MARKET OVERVIEW

By Colliers International Eesti

SUMMARY

ESTONIA

The Republic of Estonia is situated in the northern part of Baltic States, on the southern coast of Gulf of Finland. The capital of Estonia is Tallinn, located ca 80 km from Helsinki and 300 km from Stockholm and St.Petersburg. Tallinn, the famous Hanseatic town, received its town rights in 1248. Tallinn Old Town is included on the UNESCO World Heritage List.

Estonia is connected to the world via international airport Lennart Meri Tallinn Airport and via busy Port of Tallinn, from where daily ferry connections to Helsinki (Finland) and Stockholm (Sweden) are operating. Tallinn is also one of main cruise ship destinations along the Baltic sea.

PROPERTY LOCATION AND MARKET

Patarei property is located in the Põhja-Tallinn district of City of Tallinn. More specific location is the Kalaranna area, which is located in Kalamaja urban region, the most exclusive and bohemian part of Põhja-Tallinn city district (and the whole Tallinn). Kalamaja, along with other Põhja-Tallinn areas like Telliskivi and Noblessner, is a lovely neighbourhood in Tallinn, just next to the Old Town.

The Kalaranna area is situated right at the coastline and is well connected with the rest of the city and especially the city center. One of the main attarctions located in Kalaranna is the Seaplane Harbour and the Seaplane Hangar, accommodating one of Europe's grandest maritime museums with the authentic submarine Lembit from the 1930s, the century-old steam-powered icebreaker Suur Tõll, a Short 184 seaplane, mines, cannons and many other life-sized exhibits (meremuuseum.ee). The museum building was originally built to become part of Peter the Great's naval fortress 100 years ago on orders from the Russian emperor Nicholas II. The architecture of the Hangar is remarkable, featuring the world's first columnless thin-shell concrete domes of such volume. The building was used for seaplanes until the Second World War!

Port Noblessner a new development project is situated next to the Maritime Museum. The history of the port dates back to 1912, when Alfred Nobel's nephew Emanuel Nobel and a torpedo manufacturer by the name of Lessner established a submarine plant on the site to serve the navy of the Russian Tsar. Today Noblessner is one of the fastest developing, and thus one of the most interesting areas in Tallinn.

In 2018 a new eu-LISA (EU IT-agency) headquarters was completed in the vicinity of Patarei. In the nearest future also the new Justice Palace will be constructed to the neighbouring plots.

Although historically the area has been used for industrial purposes (mainly during Soviet time), nowadays industry is rapidly leaving the city centre, moving to city border areas or outside the city. For example, the structure plan of the seaside port area of Paljassaare in Põhja-Tallinn district implies a developing of a former industrial port into a modern living, business and recreational environment together with ports for small boats and liner ships in 10-15-year perspective.

AREA RESIDENTIAL MARKET

During the last decade, the most intensive development of new residential facilities in Põhja-Tallinn has been concentrated in Kalamaja. Such intense development activity was and still is mainly driven by excellent location in approximate vicinity of the Old Town and city centre.

In 2014–2018, approx. 1,000 new apartments were constructed in Kalamaja area, bringing more than 2,100 inhabitants to the area located close to Patarei and Tallinn Seaside.

Põhja-Tallinn city district shows one of the highest activities in terms of the number of all apartment transactions in Tallinn with ca 17% of the total number of transactions (more than 1,500 deals per annum on average since 2015). Due to active residential development, Põhja-Tallinn has one the highest average prices per square metre in Tallinn.

Kalamaja has enjoyed and continue to see the extensive development, including active residential development, transformation of former factory buildings into cultural institutions and museums and creation of new facilities.

Kalaranna area has seen very active development of new and attractive real estate, including significant number of residential projects. Kalaranna area is one of the main potential seaside development opportunities in Tallinn. Noblessner Quarter is the first large scale project in the area, that will be followed by Pro Kapital plans to start the development of a modern Kalaranna district with construction of 12 apartment buildings as well as restaurants, boutiques and service facilities.

