



Goodson & Red team and Tõnu Toompark present:

Tallinn Property Market

2010 Q3 Tallinn property and rental market review

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



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Tallinn Property Market

- Consumer security continues to display positive trends, some of which are possibly even too positive .
- Turnover of loans continues to decrease; interest rates remain at a reasonable level .
- Average prices of property transactions have increased, even though overall value did not increase significantly.

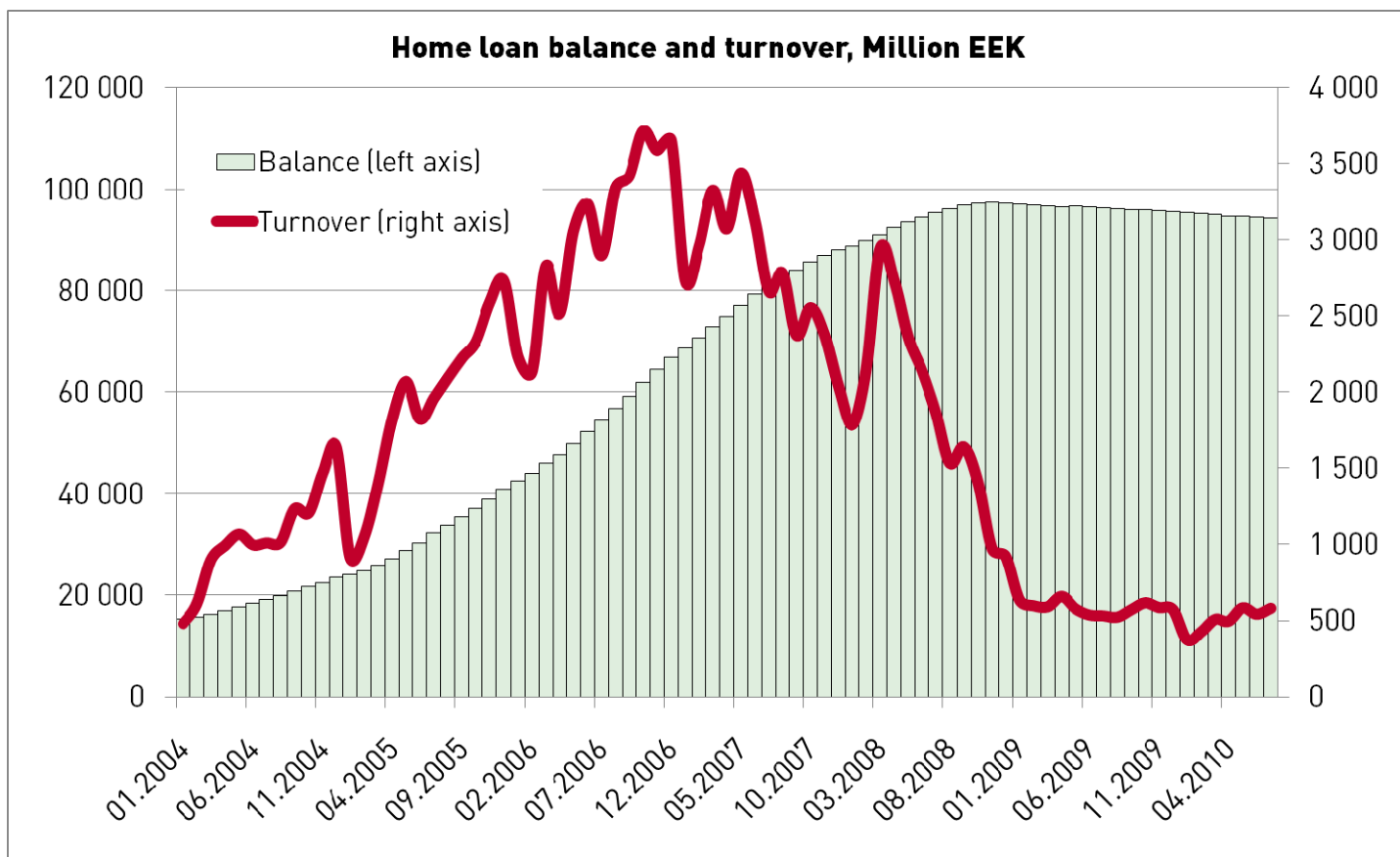
Participants in the real estate market, which mainly constitutes facilitators, have largely been communicating positive messages and making promising forecasts regarding market activity through the whole summer period. It seems likely that the market decline has indeed bottomed out. However, there are no reasons yet to feel too inspired, as there are still a host of macroeconomic factors which remain deeply in negative figures. There is also an overall degree of uncertainty in the market.

