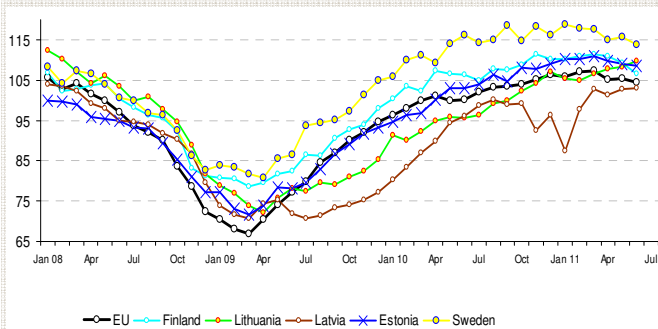


Monthly Market Review

July-August 2011

ECONOMIC SENTIMENT INDICATOR



Source: European Commission

Economic sentiment down in the EU and euro area

In June 2011, the **Economic Sentiment Indicator (ESI)** declined by 1.0 point to 104.4 in the EU and by 0.4 points to 105.1 in the euro area.

The overall decline in the EU resulted from weakening confidence in **industry** (-0.8) and **services** (-1.5), while sentiment among **consumers** (-0.3), in **retail trade** (0.3), and **construction** (-0.3) remained broadly stable. In the euro area, a worsening of sentiment in industry was partly compensated for by gains in services and construction. Confidence among **consumers** remained mostly stable in both the EU (-0.3) and the euro area (+0.1). In both regions, consumers' unemployment fears remained broadly unchanged, while their saving expectations became more pessimistic.

The **ESI in Estonia** decreased slightly by 0.6 points to 108.5 in June. The overall decline in Estonia resulted from weakening confidence in **services** (-5.3). Positive development was recorded in confidence in **construction** (+6.9) and **industry** (+1.6), while sentiment in **retail** sector and among **consumers** remained broadly stable. The decrease in **consumer** confidence that had lasted for two months in a row turned to a small rise in June (+0.4) due to eased unemployment fears. People are also more positive concerning their ability to make savings over next 12 months although their assessment of financial and macroeconomic developments became less optimistic.

In **Lithuania** and **Latvia** the **ESI** increased in July by 1.4 and 0.4 points respectively. **Consumer** confidence improved by 5.0 points in Latvia but turned to decline in Lithuania (-0.4).

According to the **Real Estate Confidence Index** (+24 in June) provided by the Estonian Institute of Economic Research, the situation in the real estate sector remains broadly stable.

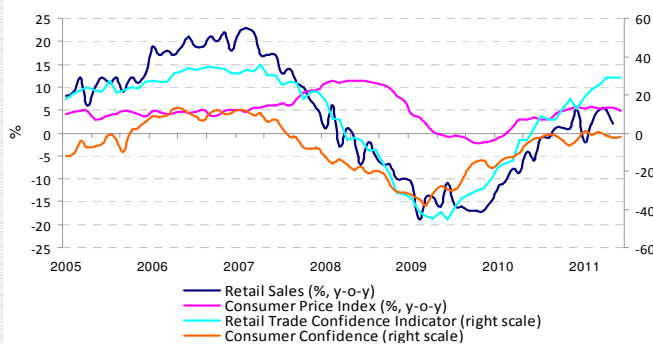
40% of sector companies were able to increase its sales during the last 3 months, one third of companies forecast demand increase in the next three months.

Retail trade in the EU and Estonia

In May 2011, compared with May 2010, the **retail sales** index **decreased** by 1.9% in the euro area and by 1.4% in the EU27. "Food, drinks and tobacco" fell by 2.1% in the euro area and by 2.4% in the EU27. The non food sector decreased by 1.3% and 0.3%, respectively.

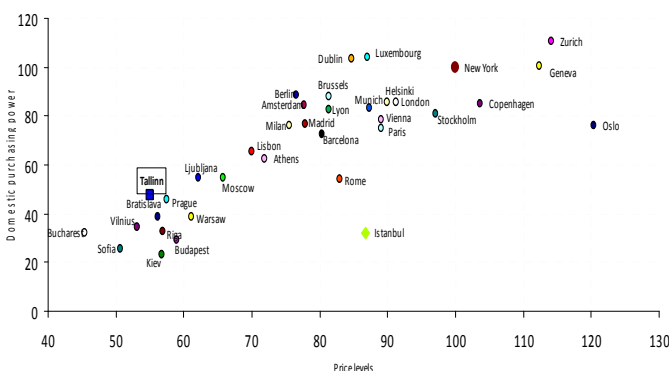
Statistics Estonia reports that the retail sales of goods of **retail trade** enterprises in **Estonia** increased 2% in May compared with the period one year ago. The increase in retail sales of goods was mostly influenced by stores selling manufactured goods while in grocery store sales decreased 1%.

