

# Tallinn Residential Update

## Developers, Buyers Look to Suburban Locations

### Economy

Estonia has enjoyed five straight years of economic growth, including 4.6% GDP growth in 2003. Nominal wage growth bested 10% last year and should average 7-10% for the next few years. Inflation last year was only 1.5% and the currency stays pegged to the euro. Such solid wage increases will fuel demand growth and further stimulate the economy.

### Prices

City centre residential prices grew 9% last year. Prices for new city centre flats increased 11%, with starting prices of 1,000 EUR and top prices of 1,950 EUR per sqm.

Secondary market prices grew 7% in the city centre, to 650-1,100 EUR per sqm, while in the suburbs they grew 5% to 450-650 EUR per sqm.

Old Town renovated apartments sell for 1,700-2,300 EUR per sqm.

We expect an overall further increase in prices of 5-6% this year, based on limited new supply, robust GDP and wage growth, and increased mortgage liquidity.

### Supply and demand

Developers built 1,800 new units in 2003 and sold 1,650 in the same period. Another 2,000 units will be completed this year.

Developers increasingly look for suburban sites. Their target market is the middle class who today live in Soviet-era block buildings, but can afford monthly loan payments of 200-350 EUR. It is expected that total amount of loans to this segment will increase by 25% annually.

**Kodumajagrupp** is developing a new housing project in the Tiskre district with 250 apartments. 400 new units are under new construction by **FKSM** in the Pirita Kose district.

Supply will meet the demand over next two years in Tallinn. We calculate that Tallinn market can absorb 2,200-2,500 new apartments per year.

Per capita living area in Estonia is 26 sqm, still half the EU average.

Demand has remained strong due to average annual GDP growth of 5%, annual salary growth of 10%, historically low interest rates.

### The Mortgage Market

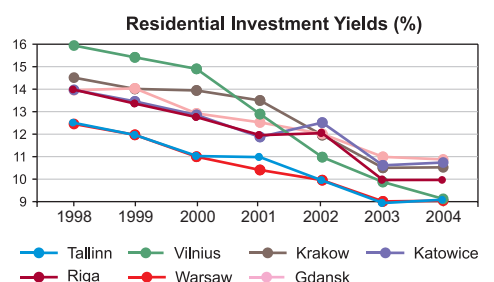
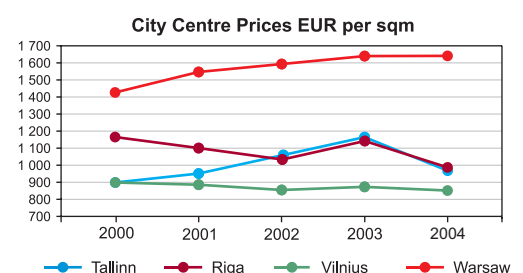
Mortgage rates are the lowest ever starting at 3.5%. The maximum period is 30 years and credits may be granted up to 90% of a home's value.



**BESQAB all pre-sold** – Ober-Haus sold all units before completion on Roosikrantsi Street.



**Modern living in Old Kadriorg** – This project on Vilmsi street will be completed in October 2004.



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SPRING 2004

Outstanding mortgage loans in Estonia total only 11% of annual GDP compared to EU average of 48% of GDP. Ober-Haus sees over 400 million EUR of increased lending coming to Estonian housing market over the next four years.

## Yields and Taxes

Rents of new apartments in the city centre (mostly to foreign workers) are between 11 and 14 EUR per sqm monthly, a yield of 8-10%. Estonians prefer to buy their own apartments, not rent them. As supply of flats increases, rents should drop 10-15% over the medium term.

Private owners must declare rent collected as income, and pay the flat 26% personal income tax at the end of the year. Loan interest is tax deductible. Improvements are not. The only sensible way to rent property in Estonia is through a company structure, so all expenses are deductible. Companies pay no income tax until profits are distributed.

Private owners pay no capital gains tax on the sale of their residence. Profit from the sale of second homes is taxed as income (26%). Companies, of course, must declare any capital gain as income.

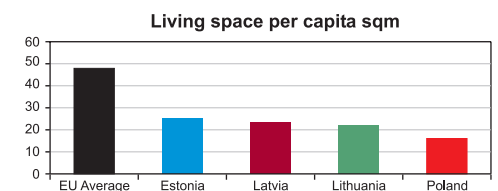
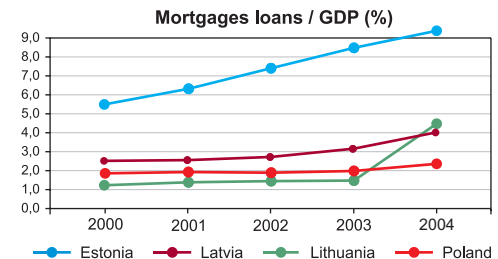
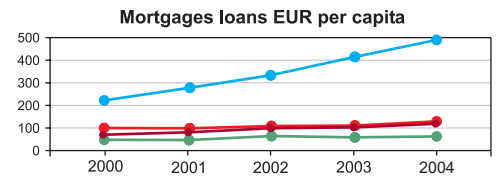
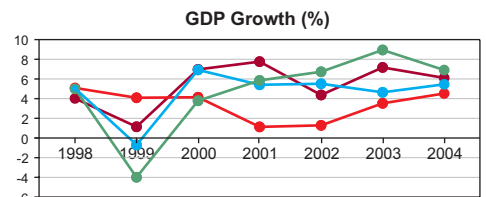
On purchasing real estate there is a notary fee of 0.1% of the transaction value (the sale price), and a fee of 0.075% of transaction value to register the property in the real estate registry. Estonia has a property tax only on land, which is from 1 to 2% (depending on the municipality) of the cadastral value of the land.

Foreigners can freely buy and sell residential property in Estonia. A foreigner can also buy land, but must get approval from the local municipality.

As of May 1 all the companies who are developing land and apartments must charge VAT on the sales price, not just on the construction costs. This will increase the cost of new properties 3-4%.



FKSM new apartments in Pirita Kose.



Home loans for foreigners!  
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For information, contact Katrin Linnas on +372 665 9700

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