

MARKET COMMENTARY

According to the Central Bank of Estonia, total 2009 GDP growth will be negative, **-14%**. Consumer prices have been depressed since the summer, an average of **0.2%** per month and in November Estonia fulfilled the Maastricht inflation criteria and Estonia will fulfil all the conditions to join the euro zone in 2011. Internal and external demand has been very weak this year, firms and households have significantly restricted the consumption and investments. Positive was improvement in consumer confidence in particular in trade, construction, services and industry.

Office rents dropped **8%** comparing with Q3 2009 and we can see that vacancy rates and rents have stabilized, but supply strongly exceeds demand.

Intense negotiations are still continuing over the terms of the agreements between the owners and tenants. If the tenants are now getting significant discounts, landlords expect to increase rent next year. In suburbs rent for office space is **4.4 to 7.6 EUR/sqm**, and the City Centre **7.6 EUR to 10.8 EUR/sqm**, depending on the size of the space. Only very few lease deals price have exceeded **12.8 EUR/sqm**.

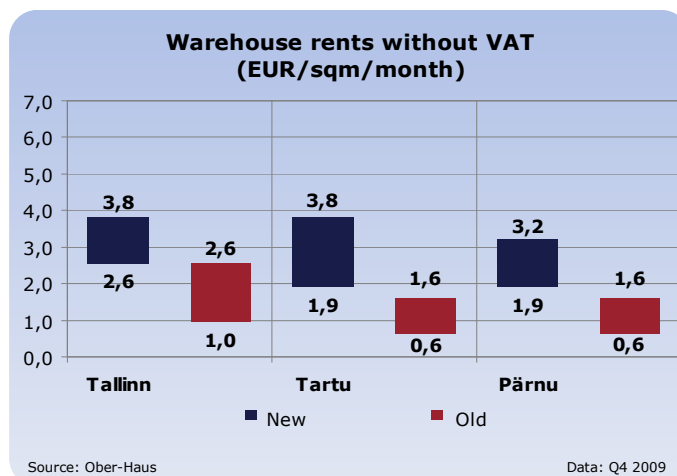
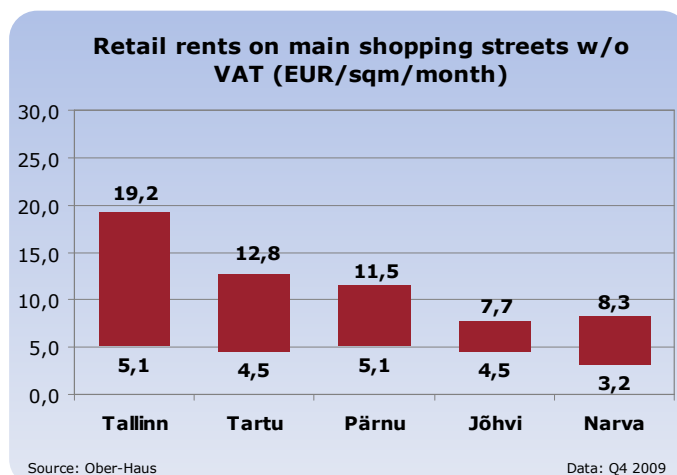
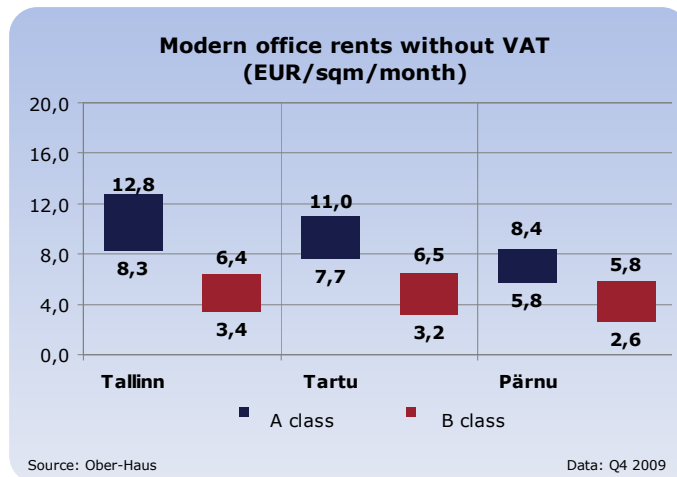
Since today lease conditions are changing rapidly, the vacancy rates of office buildings are very volatile, and are significantly higher in older office buildings. According to Ober-Haus, vacancy rates in A-class are **15%** and in B-class **25%**.

Foreign investors are interested in prime locations, stable cash-flow generating properties, long-term lease agreements and yields at least **10%**. Many investors are suspicious of a possible joining to Euro zone in 2011. The current market slump and bankrupted companies assets sales is offering to investors opportunities to find projects that will generate cash-flow in the near future.

Although consumer confidence has stabilized somewhat, the decline in consumption of manufactured goods is continuing. In October, retail sales fell **17%** in y-o-y comparison, but manufactured goods sales fell **26%**.

Similarly to office sector, retail tenants handling active lease price negotiations, and the trend is to put rental payments to be based on turnover. Most resistant to decline in consumption have been major shopping centres and their tenants, where vacancy is practically non-existent, but tenants changing is visible. Interest to retail premises located in the secondary locations could completely absent, even to an inexpensive lease price.

Kristiine Shopping Centre started their expansion, the current **30,000 sqm** of retail space will be increased by approximately **21,000 sqm** of gross space. This expansion will be completed by September 2010, planned investment is **16 M EUR**. Their vacancy rate now is **0%**.



As the situation in economy is uncertain and investors are suspicious, no significant sale-purchase transactions with retail properties in the Q4, did not occur.

As during last few months, industrial production and foreign trade have decreased about **20 - 30%**, decline in warehouse-production sector continues also, but there is some stabilization in especially logistically valued areas. The offer still exceeds demand, and lease prices have slumped up to **70%** comparing with real estate market peak in 2007.

Because of the precarious situation in the economy, tenants prefer short-term leases and smaller spaces and sales-purchase transactions practically are not taking place. In Tallinn and Harju County, modern warehouse price offers are starting from **3.2 EUR** per square metre, the older properties from **1.2 EUR/sqm**, and majority of the lease transactions are done in the price range between **2.8 – 3.8 EUR/sqm**.

If you wish to receive any additional information about development of the real estate market in Estonia, Lithuania, Latvia 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 real estate market analysts.

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