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



Source: Statistics Estonia, European Commission

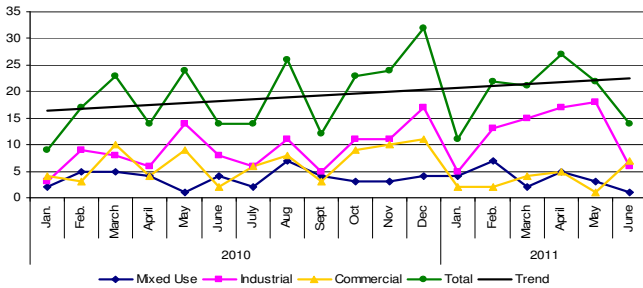
DOMESTIC PURCHASING POWER AND PRICE LEVELS, New York = 100



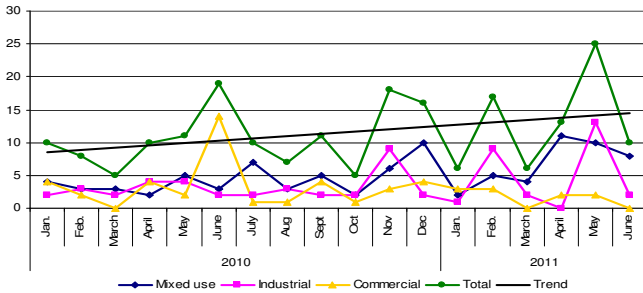
Source: UBS

TRANSACTION STATISTICS OF TALLINN AND HARJU COUNTY

Transaction statistics with commercial properties in Harju County

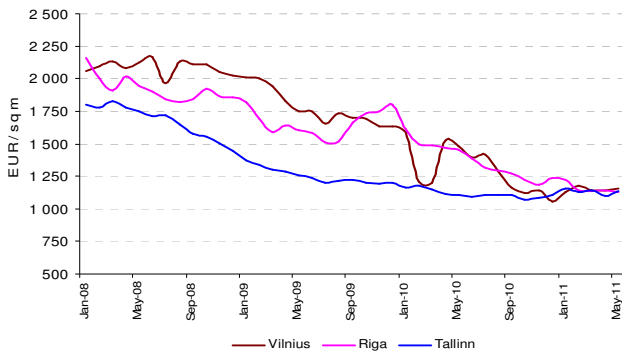


Transaction statistics with vacant land in Harju County



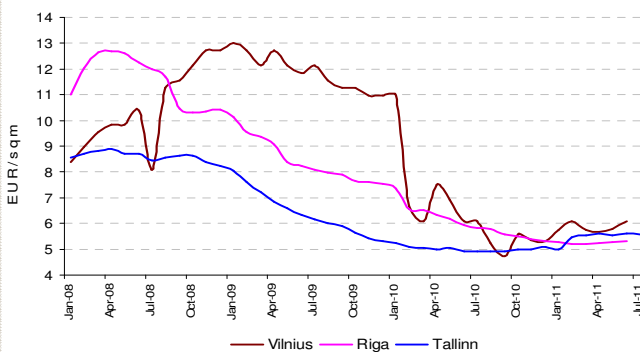
Source: Estonian Land Board

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 Eurostat, In 2010, **price levels** for consumer goods and services differed widely across Member States in the EU. Denmark (143% of the EU27 average) had the highest price level, followed by Finland (123%), Luxembourg and Sweden (both 120%).

Price levels in Estonia in 2010 were 25% below the EU27 average. While price levels for food and non-alcoholic beverages and for alcoholic beverages and tobacco in Estonia were ca 20% below the EU27 average in 2010 then prices for clothing (100%) and consumer electronics (101%) were on the EU27 average.

Compared to the same month of the previous year, the **consumer price index (CPI)** of Estonia increased 4.9% y-o-y in June 2011. Goods were 6.5% and services 2.2% more expensive, while prices of food products rose annually by 11.5%. The prices of potatoes, coffee and sugar have increased 82%, 48% and 62%, respectively. **Euro** area annual inflation is expected to be 2.7% in June 2011 according to Eurostat.

According to Eesti Pank, corporate and household **borrowing** has witnessed stable growth in 2011. The turnover of loans and leases granted to companies posted the highest growth rate in May at 630 million euros, increasing by over a third from previous months as well as from a year ago. Compared to companies, households express lower confidence and willingness to borrow. As in the previous months, the turnover of **car leases** continued to grow and reached 84% in May in annual terms. The turnover of **housing loans**, on the other hand, increased at a modest rate of 10% in May. **Interest rates** are still being shaped by diverging determinants: the rise in the Euribor on the one hand and the drop in interest margins on the other. The average interest rate on housing loans remained unchanged from previous months at 3.4% in May. However, the average interest rate on corporate loans declined to 4.0%.

Statistics of transactions with business objects

In the first half of 2011 the number of commercial property transactions recorded in Harju County increased by 16% and the number of transactions of vacant land by 22% compared to the same period of last year.

In June there were 14 transactions of commercial property in Harju County, 8 of which were located in the city of Tallinn. The corresponding numbers for vacant land were 10 and 1 respectively.

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 5.58 EUR/sqm/month in June 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 1,155 EUR/sqm .

