



Goodson & Red Tallinn property managers and consultants present:

Tallinn Property Market

2010 Q4 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
- Rental business considerations



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Tallinn and Tallinn City Centre Real Estate Market

- Estonian banks have recently shown a tentative willingness to relax the criteria for issuing loans somewhat, and interest rates remain steady for the time being.
- The Euribor index of European bank lending rates has been rising at a moderate rate, which may impact on home loan rates in Estonia in due course.
- Property transactions in November actually saw something of a jump – by 30% in fact, though this is seemingly only a temporary rise, reflecting increased buying in the North Tallinn and Mustamäe districts of the city during that month.

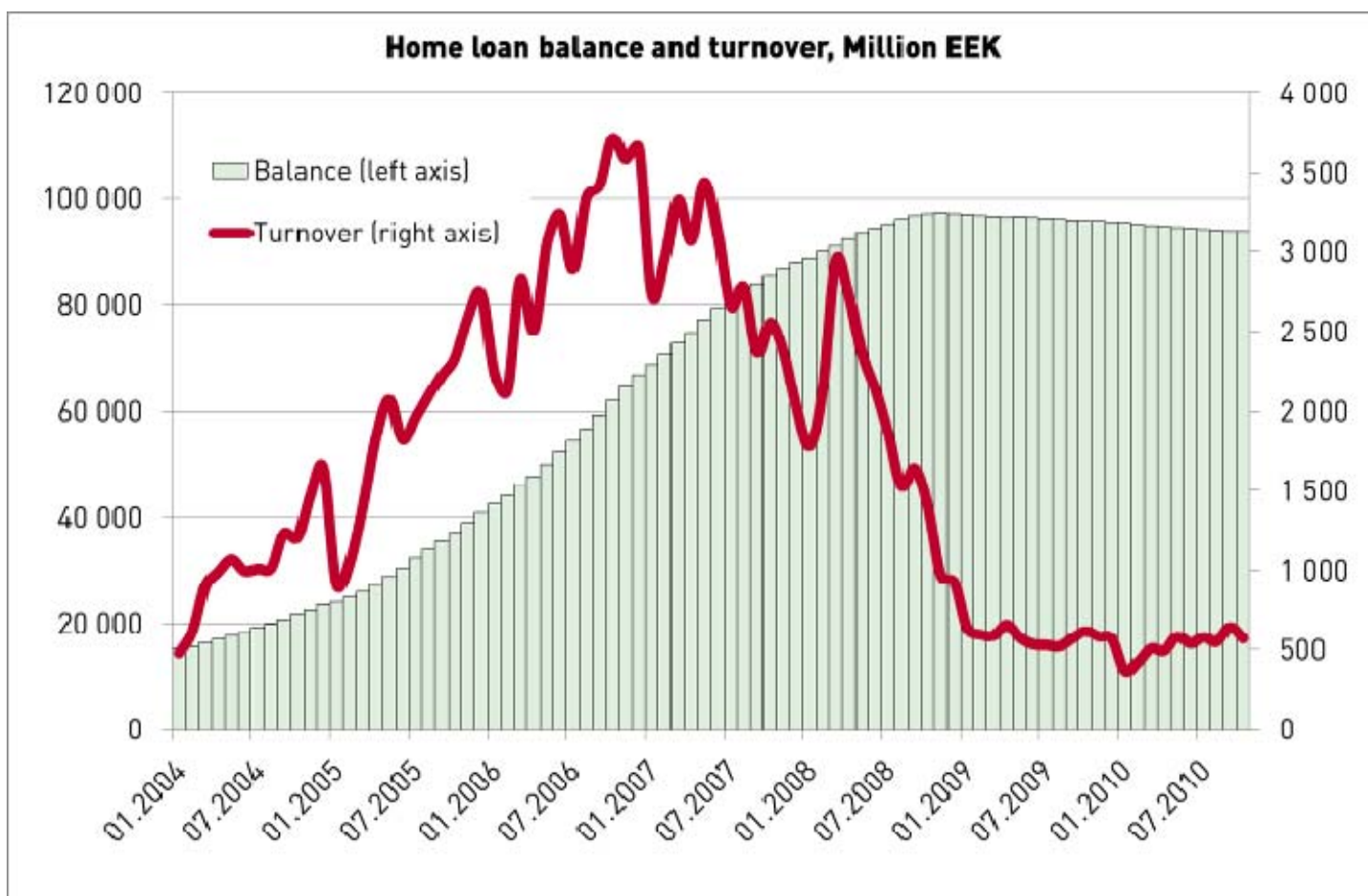
Mortgage Loans Market

The balance of home loans has been continually falling and at the end of the third quarter of 2010 decreased by 94 million EEK. The rate of this fall is slowing however, and there has been a bigger turnover in loans than in recent months. Nevertheless, caution is still of the essence. In fact, we are at about the same level concerning new housing loans (which stood at 1.77 billion EEK in the third quarter of 2010) as was the case in the second quarter of 2009, when uncertainty about the real estate market and the economy in general was at its peak.

Banks are remaining tentative about such areas as self-financing and loans for land purchases, and in general loan terms haven't been eased, but the situation is better than it was at the beginning of the year. Some banks have even pursued low key home loan advertising campaigns.

