ESTONIA

REAL ESTATE MARKET REVIEW

ANNUAL REPORT, MARCH 2012

SORAINEN

ESTONIA LATVIA LITHUANIA BELARUS

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STRONG RECOVERY - EXPECTATIONS FOR STEADY GROWTH

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Estonia's economic growth continued to recover above expectations in 2011, driven by exports to key trade partners, most notably Finland and Sweden, thus stimulating demand growth in the Estonian commercial real estate market.

In the retail sector the Euro adoption did not cause the anticipated decline in consumption and retail sales showed stable growth throughout the year. The surprisingly good sales were to some extent supported by foreign tourists, who visited Estonia in record numbers in 2011.

In 2011, office sector experienced the high take-up rate for quality class A and B office premises and an unexpected increase in the level of development activity - driven largely by the public sector.

Rents in most sectors finally strengthened and showed an increase in an upward trend. Vacancy rates continued to decrease throughout the year and remain effectively nil in some segments such as CBD office and retail in modern shopping centres.

The Investment market, one of the major indicators of a real estate market health, continued its speedy recovery in 2011, the total investment volume achieved ca 250 million EUR in 2011, which is approximately three times as much as in 2010. 2011 saw the largest single investment deal ever on the Estonian market – Finnish listed retail investor Citycon acquired Kristiine shopping centre in Tallinn for EUR 105 million.

Although crisis times are presumably over and there is a sense of optimism in the market, this does not signal a return to boom-times by any means. Several on-going defects in the economy will continue to impact the growth of real estate markets such as high structural unemployment, high construction prices, and inflation and supply side defects.

Deterioration in the external environment at the end of the summer 2011 created more negative outlook for further Estonian economic growth resulting in declining Estonian companies' expectations of future demand.

We, at Colliers International believe that the following market summaries, prepared by our market experts in Tallinn will provide you with useful information and insights to assist you in your business decision making in Estonia in 2012.

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Economic Overview

SUMMARY

Amidst a strengthening export-led recovery, economic growth in Estonia started to recover in 2010. In 2011, annual GDP grew by 7.5 per cent compared to the previous year. The main growth driver has been export-oriented manufacturing. In 2011 production of Estonian industrial enterprises grew 18 per cent compared to 2010, while more than 70 per cent of all manufacturing production was sold on the external market. At the same time, the share of exports in growth started to decrease as low reference-based growth has come to an end. According to several forecasts, economic growth is expected to slow down in 2012 due to a weaker external environment. The Bank of Estonia forecasts 2012 economic growth to be 1.9 per cent and about 3.6 per cent in 2013.

Rapid inflation (since the second half of 2010) continued at a rapid pace throughout the first three quarters of 2011. Inflation in Estonia (caused by growth in the price of motor fuel, electricity, heat energy, food and beverages) remained above the Euro-area average reaching 5.0 per cent in 2011 on the 2010 average with adoption of the Euro also having an impact on price growth in 2011. Inflation is expected to slow in 2012-2013 to 2.8 per cent and 2.9 per cent respectively.

Since February 2011 retail sales have shown stable growth compared to the same month of the previous year increasing by 4-5 per cent on average.

In 2011, Estonia's exports of goods at current prices increased 38 per cent and imports 37 per cent compared to 2010 – the annual increase was a record high. Real export growth is expected to be 1.6 per cent in 2012 and 6.4 per cent in 2013 respectively.

In Q4 2011, the average monthly gross wage reached EUR 865 , indicating a 6.3 per cent yoy increase. Average gross monthly wages are expected to grow moderately in 2012-13 by 1-2 per cent yearly.

In Q4 2011, the unemployed numbered 79,000 and the unemployment rate was 11.4 per cent. The annual average unemployment rate (12.5 per cent in 2011) was the smallest for the last three years. The share of part-time employment is growing in Estonia - during the last two years the number of persons employed temporarily (fixed-term job, seasonal job, odd job) has remarkably increased. Long-term unemployment continues to be one of the main threats and problems in Estonia that together with lack of skilled workers in growing sectors (structural unemployment) continues to hamper creation of new jobs.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
GDP current prices, bln EUR	7,8	8,7	9,7	11,2	13,4	16,1	16,3	13,8	14,3	15,8	16,6
GDP growth (real), % yoy	6,6	7,8	6,3	8,9	10,1	7,5	-3,7	-14,3	2,3	7,5	1,9
Industrial Production, % yoy	8,6	11,5	9,6	11	10,1	6,4	-4,6	-23,9	20	17,9	4,0
Unemployment Rate, % avg	10,3	10	9,7	7,9	5,9	4,7	5,5	13,8	16,9	12,5	10,8
Total central government debt, % of GDP	5,7	5,6	5	4,6	4,4	3,7	4,6	7,2	6,7	5,9	5,8
PPI, % yoy	0,4	0,2	2,9	2,1	4,5	8,3	7,1	-0,5	3,3	4,4	2,3
CPI, % yoy	3,6	1,3	3	4,1	4,4	6,6	10,4	-0,1	3	5	2,8
Fiscal deficit, % of GDP	0,3	1,7	1,7	1,6	2,3	2,6	-2,8	-1,7	0,2	0,5	-2,0
Export, bln EUR	3,6	4	4,8	6,2	7,7	8	8,5	6,5	8,7	12	12,2
Import, bln EUR	5,1	5,7	6,7	8,2	10,7	11,4	10,9	7,3	9,3	12,6	12,9
Current Account, bln EUR	-0,8	-1	-1,1	-1,1	-2,1	-3,3	-1,6	0,5	0,5	0,4	0,3
Current Account, % of GDP	-10,6	-11,3	-11,3	-10	-15,3	-16,2	-9,8	3,7	3,5	2,7	2,0
FDI, mln EUR	307	822	771	2 302	1 432	2 547	1 182	1 323	1 162	1 264	1 627
EEK/EUR, aop	15,6	15,6	15,6	15,6	15,6	15,6	15,6	15,6	15,6	-	-
EUR/USD, aop	0,95	1,13	1,24	1,24	1,26	1,37	1,47	1,39	1,33	1,39	n/a

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TENDENCIES AND FORECASTS

- ◊ Deterioration in the external environment at the end of the summer created more negative outlook for further Estonian economic growth resulting in declining Estonian companies' expectations of future demand. The Economy is expected to grow by 2-4 per cent yearly during 2012-2015.
- ◊ As global risk aversion increased in 2011 (the Euro-debt crisis, threat of the second wave of global recession), then further economic growth may thus be more volatile.
- ◊ Growth in private consumption expenditure is expected to slow from the beginning of 2012, driven by weaker external demand and more cautious consumer behaviour. Consumption growth will pick up in 2013, along with a recovery in general economic activity.
- ◊ Inflation is putting pressure on consumer spending power, thus reducing disposable incomes and making consumers cautious about their spending.

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Office Market

OVERVIEW

After poor conditions and high vacancy in 2009 the office market had begun to firm coming into 2010. The year saw vacancy rates gradually decrease and the situation in the office sector started to improve. Although at the beginning of 2011 no remarkable changes were expected, by the end of the year the office sector had surprised market observers with a relatively low vacancy rate and increasing rental rates in modern office buildings.

SUPPLY

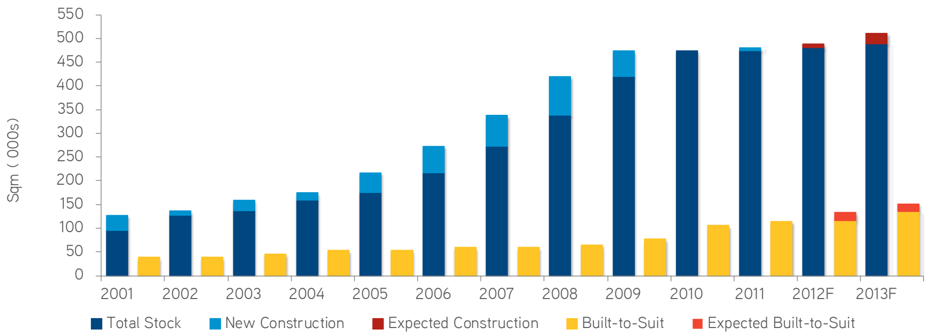
After the first half of 2009, when approx 51,700 sqm of new supply entered the market, development in the Tallinn office market and supply of new properties ceased due to unfavourable economic conditions, an oversupply of office premises, and the high cost or absence of liquidity in the market. By the end of 2010, several developers started to consider possibilities for establishing new office buildings in two-three years. While no new premises were added to the market during the two year period after the second half of 2009, approximately 2,500 sqm of new office stock was delivered to the market in 2011, bringing total office stock to 480,000 sqm.

By the end of 2011, the total stock of office space in the CBD area accounted for 44 per cent of total Tallinn stock, while total stock of office space in Kesklinn, Lasnamäe, and Kristiine districts comprised 20 per cent, 17 per cent, and 12 per cent of total Tallinn stock respectively.

KEY FIGURES	
Total speculative stock	480,000 sqm
Absorption	30,695 sqm
Vacancy for speculative stock	9.2%
Prime Headline Rent for A class premises	16 EUR/sqm/month

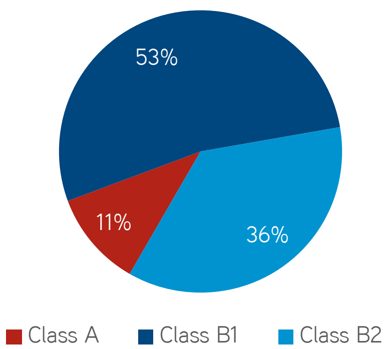
Source: Colliers International

DYNAMICS OF OFFICE SPACE IN TALLINN



Source: Colliers International

DISTRIBUTION OF SPECULATIVE OFFICE SPACE IN TALLINN BY CLASS



Source: Colliers International

COMPLETED SPECULATIVE PROJECTS IN TALLINN IN 2011

	Project	Address	GLA (sqm)	Developer
2011	Tatari 23/25	Tatari 23/25	2500	Kiriku Varahaldus
Total			2500	

COMPLETED BUILT-TO-SUIT PROJECTS IN TALLINN IN 2011

	Project	Address	GLA (sqm)	Developer
2011	Tallinn's Lasnamäe district Administration Building	Pallasti 54	2500	Merco Ehitus
Total			2500	

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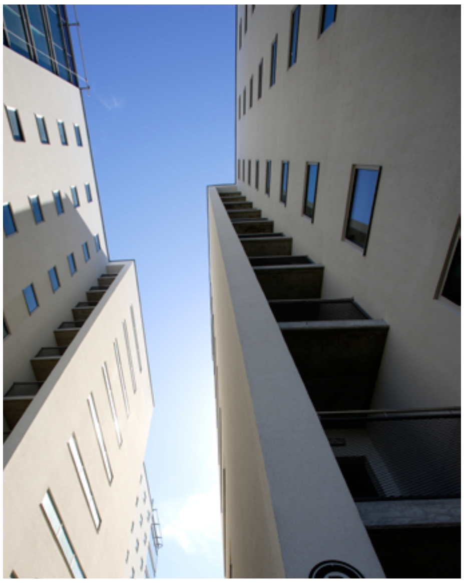

The volume of occupancy permissions issued for office and administration buildings in Tallinn in 2011 decreased substantially compared to 2010 from 140,275 sqm in 2010 to 14,197 sqm in 2011, indicating low construction activity during the last two years. The volume of building permissions issued for office and administrative buildings in Tallinn in 2011 comprised 61,973 sqm while in 2010 the number stood at 5,789 sqm. The volume of building permissions issued for office and administrative buildings in Tallinn during 2011 was close to the 2008-2009 level (70,068 sqm in 2009 and 70,565 sqm in 2008 respectively).

Additionally, one more building was added to office stock in 2011. While development of Meistri Business Centre (with office area - 3,680 sqm) was completed in 2008, this project came into the market in 2011.

By the end of 2011, Class A premises accounted for approx 11 per cent (52,650 sqm) of the total stock of speculative (not built-to-suit) office buildings in Tallinn, Class B1 for 53 per cent (254,150 sqm), and Class B2 for 36 per cent (173,200 sqm) of total stock.

By the end of 2011, office sector conditions remained fragile with market players hesitant. Although developers are in a position to construct new office buildings in the CBD area, the asking rental level of such projects (EUR 13-14 /sqm/month) is currently too high for potential tenants.

In the first half of 2011, construction of new built-to-suit buildings became more and more realistic. The first such example was a new office on Paldiski Road for leading international security solutions group G4S on a site acquired at the end of 2010 from Estonian real estate company Arco VaraReal Estate.

