



Goodson & Red Tallinn property managers and consultants present:

Tallinn Property Market

2011 Q1 Tallinn property and rental market review

- Mortgage loans market, consumer security
- Property transactions, number of sales offers and average prices
- Central Tallinn rental market
- Rent prices, vacancy, period of rental, sample transactions



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Tallinn and Tallinn City Centre Real Estate Market

- Clear improvement in terms of the issue of new loans has yet to be witnessed. Attitudes in the loan market are rather positive, however.
- Although the average of the Euribor, the index of European bank lending rates, has been rising, interest rates have remained steady for the time being.
- Deposits in Estonian banks are at an all time high and are steadily increasing.
- The state of the economy, as well as the consumer security index, has stabilized.
- The rate of defaults on mortgage repayments is dropping.
- Property transactions in February actually saw something of a drop, which is probably seasonal; prices continued to grow.
- Choice of new, especially larger and better quality, apartments in Tallinn city centre and neighbouring areas is rather poor; one third of new residential developments is being sold off-plan again.

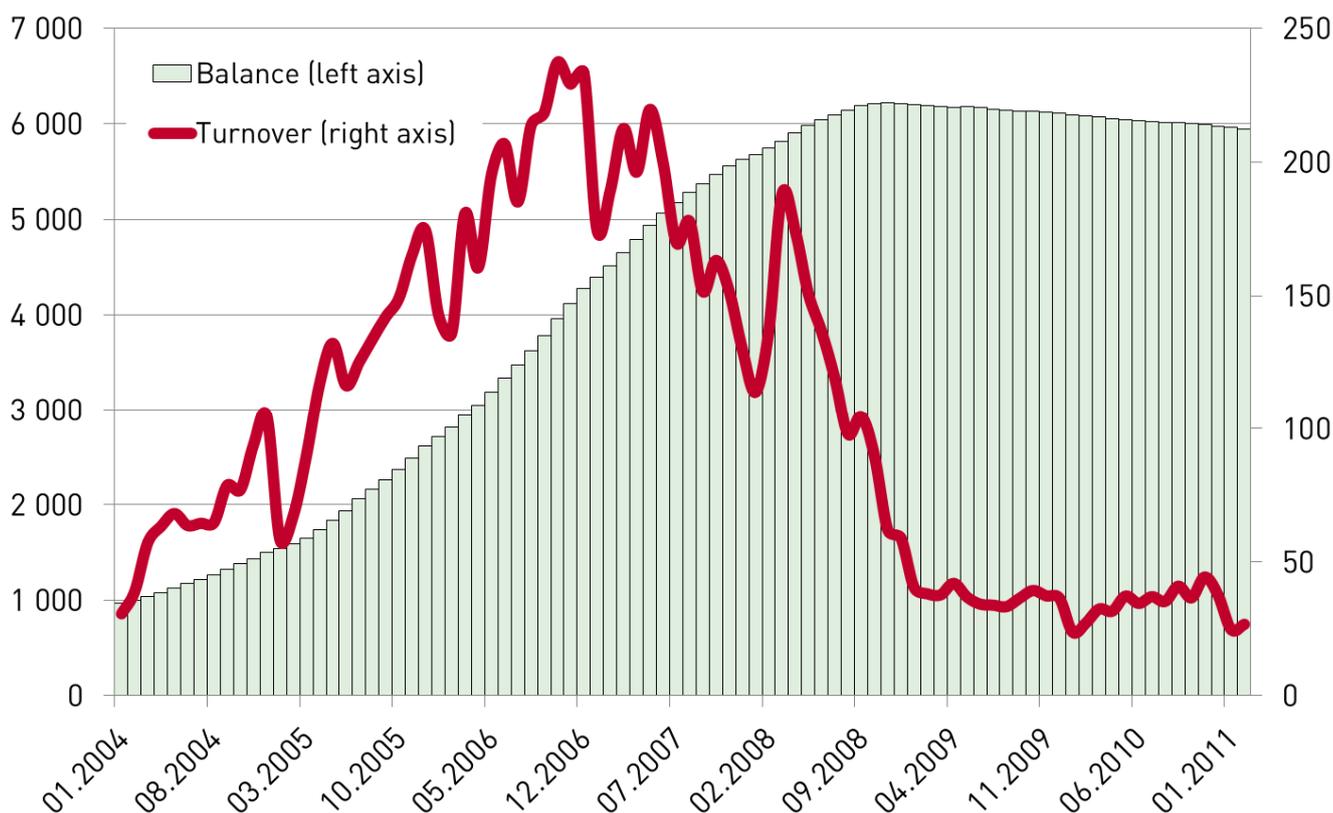
Mortgage Loans Market

Personal loan market numbers are showing no revival as yet in spite of an upturn in the housing market and a number of positive and significant rumours of revival. Loan balance is still at a low level; moreover the issuing of new loans is not exhibiting any great increase as yet.

