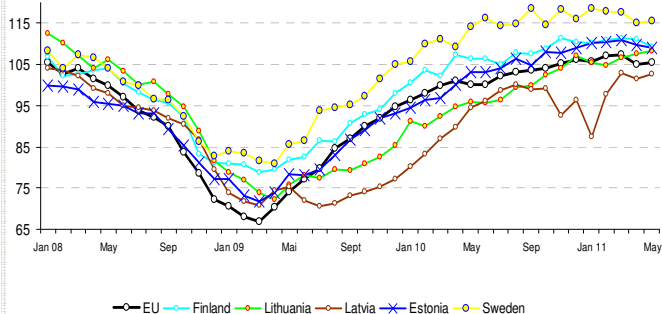


Monthly Market Review

June 2011

ECONOMIC SENTIMENT INDICATOR



Source: European Commission

Economic sentiment stable in the EU

In May 2011, the **Economic Sentiment Indicator (ESI)** was broadly unchanged at 105.4 in the EU, while it decreased by 0.6 points to 105.5 in the euro area.

The overall decline in the euro area resulted from weakening confidence in all the business sectors, while sentiment improved among consumers. Confidence in **industry** decreased by 1.7 points in both the EU and the euro area (a drop in firms' production expectations). Sentiment in the **retail** sector improved in the EU (+0.8) whereas it declined in the euro area (-0.7). Confidence among **consumers** increased in both the EU (+3.2) and the euro area (+1.8), reflecting more optimism about the future general economic situation and decreasing unemployment fears.

The **ESI** in **Estonia** decreased slightly by 0.7 points to 109.1 in May. The fall in the ESI in Estonia stemmed from a decline in confidence in **industry** (-1.0), **services** (-2.7) and among **consumers** (-0.9). Positive development was recorded in confidence in **construction** (+10.5), while sentiment in **retail** sector remained unchanged.

Consumer confidence declines for second month in a row due to less optimistic assessment of financial and macroeconomic developments. People are also less positive concerning their ability to make savings over next 12 months thus indicating consumers concerns about rising prices.

In **Lithuania** and **Latvia** the **ESI** increased in May by 0.7 and 1.3 points respectively. **Consumer** confidence improved by 2.7 points in Lithuania and turned to rise in Latvia (+3.5).

According to the **Real Estate Confidence Index** (+32 in May) provided by the Estonian Institute of Economic Research, the situation in the real estate sector slightly improved.

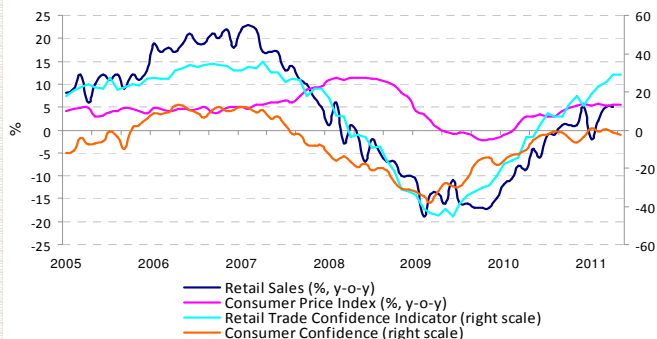
While one third of companies was able to increase its sales during the last 3 months, half of companies forecast demand increase in the next three months.

Retail trade in the EU and Estonia

In April 2011, compared with April 2010, the **retail sales** index **increased** by 1.1% in the euro area and by 1.9% in the EU27. "Food, drinks and tobacco" rose by 1.2% in the euro area and by 1.8% in the EU27. The non food sector increased by 1.8% and 2.7%, respectively.