Overall, 2011 experienced an unexpected increase in the level of development activity - driven largely by the public sector. Technomedicum (the office and laboratory building oriented for medicine and biotechnology companies) in the Tallinn Science Park Tehnopol area with an area of approx 10,000 sqm and the Centre of Mechatronics (the office and laboratory building oriented for electronics and engineering companies) with an area of over 8,000 sqm are expected to be completed in 3Q 2012. Approximately half of the office area in the new buildings of Tehnopol is covered by state lease contracts. In addition, Technopolis Ülemiste has started construction works on a new office building with an area of approx 22,000 sqm, 11,600 sqm of which will be occupied by the Estonian Tax and Customs Board. The building is planned for completion by the end of 2013.

Additionally, the new built-to-suit office building of the Statistical Office of Estonia (approx 4,800 sqm; developer - Kaamos Real Estate) is planned for completion by the end of 2013, thus making the public sector the main player in the office development market in 2012 - 2013.

The main topic for the state is cost efficiency, requiring architects and developers to create more cost efficient solutions. Although recent state decisions have strengthened the construction sector, uncertainty hangs over the future of buildings being vacated by the state.

NEW AND POTENTIAL OFFICE DEVELOPMENTS IN TALLINN, 2012-2013

Year	Project	Address	GLA (sqm)	Built-to-suit	Speculative	Developer
2012	Paldiski 80 Office building	Paldiski road 80	8000	100%	-	Wilson Kinnisvara
2012	Technomedicum	Akadeemia 21G	10000	approx 50%	approx 50%	Tallinn Science Park Tehnopol / Astlanda Ehitus
2012	Centre of Mechatronics	Teaduspargi 6/2	8300	approx 50%	approx 50%	Tallinn Science Park Tehnopol / YIT Ehitus
2013	Lõõtsa 8	Lõõtsa 8	22100	52%	48%	Technopolis Ülemiste
2013	Statistics Department	Tatari 51	4800	100%	-	Kaamos
2013	Navigator	Laeva 2	8860	-	100%	Capital Mill
2013	Sakala 10/Kentmanni 4 Business House	Sakala 10 / Kentmanni 4	3100	-	100%	Selvaag Sakala OÜ
Total			65160	33550	31610	

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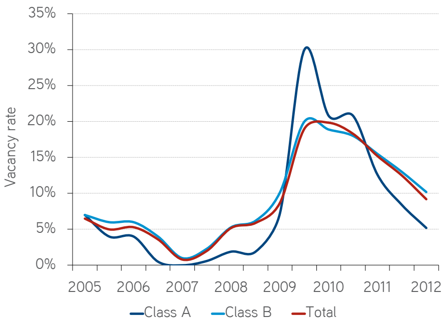
DYNAMICS OF SPECULATIVE VACANCY RATES IN TALLINN



Source: Colliers International

DEMAND

While during the first half of 2009, the Tallinn office market witnessed more tenants moving out of space than tenants moving in, it experienced positive absorption in 2010 and 2011.

In 2010, demand for high quality, modern office space (A-class offices in favourable location) started to grow as landlords of A and B1 office buildings were flexible enough to offer attractive lease terms, incentives and good pricing, allowing companies to move to better quality properties, enabling tenants to rent A-class office premises with more or less the same rental level as B-class premises.

As Colliers expected at the end of 2010, demand for office space surged first of all in the CBD area or close to the CBD area (City Centre). Office premises below 100 sqm continued to see strong demand in 2011, while the second half of the year saw a shortage of larger office premises in well-located buildings.

Small premises located in suburban areas remained in demand among smaller companies as these premises have the advantage over CBD buildings of lower rent and free parking.

The highest contribution to take-up volume in 2011 came from the Public Sector (22 per cent) and companies in the information (IT and High Tech companies) and communication sector (19.5 per cent) followed by the finance and insurance sector (14.7 per cent) and the professional, scientific and technical services sector (14.2 per cent).

In particular, providers of professional and corporate services and financial service providers as well as companies from the retail sector were more active in the office rental market than in 2010. Higher leasing activity of companies from the wholesale and retail trade sector and the accommodation and food service sector reflect that 2011 was indeed a successful year for tourism-related businesses (sales of accommodation services by all accommodation establishments in Estonia increased by 22 per cent 2011 compared to the previous year).

In contrast, the activity of companies from the industrial and construction sectors, the healthcare-related sector and the transport sector decreased in 2011 compared with the previous year. There was no major change in take-up by companies from the information and communication technology sector.

The office sector has also found growing interest for larger premises from Scandinavian BPO (Business Process Outsourcing) companies.

Future office market demand is expected to be increasingly influenced by the labour market and availability of sufficient qualified staff, among other factors. In coming years demand can be expected continually in the CBD area in A-class and B1-class buildings due to the location and lack of supply. Other potentially realistic and attractive locations are highly developed concept areas (e.g. Ülemiste City).

As 2012 will see the expiry of many 5-year lease agreements signed at the peak of the 'boom' market (2007) as well as 3-year lease agreements made in the middle of the crisis (2009), the office rental market is expected to become somewhat more stable and transparent this year. However, companies looking for modern, well-located premises should consider that the market has started to turn from a tenant's market to a landlord's market with availability tight and rental rates considerably higher than they were 2-3 years ago.

VACANCY

A strong supply of new office projects accompanied by the economic slowdown and tenants' cost-saving policies (reducing the size of office space required, renegotiating rents, and sub-leasing excess office space) resulted in an increase in vacancy rates in 2009. In 2010, the vacancy rate for existing office buildings (especially for A-class properties) started to decrease gradually.

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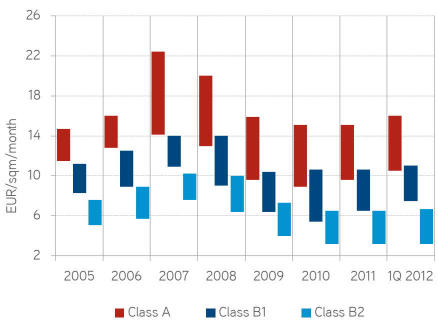
DYNAMICS OF RENTAL RATES* IN TALLINN



Source: Colliers International
*asking rental rates

RENTAL RATES* IN TALLINN (2011)

Class	Rates	Trends for 2012
A existing	10.5-16.0	→↗
B1 existing	7.5-10.6	→↗
B2 existing	3.2-6.5	→↗

Source: Colliers International
*asking rental rates

At the beginning of 2011, several companies started to expand their activities and look for larger premises. With growing confidence and economic improvement, many companies also started looking for in-house expansion opportunities. In the first half of 2011, vacancy in well-located, modern office buildings was constantly decreasing. In mid-2011, the vacancy rate of A-class office buildings stopped declining and remained more or less stable, indicating that dramatically increased asking rents had made potential tenants cautious about committing to long-term obligations.

Over the year the vacancy rate of most A-class office buildings dropped from 13 per cent below 5 per cent and B1-class buildings from approx 15 per cent to approx 10 per cent, resulting in a shortage of larger, modern office premises. Total vacancy rate of existing office buildings (including speculative and built-to-suit buildings) in Tallinn remained at 7.8 per cent.

Interest in larger premises among BPO (Business Process Outsourcing) companies remains high. For companies planning relocation, the emphasis is on better quality premises and larger social areas, thus the vacancy rate of older Soviet-era office buildings is expected to increase. Relocation of the Estonian Tax and Customs Board and the Estonian Statistics Board to newly constructed buildings in 2013 will add a sufficient volume of B2-class vacant space to the market, thus negatively influencing further vacancy and rental rate levels for B2-class premises in the future. Additionally, higher productivity of companies may result in higher demand for better office (A-class and B1-class) premises and less demand for lower-quality office space.

With such little availability of A-class office premises, the forecast is that in 2012 construction of a few new A-class office buildings will commence and by 2013 at least 10,000 sqm of new premises will be added to the market in the CBD area.

RENT RATES

The main changes in office rental and vacancy rates took place in the first half of 2009 when many companies started to restructure their activities and look aggressively for cost saving opportunities. Office rental rates, which started to decline dramatically only in 4Q 2008, significantly dropped during the first six months of 2009 when A and B properties showed an average yoy drop of 25-40 per cent in rental rates. In the second half of 2009 office rental rates started to stabilize.

Overall in 2010 average asking rental rates decreased slightly by 2-5 per cent due to a small decrease in average rental prices for A Class properties and a decrease in lower end prices for B1 Class properties. At the same time, while the average asking rental rate has continued its falling trend, rental rates in contemporary office buildings in a good location have stabilized or even somewhat increased.

In 2011 the office sector surprised market observers with a substantially lowering vacancy rate and increasing rental rates in modern office buildings. The lower level of A-class and B1-Class office buildings started to grow in 2011. While at the beginning of 2011 the asking rental for A-class office premises started from EUR 8.9/sqm/month, one year later the current minimum asking rent is around EUR 11.0/sqm/month. For B1-class office premises the same numbers are EUR 6.5/sqm/month at the beginning of 2011 and EUR 8.0 – 9.0/sqm/month at the beginning of 2012.

While lease incentives, rent-free periods and partial fit-out compensation were already no longer offered to tenants in 2010 compared with the crisis period, the decreasing vacancy rate and shortage of larger premises in 2011 has given the opportunity to property owners to start choosing their potential tenants and increase asking rental rates.

The Tallinn office market started to turn from a tenant's market to a landlord's market in 2011 experiencing limited choice (especially for premises located in the CBD and larger quality premises all over Tallinn) and less attractive rental rates than a year previously.

Office rental rates are expected to remain more or less stable during 2012 although landlords have started to consider and search for possibilities to increase rental levels in the future. A sharp increase in construction price in 2010 put pressure on average rental rates of potential developments, although tenants are not yet prepared to pay higher rents.

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TENDENCIES AND FORECASTS

- 2011 was an active year divided mainly into two phases. The year began with rising activity, when companies' sentiments for the future remained high (above long-term average) and continued rising. Different companies started planning expansion and considered new office expansions. During the fall the sentiment changed due to a more negative external outlook impacting companies' future perspectives and holding back office expansion plans.
- Vacancy in well-located, modern office buildings continued to decrease constantly throughout the year and there are no larger rental premises currently available on the market. Office premises below 100 sqm continue to see strong demand.
- The decreased vacancy rate in the CBD area created an opportunity for property owners to start choosing their potential tenants and increase asking rental rates.
- Almost zero supply of new office projects since the second half of 2009 together with the high take-up rate for quality class A and B office premises in 2011 influenced rental rates, which have strengthened over the past 1-1.5 years.
- Activity in the office sector has increased amongst companies looking for office areas over 1,000 sqm.
- Office rental rates are expected to remain more or less stable during 2012. In the areas most in demand (e.g. CBD) a slight rental rate increase can be expected due to lack of supply and rising construction prices. The estimated rental rate increase can be up to 5-10 per cent. At the same time, no drastic changes are expected in the nearest future due to the wider macroeconomic uncertainty hanging over the region.
- The main drivers of office sector demand continue to be the IT and Communications sector, which leases the largest volume of non built-to-suit office space in Tallinn, and the Public sector. In particular, providers of professional and corporate services and financial service providers as well as companies from the retail sector were more active in the office rental market in 2011 than a year before. Market activity will moderate during the next 2-3 years.
- The Investment market continued its speedy recovery in 2011. In the office sector at least 83,000 sqm of office space changed ownership, resulting in 66 mEUR of market volume (approx 25 per cent of the total investment market). Colliers expects to see relatively active upcoming years (2012-2013) with rental flows slightly growing and capital values rising. Prime yield is expected to compress not more than 50 bps.
- Currently, the main player in the office development market is the public sector due to relocation of many of its institutions to new premises.
- With such little availability of A-class office premises, the forecast is that in 2012 construction of a few new A-class office buildings will commence and by 2013 at least 10,000 sqm of new premises will be added to the market in the CBD area.
- The CBD area is considered to be the most attractive place for possible Class A office space developments in the short-term perspective. Developers continue to express interest in acquiring strategic sites in the CBD area.