Overall mortgage balance fell to 5.79 million Euros at the end of the last quarter of 2010, which represents the sixth quarter in succession where a fall has taken place. Banks are still taking more money out of circulation after new loans have been granted.

The issuing of new mortgages, i.e. mortgage turnover, stood at 120 million Euros in the last quarter of 2010, which is the same figure as has been the case each quarter for the last two years. Given the beginning of the year's currency change-over, the usual seasonal changes and the fall in the number of transactions we can look forward to another quarter of modest loan sales.

Home loan balance and turnover, Million EUR



However, although the current numbers are not yet confirmed, the banks' present attitude nevertheless shows a positive change in direction, and the outlook concerning the next quarter could see a growth in the granting of mortgages. Attendant rumours have it that in the near future, mortgage advertising campaigns are even likely to be seen, which the changing attitude seems to confirm.

Interest Rates

The arrival of the Euro with the arrival of the new year saw the end of the era when loans based on the Estonian Kroon were issued. Henceforth it is clear from the statistics that all loans will be issued in the local currency (i.e. the Euro).

The interest rate for the final quarter in which loans were issued in Kroons, the fourth quarter of 2010, stood at 3.0 per cent whereas the rate for Euro-issued loans over the same period was 3.3 per cent. However, whereas the Kroon-based interest rate fluctuated widely, interest rates for Euro-based loans over the last year and a half ranged only between 3.2 and 3.6 per cent.

This is in spite of the fact that the Euribor index, which had previously stayed in the range of 1 per cent, rose to 1.25 per cent by the end of 2010. This means that, notwithstanding the Euribor rise, banks were able to maintain their lending rates at the same level by reducing their own margins.

Thus the 2009 fluctuation of average interest rate margins of 2.4 to 2.6 per cent has today fallen down to some two per cent. Given that the all time low margin was 0.5 per cent it can be seen that there is certainly still room for a fall in margins. At the time of writing the European Central Bank (ECB) base rate rose to 1.25 per cent (07.04.11) which is likely to further impact upwards on the Euribor.

It is worth noting that interest rates are today at a level which does not represent a barrier to consumers. This is amplified by the fact that mortgage tax relief measures are also still in force. In the near future (i.e. 2011) therefore, although an appreciation in Euribor rates is expected, a commensurate fall in margins will compensate for small rises in rates.

Consumer Security Index

The consumer security index, measuring perceptions of consumer confidence, has started to decrease, which is a very logical trend. The consumer security index is always likely to start to increase rapidly in a situation when an economic crisis has initially been overcome. This can be caused by a euphoria which needs to be corrected. In other words the consumer security index should in any case have fallen to that level which is adequate for a country which has recently overcome an economic crisis.

Layoffs and reduction in salaries in companies are largely over now. Moreover, most companies are trying to restore recent levels of salaries. Even though there is a positive trend, neither consumers nor companies can see a rapid recovery from the crisis on the horizon. Regarding the consumer security index as well as the overall stability of the economic environment, it is worth mentioning the recent parliamentary election. At the time of writing this market review, coalition discussions had just been finalised and a new government formed, as expected comprising members from the largest Reformierakond party together with those from the IRL party. This will represent continuity in economic matters and thus we should not expect any changes in economic direction at a preliminary stage. Nevertheless, it is obvious that the government will consist of the same power base as before.

Purchase and Sales Transactions of Residential Premises

There have been more than 1 200 purchase and sales transactions in the first quarter of 2011 despite the difficult situation in the first months of the year. This is approximately 100 transactions fewer than a year ago. Nevertheless, it is worth mentioning that the overall number of purchase and sales transactions of residential premises went up in 2010.