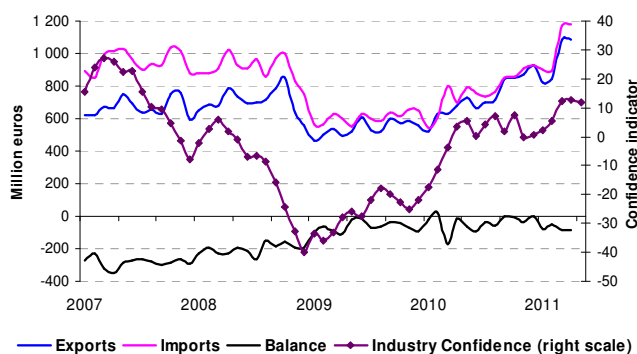
Statistics Estonia reports that the retail sales of goods of **retail trade** enterprises in **Estonia** increased 5% in April compared with the period one year ago. The increase in retail sales of goods was mostly influenced by stores selling manufactured goods while in grocery store sales increased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

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



Source: Statistics Estonia, European Commission

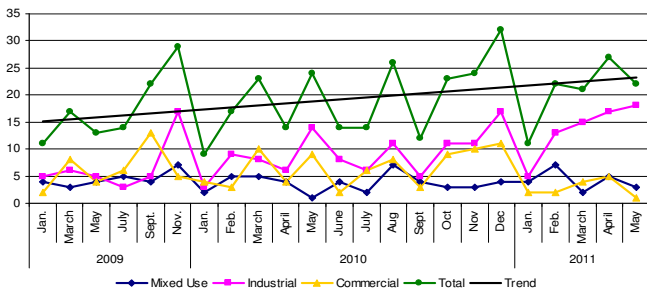
ESTONIA'S TRADE AND INDUSTRY CONFIDENCE INDICATOR



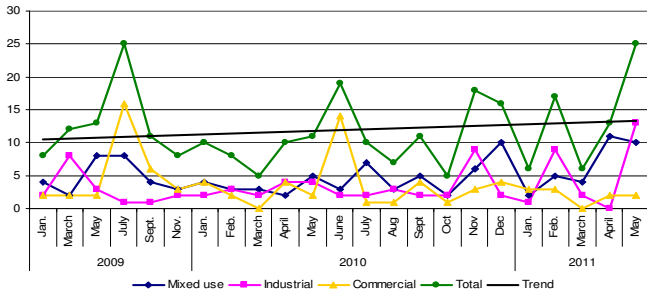
Source: Statistics Estonia, Estonian Institute of Economic Research

TRANSACTION STATISTICS OF TALLINN AND HARJU COUNTY

Transaction statistics with commercial properties in Harju County

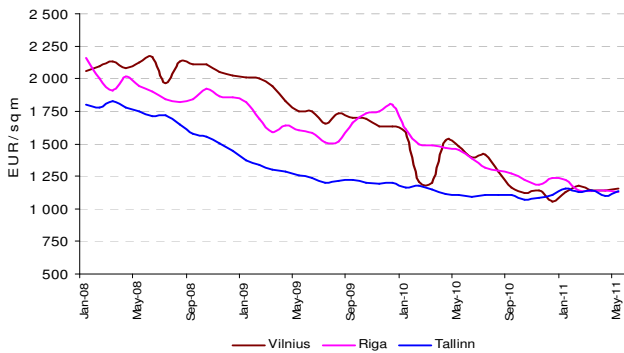


Transaction statistics with vacant land in Harju County



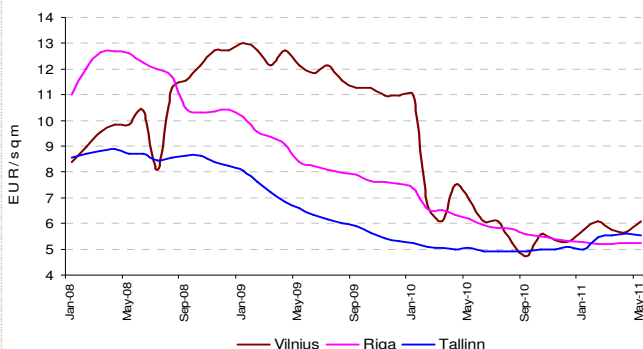
Source: Estonian Land Board

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

According to Statistics Estonia, in the 1st quarter of 2011, the net **sales**, **costs** and total **profit** of the business sector increased compared to the previous quarter as well as to the same quarter of the previous year. Enterprises sold goods and services for 9.4 billion euros at current prices, which is by a fourth more than a year ago. The total profit of enterprises was about two times more compared to the 1Q 2010. Regardless of the rapid growth the sectors total profit was comparable with the profit in 2005.