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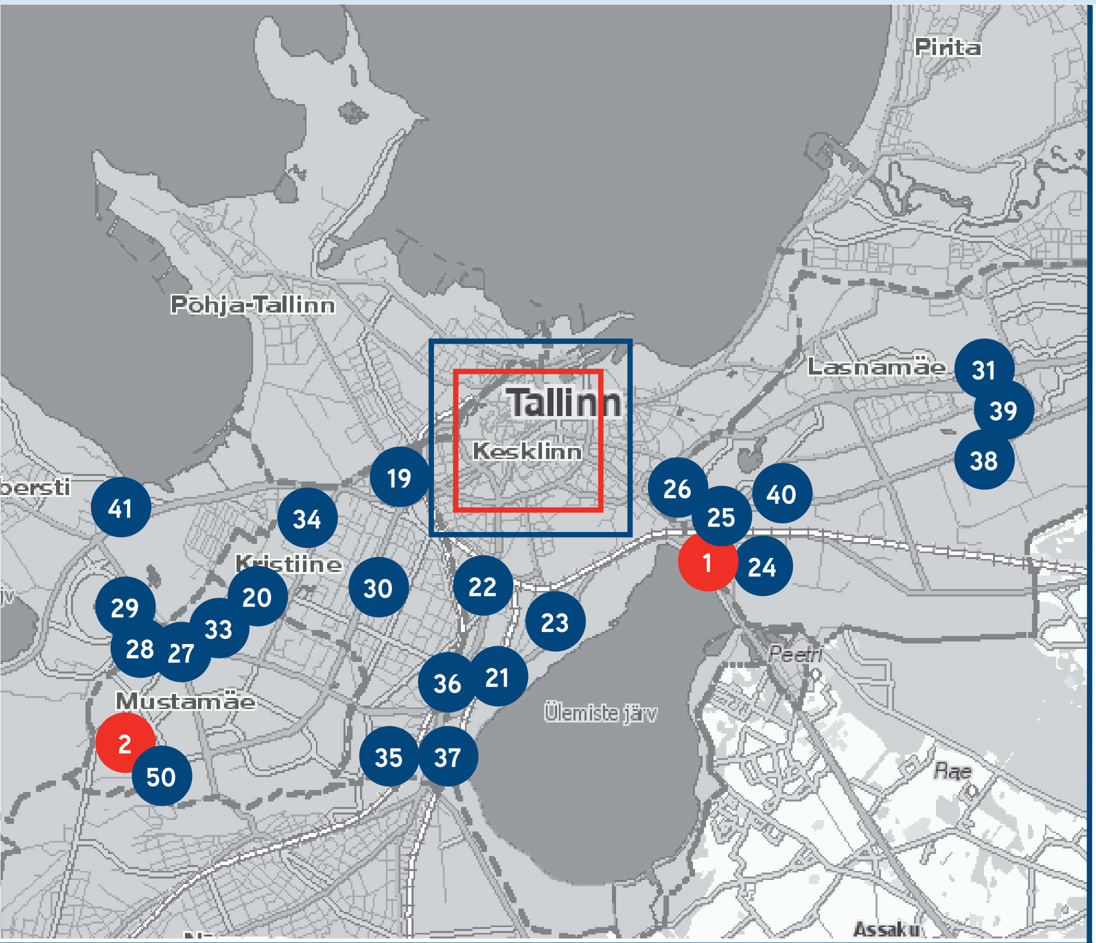
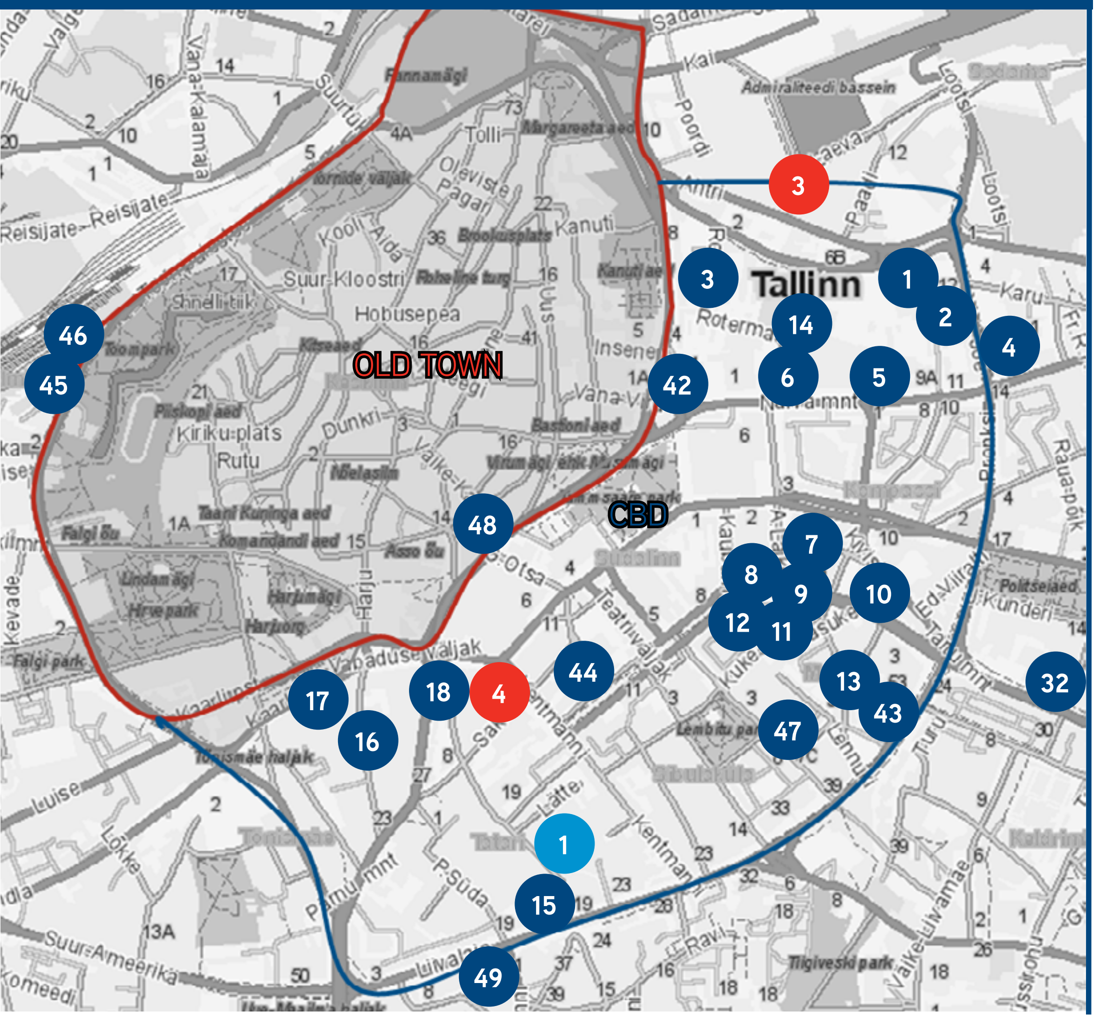


SPECULATIVE OFFICE CENTRES IN TALLINN



Existing Developments

1. Admirali Business Centre
2. WTC Business Centre
3. Rotermann Quarter
4. Pro Kapital
5. Triumph Plaza
6. Foorum Business Centre
7. City Plaza
8. Rävala pst 6 Business Centre
9. Rävala pst 4 Business Centre
10. Tornimäe Twin Towers
11. Radisson
12. Rävala pst 5 Office Centre
13. Office Building at Maakri 23
14. Hobujaama 4 Office Centre
15. Eurox Business Centre
16. Swiss House
17. Roosikrantsi 2 Office Centre
18. Kawe Plaza
19. Tulika 15/17 Business House
20. Tetris Office Centre
21. Kalev Business Quarter (Lincona, Catweesi, Tere BC)
22. YIT Business Centre and Ärimaja Office Centre
23. Veerenni Business Centre
24. Ülemiste City
25. Ülemiste Business Centre
26. Valge Maja Office Building
27. Laki 34 Office Building
28. Ehitajate tee 114 and Ehitajate tee 108 Office Centres
29. Office building - Meistri 22
30. Sõpruse pst 145 and Sõpruse pst 151 Office Centres
31. Tähesaja 14 Office Building
32. Scala City
33. Tammsaare Business House
34. Marienthali Business Centre
35. Tammsaare Business Centre
36. Estconde Business Centres
37. Delta Plaza
38. Peterburi Road Business Centre
39. Lasnamäe Business Centre
40. Peterburi Business Quarter, phase I
41. Rocca al Mare Tivoli
42. Metro Plaza
43. Nordea Building
44. Solaris
45. Toompuiestee Office Building
46. Shnelli Business Centre
47. Lauteri 5 Office Building
48. Saarineni Business House
49. EKE Invest Business Centre
50. Tallinn Science Park Tehnopol

Declared for Completion in 2012-13

1. Lõõtsa 8
2. Technomedicum and Mechatronicum
3. Laeva 2, Navigator
4. Sakala 10/Kentmanni 4 Business House

Completed in 2011

1. Tatari 23/25 Business House

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Industrial Market

OVERVIEW

Amidst a strengthening export-led recovery, economic growth recovered in 2010 with an increase in GDP of 2.5 per cent in 2Q 2010 compared to the same quarter of the previous year. In 2010, annual GDP grew by 2.3 per cent compared to the previous year.

In 2011, GDP at constant prices increased 7.5 per cent yoy. The main growth driver was export-oriented manufacturing. In 2011 Estonian industrial enterprise production grew 18 per cent compared to 2010, while more than 70 per cent of all manufacturing production was sold on the external market.

According to Statistics Estonia, in 2011 exports of goods at current prices increased 38 per cent and imports 37 per cent compared to 2010 – the annual increase was a record high. In 2011, first place in exports was held by machinery and equipment (27 per cent of total exports), followed by mineral products incl. motor spirits, fuel oils and electricity (17 per cent) and metals and metal products (9 per cent).

At the same time, the rapid growth in production recorded in 2010-early 2011 was partly influenced by the low reference base, while the share of exports in economic growth is expected to decrease as low reference-based growth has come to an end.

SUPPLY

By the end of 2011, estimated total stock of industrial facilities was approx 726,000 sqm (approx 208,500 sqm of generic facilities plus 517,500 sqm of built-to-suit facilities).

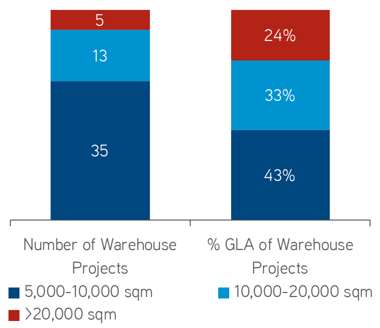
During recent years the most intensive development of new industrial and warehouse facilities has been concentrated in Tallinn's suburbs and in nearby municipalities. The most developed logistics areas lie in the eastern and south-eastern part of the city. Development of manufacturing facilities and warehouses is concentrated in three main areas of Tallinn and its suburbs.

According to the Estonian Building Register, the amount of occupancy permits issued in 2011 for new industrial and warehouse buildings in Tallinn and Harju County reached 25,431 sqm, which is approx 17 per cent less than in 2010. At the same time, the amount of building permits issued or new industrial and warehouse buildings in Tallinn and Harju County increased from 37,625 sqm in 2010 to 83,826 sqm in 2011 indicating increased development activity in 2011.

KEY FIGURES	
Total Stock	726,000 sqm
Absorption during 2011	63,650 sqm
Vacancy	10-12%
Prime Headline Rent for A class warehouses	5.3 EUR/sqm/month

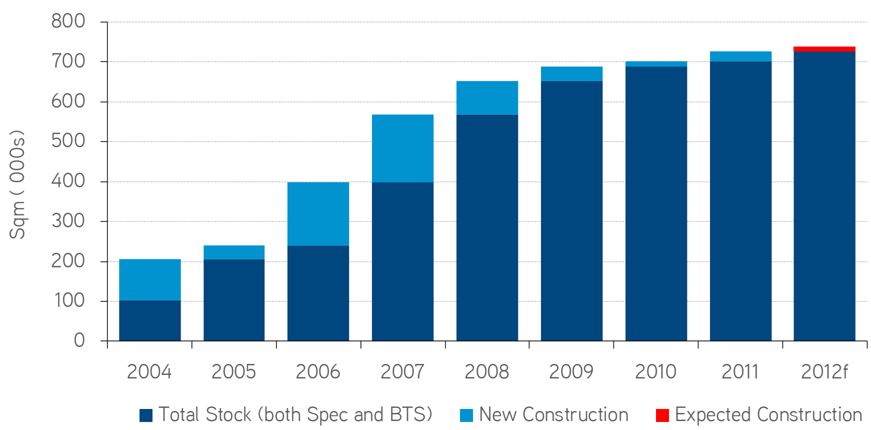
Source: Colliers International

DISTRIBUTION OF WAREHOUSE PROJECTS IN TALLINN REGION BY SIZE



Source: Colliers International

DYNAMICS OF WAREHOUSE SPACE IN TALLINN



Source: Colliers International

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In the second half of 2010 the warehouse and industrial development market became more active than previously. Several developers announced that they would like to continue with large development projects. In 2011, VGP Estonia started to expand, with construction of building B in VGP Park (a speculative project with GLA approx 13,500 sqm) in Saku municipality, thus adding considerable volume of speculative warehouse premises to the market.

