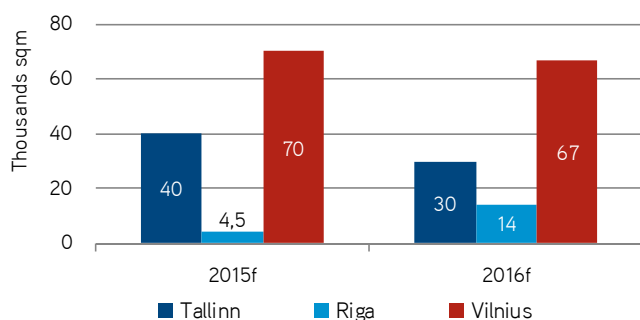


# Real Estate Market

## Office Market

Development in Tallinn office market remains active. Landlords have reported that office projects completed in the end of 2014 – beginning 2015 were almost fully leased prior to completion, thus allowing developers to remain positive and plan the next development stages. However, as a high supply of office space puts tenants in a more powerful negotiating position, developers are ready to make several discounts and incentives for attracting larger tenants. Additionally, it is more and more complicated to pre-lease the premises “on paper” and therefore only developers who have good capitalization are capable to start construction.

### Supply of Speculative Office Space in Tallinn, Riga and Vilnius in 2015 and 2016



Source: Colliers International

Current take-up activity in Tallinn is largely driven by the information (IT and High Tech companies) and communication sector. When some years ago a great contribution to speculative office market absorption was made by the state (e.g. Tax and Customs Board HQ in Ülemiste City area), then currently the public

sector is using its own capabilities for new developments (e.g. new office building for IT agency, joint Four-Ministry building etc.), thus no significant support from the public sector in speculative vacancy stock decrease is further expected.

Total office buildings vacancy is expected to increase somewhat at the expense of new speculative premises, primarily in Class B1 segment, however the rent rates for properties in good location will remain more or less stable (13–16 €/sqm for Class A premises and 8.5 – 13 €/sqm for Class B1 premises).

## Retail Market

Although numerous market participants have expressed cautiousness in terms of Tallinn retail market saturation already some time ago, retail development still continues to trend upwards, supported by strong private consumption and real wages growth. In addition to Mustamäe Centre, two shopping centre developments in Viimsi and Maxima hypermarket construction in Lasnamäe city districts, a few smaller shopping centre projects are planned to be started in short-term perspective (e.g. Kärberi centre in Lasnamäe and Arsenal centre in Põhja-Tallinn, both with Selter as anchor tenant, Maxima hypermarket in Haabersti city district etc.).

Key Retail Figures in Tallinn		
SHOPPING CENTRE	RENT RATES	TREND
Large retail unit (anchor tenants)	7.0-12.0	→→
Medium retail unit (150–350 sqm)	12.5-37.0	→↗
Small retail unit (up to 100 sqm)	13.5-48.0	→↗

Source: Colliers International

Additionally, activity is seen in DIY segment also. Thus, Decora (a DIY chain widely represented in South Estonia) is planning to enter Tallinn region by constructing a new DIY shopping centre (Decora Maja with a total area of 14,150 sqm and completion planned for April 2016) and opening a store in Viimsi in the redevelopment project of the former Viimsi Market in June 2015, while Merko is planning to construct a new Bauhof centre in Haabersti city district.

## Industrial and Logistics Market

In terms of new developments, the industrial segment remains active in Tallinn and its suburbs with a total area of approx 154,000 sqm under construction as of May 2015. At the same time, warehouse is the main sector, where pressure on rental rates can be observed. Although the selection of contemporary warehouse space available for lease is continually rather low, the demand for such premises has somewhat decreased.

Additionally, due to drop in construction prices (up to 20 per cent) and low-cost financing, the breakeven point for developers in terms of rent rate has decreased and they can offer premises at somewhat lower rent price. Nevertheless, no sharp decrease in rent rates or increase in vacancy is expected in mid-term perspective if the overall economic situation remains stable.

## Investment Market

Investment market in Estonia is moving at a record pace in terms of investment volumes – it is expected that investment volume in 1HY 2015 will reach the level achieved in 2014 (total volume in 2014 was EUR 240 million). The reasons behind such high results in 2015 are the sale of several larger objects (e.g. Radisson Blu Sky hotel acquired by Eften Capital, sale of Police and Boarded Guard Board building and Eesti Energia HQ building) as well as different smaller and larger portfolios (e.g. BPT Optima fund portfolio consisting of Hobujaama 4 office building, Vesse shopping centre and Valge Maja office building in Tallinn in addition to four more properties in Latvia and Lithuania).

There are many private investors currently active on the market that makes the total number of market participants even higher and that together with shortage of investment grade products, sufficient equity and low interest rates has put additional pressure on already significantly lowered yields. It can be forecasted that following notable yield compression recorded in Estonia in 2014, prime yields will continue to compress slightly throughout 2015.

Even though the investment market is very active, the main investment focus is continually around Tallinn, whereas other regions are considered risky and interesting only if there is a strong tenant with strong lease contract.

### Statistics of transactions with business objects

The number of transactions of commercial property in Harju County increased in Q1 2015 - from 56 to 68 transactions or by 21% y-o-y. In the city of Tallinn the corresponding increase was somewhat higher – by ca 45% or from 22 to 32 transactions. The number of transactions of vacant land in Harju County increased by one fifth in Q1 2015 compared to Q1 2014 - from 46 to 56 transactions. In Tallinn, the number of transactions of vacant land increased from 14 to 22 transactions or by 57% y-o-y.