In April 2011 **exports** grew by 60% and **imports** by 68% compared to the same month of the previous year. Exports as well as imports of goods exceeded the highest turnover so far or the turnover of March this year. The growth in trade was significantly influenced by the machinery and equipment and mineral products.

Compared to the same month of the previous year, the **consumer price index** (CPI) of Estonia increased 5.4% y-o-y in May 2011. Goods were 6.7% and services 3.0% more expensive, while prices of food products rose annually by 12.2%. The prices of potatoes, coffee and sugar have increased 77%, 56% and 55%, respectively. **Euro** area annual inflation is expected to be 2.7% in May 2011 according to Eurostat.

According to Eesti Pank, the volume of new **housing loans** issued in April 2011 increased by 16 per cent year-on-year. The housing market has picked up somewhat in spring, but the loan turnover for 2011 is still lower than expected. The improved confidence of households and the favourable loan terms offered by banks, on the other hand, point to a possible rise in borrowing in the coming months. The most active segment of the household loan market is car leasing, with the transaction volume in April growing 83 per cent from a year earlier.

Statistics of transactions with business objects

In May, **22 transactions** of commercial property were recorded in Harju County, which is 5 transactions less than in the previous month. The corresponding number for vacant land in May was 25, which is 12 transactions more than in April.

11 of the concluded transactions of commercial property and 7 transactions of vacant land were located in the city of Tallinn, while the other plots and properties located outside of the city.

Commercial space price and rent dynamics

Since the beginning of the year real estate markets **remain to be stable** in all three Baltic countries.

According to City24.ee, the **average asking rent** rate in Tallinn was 5.6 EUR/sqm/month in May while the average asking rent in Vilnius remained somewhat higher at 6.1 EUR/sqm/month.

The **average price** in Tallinn, Riga and Vilnius continues to be quite similar varying in the range between from 1,125 to 1,157 EUR/sqm .

As of May 2011, the biggest number of commercial objects for sale was in Tallinn (688). The list of commercial properties for sale in Riga included 483 objects, while the Vilnius had only 252 objects for sale.

* 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	→↗	7-10%	→↘
B1	5.5-10.6	→↗	10-13%	→↘
B2	3.2-6.5	→→	11-15%	→→

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%	→→

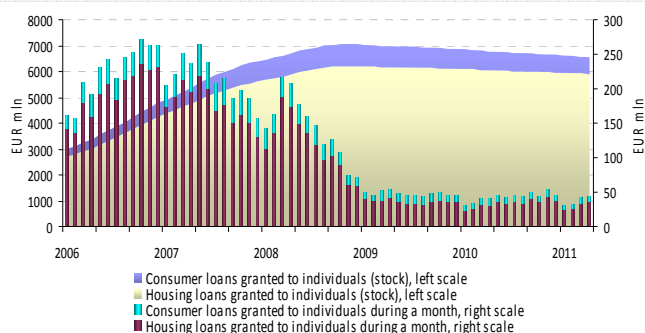
WAREHOUSE AND INDUSTRIAL SPACE RENT AND VACANCY IN TALLINN AND HARJUMAA

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%	→→

HOUSEHOLD DEBT BURDEN IN ESTONIA



Source: Eesti Pank

Office market

The vacancy rate in A-class office buildings and well located, modern B1-class buildings is steadily decreasing. With growing confidence and economic improvement, many companies have started looking for in-house expansion opportunities. The office sector has also found growing interest for larger premises from Scandinavian BPO (Business Process Outsourcing) companies. Future office market demand is expected to be increasingly influenced by the labour market and the availability of sufficient qualified staff, among other factors.

2012 will see the expiry of many 5-year lease agreements that were signed at the peak of the 'boom' market (2007) as well as 3-year lease agreements made in the middle of the crisis (2009). It is expected that the office rental market will become somewhat more level, stable and transparent during next year.

Retail market

Strong activity can be continually seen in the local store market indicating a trend of increasing popularity of small size local stores.