Some smaller built-to-suit projects in Tallinn and Harju County in 2011 include detached industrial buildings such as office and industrial premises for Labelprint (with GLA 3,250 sqm) in Peetri village in Rae municipality and an industrial building for Metus-Est in Tabasalu (with GLA 2,300 sqm), and new completions in different industrial parks in Harju County, such as an industrial building for Kemivesi (with GLA 1,620 sqm) and office and industrial premises for Trafotek (3,890 sqm) located in Rae Industrial Park, office and industrial premises for Laser Diagnostic Instruments (1,239 sqm) in Ülemiste City in Tallinn, industrial premises for Pussikeskus (2,890 sqm) as well as expansion of Veho Eesti car showroom and servicing facilities (expanded by 2,200 sqm) in Tänassilma Technological Village.

Several companies owning or renting premises in industrial parks in Harju County have announced expansion plans for 2012. Nefab, a global packaging company, will complete its factory expansion (located close to Tallinn ring road) by 4,500 sqm in spring 2012 and DPD Eesti will open its new logistics centre (parcel terminal) with GLA 2,860 sqm in Rae Industrial Park at the beginning of 2012, while two new warehouse and an industrial building with total GLA exceeding 3,800 sqm will be completed in Mõigu Industrial Park in 2Q 2012.

Several big potential industrial and warehouse development projects in Estonia could be completed in the near- and mid-term perspective (such as American Corner Retail and Logistics Park). However, the continuing bleak news in the second half of 2011 (such as the Eurozone debt crisis) and shaky consumer confidence has resulted in many companies postponing their expansion decisions for another year or so. These facts have definitely modified developers and tenants in their plans and further activities on the market. The main restraint on expansion is also sharply increasing construction prices, pushing asking rates far too high for potential tenants.

There are five industrial and warehouse projects with a GLA of over 20,000 sqm per project and a total area of 128,000 sqm in current existing stock. Most of the existing stock consists of industrial and warehouse projects with a GLA of 5,000 -10,000 sqm per project.

DEMAND

After 2009 saw diving rental rates and increasing vacancy, 2010 began with very little tenant demand and a high vacancy rate, although some signs of improvement started to emerge in the first half of 2010. An increase in export figures in 2010 improved companies' future outlook and increased demand for industrial and warehouse space in 2011.

At the beginning of the year, an increase in export figures improved companies' outlook. With growing confidence and economic improvement, the number of industrial companies planning to expand or move their business to a better location in the future and therefore looking for additional or new premises started to increase.

Companies expanding their activities and demanding more warehouse / industrial space are primarily export-oriented businesses. According to information received from the market, companies looking for new premises were mostly foreign-based and within the electronics, distribution or metal sectors. Companies searching for new premises or expansion possibilities were mostly businesses that have consolidated and adjusted to survive the difficult economic conditions but needed additional space for expanding production. Several Swedish and Finnish companies continue to seek industrial warehouse properties in Estonia to transfer their production activities. Activity in this segment can be seen mainly among companies whose core business is within the industrial sector.

2011 experienced high demand for good quality modern speculative space. To illustrate – a speculative warehouse building in VGP Park in the vicinity of Tallinn with an area of 13,500 sqm, completed at the end of 2011, was fully leased out within just 6-7 months.

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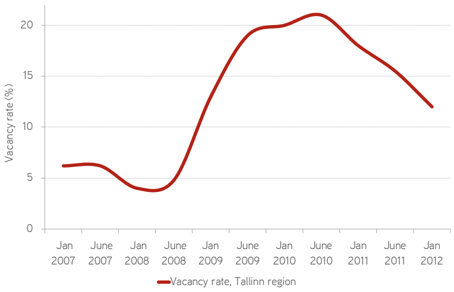
VACANCY RATES IN TALLINN REGION

Building condition	Vacancy Rates	Trends for 2012
New and renovated	11%	→↘
Older buildings	14%	→→

Source: Colliers International

DYNAMICS OF VACANCY RATES IN TALLINN REGION



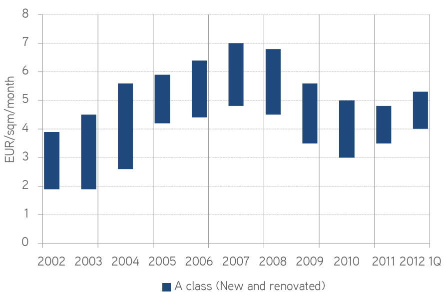
Source: Colliers International

RENTAL RATES* IN TALLINN REGION

Building condition	Rental Rates*	Trends for 2012
New and renovated	4.0–5.3	→→
Older buildings	1.3 – 3.2	→→

Source: Colliers International
*Asking rental rates

DYNAMICS OF RENTAL RATES* IN TALLINN REGION



Source: Colliers International
*Asking rental rates

In general, the demand for large industrial units (approx 2,000 sqm and more) has been consistent. The most favoured are premises close to Tallinn with good public transport connections, which is very important in the context of labour force and business communication. Favourable locations were and continue to be the Peterburi road and Tartu-Tallinn road area, where demand exceeds supply. The most developed logistics areas lie in the eastern and south-eastern parts of the city.

Together with export growth, export-oriented companies have again started to group around harbour areas, with the aim of saving on logistics costs.

In general, the boom-time trend of owner-occupied warehouse premises is disappearing. More and more warehouse tenants prefer to lease their premises in order to keep capital free rather than binding it to real estate. The situation is more complicated for heavy industrial operations, which still prefer to own suitable premises due to specialised requirements for their production facilities.

Although the industrial market remained relatively active throughout the year, the continuing bleak news in the second half of 2011 (such as the Eurozone debt crisis) and shaky consumer confidence resulted in many companies postponing their expansion decisions for another year or so. These facts have definitely modified developers' and tenants' plans and further activities on the market.

In 2011 the industrial market also experienced several bankruptcy processes and bankruptcy estate takeovers. At the end of the year most of the bankrupt estate of former leading metal company Levadia Metal was sold to Estonian shipbuilding and repair company BLRT Grupp. In addition, the Tallinn plant of Finnish electronics manufacturing company Elcoteq (in bankruptcy) will most likely be taken over by French industrial electronic services company Eolane.

In 2012 the industrial and warehouse sector will continue to be reasonably active. However, as the process of finding a suitable property is time consuming and complicated, conclusion of lease contracts or transactions will occur with some lag time.

The number of built-to-suit projects is and will continually predominate among new projects although the proportion of speculative industrial projects is not expected to increase. Colliers believes that room exists for good quality speculative development warehouse premises on the market.

RENT RATES & VACANCY

Due to a sharp increase in construction costs, average asking rental prices also started to increase in 2011. Average rental costs for modern logistics warehouses stand at between EUR 4.5-5.3 per sqm/month, which is more than 50 per cent higher than 2009 levels. In most demand are modern premises with a rental rate between EUR 4-4.5 /sqm/month. Nevertheless, as many companies have special requirements for premises and a shortage exists of suitable industrial and warehouse space, companies with expansion plans will have to start accepting developers' rental terms.

To meet the need for premises with specific parameters (e.g. cranes, telphers) older industrial premises are often considered or preferred due to high development costs of new premises.

Average rental rates for old logistics warehouses stand at between EUR 1.3 -3.2 per sqm/month. In recent years a slight rental rate correction has occurred for outlying areas of Tallinn, although some areas have remained immune. Historically, rental rates in the industrial sector are relatively stable, more recently showing a small increase and then decrease of 4-5 per cent in boom and post-boom periods respectively.

2012 will probably see a slight increase in rental rates caused by increased construction costs.

Increased demand (manufacturing had the biggest impact on economic growth in Estonia during the previous one and a half years, supported primarily by fast growth of exports) together with increased construction costs led to vacancy decline throughout the year from approx 18 per cent to approx 10-12 per cent.

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TENDENCIES AND FORECASTS

◊ In the second half of 2010 the warehouse and industrial development market became more active than had recently been the case. In 2011 an increase in export figures improved the economic outlook and increased demand for industrial space, and also to some extent for space as warehouse areas.

◊ A significant share of industrial businesses as well as foreign-based companies within the electronics or distribution markets have started planning expansions and are therefore looking for additional space or new premises.

◊ At the same time, the continuing bleak news in the second half of 2011 (such as the Eurozone debt crisis) and shaky consumer confidence has resulted in many companies postponing their expansion decisions for another year or so. These facts have definitely modified developers' and tenants' future plans and further activities on the market.

◊ Development of industrial properties has concentrated in the area of Tallinn and Harju County. The obvious reasons for this are the location (for example, proximity of main ports such as Muuga and Paldiski), built-up infrastructure and economic activity in that area.

◊ Several developers announced that they would like to continue with large development projects.

◊ In 2011, VGP Estonia started to expand with construction of building B in VGP Park (a speculative project with GLA approx 13,500 sqm) in Saku municipality, thus adding a considerable volume of speculative warehouse premises to the market.

◊ In 2012 the industrial and warehouse sector will continue to be reasonably active. At the beginning of 2012 there is a shortage of large good quality competitive stock on the warehouse market, thus giving room for good quality speculative development warehouse premises with a rental rate in the range of EUR 4.0 – 4.5/sqm/month.

◊ 2012 will probably see a slight increase in rental rates caused by increased construction costs, the addition of several new built-to-suit buildings and possibly a few speculative projects.

◊ However, as the process of finding a suitable property is time consuming and complicated, conclusion of lease contracts or transactions will occur with some lag time.

◊ Starting from the end of 2009 foreign investors have turned their attention to the industrial market and continue to seek attractive investment opportunities. Growing interest from foreign investors, attracted to the sector by low prices, remains a positive sign.

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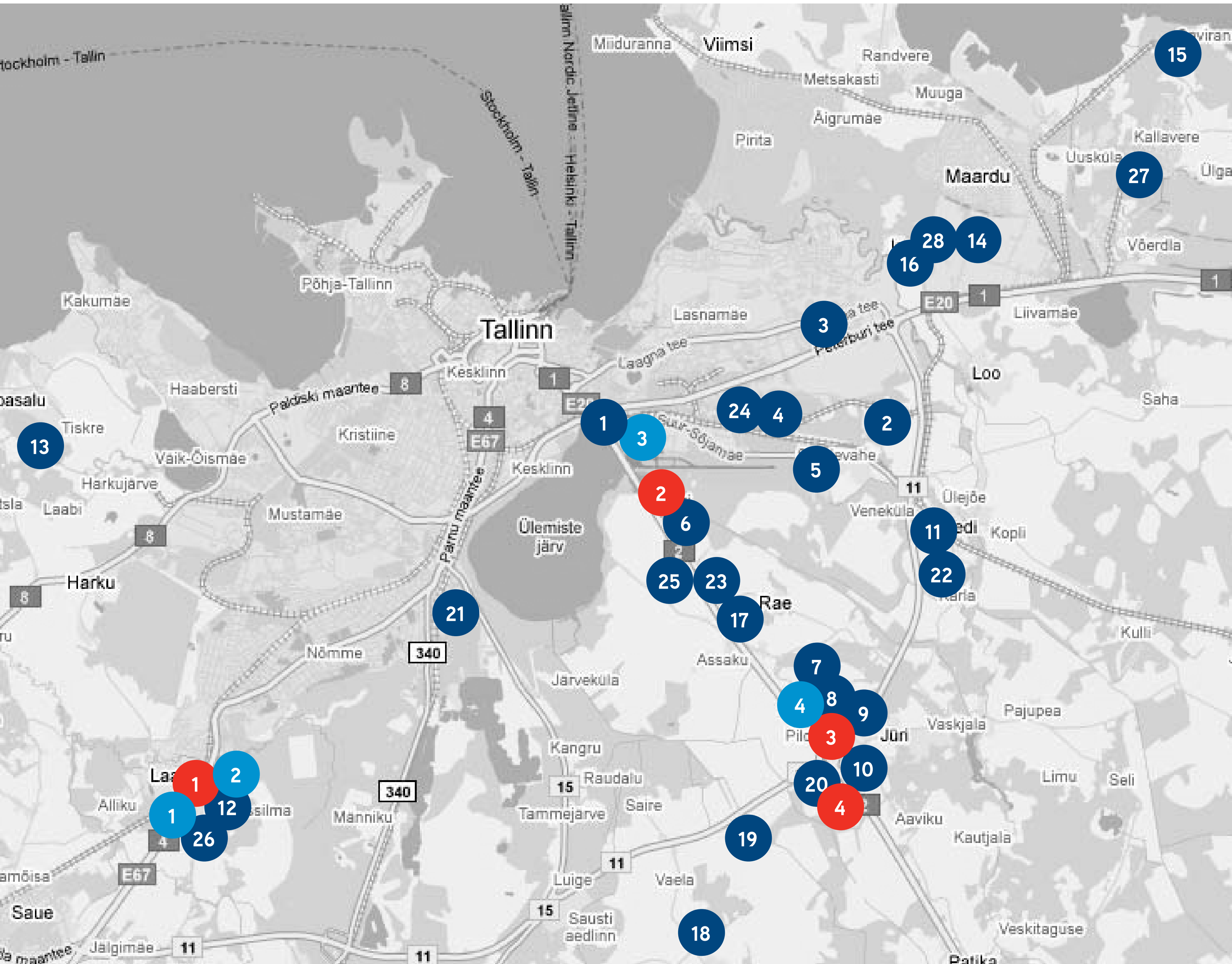

INDUSTRIAL AND LOGISTICS PARKS IN TALLINN AND HARJU COUNTY

Existing Developments

1. Ülemiste City
2. Tallinn Industrial Park
3. Tondiraba Industrial Park
4. Betooni Industrial Park
5. Suur-Sõjamäe Industrial Park
6. Mõigu Industrial Park
7. Sinikivi Industrial Park
8. Rae Industrial Park
9. Sweet Valley Industrial Park
10. Jüri Industrial Park
11. Killustiku Industrial Park
12. Tänassilma Industrial Park
13. Tabasalu Industrial Park
14. Maardu Industrial Park
15. Muuga Industrial Park
16. Iru Industrial Park
17. Sõpruse Business Park
18. Kiili Industrial Park
19. Rebasepõllu Industrial Park
20. American Corner Retail and Logistics Park
21. Liiva Logistics Park
22. Via3L Logistics
23. Smarten Logistics
24. DHL Logistics Centre
25. Würth
26. VGP Park Tallinn
27. Maardu Logistics Centre
28. Vana- Narva road Logistics Park

Completed in 2011

1. VGP Park Tallinn II building
2. Tänassilma Industrial Park
3. Ülemiste City
4. Rae Industrial Park

Declared for Completion in 2012 - 2013

1. Tänassilma Industrial Park
2. Mõigu Industrial Park
3. Rae Industrial Park
4. American Corner Retail and Logistics Park

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Retail Market

OVERVIEW

Private consumption started to pick up in late 2010 with recuperating income and employment. In the first half-year of 2011, consumer confidence in Estonia remained at a historically high level.