Mortgage Loans Market

According to official data of the Estonian Bank, the turnover of residential mortgage loans in the first half of this year was 2.9 billion EEK or 19% lower than for the same period in the previous year. The one-fifth decline in the mortgage turnover is a relatively insignificant number in comparison with the mortgage turnover decline in the first half of 2009 which was still 75% in total.

The procedure for the granting new of loans is a primary factor affecting the sales market. It is not possible to purchase a property if funds are not available to do so. The fall in the granting of mortgage loans gave a strong advantage to those who had their own funds to purchase a property.

This utilising of spare funds has led the real estate market to the rock bottom, which we seem to have reached now. Local banks seemingly also believe that the market has bottomed out since the biggest of them have invested a figure in the billions of Kroons in purchasing bankrupt real estate objects.



Interest Rates

There were no changes in interest rates during the last six months. Euribor, which is a base index for residential mortgage loans, remained close to 1% during the last half of the year. Euribor has recently increased to a little more than 1%. At the time of compiling this market review, the Euribor's six month low stood at 0,944% (30.03.2010). The highest Euribor has been fixed at 11.08.2010 and was 1,158%.

It appears that banks have become less strict in granting loans, even though this fact does not have any numerical evidence. We even know of some cases where loans have been granted to non-residents, who would have barely been expected to get a loan just a short time ago.

Consumer Security

Positive messages and forecasts regarding the current market situation have been caused consumer security to rise to a relatively high level. The consumer security index in the second quarter of 2010 was -2.9 points.

Although this consumer security index is still a minus value, it still represents a positive measure. The consumer security index remained a positive value for only seven quarters in a row. The median of this positive measurements fell in the year 2006. Therefore, we can come to the conclusion that the consumer security index was positive only on the crest of the wave of the economic boom.

Let us now raise the question of whether the consumer security index is really geared towards reaching such a high level that it has now. Trying to find an answer we shall consider important factors that affect security index such as unemployment, which is at a very high level now, and frequent cases of salary cutting. It may also be the case that people are just trying to survive in a hard situation by minimizing as many losses as they possibly can.

In any event we suggest considering the consumer security index of this market review critically. The overall economy is still experiencing tough times, even though some positive trends for its recovery have already emerged.

Property Transactions

One more fact that speaks in favour of the recovery of Tallinn property market is that according to the data of the Land Board the number of property purchase and sales transactions concluded in Tallinn in the second quarter of 2010 has increased, to 1 415. The number of transactions concluded during this period is 35% higher than was the case in the previous year. It is worth mentioning that the first and second quarter of 2009 covered a period of uncertainty and the lowest consumer security index.

The decrease in the number of transactions that initially took place in the second quarter of 2009 and has continued till now may be partly caused by the euphoria which has occurred as a reaction to the announcement of Estonia's joining the Euro Zone in 2011. Another factor is that of overall relief and the increased consumer security index as noted above. The consumer security index has risen as a result of the announcement that the exchange rate to Euros will remain at a constant figure.

Even though the decision to join the Euro zone is being considered seriously and in fact the benefits are often overestimated, we have to admit that Euro is a quality mark which will have a positive affect on Estonia, both on consumers as well as on investors who are being inspired by positive emotions. Another issue is how to evaluate this effect and whether it needs to be measured at all.