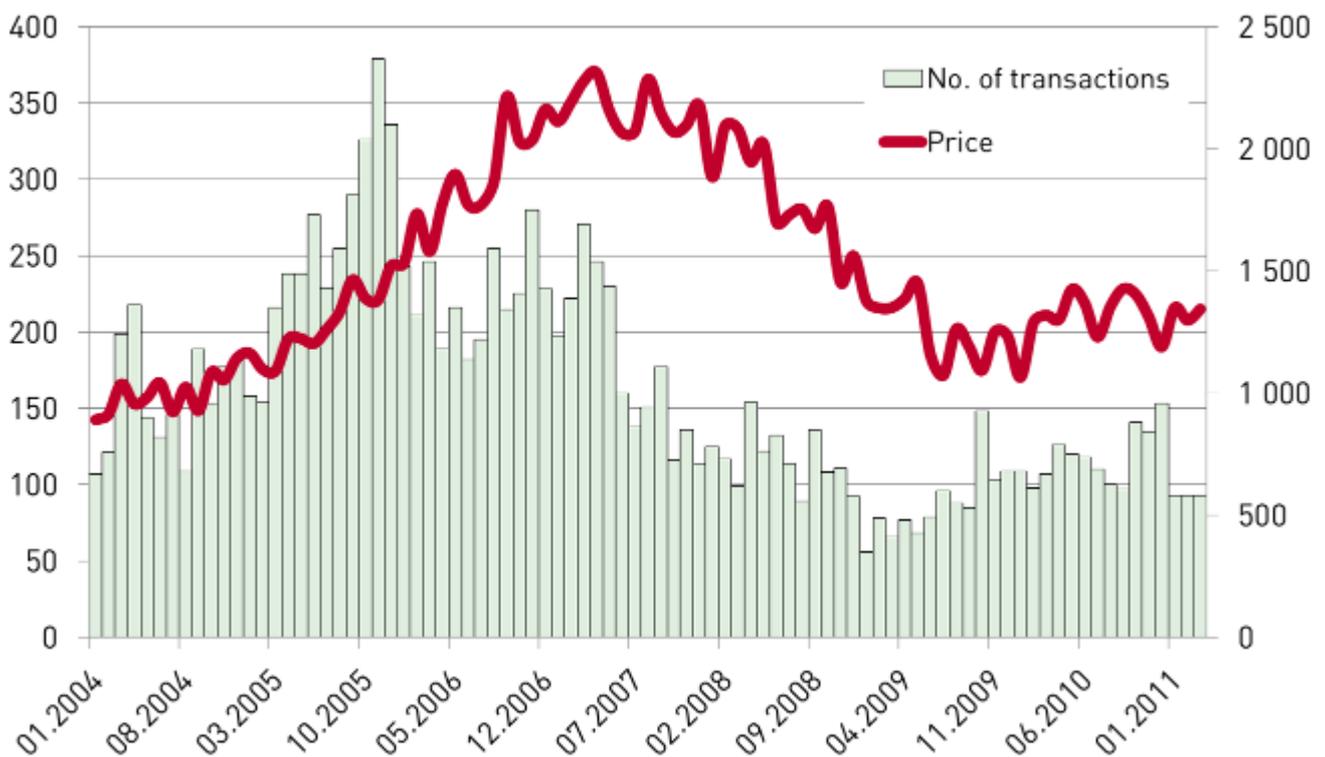
The adoption of the Euro may be considered a reason for the current decrease in transactions, as it made people turn their attention towards other significant matters. Another reason for a certain decrease in transactions may be the fact that the number of transactions is relatively high anyway and therefore there is not much scope for further increase.

The prices of residential premises have not been reflected by the adoption of the Euro. The typical price for residential property transactions in the first quarter of 2011 was 940 EUR per m². This price is eight per cent higher than last year. On the other hand the number of purchase and sales transactions in the city centre has fallen. There were 279 purchase and sale transactions in the city centre in the first quarter of 2011. The average price for those transactions was 1 328 EUR per m². This represented a nine per cent increase on the same period last year.

The market for new developments has also become more active after stepping back a little bit at the beginning of the year. New, reasonably-priced projects with well laid-out floor plans are being sold out quickly. Some of these projects have been overpriced; however, this does not seem to have been reflected in sales figures. Many new projects are being launched onto the market. In fact Tallinn could potentially begin construction of at least 10 000 new residential properties already. The factor that is blocking the commencement of construction is first and foremost the financial aspect, along with lack of developer confidence.

The market situation may be reflected, but by no means necessarily, by the number of bankrupt premises being claimed by the banks. Swedbank and SEB bank between them have taken control of more than 600 residential premises. It is not known yet when, at what price and at what sales tempo will they be offered on the residential market. This may significantly be reflected in the real estate market.