Positive labour market developments (decreasing unemployment and moderately growing wages) have supported an increase in disposable household incomes and spending in 2011. Since February 2011 retail sales showed stable growth compared to the same month of the previous year (by 4-5 per cent on average).

On the other hand, rising inflation (exceeding 5.0 per cent) continued to put pressure and curb consumers' purchasing power throughout the year.

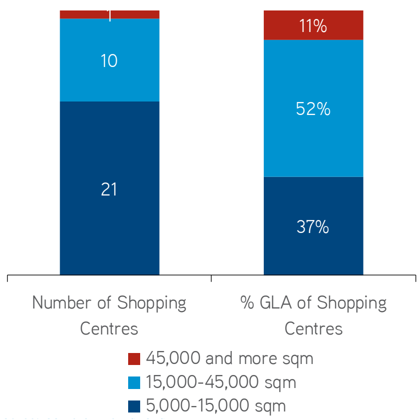
The surprisingly good sales numbers were to some extent supported by foreign tourists, who visited Estonia in record numbers in 2011. Additionally, good Christmas sales numbers were supported by warm weather in November-December allowing households to pay less for heating and stimulating consumers to spend more on retail goods (far more than intended).

2011 saw the largest single investment deal the Estonian market has ever seen – Finnish listed retail investor Citycon acquired the Kristiine shopping centre in Tallinn for EUR 105 million.

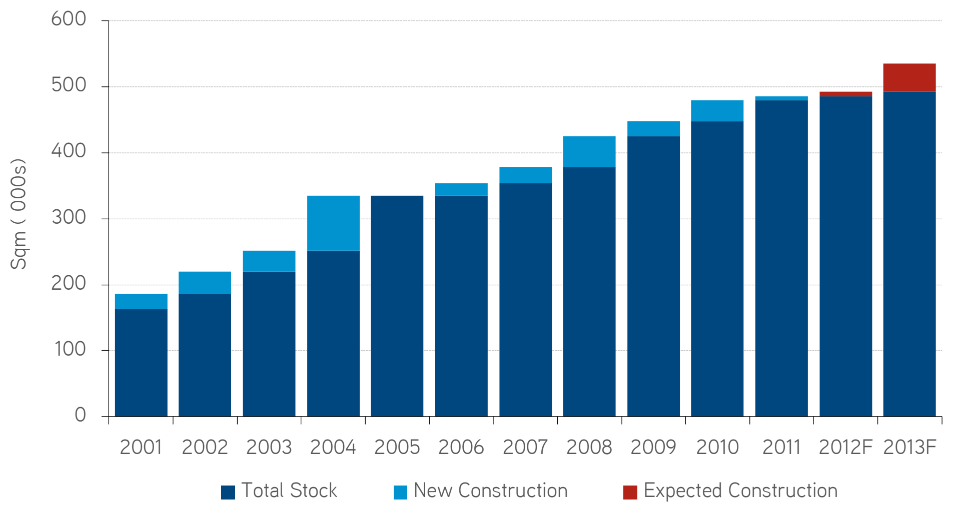
Declining consumer confidence since 3Q 2011 together with a slightly increasing unemployment rate at the end of the year signifies that private consumption growth will slow in 2012. Consumption is primarily related to incomes, which are expected to increase moderately over the coming years, while the share of financing by loans (lending activity) during that period is not expected to increase.

KEY FIGURES	
Total Shopping Centre Stock	346,500 sqm
Prime Headline SC Rent	44 EUR/sqm/month
Prime Headline High Street Rent	29 EUR/sqm/month

DISTRIBUTION OF RETAIL PROJECTS IN TALLINN REGION BY SIZE



DYNAMICS OF RETAIL SPACE IN TALLINN



Source: Colliers International

COMPLETED RETAIL PROJECTS IN TALLINN IN 2011

Project	City district	GLA (sqm)	Anchor Tenant	Developer
RIMI	Laagri, Pärnu road 556a	5000	RIMI	Kinnisvaravalduse AS
Total		5000		

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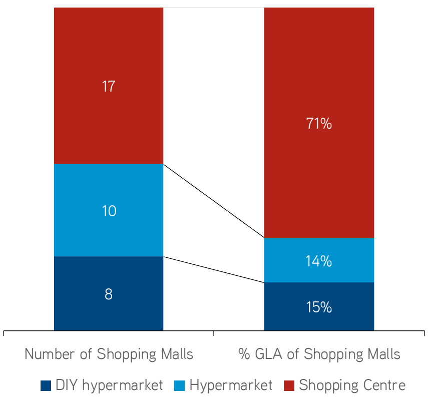
DISTRIBUTION OF RETAIL PROJECTS IN TALLINN REGION BY TYPE



Source: Colliers International

SUPPLY

The retail property market in Tallinn has undergone considerable changes during the last 20 years. These changes have been driven by retail consumer trends in emerging markets in Eastern Europe – from marketplaces and small detached shops to dominance by big shopping centres and hypermarkets.

By the end of 2011, the stock of Tallinn retail space had increased by approx 5,000 sqm since the beginning of 2011, to a total of 484,500 sqm (1.16 sqm per capita).

While new retail space in 2010 was added largely from expansion of existing retail centres (Kristiine Shopping Centre and the second phase of Täesaju City), 2011 saw activity mainly in the grocery sector. In December, Rimi opened a new hypermarket in the vicinity of Tallinn in Laagri with a total area of approx 5,000 sqm. This is already the tenth detached hypermarket in Tallinn.

Overall, the battle between the main grocery retail chains became more intense in 2011 with the opening of several new supermarkets and hypermarkets geographically spread right across Estonia. In October Maxima opened a new 'XX' supermarket in Narva with GLA 1,850 sqm and in November an 'X' supermarket in Tartu with GLA 810 sqm, and laid plans for expansion to Haapsalu.

Considerable activity has also been seen in the local store market indicating an increasing trend in the popularity of smaller local stores in 2011 (thus increasing GLA of small local stores by approx 10,000 sqm during 2010-2011).

The retail market has shown that development activity in this sector (primarily grocery stores) is active throughout Estonia (not just Tallinn) and this trend will continue in 2012 as well. In November Eften Capital started construction of a new shopping centre in Viljandi with an area of approx 7,000 sqm, occupied by Rimi. In spring 2012 Selver will open a new supermarket in Saku (15 km from Tallinn) and by the end of the year construction of a new RIMI supermarket in Põhja-Tallinn city district of Tallinn is expected to be completed as well as construction of the second Prisma hypermarket in Tartu.

Other popular grocery store chains plan to enter the market in 2012 with new 'local store' concepts and brands and are therefore looking for strategically located retail premises of up to 500 sqm.

Development activity in the retail sector is expected to continue mainly with expansion of existing grocery chains (e.g. RIMI, Selver, ETK Kosum, Prisma; Maxima), although completion of several big retail projects during the next three years has also been announced.

Recovered retail sales and marginal vacancy has triggered retail developer activity. Pro Kapital, after selling their flagship Kristiine Shopping Centre, is planning construction of a new major shopping centre (with GLA approx 42,000 sqm) in the vicinity of Ülemiste Shopping Centre, which has also indicated plans to start expansion in the mid-term perspective. In 2012 ELL Kinnisvara is also planning to start with their 55,000 sqm shopping centre in Lasnamäe city district area.

NEW AND POTENTIAL RETAIL DEVELOPMENTS IN TALLINN, 2012-2013

Expected Completion	City	Project	GLA (sqm)	Developer	Construction Status	Comments
2012	Tallinn	Ext of Magistral	2400	Citycon	Under construction	To be completed in spring 2012; 11900 sqm after expansion
2012	Laagri	Extension of Bauhof	4900	Harju KEK	Under construction	DIY store
2013/14	Tallinn	Ülemiste Shopping Centre	15000	Lindstow	In planning	Expansion
2013	Tallinn	Panorama City	55000	ELL Kinnisvara	In planning	Planning to start development of I phase in 2012-13
2013	Tallinn	Fashion factory (Moekombinaat)	42000	Pro Kapital	In planning	New Shopping Centre
Total			119300			

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The biggest share of retail space in Tallinn is concentrated in the Lasnamäe city district. This is logical taking into account that Lasnamäe is also the most populated city district in Tallinn. At the same time, several shopping centres are located on the border of different city districts along main traffic flows. The most intense retail development during the last 2 years occurred in Lasnamäe (Tähesaju City), Kristiine (the expansion of Kristiine Shopping Centre) and Haabersti city districts (the expansion of Rocca al Mare Shopping Centre).

Tallin currently has 17 shopping and leisure centres with a total GLA of approx 346,500 sqm of retail space and 10 separate hypermarkets. Most of these hypermarkets opened during 2000 – 2003. Tallinn's largest shopping centres are Rocca al Mare with a GLA of approx 53,300 sqm, Kristiine with a GLA of approx 42,700 sqm and Ülemiste with a GLA of approx 37,500 sqm.

In 2011, the turnover of Tallinn's biggest shopping centres reached the level of 2006. Further moderate growth in consumption indicates that by 2015 the turnover of regional shopping centres will reach boom-period levels of 2008.

DEMAND

2011 was expected to be a year that would bring a slow but steady increase for retail owners due to quite modest expectations in private consumption growth at the beginning of the year. In fact, retail was the most active sector of the Estonian commercial real estate market in 2011 in terms of planned expansions, new developments and investment, supported by better than expected sales and turnover numbers (reaching 8-10 per cent annual turnover growth on average in Tallinn's biggest shopping centres).

In 2011, demand for modern retail space in bigger shopping centres still exceeded supply and free space was absent in Tallinn's existing large shopping centres with a vacancy rate that remained almost zero.

At the same time, tenants showed quite a high level of mobility in different shopping centres across Tallinn in 2011. Several premises left vacant due to the bankruptcy of Estonian fashion retailer PTA were taken over by clothing brand Mohito, which is - next to Reserved, Cropptown and House - the fourth fashion brand in LPP Retail Estonia's selection. Conditions are yet again indicating that the retail market in Estonia is very shopping centre oriented and as demand for retail premises in larger shopping centres is continually high, smaller vacancies are being occupied instantly.

The recent market trend signifies some shift from more impulsive, irrational and trendy (youth) purchase patterns toward more conservative, quality-attentive consumer behaviour (further decrease in the number of purchases but increase in potential value of purchases). New brands and international chains that have recently entered the market or expanded (or plan to do so in the near future) aim to attract mainly middle and upper class customers with quality and longer-lasting goods. The cluster of fashion clothes and shoes for the young remained largely unchanged while recent activity could be noticed within women's fashion (Lindex, Mango, Karen Millen, Vila, S'Nob, Esprit, MAX&Co) and children's clothes (Okaidi, Blue Harbor). Grocery chains also indicate that children's clothes and goods are in high demand.

In contrast to high-end brands, several budget retail chains continue to consider possibilities for expanding in Tallinn. An example is one of Germany's most well known retail chains, which wishes to expand its retail space in Estonia. Estonian local retailers have also started to create new low-price brands (e.g. new footwear brand SHU, which is a part of Tallinn Kaubamaja Group).