Property Transactions

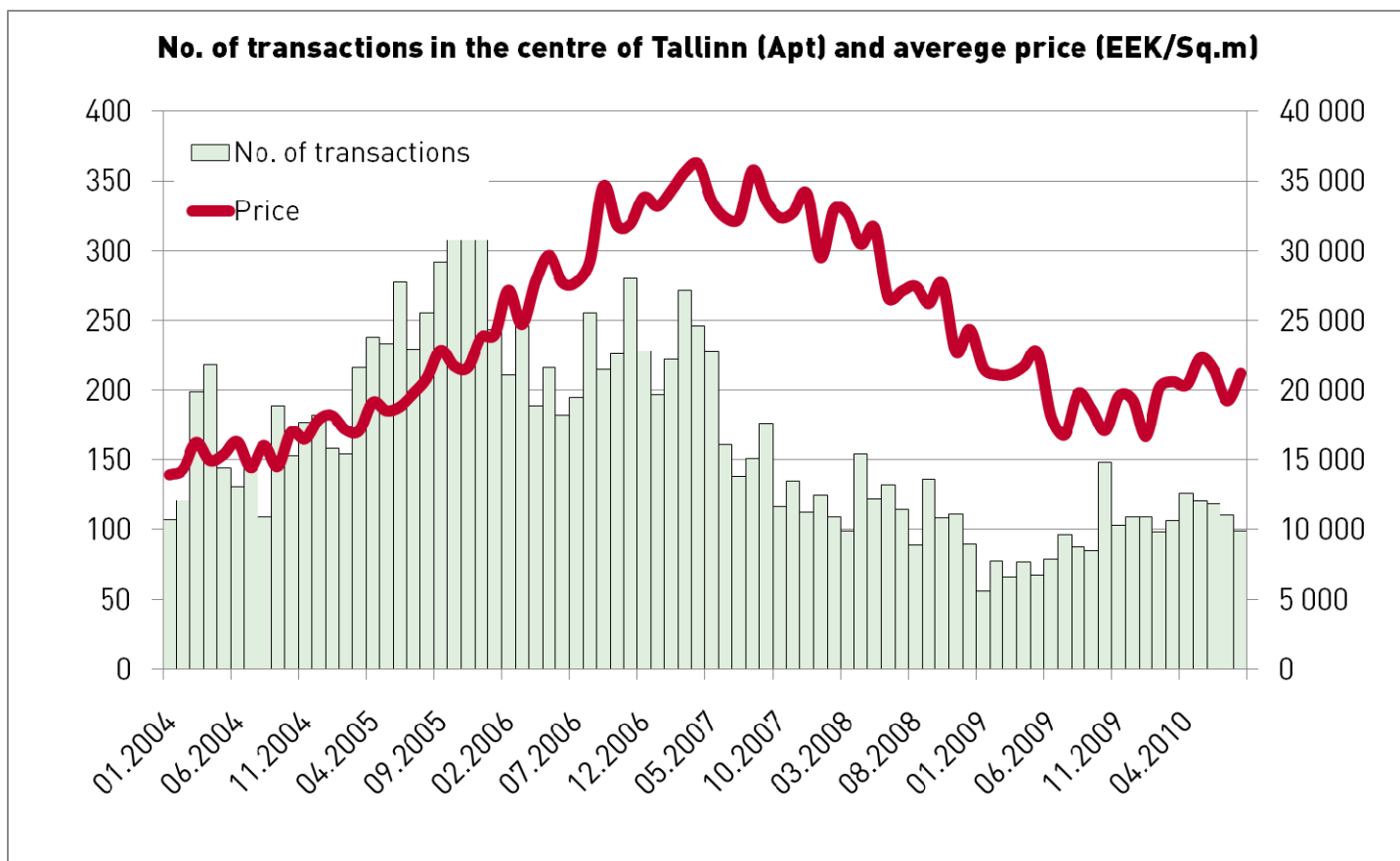
The number of sales offers in the market is also increasing. The lowest number of sales offers came in January 2010. Since then there have been a few periods when new offers have been appearing. According to the property portal www.kv.ee, there were 7 943 apartments up for sale in Tallinn in August.

It seems likely that there is a purely psychological factor that stands behind the increase in sales offers. It was emotionally difficult to sell a property during a time of economic recession at a significantly reduced price and to lose a big part of the sales gain as result. It would have been wiser to put the sales process on hold until the situation improved. It has recently become easier to put a property on sale as the situation in the market has improved, prices have stopped falling and have started to grow slowly.