Interest Rates

Interest rates for home loans issued in Euros have remained stable this year at a figure of 3.3 to 3.5%, which given the increase in the incidence of home loans is a very reasonable rate. In general, interest rates have remained constant, in spite of the fact that the Euribor has been rising steadily (from an average of 0.952% in March to 1.224% in October).



As a result the average calculated margin for home loans has fallen (since the Euribor rate has increased but home loan interest rates have remained constant) from 2.6 to 2.2%. However the margin for home loans is higher than our main banks charge on their domestic markets in the Scandinavian countries.

Nevertheless it seems likely that there could be a moderate interest rate rise as a result of any future Euribor increase.

Consumer Security

Customer Security as reflected in the customer barometer available at the Estonian Institute of Economic Research (www.ki.ee) has fallen from the August peak level of minus 1.4 to minus 5.7 points in October. The causes of this seem plain, since there is no rational reason why customer certainty in the closing stages of an economic crisis would be at a similarly high level as it was during the peak of the boom period.

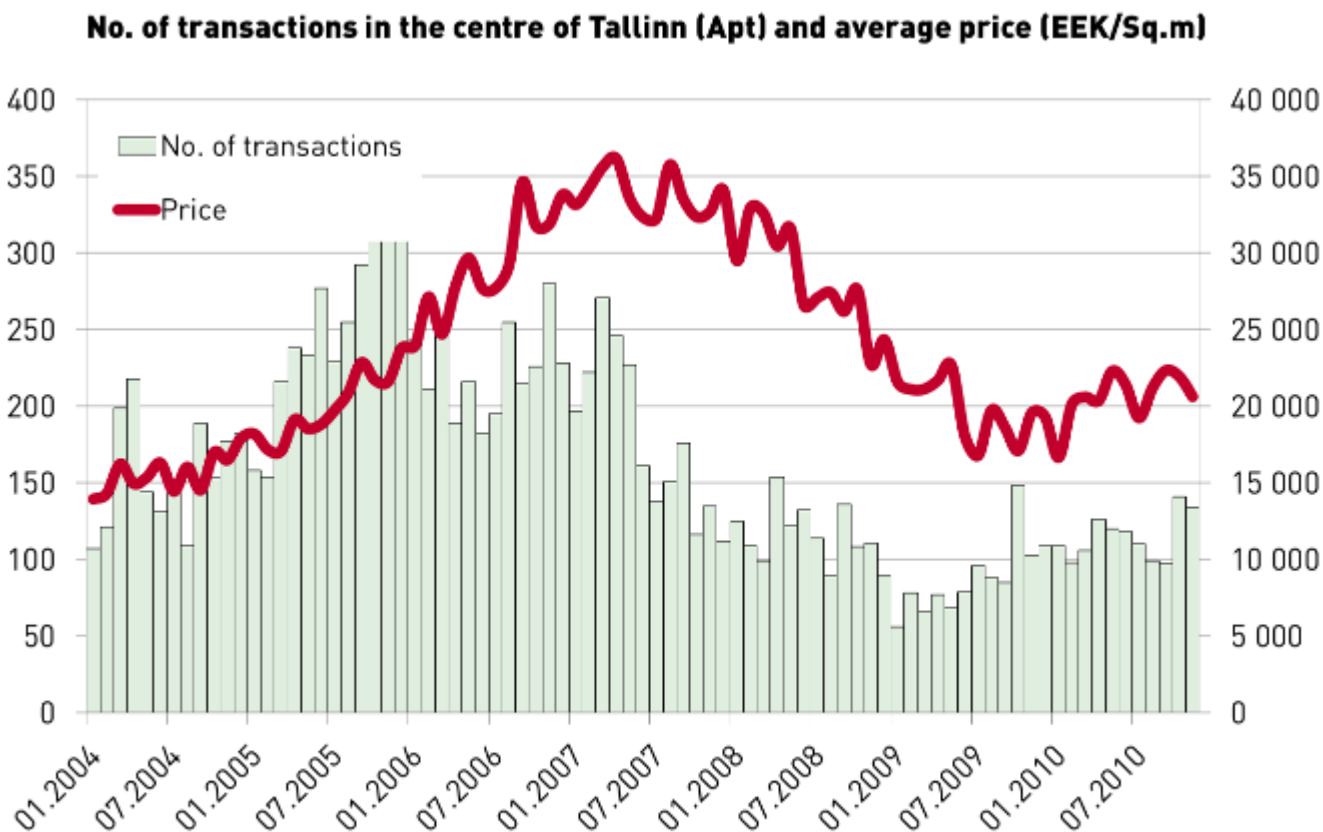
On a positive note, there has been a fall in the incidence of fear of unemployment, since the massive downturn and contraction in salaries of recent months has abated, and people are consequently less concerned about the threat.