As the number of foreign tourists that stayed in accommodation establishments in Estonia in 2011 was 16 per cent more than a year previously, tourist spending played an important role in retail sales volume growth (especially during the summer period). According to the Bank of Estonia, during the first three quarters of 2011 tourist spending in Estonia increased 11 per cent compared to the same period the previous year and amounted to EUR 708 million. According to Citycon, approximately one in every ten customers in Rocca al Mare shopping centre is Finnish, while Finnish customers accounted for around 15-20 per cent of Rocca al Mare sales in 2011.

Shopping centres have continued to attract consumers through frequent sales campaigns; however discounts are not as high as a few years ago. As the retail market in Tallinn is clearly shopping centre oriented, the share of street retail continues to diminish.

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DYNAMICS OF VACANCY RATES IN TALLINN SHOPPING CENTRES

Source: Colliers International

RENT AND VACANCY RATES AND TRENDS IN TALLINN

Unit Size	Rates 2011	Trends for 2012
Large retail unit (anchor tenants)	6.4-9.6	→→
Medium retail unit (150–350 sqm)	9.6-28.8	→↗
Small retail unit (up to 100 sqm)	12.5-44.2	→↗
Vacancy (major shopping centres)	1%	→→

Source: Colliers International
*asking rental rates

STREET RETAIL RENT RATES AND TRENDS IN TALLINN

Unit Type	Rent rates*	Tendencies for 2012
Street retail	9.0-29.0	→→

Source: Colliers International
*asking rental rates

RENT RATES & VACANCY

Rents remained stable in main shopping centres In Tallinn during the last 5-6 years (since 2005), as demand continually exceeded supply (the vacancy rate in bigger shopping centres in Tallinn varied from 0.5 to 2 percent). Even though the upper margin of rental rates increased during the boom time in accordance with consumption growth, the lower margins did not substantially change.

While by the beginning of 2010, average rental rates per square meter in retail premises in Tallinn had decreased by 5-8 percent yoy, the beginning of 2011 saw quite diverse trends when rental rates in the same shopping centre could increase for one tenant and simultaneously decrease for another tenant, thus not depending on the size of the leased area. This may indicate that landlords remained interested in keeping good tenant-landlord relations by providing different payment schemes and a more tenant-oriented approach. Some temporary rental rebates were granted to tenants in 2011 as well, although the volume of rental rebates decreased from the previous year.

After the peak period of economic growth in 2006 when rental rates for street retail premises in Tallinn Old Town ranged from 19.0 to 32.0 EUR/sqm/month on average, asking rent rates had fallen to a level of 9.6 – 19.0 EUR/sqm/month in 2009.

In 2011, the upper margin of rental rates for street retail premises started to increase up to 29 EUR/sqm/month while lower margins did not substantially change.

In 2012, rental rates for anchor tenants are expected to remain stable. Minor upward trends may be expected in rents of smaller retail units. Although the Tallinn shopping centre market is close to saturation, some room remains for additions and the possibility for the emergence of a few new shopping centres in the mid-term perspective. However, as the tenant mix of different shopping centres is very similar, any larger additional retail area would be expected to include a greater diversity of stores, rather similar kinds that compete with existing tenants and do not offer more variety to customers.

TENDENCIES AND FORECASTS

◊ In 2011, retail was the most active sector of the Estonian commercial real estate market in terms of planned expansions, new developments and investment.

◊ Positive labour market developments (decreasing unemployment and moderately growing wages) supported the increase in disposable household incomes and spending in 2011. The overall situation in the sector during the year was slightly more positive than a year earlier, with demand showing slight growth.

◊ Annual turnover growth in Tallinn's biggest shopping centres was approx 8-10 per cent on average in 2011 while the number of visitors increased more than 6 per cent during the same period.

◊ The battle between the main grocery retail chains became more intense – 2011 saw the opening of several new supermarkets geographically spread right across Estonia. Several grocery retailers (e.g. RIMI, Selver, Prisma, Maxima) plan quite aggressively to increase their market share and seek possibilities for further expansion and opening of new stores.

◊ In 2011, strong activity was seen in the local stores market indicating a trend of increasing popularity of smaller local stores.

◊ At the same time, the retail market in Tallinn is clearly shopping centre oriented with only a marginal share of street retail.

◊ Vacancy rates in larger shopping centres remained effectively zero, although higher and perhaps still rising elsewhere.

◊ Rental rates for anchor tenants are expected to remain stable. Minor upward trends may be expected in rents of smaller retail units. The future level of rental rates will depend on retailer performance as well as supply of new premises (completion of several big retail projects).

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- The cluster of fashion clothes and shoes for the young remained largely unchanged while activity could recently be noticed within women's fashion and children's clothes. Grocery chains indicate that children's clothes and goods are in high demand.
- Good retail sales numbers were to some extent supported by a growing number of foreign tourists in Estonia. Lower price is one of the main reasons for Finns to travel and shop in Estonia. 86 per cent of Finnish tourists bought alcohol during their visit to Estonia, while the City Centre remains the main area for tourist spending.
- Completion of several big retail projects during the next three years was announced in 2011.
- Due to the effect of ageing, several shopping centres will have to start some renovation works in order to re-energise interest from consumers.
- Retail sales in Tallinn and most European capitals continue to be impacted by the wider macroeconomic uncertainty hanging over the region, and the erosion of real spending power by stagnant wage growth and rising prices.
- Growth in private consumption expenditure is expected to slow from the beginning of 2012, driven by weaker external demand and more cautious consumer behaviour. Additionally, the majority of spending postponed during the recession was done in 2011. According to the Bank of Estonia, consumption growth will pick up in 2013, along with a recovery in general economic activity.

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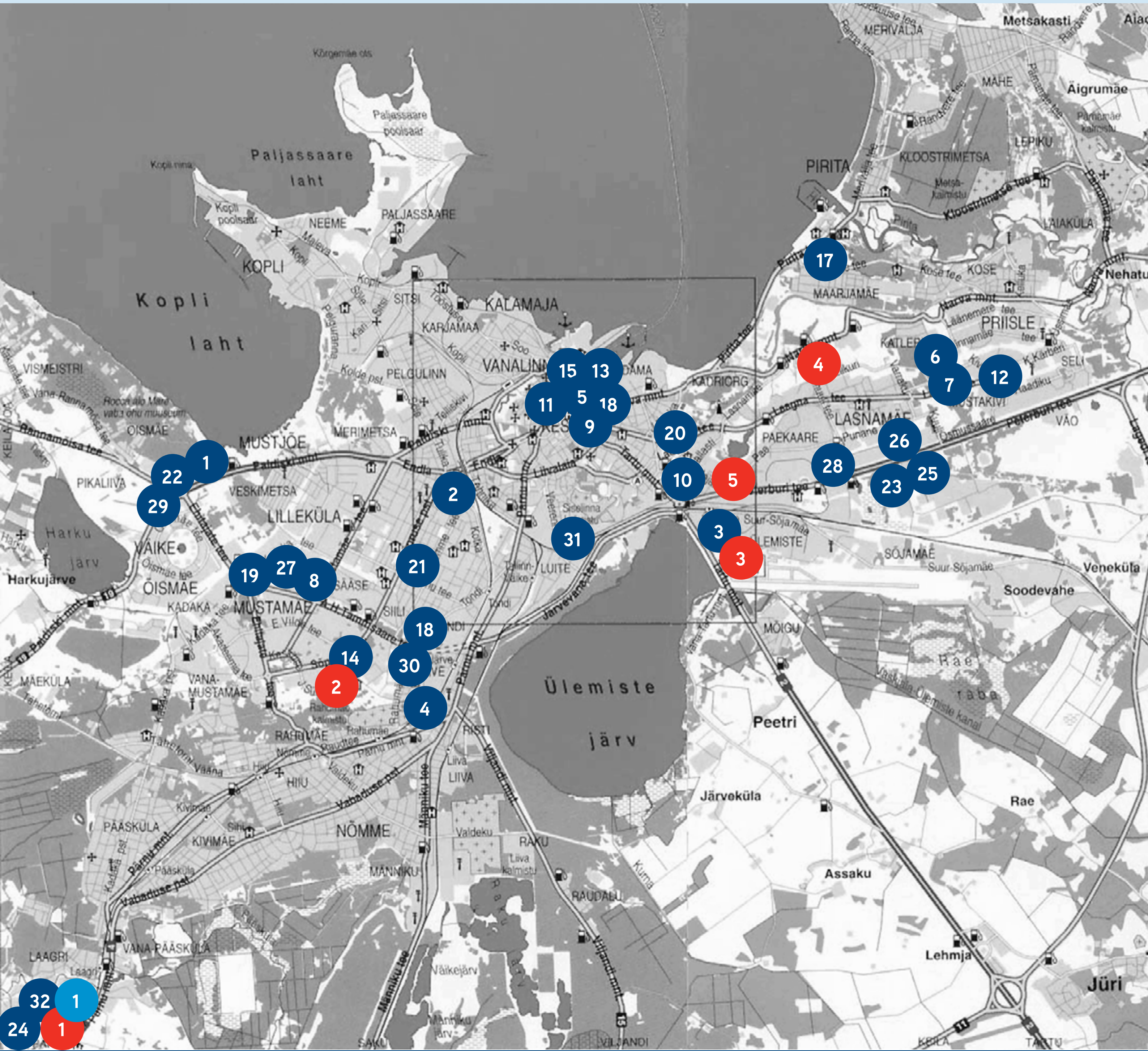

SHOPPING CENTRES IN TALLINN

Existing Developments

1. Rocca al Mare
2. Kristiine Centre
3. Ülemiste Centre
4. Järve Shopping Centre
5. Viru Centre and Tallinna Kaubamaja
6. Tähesaju City (Mustakivi Prisma, Bauhaus)
7. Lasnamäe Centrum
8. Mustikas Centre
9. Stockmann
10. Sikupilli Centre
11. Solaris Centre
12. Mustakivi Centre
13. Norde Centrum
14. Magistral Centre
15. Rotermann Quarter
16. Foorum
17. Pirita Selver Hypermarket
18. Tondi Selver Hypermarket
19. Kadaka Selver Hypermarket
20. Torupilli Selver Hypermarket
21. Sõpruse Rimi Hypermarket
22. Haabersti Rimi Hypermarket
23. Lasnamäe Maksimarket
24. Laagri Maksimarket
25. Bauhof
26. Lasnamäe Ehituse ABC
27. Kadaka Ehituse ABC
28. Lasnamäe K-rauta
29. Haabersti K-rauta
30. Tondi K-rauta
31. Espak
32. Laagri Bauhof

Completed in 2011

1. Laagri RIMI hypermarket

Declared for Completion in 2012 - 2013

1. Exp. of Laagri Bauhof
2. Exp. of Magistral Centre
3. Exp. of Ülemiste Centre
4. Panorama City
5. Fashion Factroy (Moekombinaat)

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Hotel Market

OVERVIEW

While at the beginning of 2010 the hotel sector was still in deep recession and the outlook was rather poor, a sunny summer and good publicity overseas saved many hotel operators from going into bankruptcy. 2011 turned to be a successful year for the hotel market in Estonia. Sales of accommodation services by all accommodation establishments in Estonia increased by 22 per cent in 2011 compared to the previous year, while the number of tourists in accommodation establishments exceeded the 2010 result by 13.5 per cent and also the same period result for 2008, i.e. the best year of the past decade, by 14.6 per cent.

SUPPLY

After 2009, when Tallinn's hotel segment expanded with the opening of two hotels belonging to the Meriton Hotels Chain, no new hotels entered the Tallinn hotel market in 2010-11. However, Laulasmaa spa-hotel, located approx 40 km from Tallinn, was reopened by a new operating company in June 2011.

By the end of 2011, the 4-star segment comprised the largest percentage of Tallinn's available rooms, consisting of 27 hotels with 3,875 rooms, or 59 per cent of total supply. Recent development, most of which was completed in 2007, mostly occurred in the 4-star and 5-star segments. In 2007 one 3-star, four new 4-star and two 5-star hotels opened in Tallinn. Comparable figures for 2008 were one 4-star hotel and in 2009 one 4-star hotel enlargement and one new hotel.

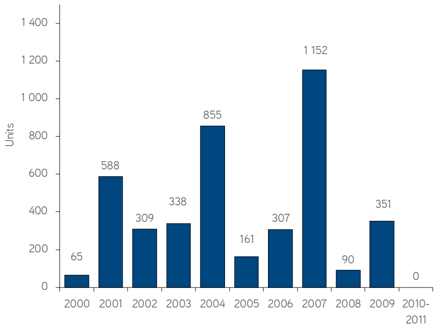
While less than one fourth of all Estonian hotels are 4-star hotels, approximately 38 per cent of Estonia's total hotel rooms stock is strongly rooted in the 4-star hotel segment, indicating that visiting tourists to Estonia are often looking for middle and higher-value travel options.

