



ESTONIA:

PI FOCUS REPORT Autumn 2004

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BACKGROUND

Forcibly incorporated into the USSR in 1940, Estonia regained its freedom in 1991 with the collapse of the Soviet Union. After Russian troops left in 1994, Estonia turned towards Europe and has been free to promote economic and political ties with Western Europe since. Estonia became a member of the European Union in May 2004. Over 1.4 million people live in Estonia with Estonians and Russians comprising the main ethnic groups and dominant languages.

Estonia operates as a Parliamentary Republic with its capital located in Tallinn.

ECONOMY

Estonia, has the most developed economy within the Baltic region. It is steadily moving towards a modern market economy. The economy benefits from strong electronics and telecoms sectors and is greatly influenced by developments in Finland, Sweden, and Germany, its three major trading partners. The privatization of former state-owned companies have now been concluded.

Roughly one-third of GDP is generated from trade of raw materials and semi-finished products of wood, textile, and metal. The service sector contributes 66.2% of GDP with particularly key areas in tourism, electronics, and transport. Agriculture contributes a mere 3.7%. Liberal foreign trade conditions, tax exemption for re-invested profits, and a flat income tax rate of 26% continues to attract foreign company investment. Sweden, Finland, and the US are the top countries investing in Estonia.

Unemployment has been the government's Achilles heel over the past five years. The formerly industrial northeast section of Estonia is undergoing a severe economic depression as a result of plant closures while areas around Tallinn are seeing steady

PROPERTY

2000-2003 has witnessed steady price increases in Tallinn due to low supply, record low interest rates, and steady wage increases. Rapid construction of new houses started about two years ago. Over the next few years residential housing will be a top priority due to rapid deterioration of the existing soviet era housing.

City centre prices grew on average 9% in 2003 with New Build properties alone increasing 11% with starting prices of around 1000-1800 EUR/sqm. Prices in the suburbs grew around 5% with prices of around 450-650 EUR/sqm.

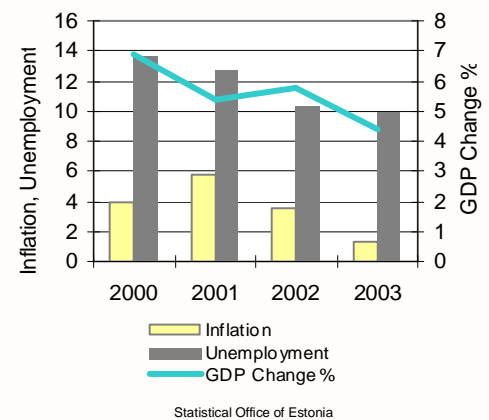
Developers built 1800 new units and sold 1650 in 2003. Another 2000 units will be completed in 2004. The target market is the middle classes who today live in Soviet-era housing but can now afford new moderately priced housing. The Tallinn market can absorb 2200-2500 new apartments per year due to the increase of demand for new housing, good economy, and low mortgage rates.

Mortgage rates are at an all time low starting at 3.5%. The maximum period is 30 years and you can borrow up to 90% of the home's value. Outstanding mortgage loans are only 11% of Estonia's GDP compared to Europe's 48%.

New build apartments rent to foreigners in the city centre for around 11-14 EUR/sqm monthly creating a rather attractive 8-10% yield. Estonians prefer to own their own home rather than rent.



Economic Indicators



Housing Type	Price EUR/sqm)	2003 Price Increase
New Build City Centre	1000-1800	11%
New Build Suburbs	450-650	5%
Renovated Soviet Block	600-800	

Ober Haus Real Estate Company

Tallinn New Build Market: Flats sold or unsold at year end