Real estate market conditions are an extremely important economic indicator, and fear of unemployment is an important factor which inhibits long term decisions such as those of acquiring a new residence.

Tallinn Property Transactions

The third quarter of 2010 saw 1 421 apartment transactions in Tallinn. This is 93 transactions more than the corresponding period one year ago.

In general the market has been quite stable in line with the seasonal pattern. The number of transactions has risen, but not dramatically or erratically. Further increases here seem likely, but seemingly nothing approaching levels at the peak of the boom years, when a new owner could be found in every 11-12th property.



Prices and Value of Purchase and Sales Transactions

The average price per square metre of apartment transactions has increased by 16%, or more than 2 000 EEK per square metre, and stood at 20 860 EEK per square metre for a city centre apartment. However this does not mean that there has been a rise in the value of flats. This is because average transaction prices have also grown, due to the fact that a larger proportion of pricier new developments make up the figures.

The total value of apartment transactions in the third quarter of 2010 stood at 1.1 billion EEK, which is a figure 19% higher than during the same period in 2009. Looking at the price of transactions, the dynamics of value and average area and comparing these with other regions of Estonia, it is clearly possible to say that the Tallinn real estate market is recovering.

The apartment market for central Tallinn saw a 14% increase in transactions, (307 transactions) with a total value of 396 million EEK in the third quarter of 2010.

The fourth quarter has seen something of a rise in the number of transactions however. Initially in October there was a decline of 5% in the number of apartment transactions in Tallinn city centre when compared with the corresponding period in the previous year. However in November this fall transformed into a rise of some 30%. On the other hand transaction average price, which had risen in October to a level of 21 957 EEK per square metre, fell in November to 20 636 EEK per square metre, the same level it had been in the third quarter.

Offers on Apartments

The number of offers on apartments in Tallinn stood at 10 426 in October, according to data from the KV.ee portal. This represented a rapid growth in the number of offers compared with the previous months. For example the highest previous monthly figure for numbers of offers since the beginning of the year had been 7 020.

This sudden growth in offers can in part be explained by the new developments in the market coming into being – as mentioned in the introduction, there was a surge of activity in two regions of Tallinn in particular. At the same time this third quarter growth could also be due to the fact that people are anticipating the introduction of the Euro and in the last months before this want to keep things simple by buying and selling in the soon-to-be defunct Kroon.

