

MARKET COMMENTARY

Economy

Estonian GDP fell 16.6% (year-on-year) in Q3. Demand for commercial space continues to decline due to decreasing consumption, cost cuts and bankrupts. Especially have increased offers with properties in secondary locations.

Offices

Office rents fell 10% in Q3 vs the previous quarter. In the city centre the vacancy rate is 20% and rents for modern office space range from 130 – 250 EEK (8.30 – 16.00 EUR) per square meter. But offices in older buildings can be leased from 50 EEK (3.20 EUR) per square meter in the city centre.

In the very centre a new multifunctional business and shopping centre called Solaris, with shops, cinemas and a concert hall (total investment 77 mln EUR) was completed which will put extra pressure to the whole sector. Solaris has 3,000 sqm of office space, price range is from 170 to 190 EEK (10.9-12.1 EUR) per sqm.

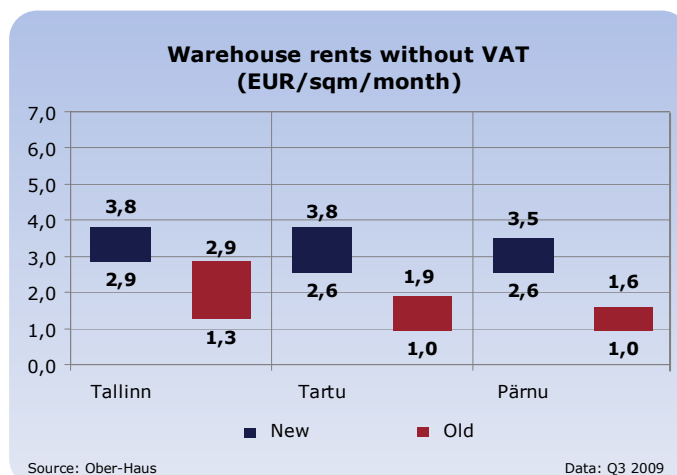
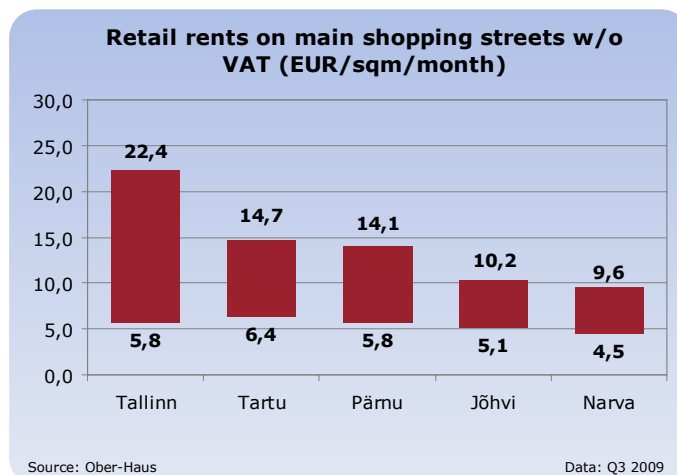
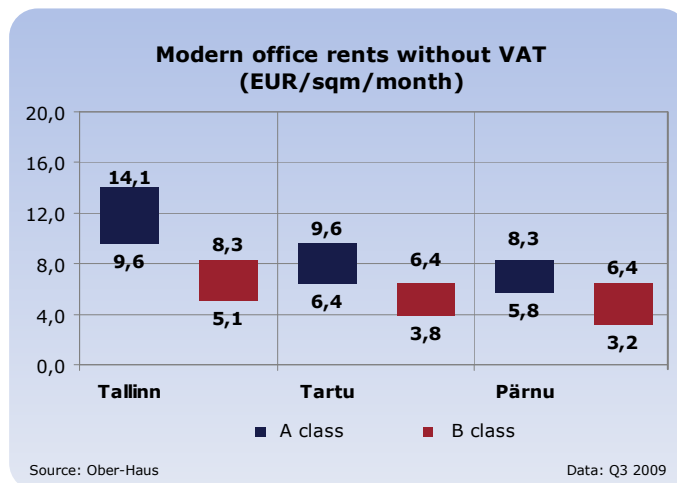
Owners offer different benefits from lowering rents to free moving services. Common practice is that owners offer spaces for free or for symbolic charges for first several months. A lot of tenants renegotiating their leases which were made during market boom. Vacancy rates have increased both in A and B class office buildings. In some suburb buildings vacancy rate is over 50% and lease offers can be found from 75 EEK (4.80 EUR) per square meter. In general, vacancy rates in suburb buildings are 25%.

The consensus is that things will start to improve in 2H of 2010 in the commercial sector. There are opportunities for investors in current economical crisis to find bankrupted companies assets and properties that will generate good cash-flow in a near future.

Retail

Even the consumer confidence has slightly improved, consumption continues to stay weak. In August retail sales decline was 16% in year-on-year comparison. Deepest decline has been in manufactured good segment, 25% year-on-year. Also VAT increase by 2 percentage points (from 18% to 20%) has affected consumption. One of the biggest retailers Selver has decided to close all their operations (6 supermarkets) in Latvia and to focus only to home market. Similar with office sector, retailers negotiate with landlords to get fees down because of their sales is down.

In general, lease price decrease has been 20%. But in the meantime Kristiine Shopping Centre which is one of the most popular shopping malls, is planning 12,000 sqm expansion and construction will probably start at the beginning of this year. Also 2,500 sqm small shopping mall is planned, with anchor tenant Rimi.



Warehouse and industrial

Because of industrial production and foreign trade has decreased by ca 30% in past months in year-on-year comparison, decline will continue in warehouse and industrial spaces sector also. Most of companies trying to minimize the losses and possible investments are frozen. Due to the uncertainty in economy, companies looking for smaller and cheaper spaces and short term rental agreements. Modern warehouse and production spaces lease offers are starting from 50 EEK (3.20 EUR). In older spaces rents start from 1.20 EUR per sqm. Even the asking price might reach up to 80 EEK (5.10 EUR) per square metre, most of the lease deals are closed between 45 – 60 EEK (2.80 – 3.80 EUR) because of massive oversupply. Most preferred are properties located on beside driveways out of Tallinn in Peterburi Road, Tartu Road, and Pärnu Road with good access.

If you wish to receive any additional information about development of the real estate market in Lithuania, Latvia, Estonia and Poland; or you would like to order a special report on the part of the market relevant to you or the market of the project in progress, please contact Ober-Haus Estonia.

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