OFFICE MARKET

Tallinn office market has continued to demonstrate consistent activity during the last six years, resulting in buoyant demand and high development activity. More than 60% of office space in Tallinn is located in CBD and the City Centre area outside CBD. In terms of occupier demand, the ICT sector dominates leasing activity, followed by the professional, scientific and technical services sectors (notaries, lawyers and advertising companies).

Although the share of office space in Põhja-Tallinn district remains low, Põhja-Tallinn is witnessing increasing office development activity and growing demand for new and renovated (especially loft style) office space in the area.

Kalamaja (incl. Kalaranna area) together with Tallinn city harbour area is forming a new office sub-area in Tallinn, different in style and location. There is a strong demand for renovated loft style office space in Põhja-Tallinn, especially in the areas located close to the city centre (Kalamaja) and Tallinn harbour. Several large space occupiers have indicated that leasing office space in Telliskivi and Kalaranna areas are one of the primary options due to close location to major office and commercial centres and hubs.

RETAIL MARKET

Retail market has been supported by the continuing salary growth and constant growth of retail trade (growing since 2010). Due to a rising population in the Tallinn region, the city's catchment area is stadily growing, thus affecting positively also the retail industry.

Põhja-Tallinn has the least stock of retail space of all districts in Tallinn, whilst occupies third place by population among all Tallinn's districts. There is a clear potential for demand growth in the actively developing areas like Kalaranna, especially for close-by and neighbourhood shopping opportunities. Grocery retailers continue to seek possibilities for further expansion in Tallinn and its suburbs.

HOTEL MARKET

The tourism sector in Estonia posted a very positive 2018. Overall, domestic tourism in Estonia continued growing in 2018, increasing by 4.5% y-o-y, while the total number of foreign tourists slightly decreased. The number of tourists increased from several major partner markets, including Russia, Germany, Latvia, Lithuania and the UK, although the Scandinavian markets showed a decline.

Hotel revenue per available room in Tallinn saw a slight increase in 2018, driven by a moderate rising average daily rate and occupancy rate.

New hotel chains, such as Accor, Pandox, Citybox, and Mogotel, are expected to enter and/or expand in the Tallinn hotel market in the 2-3-year perspective.

As the majority of hotel room stock in Tallinn is located in the city centre, the area is considered to be the most attractive place for possible hotel developments in the short- and near-term perspective. Additionally, areas in the close surroundings of the Central City area, e.g. Kalamaja/Telliskivi area in Põhja-Tallinn city district are also becoming more attractive for hotel operators.

LOCATION OF THE SUBJECT PROPERTY

MACRO LOCATION

The Republic of Estonia is situated in the northern part of Baltic States, on the southern coast of Gulf of Finland.

Estonia borders with Russia from east and with Latvia from south and with the sea from both north and west. Estonia is a sea country - the length of coastline (3,794 km) is about 6 times longer than the mainland borders (approx 633 km).

Estonia is the smallest of the Baltic States (area – 43,465 sqm; 1,323,824 inhabitants (as of January 1, 2019)).

Biggest cities of Estonia: capital city Tallinn (~431 thousand residents), Tartu (~97 thousand), Narva (~56 thousand), Pärnu (~39 thousand) (as of January 1, 2018).

Estonian territory is crossed by a highway of European significance: Via Baltica that connects Scandinavian countries with Central Europe.

There is one international airport in Estonia with the location in Tallinn (Lennart Meri Tallinn Airport). Additionally, there is Tartu Airport - the only regional airport in the country to receive a scheduled international flight (Tartu-Helsinki-Tartu route). Tallinn is the first point of entry to Estonia for most visitors.

Tallinn

Tallinn, the famous Hanseatic town, received its town rights in 1248. Tallinn Old Town is included on the UNESCO World Heritage List.

In 2017, international rating agency Fitch Ratings positively assessed the creditworthiness of Tallinn, its credit policy and upgraded the city's credit rating to the A+ level. Estonia as a state has the same credit rating. In 2017, Moody's Public Sector Europe upgrades the City of Tallinn's Issuer Rating to A2, the outlook remains stable. The credit profile of the City of Tallinn (A2) reflects the city's good fiscal performance, enhanced self-funding capacity and moderate debt and debt-servicing cost. The rating also takes into account Tallinn's sound liquidity and its position as a hub of the national economy.