Tenants showed quite a high level of mobility in different shopping centres across Tallinn in 2010 - beginning of 2011. New brands and international chains recently entered the market or expanded (or plan to do it in nearest future) aim to attract mainly middle and upper class customers with quality and longer-lasting goods. Cluster of fashion clothes and shoes for the young remained largely unchanged while recent activity could be noticed within women's fashion (Lindex, Mango, Karen Millen, Vila, S'Nob, Esprit, MAX&Co) and children's clothes (Okaidi, Blue Harbor). Grocery chains indicate also that children's clothes and goods are in high demand.

Although Tallinn shopping centre market is close to saturation, there is still some room for additions and the possibility for the emergence of new shopping centres in the mid-term perspective. More detailed information concerning recent and future developments, rent rates, vacancy dynamics and emerging trends in Tallinn retail market could be found in new research report released by Colliers International Estonia.

Warehouse and Industrial market

Companies expanding their activities and demanding more warehouse / industrial space are primarily export-oriented businesses. The boom-time tendency of owning warehouse premises is disappearing. More and more warehouse tenants prefer to lease the premises in order to keep capital free rather than binding it up in real estate. The situation is more complicated for heavy industrial operations who prefer to acquire suitable premises due to the specialised requirements for their production facilities.

Colliers believes that there is presently room for the addition of good quality speculative warehouse premises on the market.

Investment market

The number of investment objects available on the market has continued to increase in 2011. The price expectation gap between sellers and investors has closed considerably over the last 12 months and investors are carefully analysing offered properties. Interest from Western Europe has somewhat improved. However, strong Scandinavian markets are offering far more security to investors, decreasing the chance that larger investors will enter the Estonian market in the near future.

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

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

→↗ - slight increase; →↘ - slight decrease

Market tendencies by commercial property sector (3Q 2010 vs. 3Q 2011):

OFFICE Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	3Q 10	3Q 11	3Q 10	3Q 11	3Q 10	3Q 11
Demand	→	↗	↘	→↗	↗	↗
Supply	→	→	→	→↘	↘	→
Vacancy	→	↘	→	↘	↘	↘
Construction	↘	→	→	↘	→	↗
Rental Rate	→	→↗	→	→↗	↗	↗
Yield	→	↘	→	→	↘	↘

RETAIL Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	3Q 10	3Q 11	3Q 10	3Q 11	3Q 10	3Q 11
Demand	→	→	→	→↗	→	↗
Supply	↗	→	→	→↘	→	→
Vacancy	→	→	↗	↘	→	→
Construction	→	→↗	→	↘→	→	↘
Rental Rate	→	→	↘	→↗	→	→
Yield	→	↘	→	→	→	↘

INDUSTRIAL & LOGISTICS Market Indicator	ESTONIA		LATVIA		LITHUANIA	
	3Q 10	3Q 11	3Q 10	3Q 11	3Q 10	3Q 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

➤EfTEN SPV1, the daughter company of EfTEN Real Estate Fund, purchased the office building known to local people as the Kapitali maja in Tartu for 2.25 million euros. The office building has 6 floors with a total usable floor space of 3,524 m². The building was sold to EfTEN Real Estate Fund through Tartu-based company OÜ Kinnisasi by its owner local entrepreneur Mart Avarmaa.

➤REI Holding Group, a South Korean company, is planning to build a luxury hospital in Estonia to attract wealthy patients from abroad. "The world's richest patients would travel to Estonia to undergo treatment in the Healthcare Hotel. Estonia would become the world's first destination for medical tourism that would create a large number of jobs for local people, both simple nurses and highly qualified medical doctors." Eunjung Park from REI Holding Group said in his letter to Hanno Pevkur, Estonian minister of social affairs.

➤The consolidated unaudited sales revenue of the Tallinna Kaubamaja Group, generated in the first quarter of 2011, was 96.1 million euros. Sales revenue was up 2.4% on year. The profit earned in the reporting period was 1.6 million euros. The loss sustained in the first quarter of 2010 was 0.4 million euros.

➤Estonian car dealers expect new-car sales to increase by at least a third from last year's level. In five months, Estonians have purchased about twice more passenger and commercial cars. While a year ago five-month new passenger car sales amounted 3,075 new pass, the number this year has been 6,172. Sales of number of commercial vehicles are up from 486 to 1,084 vehicles in a year.

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

