

MARKET COMMENTARY

Commercial spaces

In the first quarter of year 2010 the prices continued to differentiate according to location. The amount of prime location offers did not increase and there is noticeable stabilization in rent prices. The amount of offer in secondary location kept growing and also the price drop in this segment continued.

Positive signs were that the decrease of consumption slowed down and the amount of commercial production and export increased. For the owners still agreement on rent contract terms with clients is still of crucial importance.

Offices

Price drop in office space rental market was 5-10 in the 4th quarter of last year. This year we notice stabilizing of the prices but the offering is still bigger than demand.

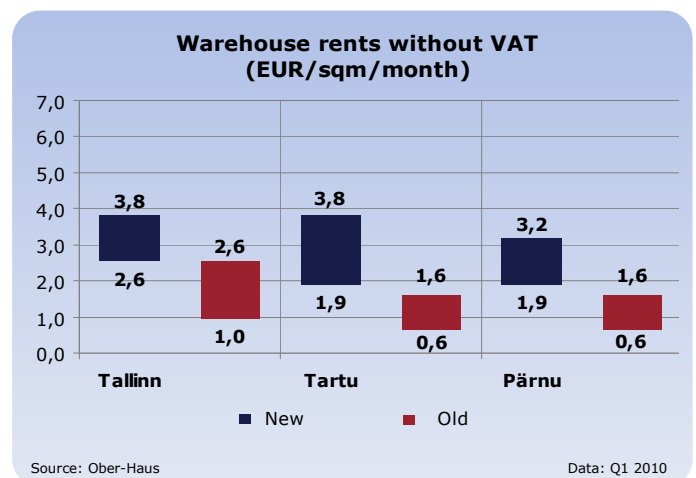
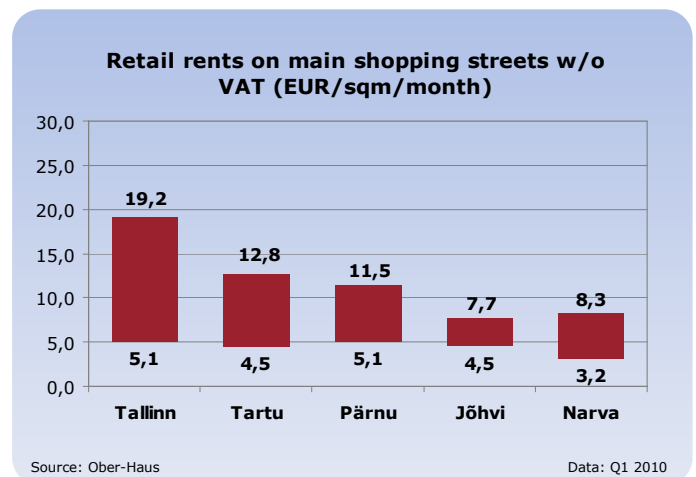
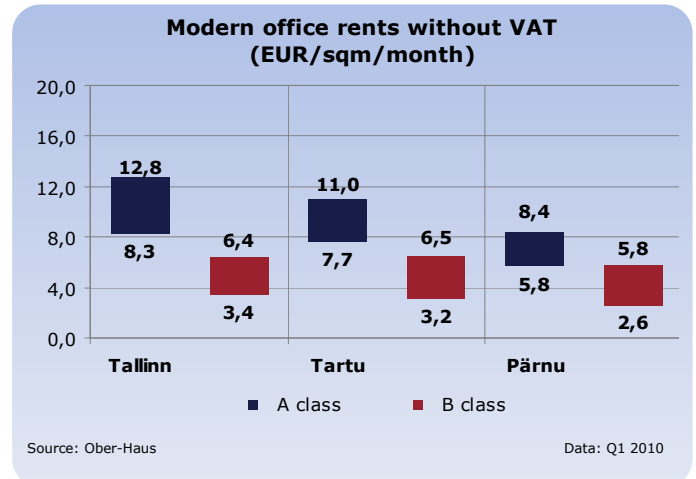
As the economy is recovering slower than expected then there is a general opinion on the market that rental prices will start to rise at the beginning of year 2011 in connection with adopting EURO.

In suburbs the rent prices for secondary location spaces stay in price range from 3 - 6 EUR/m². For primary location spaces the rent price stay in price range from 6 - 10 EUR/m². In city centre rent prices are from 8 - 11 EUR/m². A few exclusive spaces have been rented out with a price more than 13 EUR/m².

In our estimation the vacancy in class A office spaces is around 15%. In B class office spaces it is much higher, because many tenants have moved to new modern premises.

To our knowledge in the first quarter of 2010 no office space sales transactions were made as the situation in real estate market is still unstable.