The population of Tallinn is 438,874 (02.01.2019). Tallinn has eight city districts, larger of which in terms of area is *Kesklinn* (Centre) and in terms of population *Lasnamäe*.

The Northern-Tallinn (*Põhja-Tallinn*) district – short overview:

- The Northern-Tallinn (*Põhja-Tallinn*) district area is 15.19 km².
- Population – 59,080 inhabitants (2019) or 13.5% of Tallinn total population.
- Density of population – 3,890 inhabitants/km².
- Pelgulinn, Pelguranna and Kalamaja are the most densely populated urban regions of Põhja-Tallinn, with 41,808 inhabitants in total or 71% of total District's population.
- The main streets of the district are Sõle tee, Tööstuse St., Põhja pst, Kopli St., Kalaranna St.
- Retail activity in the Northern-Tallinn (*Põhja-Tallinn*) district – Stroomi SC, Arsenal SC, Balti Jaama Market, Telliskivi Quarter.

MICRO LOCATION AND CLOSE SURROUNDINGS - KALAMAJA-KALARANNA

Location map of Kalamaja and Kalaranna areas

Source: Estonian Land Board, Colliers International

Kalaranna area is located in Kalamaja urban region, the most exclusive and bohemian part of Põhja-Tallinn city district.

Kalamaja, along with Telliskivi and Noblessner, is a lovely neighbourhood in Tallinn, just next to the Old Town.

Often called the “hipsterville” of Tallinn, this once closed off Soviet border zone is conveniently located between the scenic Tallinn coast and Old Town and hides some real architectural gems (*visitestonia.com*).

Loved for its cosy environment, colourful buildings, and reach cultural offerings, the area draws in locals and visitors from around the city (*visittallinn.ee*).

Kalaranna attractions

Museums and Attractions

1. Tallinn City Hall
2. Contemporary Art Museum of Estonia
3. Energy Discovery Centre
4. Patarei Prison
5. Seaplane Harbour (museum)
6. Noblessner Valukoda
7. Port Noblessner

Creative Industries

8. Kultuurikatel (Cultural Cauldron)
9. NORD Projekt (Design office)
10. Estonian Design House
11. KEHA3 (Design)
12. Art Depoo (Art gallery)
13. Non Grata Studio
14. Estonia Piano Factory
15. Niine 11 (Creative house)
16. Teo Theatre

Cultural Kilometer

Kalaranna road

Source: Estonian Land Board, Colliers International

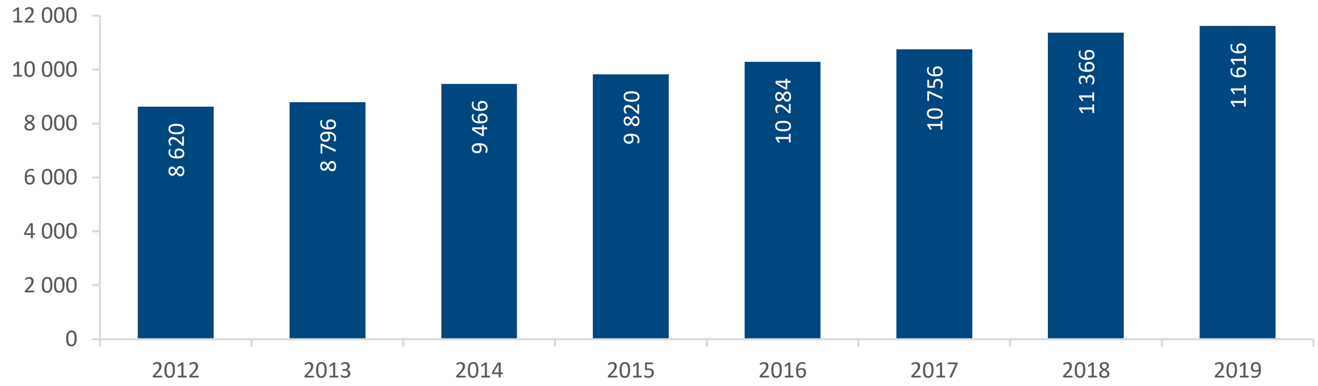
One of the major Tallinn attractions located in Kalaranna is the Seaplane Harbour and the Seaplane Hangar, that accommodate one of Europe’s grandest maritime museums with the authentic submarine Lembit from the 1930s, the century-old steam-powered icebreaker Suur Tõll, a Short 184 seaplane, mines, cannons and many other life-sized exhibits (*meremuuseum.ee*).