New developments brought to the market were another reason for the decrease in the number of sales offers. There were just a few new developments launched in 2009. Most of those that were launched were not particularly sound. Nevertheless, 2010 has seen a flow of approximately 1 000 new properties in Tallinn.

One of the important facts that is worth emphasizing is that most of the new developments are being launched on the market at reasonable prices. This means that sellers do not expect to sell properties at unrealistic prices and perceive the market adequately. Current pricing policies comply with price and quality relationship.

Additional sales offers at reasonable prices have led the market to a situation where there is almost no room for bargaining. The difference between the initial sales price and the actual transaction price is often quite small as the prices of these transactions keep on growing and the sales prices still keep on dropping slowly. In other words, if a property is being launched on the sales market at an initially adequate price then the deal can be closed without any bargaining.



Prices and Value of Purchase and Sales Transactions.

The purchase and sales prices of property transactions in the second quarter of 2010 were a few percentage points ahead of the transaction prices in the previous year. At the same time it is obvious that the current price level is higher than it was at the peak of 2009 and far ahead of the bottom line prices of the third quarter of 2009.

When speaking of the bottom line of prices and subsequent increase, we have to note that the price low point of 2009 was caused by transactions that took place outside the market. The structure of sales transactions has also changed. Therefore, we can say that while sales prices have started to increase the value of properties, however, is increasing slower than the price levels. Nevertheless, the value of properties has not decreased over the last year.

Forecast

- The mortgage loans market may become more active as there is no further room for decrease.
- Interest rates will remain at their current level.
- Consumer euphoria as well as security indices will decrease.
- Number of property transactions will not increase. On the contrary it may decrease due to weakened consumer security.
- Asking prices will bottom out three months from now; number of sales offers will be constantly increasing.
- Average prices of purchase and sales transactions will increase; however, it is futile to expect a rapid increase.

Rental Market of the Centre of Tallinn

- **Rental market is usually very frenetic in autumn. We can expect that it will calm down as soon as foreign students find suitable rental premises for themselves.**
- **Demand for more expensive and spacious rental premises has increased.**
- **Payment of a brokerage fee moves becoming the norm – to be paid by the landlord.**

Rent Prices

Rent prices in central Tallinn have remained stable at around 90 EEK per square meter. There was a tendency towards an increase in rent prices at some point; however, this was mainly caused by a 'high season' when students and other potential tenants were searching for rental premises simultaneously and therefore a temporary greater demand was seen.

The level of rent prices was increased mainly by foreign students. They are usually ready to rent the premises at a relatively high price as they can split the rent as well as utilities costs with their flatmates, which makes an offer affordable for their budget. However, rent prices have not increased by more than 5%.

Demand for spacious and more expensive or high quality apartments has increased. "High quality apartment" in this context constitutes one which has modern kitchen furniture with built in technical appliances and proper furnishings with no visible signs of wear and tear.

Just as in sales, it is essential to offer rental premises at an affordable price. It is possible to start receiving inquiries straight after having published a rental advertisement and let out the premises in up to two weeks' time if the initial offer was adequate.

It is worth mentioning that once sales prices increase and rent prices remain stable, the profit of the landlords will decrease for 2– 5% or even more in comparison with their current profit. This will make the overall cash flow of rental business for the landlords unreasonably low. One of the solutions is an opportunity to raise rentals. Otherwise it would be more logical for landlords to leave the rental market by selling their premises.

