

Tallinn Retail Update

Retailers are Recovering from Rapid Expansion.

Economy

Estonia has enjoyed five straight years of economic growth, including 6% GDP growth in 2004 and an expected 8% in 2005. Inflation was only 2-3% last year and the currency remains pegged to the euro. Nominal wage growth bested 10% last year and should average 7-10% for the next few years. Such solid wage increases will fuel demand growth and further stimulate the economy.

Supply

Supply has been very limited in the Tallinn retail market during the last 18 months. Total retail stock is currently 390,000sqm. At 0.97 sqm of gross lettable retail area (GLA) per capita, Tallinn is more retailed than Helsinki (0.71), Stockholm (0.75), Warsaw (0.60), Riga (0.63) and Vilnius (0.71). This year's new developments include:

Further supply will be very limited. Local banks are hesitant to lend on new shopping center development in Tallinn. Further development is expected to be for single tenants, mainly discounter shops and supermarkets. The majority of development will take place in Lasnamäe, the largest Tallinn suburb with 145,000 inhabitants, located in the eastern part of the capital.

In Lasnamäe local retailer Selver is opening a supermarket (5000sqm) at the end of 2005. Also Paul Oberschneider and partners are planning a hypermarket (11,000sqm) in Lasnamäe Retail Park by the end of 2006. This retail park, located next to Laagna road, is becoming the centre of Lasnamäe and is expected to become a home for many other retailers, particularly DIY and car centres. Many experts compare this area with the existing Rocca al mare center and its surroundings.

Retailers are also looking at other Estonian cities to expand. Top of the list are Tartu with a population of 105,000, Pärnu 50,000 and Narva with 70,000.

For information on leasing retail space in Estonia, contact Hindrek Leppsalu on +372 66 59 700.

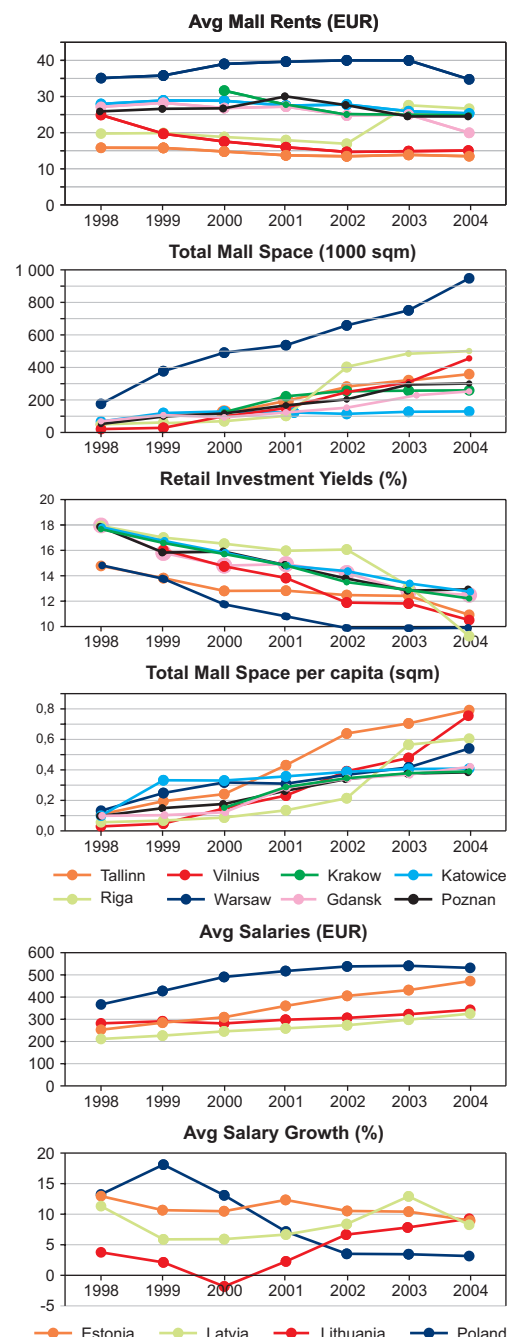
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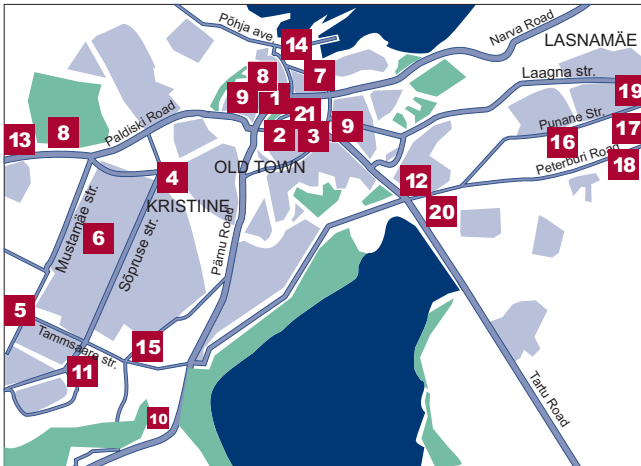
German retail developer Lidl announced its expansion plans for the Baltics and expect to open their first store in Estonia in 2006. Lithuania's largest food retailer VP, under it's Maxima and T-Market brands, is also entering Estonia and have already opened their first T-Markets in Tallinn and Pärnu.