During April 2015 there were 22 transactions of commercial property and 28 transactions of vacant land in Harju County respectively. 10 of the transactions of commercial property and 8 of vacant land were located inside of the city of Tallinn.

## Key Industrial Figures in Tallinn and Harju County

TYPE	RENT RATES (EUR/SQM)	TREND
New premises	4.0-5.2	→→
Old premises	1.3-3.4	→→

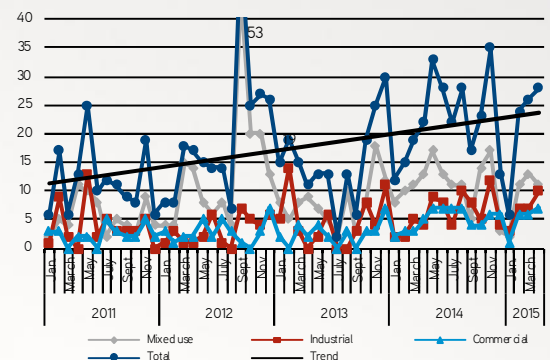
Source: Colliers International

## Key Investment Figures

SECTOR	%	TREND
Prime Office Yield	6.8%	→↘
Prime Retail Yield	6.8%	→↘
Prime Industrial Yield	8.0%	→↘

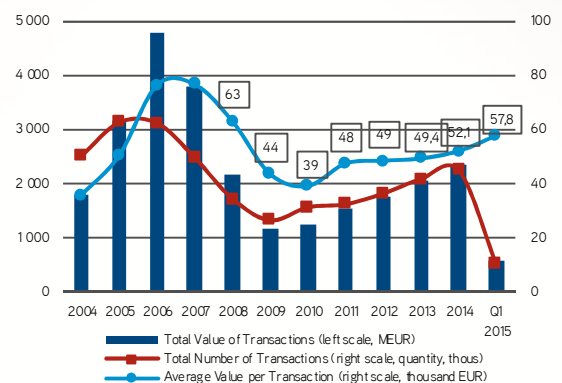
Source: Colliers International

## Number of Vacant Land Transactions in Harju County



Source: Land Board

## Real Estate Market Dynamics in Estonia, 2004 – 1Q 2015



Source: Land Board

## Economy

In April the Economic Sentiment Indicator (ESI) remained almost unchanged in Estonia. Slight improvement in sentiment in services and industry was offset by a decrease in consumer confidence.

According to the flash estimates of Statistics Estonia, the gross domestic product (GDP) of Estonia increased 1.2% in Q1 2015 compared to Q1 2014, mainly due to an increase in the value added in manufacture.

The consumer price index fell 0.1% in April 2015 compared to April 2014. The change in the consumer price index was mainly influenced by the price decrease of motor fuel.

Estonia's total retail trade volume (net sales) increased annually by 3.5% in March and 6.1% in February 2015. In March 2015 compared with March 2014 the retail sales index increased by 1.6% in the euro area and by 2.5% in the EU28.

In Q1 2015, the average monthly gross wage was EUR 1,010, indicating a 4.5% per cent y-o-y, while real wages increased 5.4% during the same period (real wages increased for the fifteenth quarter in succession).

In March 2015, exports of goods increased by 3% and imports by 1% compared to March of the previous year. The increase in exports and imports was mostly influenced by a growth in the trade of electrical equipment and miscellaneous manufactured articles.

According to Bank of Estonia, loan interest rates remained low in April 2015. The average interest rate on long-term corporate loans was 2.6% in March, and that on housing loans was 2.2%.

## Selected News Related To Commercial Property Market

- > Carlson Rezidor Hotel Group strengthens its presence in Estonia by announcing the Park Inn by Radisson Meriton Tallinn. The 465-rooms property, formerly known as Meriton Grand Conference & Spa Hotel, will fly the Park Inn by Radisson flag on 1st June 2015 and join Carlson Rezidor's core mid-market brand. It brings the group's total portfolio in Estonia to 4 hotels with 1,380 rooms.
- > Gorail, subsidiary of Estonian transport company Go Group, stopped operating a passenger train lines Tallinn-St Petersburg and Tallinn-Moscow in May 2015.
- > State-owned Port of Tallinn says that it expects 281 cruise vessels with 480,000 cruise tourists on board to visit Tallinn in 2015. The company said that some cruise voyages have been cancelled, but the figure may still increase. In 2014 Tallinn received 302 cruise boat visits with 479,000 passengers.
- > The Eesti Pank executive board has decided to put the Maardu manor estate up for sale at a starting price of EUR 2 million. Since managing the manor house that the bank renovated and used as a training and conference centre is not the bank's core activity, the board decided to sell it. Further information is available at the following link: <http://www.colliers.ee/PropertySearch/view/55>

Source: Äripäev, Statistics Estonia, Bank of Estonia, Eurostat

Photo: Tallinn Technopolis Ülemiste





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# 502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

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**€1.75**

billion in  
annual revenue

**160**

million square meter  
under management

**16,300**

professionals  
and staff

## About Colliers International

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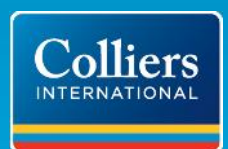
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