The average offer price hasn't seen a rise, but rather has remained at a steady high. The average October price offer in the KV.ee portal, for apartments in the entire Tallinn area, was 18 860 EEK per square metre, i.e. about the same level that it had been a year ago.

Tallinn asking prices are also generally stable at a level which has already remained constant for five quarters in a row, (a range from 24 500 to 26 000 EEK), and in October stood at 24 768 EEK per square metre.

Forecast

- **Talk of more loan issues from the banks will hopefully soon be translated into action, and should start to increase. An increase in the level of the loan balance itself will take more time.**
- **Interest rates during the forthcoming year will be either at the same figure or slightly higher following increases in the Euribor index.**
- **Apartment sales and purchases are active, but a significant increase in the volume of transactions isn't expected. Price levels will continue to rise moderately, which is due in part to a surge in the number of loan decisions**
- **January 1, 2011 sees the introduction of the Euro, bringing situations people are unused to, due to the temporary upheaval in economic life that this will entail, and the real estate market will not be immune to this.**

Rental Market in Central Tallinn

- As predicted in our September report, the rental market has settled down, with many apartments being rented out to students for just one semester.
- New tenancies in October and November tended towards local people who signed longer term contracts. Consequently, rental prices stood at the average figure and not higher than average as would be the case with short term lets.
- The Euro is coming; Estonia adopts the new currency on 1 January, 2011. Although greatly anticipated, few want to prognosticate what the exact effect will be, other than to say 'Euro - Welcome to Estonia!'

Rent Prices

Statistics show that average city centre prices have risen by 5-10% compared with the summer months, and currently stand at 95-100 EEK per square metre. The rise was most noticeable at the end of August and September, when the market is more seasonally active with students and other potential tenants searching for properties.

This increased level of rental prices was mainly due to the influx of foreign students. They are usually ready to rent the premises at a relatively high price, as they can split the rent as well as the utilities costs with their flatmates, which makes an offer within the range of their budget.

In our experience, price increases don't apply equally to all types of flats, but only to certain types (i.e. primarily two-room flats and not studios or three-room apartments).

Regarding prices in general, we have been able to set rents at their market rate and have also been receiving asking prices. Due to the relative equilibrium in the market we haven't been forced to accept reduced offers and have been able to obtain the asking price for clients.

As with sales, it is essential to set the optimum asking price for rental premises from the outset. It is possible to start receiving inquiries straight after having published a rental advertisement and let out the premises up to two weeks' later if the initial asking price and subsequent offer was adequate.

Vacancy

Since late summer/early autumn, the market has been very active, with the result that whilst there was a lot of rental accommodation available then; this autumn it seems that vacancies were surprisingly low. Spot (City24 portal statistics) confirms this; according to the number of rental ads, the trend was towards a decline until the second half of September. After that there was a tendency towards vacancies, and thereafter relative equilibrium (as assumed in our previous third quarter report).