No. of transactions in the centre of Tallinn (Apt) and average price (EUR/Sq.m)



Forecast

- Prompt sale of new developments encourages developers to start with new projects. We expect developers to put about 1 500 new apartments on the market over 2011.
- Loans issued solely to finance new developments give credence to our expectation that issues of new mortgages could pick up this year. We predict that the issue of new loans might increase to the tune of about 20 per cent over the course of 2011.
- The number of transactions in 2010 was at a sustainable level and we hope the increase will not exceed five per cent this year.
- Shortage of quality properties, prompt sale of new builds and an increase in building prices, have all served to hasten the price surge. With the backdrop of the current inflation rate, we stick to our previous estimate,

Rental Market in Central Tallinn

- As predicted, the vacancy in the rental market increased at the end of December and into January as students left or contracts expired.
- In the first quarter the rental market was most active during January. In contrast, February and the beginning of March remained quiet.
- We believe the Euro caused the small false increase in rents. Asking prices were up about four per cent, but on the whole prices were rounded upwards. In general, rental prices are stable.

Rent Prices

Statistics show that in general average city centre prices are stable. The advent of the Euro has led to a slight rise, but this is probably not the result of market influences, but rather a rounding up of Euro prices where a direct Kroon conversion would have yielded somewhat odd-looking figures. However, in addition, an often-seen spurt of inflation at the beginning of the year has also affected the rents a little. The rise was most noticeable in the middle of January when the market was most active with potential tenants searching for properties.

Based on the statistics of property portals, a four per cent increase in asking prices was recorded.

Vacancy

Slight increases in relation to changes in tenancies brought about by the new year. As predicted, vacancies started to grow, starting from January through to February and March. According to Spot (City24.ee portal statistics) the growth has stood at 10-15 per cent approximately. This clearly shows that regardless of some activity in the market during January, the market in general has been seasonally slow. On the other hand, there have been positive signs of vacancies starting to decrease at the end of March.

We believe we are not that far from normal levels of vacancy. Over the course of 2010 the market absorbed the excess of properties either through sale or rent, since those properties put on the market as a result of the downturn either through compulsory sale or even panic selling, where they were not successfully sold, were rented out instead. This has set the stage for ordinary price increases. Rent prices could advance by about 10 per cent in 2011.

Period of Rental

A continuously dominant period of rental with local clients is for the long term (either fixed-term for 8 to 12 months or a contract for unspecified term). However, we can also say that short lets are doing better, as well as mid-term ones since more and more we see overseas tenants coming back to live and work in Estonia, thus also searching for suitable rental apartments for their residence.

Forecast

- Rental period likely to tend towards shorter periods as upcoming summer should bring more potential clients looking for short and mid-term lets.
- Rent prices to remain stable during April and start of May. At the same time rent level is set to grow in the centre in May and June as an increase in demand for holiday apartments is to be expected.
- Rent prices could advance about 10 per cent in 2011.
- Vacancy could fluctuate in May and June due to seasonal changes.

Price Comparison

* Furnished apartment in a good condition that complies with minimum requirements. The rent price range of larger apartments is too wide to be highlighted in this table.

Size of apartment	Rent price range (EUR)*
Studio	250-320.-
1-bedroom apartments	305-385.-
2-bedroom apartments	445-511.-

Summary

The worst of Estonia's economic woes are clearly behind us. That said, we cannot fail to mention the ongoing European debt crisis, currency struggles and the Chinese real estate bubble, all of which have undoubtedly had an impact on the global economy.

Figuratively speaking, it can be said that Estonia is currently a safe backwater, but that oceanic tidal waves may nevertheless strike. The extent to which these movements will affect Estonia and its economic partners is another question. On the positive side for 2011, new businesses in an active market are likely to in turn promote an active level of demand, provided banks remain in a reasonable financial condition.