Port Noblessner is situated next to the Maritime Museum. The history of the port dates back to 1912, when Alfred Nobel’s nephew Emanuel Nobel and a torpedo manufacturer by the name of Lessner established a submarine plant on the site to serve the navy of the Russian Tsar. Today Noblessner is one of the fastest developing, and thus one of the most interesting areas in Tallinn. The old factory halls are waking up to a new life, and the newly built apartment blocks already house more than 200 homes. The first stores and offices are operating on the area’s car-free streets (*visittallinn.ee*).

Telliskivi is the hub of Kalamaja with its many restaurants, theatres and an indoor shopping street selling everything from organic cosmetics to Estonian design (*visitestonia.com*). Located in a reclaimed factory area not far from Old Town, it is Estonia's biggest creative economic enterprise centre, bringing together a diverse range of activities and businesses. For example, there is a 160-seat eatery, a childcare centre, a printing shop, a furniture shop, a theatre and an antique books store (*visittallinn.ee*).

Kalamaja has enjoyed and continue to see the extensive development, including active residential development, transformation of former factory buildings into cultural institutions and museums and creation of new facilities. Thus, 2010 saw completion of the Tallinn Cultural Kilometre, a 2.5 km long walkway through the historical part of Tallinn's seaside. The Cultural Kilometre passes along the Linnahall and Patarei, through the former Noblessner factories up to the Tööstuse Str. 2013 saw the construction of Kalaranna Street – the first street with SmarELi lightning control system in Tallinn.

Population of Kalamaja, 2013-2019



Source: Tallinn.ee

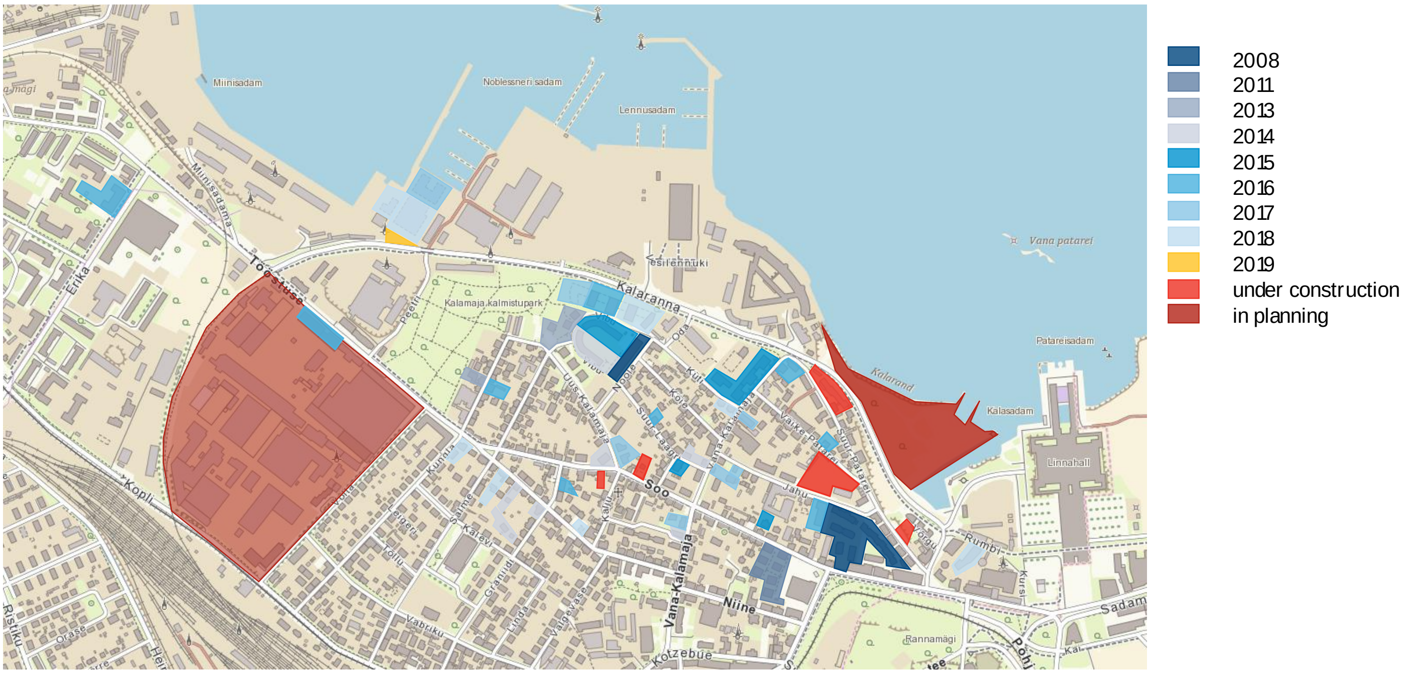
During the last five years since 2013, the population of Kalamaja grew by 5 per cent y-o-y on average, reaching 11,366 in 2018. In 2019, the population of Kalamaja continued growing by more than 2 per cent y-o-y to 11,616.

