

Estonian Residential Real Estate

Q2 2009

MARKET COMMENTARY

Economy

The credit crunch hit hardest in the overleveraged Baltic States. Estonian unemployment quadrupled to 15.6% in May 2009 (from just 3.9% in May 2008), while GDP fell a staggering 15.1% in 1Q 2009.

Tallinn - Apartments

Prices in the city centre have now fallen more than 50% since their 2Q 2007 highs, while suburban prices have fallen over 60% from those highs.

The average price for a flat in Tallinn in June 2009 was 11,897 EEK (760 EUR) per sqm, down 53% from its peak of 25,250 EEK (1,614 EUR) in April 2007. (EEK is the Estonian crown, or "kroon", which is pegged to the euro at 15.6466 EEK = 1 EUR).

The number of transactions per month has also fallen from over 1,000 per month in 2Q 2007 to just over 300 per month on average in 2Q 2009. At the same time the total value of all transactions declined from over 100 mln EUR per month in 2Q 2007 to just 15.3 mln EUR in the month of June 2009.

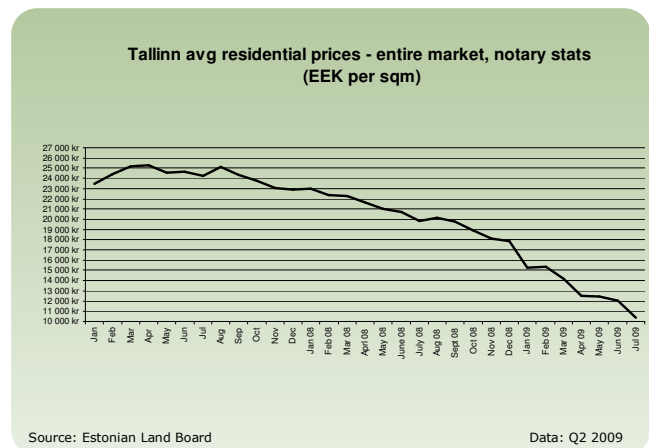
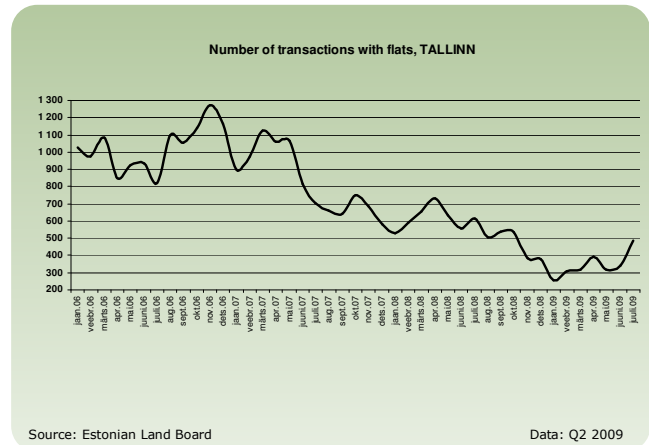
Average prices and total monetary volumes are still declining slightly, but the number of overall transactions in the market each month has stopped falling and has stabilised at just over 300 transactions per month.

There is still 20-30% difference in asking price in sales offers and actually transaction prices. The number of forced sales has also doubled in the year since 2Q 2008.

The main driver for the collapse in prices has been the withdrawal of bank credit. Whereas in 2007 almost anybody could get a loan, and bank loan portfolio volumes were growing by nearly 50% per year, this year total net bank lending is negative, ie banks are lending out less money than they are collecting, and total loan portfolio volumes are shrinking. Therefore, most transactions today are done without bank loans at all.

City Centre

In the city centre total monetary volumes of transactions dropped 60% and the number of transactions is down 45% compared with one year ago (2Q 2008). However the drop in the number of transactions has stopped, with the total number of transactions in 2Q 2009 staying the same as in 1Q 2009.



Ober-Haus also notes that the number of foreigners buying residential flats has dropped substantially. Ober-Haus notes that no transactions were recorded at prices over 50,000 EEK (3,200 EUR) per sqm, even though there are many properties still offered at that price. There were just a few sales at prices from 30,000 – 50,000 EEK (1,920 – 3,200 EUR) and those were done either in Old Town, in buildings with nice views or in architecturally valuable buildings.