Vacancy

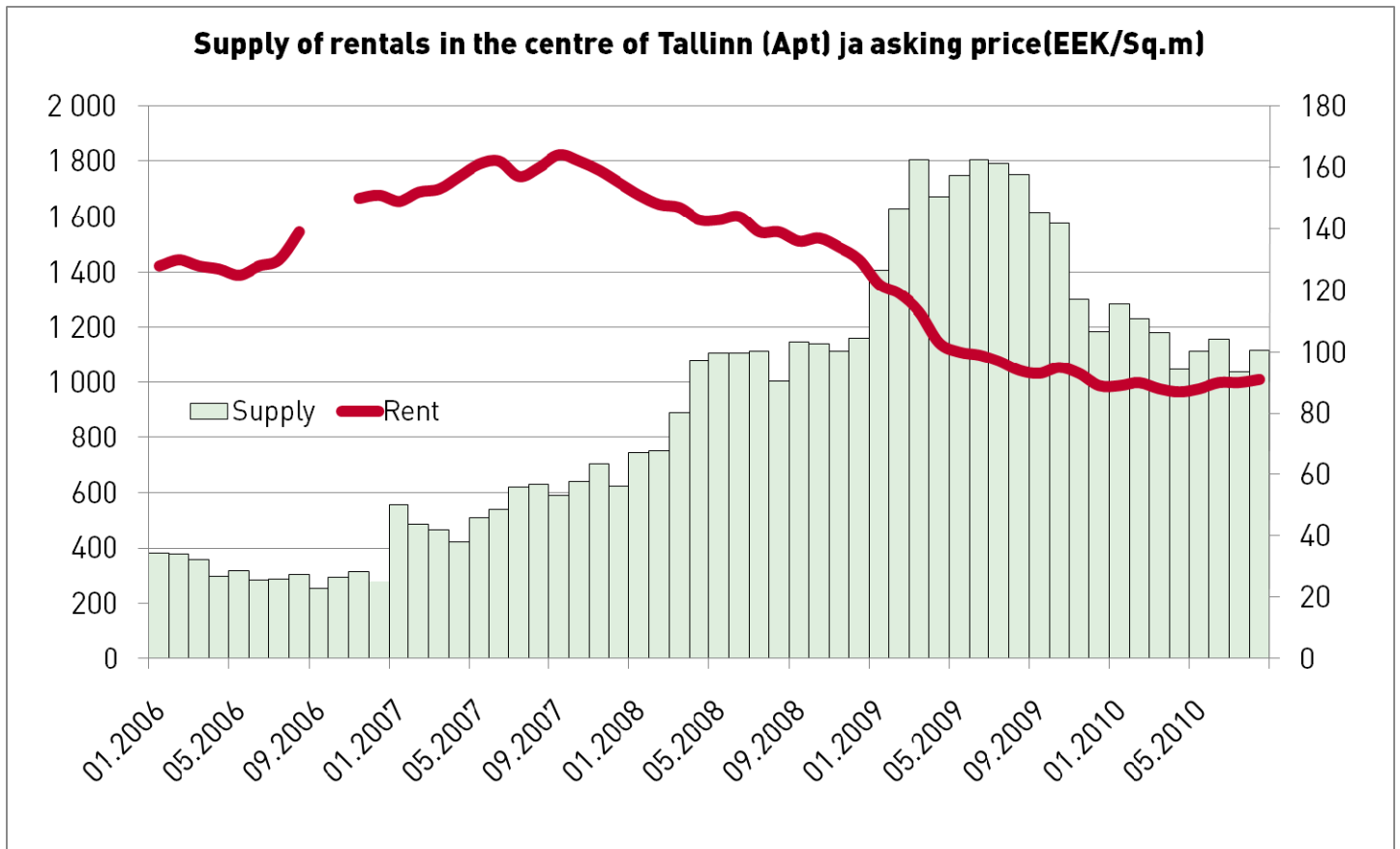
Rental vacancy levels are currently stable. There was a temporary decrease in vacancies due to the start of a new school year. This facilitated letting out rental premises, which remained vacant for some time.

Temporary summer increases in vacancies were mainly caused by the fact that many lease agreements have been signed in advance, beginning in August or September. Therefore, it has proved quite difficult to find a tenant ready to rent the premises for just two weeks to one month.

We have previously perceived that speculators acting on the market is one of the main causes of an increase in vacan-

vacancies. These buyers purchase premises at low prices during the period of market recession and let them out in the hope of an increase in prices. However, our cautious expectations have not seen fruition. Neither any significant flow of new offers nor any vacancy increase has taken place. On the contrary – the number of offers has been continuously decreasing. According to the property portal www.kv.ee, there were 1 116 rental offers in the centre of Tallinn in August. This number accounted for 1 752 a year ago.

There are not any concerns that new developments are being launched on the market with a view to mass letting. Therefore, we assume that vacancies shall remain stable.



Period of Rental

According to RED Group’s recent transactions the length of rental period typical for foreign students is six months. Some students need rental premises for just one semester, while others will rent them out for the whole year.