In respect to number of rooms, approx 39 per cent of Estonia's total rooms in accommodation establishments (including hotels, hostels, guesthouses, B&B, and others) is concentrated in Tallinn, while Tallinn hotel rooms account for 53 per cent of Estonia's total hotel room supply.

KEY INDICATORS OF HOTEL MARKET IN TALLINN

Key Performance Indicators	2011	Change compared to previous year	Trend
Persons attended	1 498 462	16,2%	→↗
Overnights	2 791 094	21,8%	→↗
ADR, EUR	66,5	7%	↗
Occupancy, %	60,4	840 bps	→
REVPAR, EUR	40,2	24%	→↗

NUMBER OF ROOMS ADDED IN TALLINN



Source: Estonian department of statistics

DEMAND

During 2011, 1.8 million foreign tourists stayed overnight at accommodation establishments in Estonia. Their number increased by 15.6 per cent or by 244,000 compared with the same period the previous year. The number of nights spent was 3.75 million (17 per cent up on the same period in 2010). It is worth noting that during 2010 foreign overnights also increased by 17 per cent compared with 2009. Thus, in 2011 inbound tourism to Estonia increased significantly compared with 2010 which was already a record year for Estonia. The number of foreign overnights on holiday trips increased by 18 per cent and overnights on business trips increased by 20.5 per cent while overnights on other trips decreased by 1 per cent.

The rapid increase in inbound tourism can be attributed to the substantial increase in the number of direct flights to Tallinn (mostly by Ryanair), the status of Tallinn as one of two European Capitals of Culture and extensive media coverage of this across Europe.

Additionally, international tourism in Europe in general showed a strong recovery. According to UNWTO, inbound tourism to European countries increased by 6.0 per cent in 2011, surpassing the peak set in 2008, whereas foreign arrivals to Central and Eastern Europe increased by 8.2 per cent.

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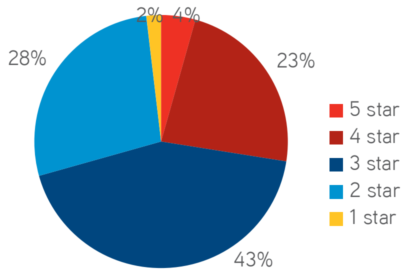
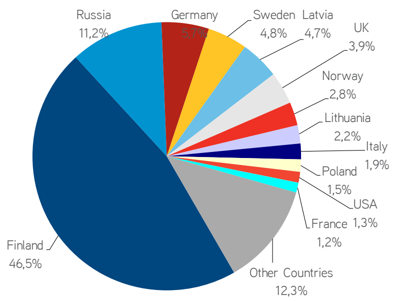
DISTRIBUTION OF HOTELS BY NUMBER OF STARS IN ESTONIA



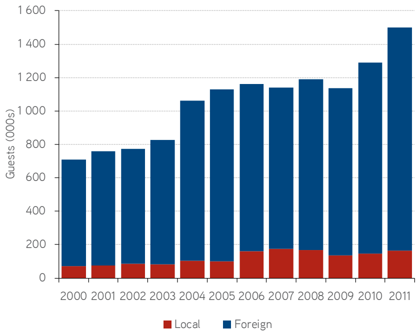
Source: Estonian department of statistics

DISTRIBUTION OF FOREIGN VISITORS BY COUNTRY IN ACCOMODATION ESTABLISHMENTS



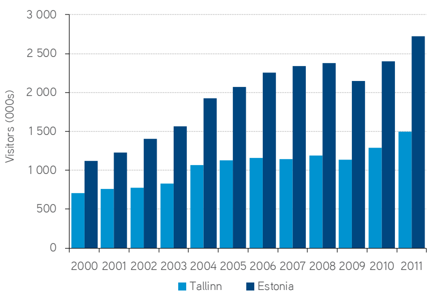
Source: Estonian department of statistics

DYNAMICS OF FOREIGN AND LOCAL GUESTS IN HOTELS IN TALLINN



Source: Estonian department of statistics

DYNAMICS OF VISITORS IN ACCOMODATION ESTABLISHMENTS



Source: Estonian department of statistics

Approximately half of the foreign tourists staying in accommodation establishments came from Finland. The number of Finnish tourists was 0.9 per cent and the number of overnights 0.8 per cent higher than a year ago. However, this can be considered as a rather good result, given the strong base figures of 2010. In 2011, Finnish overnights increased somewhat more in spa hotels than in other accommodation establishments. Tourism from Finland has been boosted by a combination of several factors: marketing activities by the public and private sectors, new tourist attractions, as well as the general growth trend in Finnish outbound travel.

Arrivals and overnights of Russian tourists reached a new peak in 2010 when 141,964 tourists from Russia used the services of accommodation establishments, which was 51 per cent more than a year before. Russia was also one of the very few growth markets in 2009, a trend that continued in 2011. In 2011, the number of tourists from Russia and their overnights increased by 43 per cent and 44 per cent respectively compared with the exceptionally strong figures a year before. The increasing popularity of Estonia as a New Year trip destination for Russians, lowering of the minimum sum for purchases eligible for a VAT refund (for non-EU travellers), active marketing by the public and private sectors, additional transport connections (incl. new bus routes to some of the regions) and international winter sports events were factors that positively influenced tourism from Russia to Estonia in 2010 as well as 2011. Last but not least, the general outbound travel trend in Russia in 2011 was also very positive.

With 103,559 tourists and 218,698 overnights, Germany was the third largest source market for Estonia in 2011. Their overnights increased strongly (+31 per cent) during this period, following a rather good recovery in 2010. Two new low-cost routes (from Bremen and Düsseldorf/Weeze) have contributed to growth.

With 69,912 tourists and 171,748 overnights the UK was the sixth largest source market for Estonia in terms of arrivals and the fifth biggest market in terms of overnights. After a substantial decrease in 2009 (due to the economic crisis and reduction in air capacity), their numbers started to recover in 2010. In 2011 the number of tourists from the UK was 96 per cent higher than a year before (with overnights increasing by 110 per cent). In Tallinn, their overnights increased even more – by 122 per cent. The figures exceeded previous record levels achieved in 2005 and 2006. Several new low-cost routes from the UK are strongly contributing to growth.

Significant numbers of tourists come to Estonia from Sweden, Latvia, Lithuania and Norway as well as from more distant Southern European markets (Italy, France, and Spain) and the USA. The substantial growth from Italy, Spain and the Netherlands can be attributed to new Ryanair routes.

The majority of foreign tourists arrive by ship. In 2010 AS Tallink Grupp transported 3,974,927 passengers between Estonia and Finland which reflects an approx 13 per cent increase compared to 2009. In 2011 the relevant growth numbers were 7.4 per cent for passengers between Estonia and Finland (with a new record of over half a million passengers on the Helsinki-Tallinn route in July 2011) and 7.0 per cent for passengers travelling between Tallinn and Stockholm. Due to high demand Tallink added two new weekend departures to the Shuttle fast ferry service on the Helsinki-Tallinn route.

8,452,301 passengers (including both arrivals and departures) passed through the port of Tallinn in 2011, of whom 83 per cent travelled on the Tallinn-Helsinki route, 11 per cent travelled on the Stockholm route, 1 per cent on the St. Petersburg route, while 5 per cent were cruise passengers.

The number of passengers (including both arrivals and departures) at Tallinn Airport increased annually by 3 per cent in 2010. Among different positive effects that influenced the willingness of tourists to travel in 2010, an increase in the number of direct inbound and outbound flights from Tallinn should be mentioned. Irish low-cost airline Ryanair launched its first flights from Tallinn Airport in December 2010. By the beginning of 2012 Ryanair is operating to twelve destinations from Tallinn.

While at the beginning of the year Tallinn Airport expected to add almost half a million passengers in 2011, the number of passengers at Tallinn Airport increased by 38.2 per cent in 2011 or by 528,341. Compared to the previous year 11 new airports were added to the Tallinn route network and two new carriers – Utair and Flybe – commenced operations to Tallinn in 2011.

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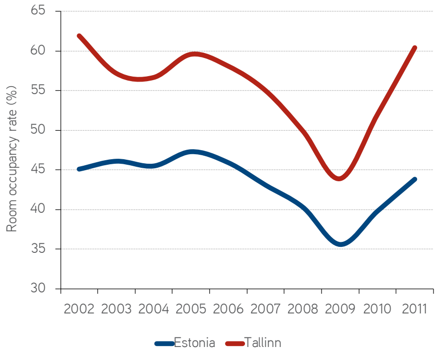
DYNAMICS OF AVERAGE ROOM OCCUPANCY RATE IN ACCOMMODATION ESTABLISHMENTS



Source: Estonian department of statistics

PRICE RANGE FOR DOUBLE STANDARD HOTEL ROOMS IN TALLINN

No of stars	Min price, EUR	Max price, EUR
5*	110	220
4*	50	120
3*	40	100

Source: Colliers International

Numbers are expected to continue further growth (by approx 15 per cent to reach 2.2 million passengers in 2012) mostly due to low-cost carriers and the increased number of transit passengers. For example, national airline Estonian Air is planning to open several new routes in 2012 both to key European destinations and to regional centres in Scandinavia. Tallinn Airport continues to look for an Asian carrier to make Tallinn its hub in flights between Asia and Europe.

Additionally, 918,018 domestic tourists stayed overnight at accommodation establishments in Estonia in 2011. Their number increased by 10 per cent or by 80,207 compared with the same period the previous year. Overnights on holiday trips increased by 11.3 per cent and overnights on business trips by 14.6 per cent, whereas overnights on other trips increased by just 3 per cent.

PRICES AND OCCUPANCY

In 2011 the average price for a night in Estonia was EUR 28.4 and EUR 33.3 in Tallinn indicating a yoy increase of 6.6 per cent and 7.0 per cent respectively.

During the first eleven months of 2011 sales of accommodation services by all accommodation establishments amounted to EUR 143 million (up 22 per cent on the same period the previous year). Thus, sales of accommodation services increased somewhat more than the number of overnights (domestic and foreign overnights together increased by 15 per cent).

In 2011 the average room occupancy rate in Estonia was 43.8 per cent and 60.4 per cent in Tallinn indicating a continuing growth trend in the room occupancy rate in Estonia and Tallinn (by 400 and 840 bps compared to 2010).

TENDENCIES AND FORECASTS

◊ No new hotel chains are expected to enter the Tallinn hotel market and no new hotels to be established in the nearest future (in the 1-2 year perspective) but at the same time some activity could be marked in the hostel market in Tallinn.

◊ Further development of inbound tourism is substantially dependent on the volume of Estonia's air travel, which is expected to grow with the opening of several new direct flights. Tallinn Airport expects an increase of 15 per cent in the number of passengers in 2012.

◊ Starting from autumn 2010 the average room price started steadily to increase and this trend continued in 2011 with increases even up to 30 per cent. In general, room prices in 2011 increased by 10-15 per cent on average due to growing tourist demand and continued increase in energy and labour force prices.

◊ An important event influencing the hotel sector positively in 2011 was Tallinn's European Capital of Culture programme.

◊ The number of tourists from Russia is expected to continue further growth in 2012.

◊ Estonia continues to be a popular spa and wellness holiday destination with growing popularity for spa tourism among Russians and Finns as well as domestic tourists.

◊ 2012 has begun where 2011 left off, with global growth prospects under threat from a deteriorating situation in financial markets. According to the European Travel Commission, European inbound travel is expected to decrease by 1.1 per cent in 2012, whereas foreign arrivals to Central and Eastern Europe are expected to remain at 2011 levels. Core Eurozone countries are most exposed to the downturn and are projected to experience marginal decline in 2012.

◊ European inbound travel is expected to start growing again in 2013.

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Legal Overview

TITLE TO REAL ESTATE, LAND BOOK

Ownership of real estate is registered in the Land Book. This is a national register, which includes information about ownership, details of real estate, and related encumbrances. Entries in the Land Book are assumed correct and valid vis-à-vis third persons acting in good faith.

The Land Book is a public register and everyone with a legitimate interest may access registered information. The register is maintained electronically.

ACQUISITION OF REAL ESTATE

General

Real estate may consist of land, apartment ownership, or building title. In general, transfer of a building separately from the underlying land is not permissible, except if building title is established and so transferred. In that case, the building forms an essential part of the building title, not of land.

Change of Ownership

Title to real estate is considered transferred on registration of ownership in the Land Book, not on signing the agreement. Ownership is usually registered within 2-4 weeks as of filing an application with the Land Book along with the signed and notarised real right agreement.