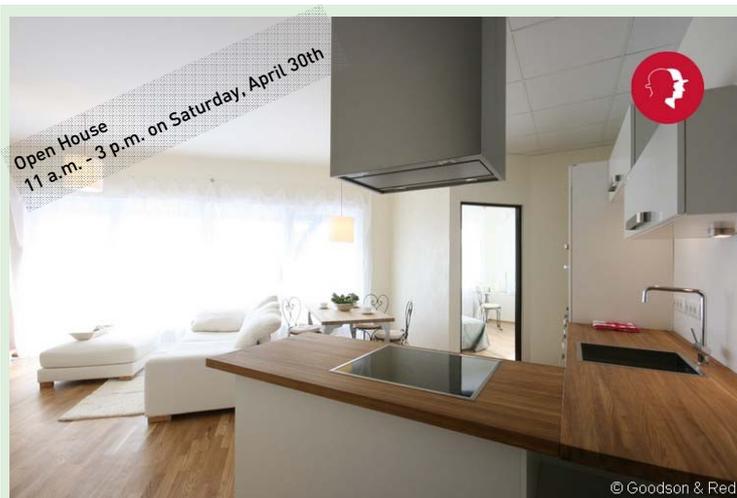
The loan market is expected to witness a significant revival in 2011. Taking developments in approval of loans on its own gives credence to the fact that this year could see a significant quickening in mortgage lending. If we assume that issuing of loans will increase by some 20 per cent through the course of 2011, then we also hope that economic recovery and an improvement in living standards will follow.

Current developments in the pace of sales and the knowledge that purchases straight from paper plans are taking place again gives reason to believe that everything is happening for the better. In any case this is encouraging developers to launch more new projects and is contributing to rising prices. We look forward to some 1500 new flats coming on to the market through the course of 2011, and would like to point out that the banks hold the "wild card" in that they are holding the foreclosed properties. Things are certainly moving forwards, but it is not clear exactly when and under what conditions such properties will be released for sale, and how these offers will affect things.

In addition, the favourable market conditions for new developments, along with quite simply a shortage of quality properties, are likely to be behind price rises, along with increases in construction and building materials prices. Today's inflation rates being a background factor, we are sticking to our earlier estimate (as mentioned in our previous reviews) and agree with the analysts and banks that price increases for the rest of this year and the following year may reach 10 per cent.

In terms of the rental market, the advent of the Euro has led to a slight rise, but this is probably not the result of market influences, but rather a rounding up of Euro prices where a direct Kroon conversion would have yielded somewhat odd-looking figures. However, we believe we are not that far from a normal level of vacancy and this, along with improving short and mid let market, is setting the ground for slight price increase. Rental prices could advance by about 10 per cent in 2011.

With the backdrop of the recurring property market and the predicted rise in the number of transaction, sales and rent prices, we hope this is sustainable and not just a momentary hike, as the actual purchase power has not improved and those who had reserves are daring to shop around now.



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Sample Central Tallinn Rental Deals

Studio apartment in the heart of Tallinn

Rent: 255 EUR + utilities (asking price 256 EUR)

Rental period: 12 months

Details: 35,7 m², 2nd floor, fully furnished

Pros: central location, elevator, fully furnished

Cons: no allocated parking, no balcony

Client: foreign / private individual



2-bedroom apartment in the heart of Tallinn

Rent: 525 EUR + utilities (asking price 599 EUR)

Rental period: 17 months

Details: 79,0 m², 4th floor, fully furnished

Pros: city centre, quiet area, near to public transportation, elevator, fully furnished, high quality apartment, spacious, walk-in closet, storage room, allocated parking space in guarded underground garage.

Cons: no balcony

Client: foreign/ private individual

1-bedroom apartment in the heart of Tallinn

Rent: 447 EUR + utilities (asking price 447 EUR)

Rental period: for unspecified term

Details: 52,0 m², 8th floor, fully furnished

Pros: modern design, fully furnished high quality apartment, new building (skyscraper), downtown location, elevator, fabulous view over the town

Cons: no allocated parking, no balcony

Client: local / private individual



* Asking price for period of rental 2 months

** The tenants were not charged a commission

So, what do you think?

We would very much like to hear your views and experiences. Or if you have any questions you'd like us to address, email, tweet us or leave us a comment on our website or Page.

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At Goodson & Red we embrace change and are constantly challenging tradition because we have a strong desire to improve the way our industry operates.

Our philosophy is plain: property is our passion, we perform with integrity and values, and relationships are most important for us; we constantly endeavour to provide ease and comfort through considerate personalised and professional service to all our clients, whoever they are and whatever their needs for property in Tallinn.

Meet new members of our consultancy team



Andrew Whyte



Kati Lips



Tuuli Edur



Erki Kommussaar

Whatever your requirements for Tallinn property, Goodson & Red is perfectly positioned to help you achieve your aims. Please do not hesitate to contact should you have any further questions.

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