Kalaranna – Residential Market

During the decade, the most intensive development of new residential facilities in Põhja-Tallinn has been concentrated in Kalamaja. Such intense development activity was and still is mainly driven by excellent location in approximate vicinity of the Old Town and city centre.

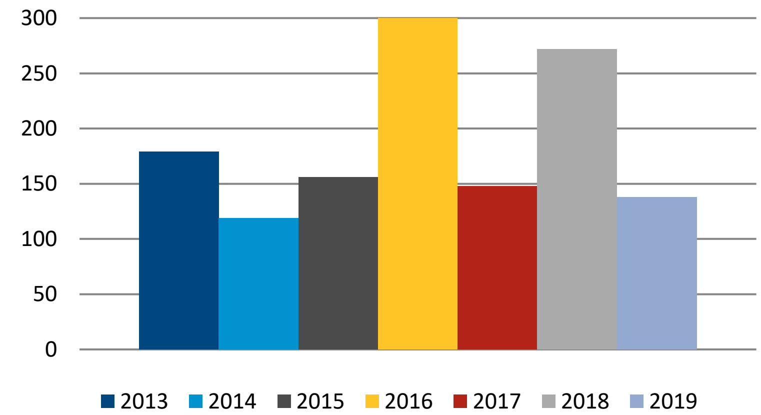
The first wave of remarkable residential development in Kalamaja started during the "boom" period in 2006-2008. Ilmarine Quarter (developer Pro Kapital) was one of the main residential projects in the area completed in 2008. Ilmarine Quarter with total GBA of 19,000 m² has 13 houses with 306 apartments, office spaces and underground parking.

Completed and on-going residential development projects in Kalaranna



Source: Estonian Land Board, Colliers International

Number of new apartments in Kalamaja, 2013-2018



Source: Colliers International

The second wave of residential activity in the area began in 2010-2011, when various previously frozen projects (e.g. "Kodukolde" (developer Arco Investeeringud)) were launched and new projects started again, e.g. Toompark (Paldiski Rd 14, developer Astlanda Ehitus), Uus-Kalamaja 10 (developer YIT Ehitus) and Vabriku Str (developer Astlanda).

In 2011, Metro Capital started the development of the Väike-Kalamaja Quarter (GBA 9,500 m²; 7 buildings with 90 apartments).

Approx 1,000 new apartments were added to the market in Kalamaja during 5-year period in 2014-2018.

Põhja-Tallinn city district shows one of the highest activities in terms of the number of apartment transactions in Tallinn with ca 17% of the total number of transactions (more than 1,500 deals per annum on average since 2015).

Due to active residential development, Põhja-Tallinn has one the highest average prices per square metre in Tallinn. In 2018, the highest average price per square metre in Tallinn (2,315 EUR/sqm) was registered in the City Centre (which includes such highly valued areas as Old Town and Kadriorg), followed by Põhja-Tallinn (1,967 EUR/sqm). Prices for new apartments vary in the range EUR 2,500-5,500 per sqm in Põhja-Tallinn.