As of June 2011, the number of commercial objects for sale in Tallinn was 682. The list of commercial properties for sale in Riga included 555 objects, while the Vilnius had 337 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	10.5-16	→↗	7-10%	→↘
B1	6.5-10.6	→↗	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)	12.5-42.8	→→
Street retail	9.0-29.0	→→
Vacancies (major shopping centres)	1%	→→

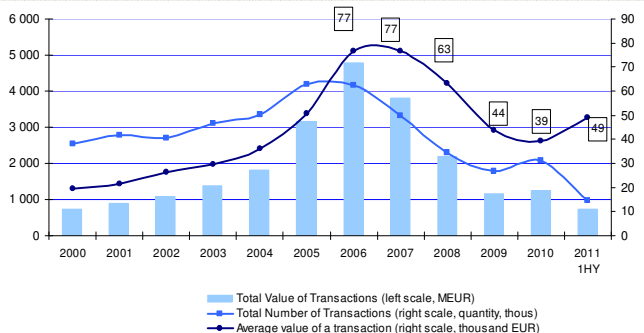
WAREHOUSE AND INDUSTRIAL SPACE RENT AND VACANCY IN TALLINN AND HARJUMAA

Building condition	Rent (EUR)	Tendency	Vacancy	Tendency
New and renovated warehouses	3.5-4.8	→→	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%	→→

REAL ESTATE MARKET DYNAMICS IN ESTONIA, 2000 – 1H 2011



Source: Estonian Land Board

Office market

Rent expectations of A-class office building owners have increased. While a year ago the asking rates started from 8.9 EUR/m²/month, the current minimum asking rent level starts from 11.0 EUR/sqm/month.

Larger, modern office premises continue to be in strong demand, and becoming more difficult to find. Among smaller companies premises of below 100 sqm located in suburb areas are in demand, with the advantage over CBD buildings of lower rent and free of charge parking.

Retail market

In May, retail sales slowed down, as forecasted earlier in the year by Colliers. Compared to May 2010 the retail sales (income of retail trade enterprises) increased 2% at constant prices down from April 2011, where the corresponding year on year increase was 5%. Along with construction prices growth the retail sales of household goods and appliances, hardware and building materials have started to increase, showing a y-o-y growth in retail sales by 14%. Due to a high inflation rate, consumers have become very sensitive to prices and are often taking advantage of sales prices.

Warehouse and Industrial market

Although during the summer holiday period most decisions are postponed until the autumn, the industrial market continues to be one of the most active sectors. Companies looking for new premises are operating with electronics, distribution or the industrial sector.

Together with export growth, export-oriented companies have again started to group around harbour areas, with the aim of saving on logistics costs. For example Port of Tallinn is holding negotiations with Indian investment company Platinum Corporation, who is interested in building a scrap metal processing plant at Paldiski South Harbour Industrial Park. In addition, by November there will be a new wood pellet terminal established at Paldiski South Harbour.

Hotel market

The hotel sector in Estonia has emerged from the crisis faster and better than forecasted. For example, according to the information received from the market, the average hotel occupancy in Tallinn has improved by approximately 30% and the room prices have increased up to 20-25% compared to summer 2010.

Investment market

Several larger investment deals are expected to be made during the second half of 2011 and even a few likely during the summer.

In general, investors' mid-term confidence and outlook on rental income and rent levels is not as positive as previously expected. There have not been surprises in the investment market, thus the prime yields have more or less stabilised and it is forecasted that they will not compress significantly in the near future. Although the banks' financing conditions have improved, the increasing Euribor rate eats up banks' marginal decrease and makes the loan capital still quite expensive.

* 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

➤Estonian sports retailer Sportland and Süda Maja that develops Ameerikanurga trade and logistics park have signed a contract under which Sportland will open a 2,000-square-metre store in the area. The new store will be the largest stand-alone sports store in the Baltic states and is planned to be opened in the second half of 2012.

➤Pohjola will expand its services in the Baltic region by opening a branch office in Tallinn. These new services for corporate customers in Estonia cover payment and liquidity management as well as working capital finance and investment financing.

➤Hillar Teder who until now has operated mainly in Ukraine confirmed to Äripäev that he is interested to develop the Admiralty Pool property which is 3 to 4 hectares located next to the Tallinn Passenger Port and the project may cost between 130 million and 200 million euros.

➤Estonia's credit rating was raised by Fitch Ratings, which cited economic growth, improved public finances and the country's adoption of the euro on Jan. 1. The Baltic nation's rating was raised one step to A+, the fifth-highest investment grade, with a stable outlook. The rating is the second-highest in Eastern Europe, behind the Slovenia at AA and on a par with the Czech Republic and Slovakia.

➤A new survey by the Estonian Institute of Economic Research shows that while the confidence of households improved in June, 25% of Estonian households are afraid that their financial situation is worse in 12 months than at present. A quarter of respondents said that they expect their financial situation to be better than at present, while 40% said that their financial situation would remain the same.

Source: BNS, Äripäev, Statistics Estonia

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