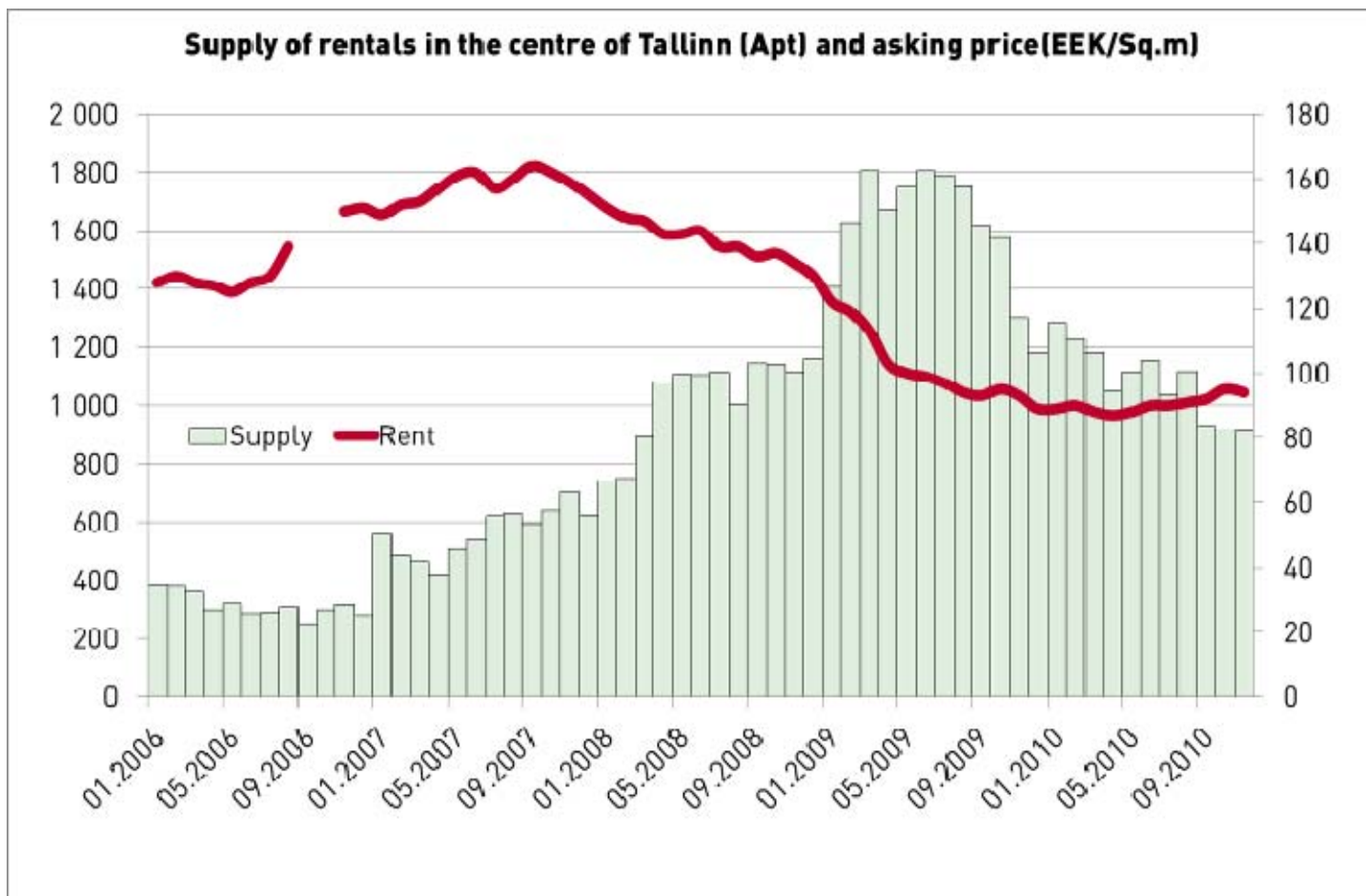
Period of Rental

In October and November, rental agreements tended to see somewhat longer terms than had previously been the case. This is logical, because local clients often want an open-ended contract as opposed to a fixed-term contract, as this makes it easier to issue notice to terminate.

Despite this, the market is seemingly also returning to shorter term lets. Looking at Goodson & Red Tallinn Property's recent transactions the length of rental period typical for a mid-term let is one to six months. E.g. at our Tallinn office we have just issued a let for one month, while some students recently needed rental premises for one semester, and others rented for the whole year.

The majority of short- and mid-term tenants 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 scope for terminating the latter agreement easily is one of its main advantages.



Forecast

- Vacancies set to grow in December to January as students leave, or contracts expire.
- Rent prices to remain stable or to see a small increase due to rounding up for the incoming Euro.
- Payment of brokerage fee by a landlord is starting to become normal practice.

Price Comparison

Size of apartment	Rent price range*
Studio	3900-5000.-
1-bedroom apartments	4750-6500.-
2-bedroom apartments	6900-8000.-

* 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.