City district	Number of purchase-sale transactions	Average size (m^2)	Average price (EUR/ m^2)	Mean price (EUR/ m^2)	Maximum price (EUR/ m^2)
City Centre	1,816	64.6	2,314	2,310	6,429
Põhja-Tallinn	1,646	53.0	1,971	1,954	7,643
Kalamaja	592	67.9	2,375	2,336	7,643
TALLINN	9,700	57.1	1,842	1,764	7,643

Source: Estonian Land Board

Examples of major completed residential development projects in Kalamaja

	Väike-Kalamja, Soo 1	Hoburaua house, Vibu 5	Kalaranna kodu, Vana-Kalamaja 47
			
Developer	Metro Capital	YIT	Novira Capital
Number of buildings	7	2	4
Number of apartments	90	109 + 7 commercial premises	95
Parking	Underground	Ground level	Underground
Status	Completed (2013)	Completed (2015)	Completed (2015)

Examples of major on-going residential development projects in Kalamaja

	Noblessner, Staapli St	Mündriku Residents, Jahu 6	RAND city villas, Suur-Patarei 20
			
Developer	BLRT Groupp/Merko	YIT	Merko Ehitus
Number of buildings	4	7	4
Number of apartments	187 apartments with commercial space in total	94	31
Parking	Garage	Underground	Garage
Status	Under construction (estimated 2019)	Under construction (estimated 2019)	Under construction (estimated 2019)

Source: Estonian Land Board, Colliers International

Pro Kapital plans to start the development of a modern Kalaranna district with construction of 12 residential buildings as well as restaurants, boutiques and service facilities in the large coastal area between the Tallinn City Hall and Patarei.

Endover considers the development of the Volta Quarter, Tallinn's most stylish seaside residential and business district, within the next few years. Its well-preserved industrial buildings, so rich in history, are being granted a new lease on life, while brand new buildings are going up alongside them. Taking a central place in the quarter will be a park-like courtyard lined with trees and providing a range of recreational opportunities. The focus of the quarter will be on its residents, guaranteeing them a living environment that has everything they need – including a bakery, a food store offering a good range of items, a kindergarten and a health centre. The vision for the quarter sees its historical limestone building being transformed into an 'Eat Street'-style food hub surrounded by studios, design boutiques, lounges and culture clubs.

Examples of major planned residential development projects in Kalamaja

	Kalaranna Quarter	Krull Quarter	Volta Quarter

			
Developer	Pro Kapital	Krulli Kvartal	Endover
Number of buildings	12	20 (GBA 156,000 sqm)	GBA 95,900 sqm
Number of apartments	373	up to 1,200	265
Parking	491	up to 1,800	
Status	In planning	In planning	2022, in planning

Source: Estonian Land Board, Colliers International

Office, retail and hotels premises in Kalamaja and Tallinn harbour area

Source: Colliers International

OFFICE MARKET

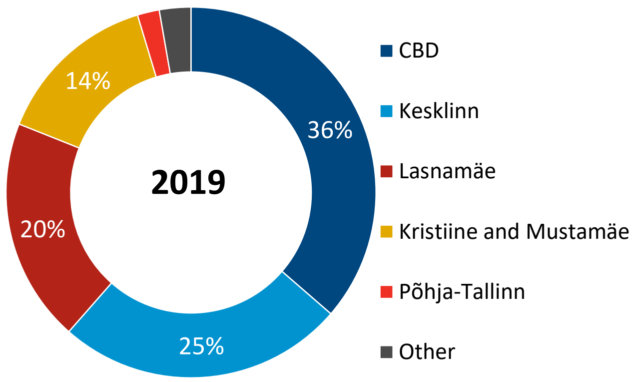
2019 - General Overview

- The office market has continued to demonstrate consistent activity in Tallinn during the last six years, resulting in buoyant demand and high development activity.
- By end-2018, estimated total stock (speculative + built-to-suit) of modern office facilities was approaching ca 1 million sqm. New total supply delivered to the market reached ca 95,000 sqm in 2018.
- In terms of occupier demand, the ICT sector dominates leasing activity, followed by the professional, scientific and technical services sectors (notaries, lawyers and advertising companies).
- In 1HY 2018, rent rates for properties in good locations remained more or less stable, although the gap between the lower and upper margins of asking rents continued to widen. 2HY 2018 saw an increase in the lower and upper margins of asking rents.
- The vacancy rate in Class A buildings increased - due to completion of the Maakri 19/21 office building - though later turning to a decrease, thus showing a good absorption ratio for new office space.