The majority of students prefer to conclude lease agreements for a specified term. Their secondary preference is for lease agreements for the whole year and the third choice is lease agreements for an unspecified term. The possibility of terminating such an agreement easily is one of its main advantages.

There are a lot of potential tenants searching the market, mostly during the summer period, willing to rent premises for the mid- to long-term, i.e. for a couple of months. These are primarily corporate clients, business travellers and local people who require temporary accommodation. However, the organizational side of a mid- to long-term lets is quite often problematic as it is quite difficult to find an available apartment for a required period.

Landlords who stick to a classical brokerage service prefer to have long term tenants since the search for a new tenant as a rule means additional work for a landlord. He or she will need to start communicating with brokers again, agree on a brokerage fee and renegotiate an agreement with a service provider.

When using a property management service it is worth considering not only long-term lets, but also short- or mid-term lets. Good furniture and a general good order of the apartment are the main selling points for a successful short- or mid

mid-term deal.

Successful short-, mid- and long-term rental consultants or property managers can be characterized by a wide customer database as well as a large portfolio of properties to offer to his customers.

Combination of rental periods assumes that it is possible to already start searching for the next tenants before the rental period of a previous tenant has terminated. The high cost of short- and mid-term lets compensates so called void periods between tenancies. However, it is often possible to find a new tenant before the expiry date of a previous lease agreement.

Our statistics show that well-furnished high quality apartments offered for short and midterm rent can provide 10-15% extra income per year.

It is unnecessary to be concerned that short-term rental periods means a greater wear and tear to the apartment. On the contrary, cleaning and check-ups take place more frequently during short-term lets, which actually means less wear and tear than is the case for longer lets.

Furnishing Apartments for Rent

There were no changes in furnishing apartments for rental. Apartment should definitely have kitchen appliances. Tenants are not ready to invest their personal funds in such purchases as in most cases they will not be able to take them away after the expiration of their lease agreement.

In addition to kitchen appliances, rental apartments should also have wardrobes, which are also considered to be fixed furniture and can not be taken away by a tenant. It is also useful to provide tables, chairs and curtains.

Local customers are often looking for fully furnished apartments with one empty room. They will then furnish the empty room according to their personal needs. Such rooms are often used as a nursery or a home office.

Apartments shall be ideally furnished in a minimal 'Scandinavian' style.

Brokerage and Best Practice

As regards brokerage fees it is worth noting that even when a rental business is on the right path, there is nevertheless still room for improvement. More and more landlords are starting to realize that they are the ones who order a service and therefore, they are the ones who should pay for it. Today's reality is that in most cases brokerage is being split 50/50 between landlord and tenant.

In cases where a tenant is being compelled to pay brokerage fee in full then he or she is the one whose interests should be protected by the broker. Acting in favour of a potential customer also means offering him or her alternative properties and solutions.

The landlord shall decide and make it clear for himself whether he or she is willing to have a broker to represent him, to protect his rights, to find him a good tenant and to do his utmost to rent his or her property out, or alternatively to perceive a broker as a consultant, who will bring two parties together and does not represent anybody's interests in particular, or act in favour of a potential tenant.

The same applies to a tenant's perception. In cases where a brokerage fee is to be paid by the tenant then it shall be paid for services provided. There is nothing negative in paying the brokerage in itself; however, it is logical to obtain a prior agreement that a consultant will be representing the tenant's interests, will help him or her to find the most suitable apartment at a best price available on the market, will support him or her in negotiations and will assist in signing a lease agreement.

It is worth mentioning that the awareness of tenants has improved and they are starting to realize that they are not the ones who usually require a brokerage service. Therefore, there is no basis for inducing them to cover its costs. In cases where a tenant is being compelled to pay the brokerage in full he or she can easily choose another landlord who will be ready to cover these costs themselves.

Forecast

- Rental prices are stable. There is no further room for a decrease here. If purchase and sales prices increase then the overall productivity of rental premises may decrease. This will force some landlords to leave the rental market.
- Vacancies are relatively low. We might expect some insignificant increase in vacancies in the near future.
- There were no changes in terms of necessary furnishings of rental apartments. Tenants more often prefer to be supplied with fully furnished solutions.
- Payment of brokerage fee by a landlord is starting to become normal practice.