Vacancy in Tallinn shopping centres is very low at 1 percent. However, shopping



Viru Square – a 32,000 sqm newly built city centre scheme by the Viru Hotel.





centres suffer from a lack of international tenants which would attract more clients. Most retailers are local operators.

Vacancy is expected to remain low in the future as more international retailers are planning to enter the market. With a rapid increase in salaries and purchasing power retailers will continue to look for opportunities to expand.

Rent

Rents currently remain stable. New shopping centers charge EUR 12-30 per sqm, with food store anchors generally paying EUR 9-11 per sqm.

A rapid increase of nominal salary is increasing sales and retailers' profits. Many of them, who were forced to expand fast in order to stay competitive in the market over the past few years, are recovering and now showing good results. Today most retailers are optimistic and expect an increase of 7-10% per year over the next five years. This will have an impact on rents and will drive them up.

Transactions

In July one of the capital's biggest retail centres, Rocca al Mare, was sold to Citicon, the Finnish property fund which focuses on retail properties. The centre covers 36,000sqm with an additional 20,000sqm of building rights for further development. The value of the transaction was 63 million EUR and the net yield of the transaction was 8,5%.

Today there is a gap between expectations and real demand. Investors are looking to buy at a yield level starting at 8-8,5%. Sales offers are often less than 8%. Yields have gone down due to low interest rates over the past few years. Also, many owners have had a hard time finding alternative investment opportunities if they were to sell their property. Many of them are already looking for opportunities in other markets like Ukraine and Latvia.

Retail sqm existing in Tallinn

Property name	sqm
1 Viru centre	5 500
2 Kaubamaja	11 000
3 Stockmann	14 000
4 Kristiine Centre (Prisma)	30 000
5 Kadaka Centre, Prisma	30 000
6 Citymarket Mustamäe	5 000
7 Norde Centrum, Ober-Haus	12 400
8 Merimetsa Selver	5 000
9 Selver Gonsiori str.	5 000
10 Jarve Centre, Selver	30 000
11 Magistrali centre, Mustamäe	10 000
12 Sikupilli, Prisma	17 000
13 Rocca al Mare Centre	36 000
14 Sadamarket, Port	11 200
15 Tondi Selver, Tammsaare tee	5 000
16 Idakeskus, Tasmo Ärikeskus	8 000
17 Meka (Lasnamäe)	5 100
18 United Capital	10 300
19 Lasnamäe Cenrum	22 500
20 Linstow Rimi	40 000
21 SRV Viru Square	12 000
Citymarket Rocca al Mare *	11 000
Maksimarket Laagri *	18 000

TOTAL 297 000

Retail sqm planned in Tallinn

Property name	sqm
Prisma *	10 000

TOTAL 10 000
* Outside of map area

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