Office Market in Põhja-Tallinn

Total contemporary office stock in Põhja-Tallinn city district amounts to approx 31,750 sqm. Contemporary office space in Põhja-Tallinn is dominated by several new projects completed in 2001-2008, incl. two office buildings in Toompuiestee area next to the Baltic Station and new office developments completed in 2014-2018, incl. Telliskivi Quarter (ON-Building completed in 2014 and I-Building), Arsenal Centre (transformation of former factory into retail and office space) and (re)development in Noblessner (Creative House and ground floor commercial-office premises).

Tallinn office stock by districts



Source: Colliers International

More than 60% of office space in Tallinn is located in CBD and the City Centre area outside CBD.

There are also several major office subareas outside CBD in Tallinn with additional high development potential – Ülemiste City, Pärnu Road sub-area, Tehnopol.

Although the share of office space in Põhja-Tallinn city district remains low, Põhja-Tallinn is witnessing increasing office development activity and growing demand for new and renovated (loft style) office space in the area.

Thus, 2018 saw completion of the Headquarters of eu-LISA in Kalaranna next to Patarei and I-Building in Telliskivi Quarter (phase I). Q1 2019 saw the start of construction work on phase II of the I-Building in Telliskivi Quarter and a new BtS office development (Heathmont HQ) in Kalaranna close to Patarei.

Due to active residential development in Kalamaja, ground floor commercial areas are often offered for office use, thus increasing the number and volume of office space in the area. Additionally, Põhja-Tallinn has considerable stock of older administrative Class B2 and Class C buildings (partially renovated in 2000s).

Põhja-Tallinn office market is largely dominated by medium- and small-scale buildings with GLA below 3,500 sqm.

Currently Kalamaja (with on-going and planned developments in Telliskivi Quarter and Noblessner) together with Tallinn harbour area (Porto Franco, Sadama 9 plus planned developments in Sadama 4, Ahtri 3, Mere pst 10, Tuukri 1) create new office sub-area in Tallinn.

Other new potential office sub-area in Tallinn include older industrial areas in Põhja-Tallinn city district (Volta Quarter, Krull Quarter).

There is a strong demand for renovated loft style office space in Põhja-Tallinn, especially in the areas located close to the city centre (Kalamaja) and Tallinn harbour. Strong demand for office space in Kalamaja comes from information and communication enterprises, creative companies as well as finance companies and retailers.

Several large space occupiers indicated that leasing office space in Telliskivi and Kalaranna areas are one of the primary options due to close location to major office and commercial centres and hubs.

Rent rates in Põhja-Tallinn remain somewhat below Tallinn average rental level. There is a growing downward pressure on rents in existing Class B1 and Class B2 office buildings increased due to high supply and increasing competition on the market.

Examples of office development projects in Põhja-Tallinn city district and Tallinn harbour area

Name: Creative House
Location: Põhja-Tallinn
Developer: BLRT Grupp
Type: BtS / Speculative
GBA: 1’830 m²
GLA: 1’830 m²
Number of floors: 3
Completion: Q2 2014

Name: Explorer Office Building
Location: Tallinn harbour area
Developer: Capital Mill
Type: Speculative
GBA: 6’050 m²
GLA: 5’000 m²
Number of floors: 6/-2
Parking: 97, underground
Completion: Q1 2016

Name: eu-LISA HQ, Vesilennuki 5/7
Location: Põhja-Tallinn
Developer: State Real Estate Ltd (RKAS)
Type: BtS
GBA: 3’630 m²
GLA: 3’630 m²
Number of floors: 4/-1
Completion: Q3 2018