Price Comparison

Size of apartment	Rent price range*
Studio	3500-5000.-
1-bedroom apartments	4500-6500.-
2-bedroom apartments	6500-9000.-

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

Summary

In summarizing the above we will note that this market review was composed on the basis of analysis obtained concerning local factors affecting the property market. However, the local market is also being seriously influenced by the international economy.

The situation in the international economy concerns the property market through financing terms and employment factors. There are a lot of questions marks and uncertainty regarding the current state of the international economy, which may turn risks into reality and hit the Estonian property market.

Any future rise in the Estonian property market may be primarily caused by various local factors (e.g. employment, level of salaries, economic growth, consumer security) and its fall, on the contrary, may be caused by a range of external factors (e.g. The next economic crisis, shrinking property bubble elsewhere in the world etc.).

If possible threats of the external factors do not arise then it is worth noticing positive development trends in the Estonian property market. It means that the decline has most probably come to its end; however, this does not mean that we can expect the next property boom.

We have positive property market development supportive factors (low interest rates, high consumer security, positive economic growth), but also some preventive factors (a too high level of consumer security, unemployment, decrease in salaries etc.).

A real estate market which is being affected by uncertainty and risks may cause a rise in the activity of the rental sector. The rental market used to be quite active during in previous years as property purchases and sales were restricted due to a lack of financing.

This may be one of the factors which will help to increase the rental sector in Estonia as a natural necessity of life for more than the current 15-20% of the populous.

The rental market is acting at its normal tempo, however; brokers recently experienced a significant work overflow due to the start of a new school year. There is no basis to predict either any significant price changes or fluctuations in vacancy in the near future.

Sample Transactions

Studio apartment in the heart of Tallinn

Rent: 4,835 EEK + utilities (asking price 5,500 EEK)
Rental period: twelve months
Details: 36 m2, 8th floor, fully furnished
Pros: downtown (Foorum), new building, elevator, fully furnished
Cons: no allocated parking, no balcony
Client: foreigner / private individual



2-bedroom apartment in the heart of Tallinn

Rent: 9,500 EEK + utilities (asking price* 9,500 EEK)
Rental period: for unspecified term
Details: 87 m2, 3rd floor, fully furnished
Pros: Quiet residential area in the centre (next to the Old Town), new building, elevator, fully furnished, big balcony, parking space.
Cons: no allocated storage room
Client: foreigner / corporate client

2-bedroom apartment in the heart of Tallinn

Rent: 8,270 EEK + utilities (asking price** 8,270 EEK)
Rental period: 4,5 months
Details: 66,7 m2, 2nd floor, fully furnished
Pros: city centre, quiet area, new building, elevator, fully furnished, a parking space and a storage room
Cons: no balcony
Client: foreigner / private individual



* Higher rental price due to better furnishing and changed apartment layout.

** Asking price for period of rental 4-5 months

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We would very much like to read your thoughts 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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<http://tallinn-property.www.goodsonandred.com>

Goodson & Red Team



Goodson & Red is a passionate international property consultancy dedicated to delivering premier residential and commercial property services in Tallinn.

Through more than 6 years of consistency in one of the most rapid property markets in Eastern Europe we have developed an enviable reputation for our in-depth market knowledge and expert, considerate personal service. Although our knowledge is extensive both in the letting/management and the selling/investing process, in Tallinn and throughout Estonia we are widely regarded as the market leader in our niche of the property market: serviced short-lets, mid- and long-term rentals, management services, home search, as well as buy-to-let consultancy.

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

Unlike some established estate agents, who offer every location in Estonia and around the world and claim to be experts in all them, we specialise, we grow gradually and study each our market thoroughly, and we are committed to going beyond the sale. Our philosophy is plain: property is our passion, we perform with integrity and values, and relationships are most important for us; we constantly en-

deavour 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.

Our services include comprehensive property brokerage services for sellers, home search, long and short term lettings services and a comprehensive professional management service for landlords. We also offer foreign buyers consultancy to help investors diversify their portfolio, together with a development consultancy service, providing effective marketing and branding for developers.

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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