

Tallinn Office Update

Yields Fall Below 10% in Two Office Building Sales

Economy

Estonia has enjoyed six straight years of economic growth, with 6.2% GDP growth in 2004. 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.

Supply

Almost no new supply has come to Tallinn's tiny office market. The total class A office stock grew 20,000 sqm in 2004, reaching 125,000 sqm by the beginning of 2005, and vacancy stayed even at 5%. The addition of 20,000 sqm to the market in 2004 increased vacancy to 6% by the end of the year.

City Plaza – Local construction company Estconde opened its 23-storey City Plaza in September 2004. The 7,000 sqm building is 100% pre-leased. Rents are 12 - 16 EUR per sqm. Most of the tenants are local law firms and consulting companies.

Admiral House – Local builder Merko and partner Manutent are developing 8,100 sqm of office space for sale in the port area. The building will be completed in spring 2005, 100% of the spaces are sold. Selling price is 1,200 - 1,400 EUR per sqm.

Only 12,000 sqm is in the pipeline for the next two years.

Demand

Favorable lending conditions have increased an interest for buying office space. Many companies follow the German model of owning, not renting, and wish to reduce their rent expenses by replacing them with monthly loan payments. Interest rates for companies today are 4 to 5%.

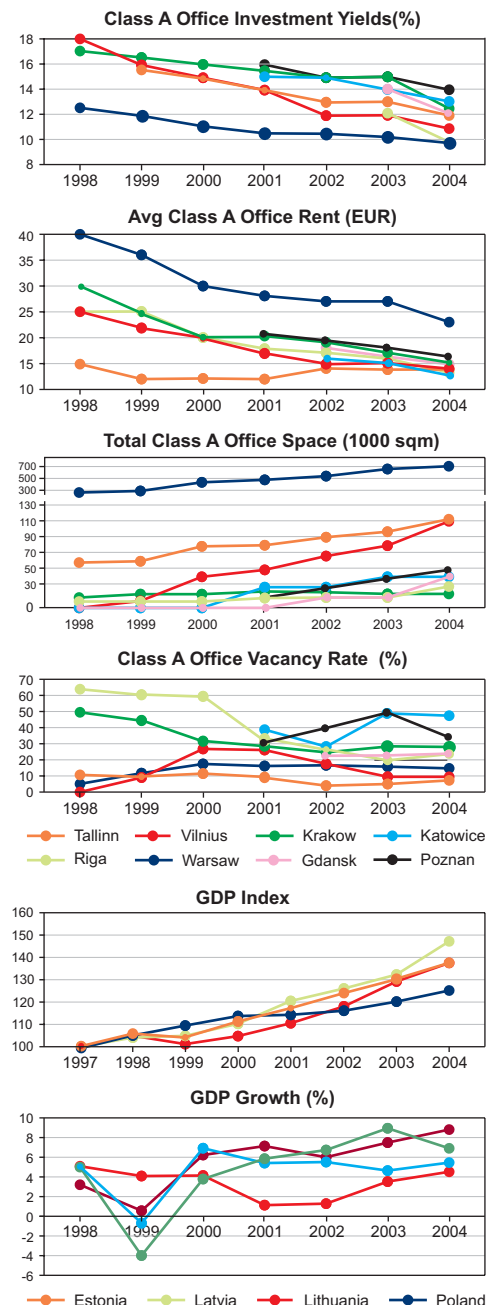
Demand for rental spaces comes mainly from local companies who are expanding their business and from foreign companies who are entering the market. Due to the EU accession, transparent economy and lower costs, many foreign companies especially from Scandinavia are exploring possibilities to relocate their business to Estonia.

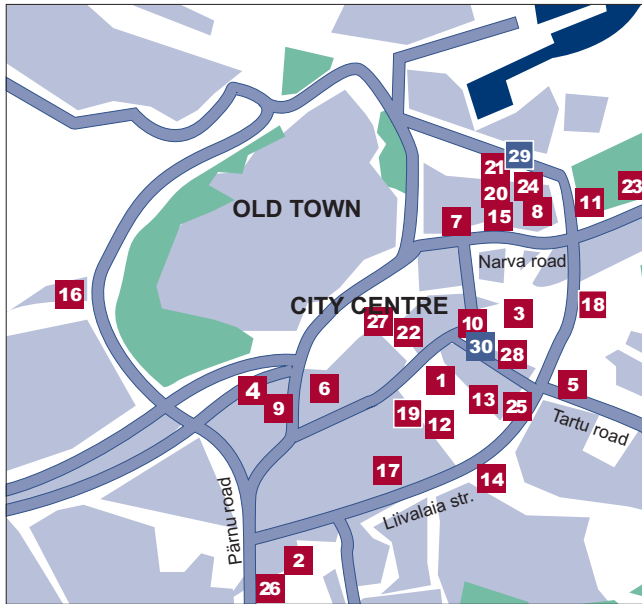
Rents

Rents for CBD class A buildings vary from EUR 11 to 16 per sqm. Ober-Haus expects class A office rents to remain the same over the medium term. Due to the balance of supply and demand, we do not anticipate class B office rents to soften below the



Two new office buildings in CBD on Tartu road developed by local developers Estconde and Norber Grupp





current rate of EUR 9 to 13 EUR per sqm in the center, and 6 to 10 EUR per sqm out of centre.

Transactions

Danish investor Baltic Property Trust bought two office buildings last year at yields of 9-10%. The two properties were a 7,700 sqm property anchored by Nordea Bank, and a 6,500 sqm building anchored by Hansabank.

The supply of A class office buildings for sale is very limited. Sellers expect a yield of 8-9% while buyers are looking more at the level of 10%.

For information on commercial leasing in Estonia, contact Hindrek Leppsalu on +372 665 9700. For information on investment properties, contact Peter Morris on +48 22 829 1212.

Office sqm in Tallinn city centre

Property name	sqm
1 Ravala Business Centre	6 500
2 Hansapank Liivalaia	15 000
3 Ühispank Tornimäe	16 000
4 Ühispank Roosikrantsi	8 000
5 Sampo Building	5 500
6 Kawe Plaza	4 800
7 Hobujaama	7 700
8 Sampo Bank	5 500
9 Swiss House	4 600
10 SAS Radisson	3 000
11 Pro Kapital Building	7 300
12 Estconde Vambola	5 900
13 SRV Maakri	8 000
14 Astrodata building	3 000
15 Narva Road 7	5 000
16 Estconde Toompuiestee	2 000
17 Liivalaia 13	7 200
18 Kreutzwaldi 12	2 000
19 Ergo Lauteri 5	3 500
20 Narva str. 7D	8 000
21 Optiva Bank(Sampo)	5 500
22 Nordea Rävala 2	5 300
23 Esco	2 500
24 WTC Narva mnt 11	40 000
25 VE-building at Tartu Road18	1 600
26 Pärnu road 67	7 000
27 Estonia 1/3	4 000
28 Estconde Tartu Road, City Plaza	7 000
Others *	122 800
TOTAL	216 600

Office sqm planned in Tallinn

Property name	sqm
29 Admiralimaja	8 100
30 Tartu str. Ametiüh.Maja	5 000
TOTAL	13 100
* Outside of map area	

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