Foreign investors have interest only in premises located in Tallinn and with steady cash flow and long term tenants. Today at least 10% yield is expected, but in connection with the possible adoption of EURO lower yields would also be accepted.



Retail

Decrease in consumption, which started last year, continued in the first quarter of 2010. In February the retail sales decreased 10%.

Retail sales were also influenced by the excise of fuel and alcohol, which rose in 01.01.2010. In Tallinn the retail sales will be affected by the planned sales tax.

In larger shopping centres there is almost 0% vacancy, but the rotation of tenants is faster than before. In secondary location spaces the vacancy is growing quickly and there is a strong pressure on lowering prices. In some regions there might be no interest in secondary location retail spaces despite low rents. During last year the rent prices have declined 10-50% depending on the location and size of the space.

In shopping centres the average sized spaces (150 – 300 m²) are priced 13 – 19 EUR/m², smaller spaces 22 – 32 EUR/m² and anchor tenants 8 – 12 EUR/m².

In Tallinn retail market the most important event was the opening of Bauhaus home and garden store with 20 000 m² of retail space, located in Tähesaju district.

As the situation in the economy is still unstable and investors stay in wait-and-see mode, then according to the data available to us there has been no larger retail space sales transaction.

Warehouse and production spaces

In the second half of 2009 the industrial production and foreign trade decreased 20 – 30 % then in February 2010 industrial production increased 5% and stabilization is noticeable mostly in logistically valued regions.

There is growing interest in modern and good condition spaces, but the offering still exceeds demand and the prices have decreased as much as 60% since the top in 2007. In 2008 the price drop was 25 – 35% depending on location and space. In 2010 first quarter there were no noticeable changes in prices and the vacancy stayed on the same level.

Today there is about 100 000 m² of modern warehouse and production space offers in Tallinn and nearby regions, which greatly exceeds the demand. Many large projects have been suspended.

In Tallinn and Harjumaa the rent prices of new modern warehouse and office space start from 3 EUR/m². The rent prices for older spaces start from 1 EUR/m² and most transactions are made in price range from 2 – 4 EUR/m².

Due to unstable situation in the economy short term rent contracts and smaller spaces are preferred. There are almost no sales transactions.

Residential properties

According to preliminary data the monetary amount of apartment transactions increased 19% and the number of transactions increased 47% in the first quarter of 2010 compared to the same period last year. If we compare the first quarter of 2010 to the 4th quarter of 2009, then we see number of transactions decreasing 14% and the monetary amount 12%.

During the 1st quarter of 2010 several new small developments were started, as in some region the demand starts to exceed offering. Considerable amount of transactions is made without bank loan.

Tallinn City Centre

According to preliminary data the monetary amount of apartment transactions increased 23% and the number of transactions increased 58% in the first quarter of 2010 compared to the same period last year. If we compare the first quarter of 2010 to the 4th quarter of 2009, then we see number of transactions decreasing 12% and the monetary amount 15%. The sq meter price increased 7% in first quarter. There is growing interest from foreign buyers to unique properties in city centre.

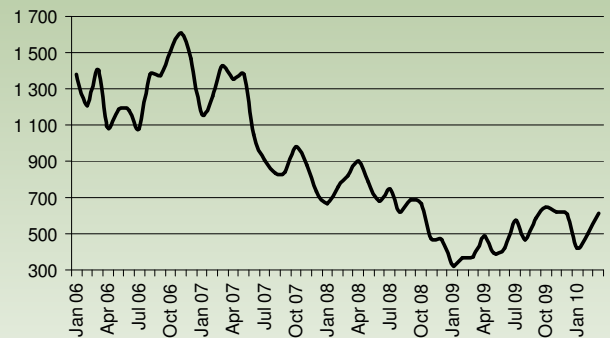
In general the prices kept differentiating according to location and the amount of offers and prices stabilized.

Most of the transactions took place in 50 000 – 96 000 EUR price range (895 – 1470 EUR/m²). Needing renovation or poor condition apartment offer can be found already from price level below 640 EUR/m². Good condition apartment offers start from 1020 EUR/m². The prices of new apartments in primary location buildings or in completely renovated houses are on the upswing. Transactions are made in 1200 - 1790 EUR/m² price range. In Old Town the average square meter price is 2045 EUR/m².

Suburbs

Similar the 4th quarter of 2009 most transactions are made with cheaper 1-2 room apartments, which need renovating or with apartments in primary location and very good condition. Additional expenses especially heating have become decisive factors. In less valued regions the prices start from 380 – 510 EUR/m² price level. Most of the transactions stay in 575 – 830 EUR/ m² price range.