Summary

The Estonian economy generally seems to be growing. Unemployment is certainly still high and salaries clearly aren't rising yet, but the downturn is seemingly over. This means that there is stabilisation in the real estate market. Positive signals are evident in the loans market – loans are being approved and interest rates are at a reasonable level. However, in spite of local factors having only a minor impact, the Euro zone crisis can't be forgotten – notably those problems facing Greece, Portugal and the Republic of Ireland. At the same time Hungary, for example, has shocked the Eastern European region, through its pension reforms.

In summing up, internal factors affecting the Estonian real estate market today are such that it is difficult to expect rapid rises, but the bottom of the downturn is clearly behind us as well. At the same time there is a number of external factors, the impact of which cannot so easily be predicted.

Rental Business Considerations

- **Speculative – investing in rental premises is primarily based on anticipations of capital gains.**
- **Return on rent will not increase or decrease, but remain stable between 3 to 5%.**

Returns on rental in terms of cash flow are a meagre 3 to 5% and usually remain at the lower end of the scale. This level of returns means that only minimal profits can be earned on cash flow. Most people who rent out residential premises expect to earn from the increase in the value of the property.

On the other hand, lower prices can mean slightly higher returns on investment (yields) since, as we have seen, rents are stable or in fact have risen slightly. This means that it is a better time to buy from the perspective of returns than may be the case after some months if sales prices increase but rents remain stable.

Aside from investing either for cash flow or capital gains, both of which have their pluses and minuses, investing in property may also make sense as a hedge against inflation. Inflation may continue to rise in the future (for example the fourth quarter figure for Estonia was around 4%) either due to reasons connected with the Euro or other factors, and so investment in property rather than liquid assets could be a smart move.

Optimizing Tenancies

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 or more. These are primarily corporate clients, business travellers and local people who require temporary accommodation. However, the organizational side of mid- to long-term lets is quite often problematic as it is quite difficult to find an available apartment for the required period.

Landlords who stick to a textbook brokerage service prefer to have long term tenants since the search for a new tenant as a rule means additional work for a landlord, such as communicating with brokers again, agreeing on a brokerage fee and renegotiating 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 an apartment are the main selling points for a successful short- or mid-term deal. Successful mixed 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 customers.

A combination of rental periods means that it is possible to commence searching for the next tenants before a previous tenancy has expired. The high cost of short- and mid-term lets compensates for so called void periods between tenancies somewhat. However, it is often possible to find a new tenant before the expiry date of a previous lease agreement in these cases as well. Our statistics show that well-furnished high quality apartments offered for short and mid-term rent can provide 10-15% extra income per year, as against sticking solely to long-term lets .

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 can be the case for longer lets.

Furnishing Apartments for Rent

There were no changes in furnishing apartments for rental. Apartments should certainly 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 cannot be taken away by a tenant. It is also useful to provide tables, chairs and curtains. Apartments should ideally be furnished in a minimal 'Scandinavian' style.

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.

Sample Central Tallinn Rental Deals

1-bed apartment in the heart of Tallinn

Rent: 8,000 EEK + utilities (asking price 8,000 EEK*)

Rental period: one month

Details: 53,9 m², 3rd floor, fully furnished

Pros: central district yet quiet area, new building, elevator, fully furnished, large balcony

Cons: no allocated parking

Client: local or foreign professional



1-bedroom apartment in the Old Town

Rent: 6,500 EEK + utilities (asking price 7,900 EEK)

Rental period: for unspecified term

Details: 57,3 m², 4th floor, fully furnished

Pros: Old Town, renovated building, fully furnished, fire-place, parking space.

Cons: no balcony and storage

Client: local / private individual

2-bedroom apartment in the heart of Tallinn

Rent: 7,500 EEK + utilities (asking price 7,900 EEK)

Rental period: for unspecified term

Details: 75,1 m², 3rd floor, fully furnished

Pros: city centre, quiet area, new building, elevator, fully furnished, large balcony, a storage room

Cons: no allocated parking

Client: local / private individual



* Asking price for period of rental 2 months

** The tenants were not charged a commission

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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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Goodson & Red Tallinn Property Managers & Consultants



Goodson & Red Tallinn Property Consultancy is 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 of 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

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.

Our services include comprehensive long and short term lettings services and professional property management service for landlords, home search, comprehensive property brokerage services for sellers. 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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