Asset Transfer vs Share Transfer

Most commercial properties held for investment purposes are held in single asset special purpose companies. Commercial property can therefore be sold either by selling the real estate (asset transaction) or by selling 100% of the shares of the property holding company (share transaction). Both options are widely used. An asset transfer may constitute a business transfer in which case it will be similar to a share deal since obligations of the seller will transfer to the buyer along with the asset.

Issues to consider when planning a share transfer:

- notary fees and state duty arising from real estate sales are saved from transaction costs since the sale of shares of a private or public limited company (whose shares are registered with the Estonian Central Register of Securities (ECRS)) is completed without notarisation as an electronic share transfer via banks and the ECRS;
- ownership of shares is transferred as agreed in the sale agreement, usually at the time of closing the agreement, or (in the case of transfer via ECRS), upon registration, which takes only a few days, whereas in an asset transfer transfer of title takes 2-4 weeks;
- scope of due diligence investigation is extended because a share deal transfers an entire company (with all known and unknown rights and liabilities) as opposed to due diligence of target real estate only;
- LOIs and HOTs for real estate companies are usually binding on the seller without notarisation;
- financial assistance rules apply (the target company may not secure with its own assets a loan taken by the buyer to finance acquisition);
- deferred tax issues.

Issues to consider when planning asset transfer:

- asset transfer is subject to notary fees and state duty and is thus more expensive than a share transfer;
- notarised agreements are usually in Estonian and seldom in English;

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- limited scope of due diligence investigation since the review concerns only the target real estate unless the transaction qualifies as a business transfer;
- lease agreements survive change of ownership of the target asset, ie agreements transfer to the purchaser;
- agreements on supply of utilities and other services must be assigned or concluded anew;
- LOIs and HOTs are not binding on the parties without notarisation;
- an asset transaction may qualify as a business transfer, in which case all obligations associated with the acquired business will be transferred from seller to buyer.

FORM OF AGREEMENTS

Transfer of title to real estate requires a sale agreement (setting the terms and conditions of sale) and a real property rights agreement (agreement to transfer title). These may be contained in one document but may also be separate.

All transactions related to the obligation to sell and purchase real estate require notarisation in order to create legally binding obligations. The notary verifies authorisation of signatories to the agreement, the content of the agreement, and the will of the parties, who must appear before the notary to conclude the agreement.

LANGUAGE REQUIREMENTS

Notarised contracts are usually signed in Estonian. Notaries with sufficient language skills may consent to attest a contract in English or other foreign language. If agreements are verified in Estonian, foreigners may ask for a written translation or obtain the help of an interpreter before signing.

As the Land Book is maintained in Estonian, any documents in foreign languages must be filed with the Land Book with a notarised translation into Estonian.

DUE DILIGENCE

It is advisable to carry out legal due diligence of target real estate/holding company before concluding a purchase. Due diligence involves checking title, encumbrances, planning issues, building rights, third party rights, public restrictions, permits, environmental issues, disputes and other matters. This gives the buyer more security or bargaining power.

RIGHTS OF FIRST REFUSAL

Rights of first refusal may be created by contract or law. For example, a co-owner of real estate has a statutory right of first refusal upon sale of a legal share of the real estate to third persons. Further, the state or local government have a statutory right of first refusal upon transfer of real estate located within the boundaries of a shore or shore bank building exclusion zone or if real estate is located in certain nature protection zones, or if a heritage protection object is located on real estate.

Rights of first refusal may be exercised within two months after receiving notification of a sale agreement.

TYPICAL PURCHASE PRICE ARRANGEMENTS

The buyer may be required to pay a deposit on the purchase price to a broker's or seller's account before a real estate purchase agreement is signed.

Often the purchase price is transferred to a notary's deposit account before concluding the sale agreement. The notary releases the purchase price to the seller after the agreement is signed and filed with the Land Book and no other applications are filed in the Land Book that would hinder transfer of title.

RELATED COSTS

Costs typically incurred in a real estate transaction include: brokerage fees, real estate valuation, bank fees, fees for legal due diligence and reviewing the sale and security agreements, notary fees and state duty.

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Notary fees are stipulated by law. In sale transactions the fee for notarising the purchase agreement depends on the value of the transaction. For instance, the notary fee on sale of real estate for EUR 500,000 is roughly EUR 1,548 plus VAT. Registration of ownership and encumbrances in the Land Book attract state duty. The amount depends on transaction value and is a fixed sum laid down by law. For instance, state duty for registering a new owner of real estate at a purchase price of EUR 500,000 is approx EUR 767. Notary fees and state duty are therefore less than 0.5% of transaction value.

RESTRICTIONS

Restrictions on acquisition

In general, no restrictions are imposed on foreigners acquiring real estate in Estonia. Exceptions include forestry and agricultural land, plus some island and sea coast and state border areas.

Acquiring real estate the intended purpose of which is profit-yielding land consisting of ten or more hectares of agricultural or forestry land is unrestricted only for:

◊ Estonian citizens.

◊ Citizens of a state contracting party to the EEA Agreement who have lived in Estonia for the past three financial years and are registered in an Estonian register as sole proprietor in agricultural production (EU Treaty, appendix 1).

◊ Estonian legal persons registered in the Estonian Commercial Register or in the Register of Non-profit Associations and Foundations register and a branch of a legal person of a state contracting party to the EEA Agreement registered in the Estonian Commercial Register and operating in Estonia for at least the past three financial years in agricultural production (EU Treaty, appendix 1).

Other persons may own such land but on limited grounds and on approval of the county governor. Transfer of land on smaller islands and certain border areas to non-citizens or legal persons of states not contracting parties to the EEA agreement requires permission of the Estonian Government.

Concentration control

Transfer of real estate (both asset and share transfers) may be subject to concentration control by the competition authorities.

Public Restrictions

Public restrictions may apply to use of real estate in the following areas: natural protection and coastal areas, Natura 2000 protection areas, heritage protection zones, protected zones of power lines, railways, roads, and other utility networks. Restrictions may mean that part of the real estate may not be used for building or the owner must avoid activity in protected zones, or that building or other activities require consent from utility networks, the operator, or the governing body (eg heritage protection authorities, local government, environmental protection authorities).

ENCUMBRANCES

The following rights, which are entered in the Land Book, may encumber real estate: usufruct, servitudes, building title, rights of first refusal and mortgages. In general, these rights may be used in real estate transactions and are entered in the Land Book under notarised agreements to secure the interest of the parties, third persons, or neighbouring real estate owners.

The Land Book may register notation of a lease agreement, which ensures that upon transfer of real estate the new owner may not terminate the lease agreement within three months of acquisition citing urgent personal need to use the premises.

MORTGAGE

Real estate purchase is often financed by a loan. Usually, a mortgage is established on real estate as security in favour of the bank financing the purchase. The mortgage agreement is usually concluded at the same time and in the same document as the sales agreement.

If a mortgage already encumbers real estate before sale and the purchaser needs a mortgage for its own financing purposes, the existing mortgage is typically transferred to the bank financing payment of the purchase price. This transaction structure is more cost-efficient compared to deleting the existing mortgage and establishing a new one, since it saves on both notary fees and state duty.

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PROPERTY MANAGEMENT

Maintenance of real estate is usually carried out by the owner or by a professional management company which provides technical support, accounting, and other related services. Apartment owners may establish an apartment owners' association for the common management of the property.

LEASE AGREEMENTS

General

For residential leases the law provides extensive mandatory regulation protecting the tenant.

Business leases are much more flexible but a set of mandatory rules also applies.

On transfer of real estate, lease agreements survive change of ownership. However, an owner who needs the premises urgently for own use may terminate a lease agreement within three months of acquisition. This right may not be exercised if a notation of the lease agreement has been entered in the Land Book.

Duration and Expiry of Lease Agreement

Lease agreements may be either for specified or unspecified terms. If the parties have not agreed otherwise, either party to a lease agreement for an unspecified term may terminate a residential or business lease by giving at least three months' notice.

A lease agreement for a specified term expires at the end of the term. Extraordinary termination is allowed for material breach of agreements for both unspecified and specified terms.

If, after expiry of a lease agreement, the tenant continues to use the leased premises, the lease is taken to have become a lease agreement entered into for an unspecified term unless the owner or tenant expresses some other intention to the other party within two weeks of expiry of the lease agreement (applies to the tenant) and as of when the owner learns that the tenant is continuing to use the leased premises (applies to the owner).

Lease Payment and Accessory Expenses (Utilities)

Rent is usually paid once a month to the bank account of the landlord. The rent is typically indexed (eg changes in local CPI may be capped at eg 3-5% per annum). The tenant commonly pays a deposit (or provides a first demand bank guarantee) of one to three months' rent.

Accessory expenses (utilities) such as electricity and water are considered included in the rent if not otherwise agreed in the lease agreement. Prevailing market practice is that the tenant pays for utilities and other expense items in addition to the rent in accordance with invoices from service providers or the landlord.

DISTRESSED ASSET PURCHASES

Distressed sales may be facilitated or controlled by banks that have been financing real estate projects which run into difficulties. The risk of seller insolvency has to be taken into account when planning distressed purchases because a transaction made on conditions detrimental to the seller may be revoked in later insolvency proceedings. This risk is higher during the first six months following appointment of an interim trustee for the seller. No purchase price pre-payments should be made to a seller who is potentially insolvent.

If a distressed asset is sold through enforcement proceedings, then statutory auction rules are applied whereby the bankruptcy trustee or bailiff will arrange the auction. The other option is that the asset is sold outside the insolvency proceedings. Real estate from insolvency or enforcement auctions can be bought using bank financing.

The distressed asset is usually sold "as is", which makes thorough due diligence even more important.

Lease contracts concluded by previous owners under adverse terms to the new owner may be difficult to terminate. As eviction of tenants is allowed only by court order then the process may be time consuming and costly.

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Tax Summary

ESTONIAN CORPORATE INCOME TAX SYSTEM DEFERS TAX PAYMENTS

Estonia offers a unique corporate income taxation system as resident companies pay no income tax for retained or reinvested earnings. Income tax obligations are deferred to the moment of distributing profits. Corporate income tax is levied on profit distributions and certain other payments deemed equivalent. Corporate income tax is levied on payments of dividends, gifts, fringe benefits, non-business expenditure and excessive capital reductions made by companies at the gross rate of 21%.

Please note that the below does not cover personal income tax.

RENTAL INCOME

Under the unique Estonian corporate income tax system, rental payments to resident corporate taxpayers are considered regular corporate income and taxed only when profits are distributed. This means that lease income is not taxable when earned.

Rental payments by Estonian corporate taxpayers to Estonian natural persons or non-residents are subject to Estonian withholding tax at a rate of 21%.

DEPRECIATION / LOSS CARRY FORWARD

Carry forward of losses is unlimited, as is depreciation for tax purposes.

THIN CAPITALISATION

There are no traditional thin capitalisation rules, ie substantial debt financing at market rate interest is tax-neutral.

WITHHOLDING TAX

Dividends (without any participation requirement), interest (not exceeding market interest rate) and royalties (payments within the EU and 25% participation) are not subject to withholding tax.

Rental payments by Estonian corporate taxpayers to Estonian natural persons or non-residents are subject to Estonian withholding tax at a rate of 21%.

CAPITAL GAINS

Thanks to the unique Estonian corporate income tax system, capital gains of resident corporate taxpayers are considered as regular corporate income and taxed only when profits are distributed.

Income tax is charged only on gains derived by a non-resident from sale of Estonian real estate or shares in a real estate company if the non-resident's holding in that real estate company is or exceeds 10% and more than 50% of the latter's property is directly or indirectly made up of real estate located in Estonia in any preceding two years. No income tax is charged on a share deal if DTT allows taxation of capital gains in the seller's country only.

PROPERTY TAX

The rate of land tax ranges from 0.1% to 2.5% of cadastral value of land excluding buildings. The rate is set by municipalities by 31 January each year.

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INDIRECT TAX / VAT

Sale and rental of real estate is generally VAT-exempt without the possibility to deduct input VAT. However, the exemption does not apply to:

- ◊ leasing or letting or establishment of a usufruct on multi-storey car parks or premises for parking vehicles;
- ◊ real estate with new buildings, if transferred prior to first use;
- ◊ real estate with reconstructed buildings, provided that reconstruction exceeds at least 10% of acquisition value and transfer is prior to first use after reconstruction;
- ◊ lots within the meaning of the Planning Act if the lot contains no buildings.

An option is available to add VAT at a rate of 20% to the following:

- ◊ leasing or letting real estate or parts thereof, except dwellings;
- ◊ establishment of a usufruct on real estate or parts thereof;
- ◊ real estate and parts thereof, except dwellings.

Input VAT is generally recoverable. However, companies having VAT-exempt supply are generally unable to recover input VAT. The purchaser of an immovable has to adjust deducted input VAT within a ten-year period according to the use of the property for taxable/ non-taxable purposes.

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