

Bonanza of new offices projects in Tallinn flood a depressed market

Economy

The recession began in Estonia in 2008, with GDP dropping -3.5% in 2008 after eight years averaging 7% per year. GDP is projected to drop -3% in 2009.

Inflation peaked at 11% in 2008 but started 2009 at just 7%, and is expected to drop as low as 4% by the end of 2009 as the economy falters. Unemployment meanwhile has doubled to reach 7.5% already.

The Estonian kroon (EEK) has been pegged to the euro (previously the German mark) since 1992, at a rate of 15.6466 kroons to one euro, through a fixed currency board. The adoption of the euro is now a primary policy goal of Estonia, which hopes to meet Maastricht criteria in either 2010 or 2011.

Office

More than 100,000 sqm of new office space flooded the Tallinn market in 2008, according to Ober-Haus Real Estate Advisors, bringing the total to 248,000 sqm. The total stock of class A and B office space reached 502,000 sqm by the beginning of 2009.

The largest developments of 2008 include the first phase of Ülemiste City (10,000 already delivered but which plans another 160,000 sqm of office over seven years), Delta Plaza (15,500 sqm delivered) and Tammsaare 49 (22,000 sqm delivered).

Total take-up in 2008 was 42,000 sqm, which fell 58,000 sqm short of new supply, riving vacancy up from near 1% in 2008 to 22% at the beginning of 2009. Given that another 30,000 sqm will be delivered in 2009, just in time for the recession, we anticipate that vacancy rates will be 25-30% by the end of 2009.

Rents for class A offices in Tallinn fell 18% in 2008, to €12.70 - €16.00 per sqm. Typical service charges in class A buildings are €2.50 - €3.50 per sqm per month.

Class B rents fell as much as 30% in 2008, to €7.60 - €10.00 per sqm per month. We expect rents to fall further in 2009 as take-up diminishes and supply grows.

Retail

Perhaps luckily for developers there were no new retail projects brought to market in 2008. Thus the existing retail centres have less competition to worry about in the current downturn.

The only new construction was an addition of 16,000 sqm to Citycon's Rocca al Mare centre, which at 71,000 sqm is the largest in Estonia.

Vacancy rates today in Tallinn retail grown ca 10%, because of consumption is declining and consumers confidence is in record low.

Rents were flat throughout the year due to the weakening retail environment. Retail centres with inflation indexed rental growth leases mostly waived rental increases for 2009, as tenants could not sustain them. At the start of 2009, typical shopping centres charged €18 - €24 per sqm per month for medium sized units

(150 – 300 sqm), and up to €29 - €39 per sqm per month for 100 sqm units in prime locations. Food store anchor tenants' rents are €10 - €13 per sqm. Service charges range from €3.00 - €5.00 per sqm.

Logistics

Tight lending conditions mean no speculative warehouse schemes are built. Those that were built are still not filled, and space is offered at rents from €4.50 - €6.50 per sqm.

Older warehouses are available from €1.50 - €4.00 per sqm.

Residential

Prices hit their peak in April 2007, and have fallen 30% since to reach an average of €1,136 per sqm throughout Tallinn. The number of residential sales in the city has fallen nearly two-thirds from 1,100 a month in early 2007 to just 375 in December 2008.

Prices in Soviet-era suburbs start at €700 per sqm and range as high as €1,100 per sqm. Prices for newly developed units in Tallinn range from €1,000 per sqm in the suburbs and €1,600 per sqm in the city centre to up to €2,200 per sqm.

Complete 2009 Real Estate Market Report

Ober-Haus Real Estate Advisors will publish a complete 2009 Real Estate Market Report for Estonia, Latvia, Lithuania and Poland in March 2009.

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