Most of the sales have been in the range 14,000 – 15,000 EEK (900 – 960 EUR) per sqm. Flats which require major renovation start from 8000 EEK (510 EUR) per sqm, while flats in good condition start from 15,000 EEK (960 EUR) per sqm.

Newly built apartments range from 17,000 – 25,000 EEK (1,090 – 1,600 EUR) per sqm, while two years ago they sold for 40,000 – 55,000 EEK (2,560 – 3,525 EUR) per sqm. There is a much bigger supply of new apartments than old apartments in City Centre area than in suburbs.

Suburbs

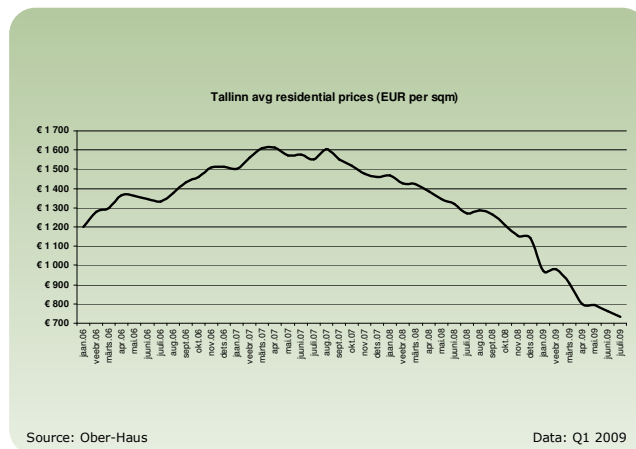
In general, price decreases have been less in the nice or historical suburbs, like Kalamaja, Pelgulinn and Lillküla. But in districts which are not so valuable, such as Soviteera districts, price offers start from 5,000 – 7,000 EEK (320 – 450 EUR) per sqm.

Suburban flats built in the last ten years sell on the secondary market at the price range 11,000 – 12,000 EEK (700 – 770 EUR) per sqm, which also forces down prices of older apartments. Most deals are done with one or two room flats in a cheaper price range.

Old but renovated apartments in the suburbs are sold around 10,000 EEK (640 EUR) per sqm while those needing major renovations start from 6,500 EEK (415 EUR) per sqm. There has been substantial decrease in number of deals with flats with central heating, because of high heating costs.

Rental Market

Rents have also fallen over 20% in the past year, and many people who borrowed to invest into residential real estate now find it difficult to find a tenant to cover the mortgage. Also, according to local banks, more than 30% of the residential loans are now larger than the value of the flat borrowed against. Unemployment reached 15.6% in May 2009, causing many workers to leave Estonia and seek work elsewhere in the European Union, thus decreasing the potential number of tenants for flats in Tallinn.



Tenants have started to pay more attention to utilities costs, which make monthly costs higher than expected. Today rents start from 1,500 EEK (960 EUR) per month in the city centre for a one bedroom flat. The most demand is for one or two bedroom flats in price range of 1,500-5,000 EEK (960 – 320 EUR) per month, with kitchen and parking space. Rent deals with monthly amount over 8,000 EEK (510 EUR) are rather exceptions.

In suburbs, rental offers start from 1,000 EEK (64 EUR) per month for a one bedroom apartment, and 2,000 EEK (130 EUR) per month for a two bedroom apartment.

Private houses

In Harju county (Tallinn and surroundings) in 2Q salepurchase deals monetary value decreased by 40%, and the number of transactions decreased 30% year on year. The biggest decrease in prices was in newly built house districts out of Tallinn. Real demand we can see areas close to Tallinn to new homes with a price range 1.5 – 2.0 mln EEK (960,000 – 1.3 mln EUR), and in Tallinn up to 3 mln EEK (1.9 mln EUR).

To projects located in poorly planned areas (“in the fields”) there might be no interest at all, even after several price reductions. There is rather interest to older living districts located economical houses, full infrastructure is needed. Houses without internal finishing can be found for as low as 1 mln EEK (64,000 EUR).

People who are interested in houses in price range 3 – 5 mln EEK (1.9 – 3.2 mln EUR) are very picky and conscious. Usually their interests are in areas like Pirita, Nõmme or Kakumäe.

If you wish to receive any additional information about development of the real estate market in Lithuania, Latvia, Estonia and Poland; or you would like to order a special report on the part of the market relevant to you or the market of the project in progress, please contact Ober-Haus Estonia.

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