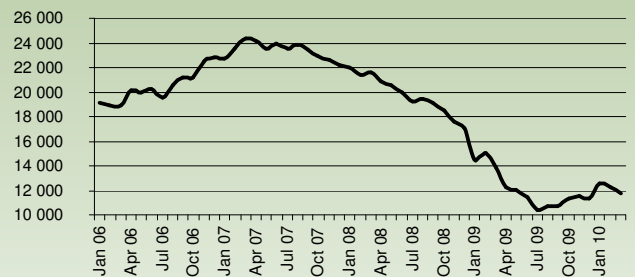
Nr of transactions with flats, Harju county



Source: Estonian Land Board

Data: Q1 2010

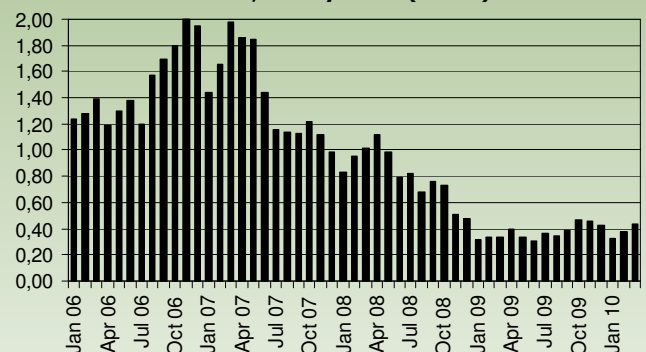
Harju county, avg residential prices - entire market, notary stats (EEK per sqm)



Source: Estonian Land Board

Data: Q1 2010

Harju county residential sales volumes - entire market, notary stats (B EEK)



Source: Estonian Land Board

Data: Q1 2010

Rental market

In the 4th quarter of 2009 the amount of rental offers grew 10%, but in the first quarter of 2010 the rental market stabilized. There were no essential changes in prices or offers amount. Unstable situation in labour market forces shorter rent agreements than before.

Compared to 1st quarter of 2009 the rent prices in Tallinn have fallen 25 – 35% depending on location and property. More expensive apartments had bigger price drop. The rental apartment market is now more tenant centred and owners are willing to make concessions concerning price and rental contracts. If earlier finding a new tenant took approximately 30 days, then now this period has become longer.

The average rental apartment offer price is 6 EUR/m² in Tallinn city centre and 3 - 5 EUR/m² in suburbs. Usually the transactions are made with 5 – 10% lower price than the offering.

Most wanted are 1-2 room furnished apartments in city centre or near by city centre, price 160 – 300 EUR/month and preferably with a parking space.

In suburb a rent price for typical furnished rental apartment is 130 – 190 EUR/month, depending on the locations and condition.

Houses

In Hanja county and Tallinn the monetary amount of houses transactions rose 40% and the amount of transactions 37% compared to the same period last year. The amount of transactions decreased 9% but the monetary amount increased 19% compared to the 4th quarter of 2009. There are about 1800 – 2100 houses or parts of houses for sale in Hanja county and Tallinn, but there were only about 250 transactions during last quarters.

Most of the transactions took place in Tallinn or near by Tallinn in regions with good infrastructure and in 83 000 – 115 000 EUR price range. Good condition modern houses are in price range 83 000 – 147 000 EUR. The price range for houses, which are unfinished or need renovation is 38 000 – 95 000 EUR. Houses situated more far from Tallinn have very low liquidity and the prices are still falling. In Tallinn and near by regions the prices and liquidity are stabilizing.

Residential land

There are about 1800 plots of residential land for sale in Harju county and Tallinn, but there were only 127 transactions in the 1st quarter of 2010. Most of the transactions take place in Tallinn and nearby regions and on 19 000 – 44 700 EUR (20 – 50 EUR/m²) price range. There are very few transactions with prices over 64 000 or 64 EUR/m², which usually take place in valued districts like Nõmme, Pirita and Kakumäe. Like the prices of houses, the prices of plots continue to differentiate.

Prognosis

Taking into account the current economic situation we prognosticate that the real estate market will stabilize this year. Experiences from other countries show, that decline of real estate market could take 3 – 5 years after which usually a stable period arrives. Ober-Haus real estate predicts that during year 2010 the price decline will stop.

The number of transactions and the monetary amount has increased during last months, but the prices have changed the same. As the banks are relieving the loan conditions then demand and the number of transactions should increase. In some regions the demand exceeds offering and new development projects are started. The prices continue to differentiate depending on location.

Rise of communal expenses could bring additional offers to real estate market. Planned of interest return stopping and new debt protection law could have additional impact to the real estate market.

Residential buyers will be more concerned about location, size and expenses.

As commercial real estate market is about two years behind residential market then in commercial real estate we predict more difficulties due to decreasing consumption and offering exceeding demand.