Name: I-Building, Telliskivi 60
Location: Põhja-Tallinn, Telliskivi Quarter
Developer: PLKV Invest
Type: BtS / Speculative
GBA: 12’580 m²
GLA: 8’200 m²
Number of floors: 4
Completion: Q4 2018

Name: Sadama 9
Location: Tallinn harbour area
Developer: Infortar
Type: BtS, Tallink and Eesti Gaas HQ
GBA: 5’550 m²
GLA: 3’130 m²
Number of floors: 4/-1
Parking: 55, underground
Completion: Q1 2019

Name: Porto Franco
Location: Tallinn harbour area
Developer: Porto Franco
Type: Speculative
Office GBA: 45’180 m²
Office GLA: 25’530 m²
Number of floors: 5/-3
Parking: 1’200
Completion: 2019 (I phase) - 2020

Name: I Building (II phase)
Location: Põhja-Tallinn, Telliskivi Quarter. Telliskivi 60
Developer: PLKV Invest
Type: BtS / Speculative
GBA: 5’000 m²
GLA: 3’530 m²
Number of floors: 6
Completion: 2019

Name: Heathmont HQ, Kalasadama, Jahu 4
Location: Põhja-Tallinn
Developer: Jahu 4 OÜ
GBA: 4’800 m²
GLA: 4’100 m²
Number of floors: 3/-1
Type: BtS
Completion: 2020

Name: Staapli 10 / Noblessner
Location: Põhja-Tallinn
Developer: Merko / BLRT
GBA: 1’160 m²
Office: 800 m²
Number of floors: 2
Parking: 100
Completion: n/a, in planning stage

Name: Sadama 4
Location: Tallinn harbour area
Developer: Sadama Maja OÜ
GBA: 10’385 m²
Office GLA: 2’850 m²
Number of floors: 6/-1
Parking: 70
Type: BtS / Speculative
Completion: n/a, in planning

Name: Ministry of the Environment
Location: Põhja-Tallinn
Developer: State Real Estate Ltd (RKAS)
Type: BtS
GBA: 15’200 m²
Number of floors: 5
Completion: 2022

Name: Volta Quarter Tööstuse 47
Location: Põhja-Tallinn
Developer: Endover
Office GBA: 7’600 m² + 13’800 m²
Number of floors: 14/-2
Completion: 2022

Source: Colliers International

Office Market – General Trends and Forecasts

- Approx 145,670 sqm of new speculative and built-to-suit office space is expected to be delivered to the market in 2019-2020 - 19 per cent of it on a built-to-suit basis and 81 per cent on a speculative basis.
- Approx 35,570 sqm (6 projects) and 82,140 sqm (12 projects) of new speculative office space is expected to be delivered to the market in 2019 and 2020 respectively.
- Major development projects with planned completion in 2019-2020 include Porto Franco, a business and leisure centre in Tallinn harbour area, two office buildings in Ülemiste City and a new office complex with Eesti Meedia HQ in Fahle Park next to Ülemiste City.
- Office development activity is seen both in CBD and well-developed citywide office subareas (Ülemiste City, Pärnu Rd, Tehnopol) and new developing areas (Veerenni, Telliskivi Quarter (Telliskivi 60 and Telliskivi 62) and Tallinn harbour area – Sadama 9, Sadama 4, Ahtri 3, Mere pst 10, Tuukri 1).
- New potential office sub-areas in Tallinn include the beginning of Mustamäe tee (WoHo Quarter, Talleks area) and older industrial areas in Põhja-Tallinn city district (Volta Quarter, Masinatehas area).
- The market will see the development of numerous small-scale projects in the city centre close to the edge of CBD.
- Take-up activity throughout 2019 is expected to continue to come from the information and communications sector. The office market will continue to see relocations of some large space occupiers in 2019.
- Office rent rates are expected to remain stable during 2019, although the gap between the lower and upper margins of asking rents may continue to widen. Downward pressure on rent rates will be observed for office buildings older than 10-15 years.
- Tenants are tending to negotiate shorter lease terms (3 years instead of 5 years).
- 2019 may see a somewhat increased vacancy rate, especially in older office buildings (Class B2) as well as in some existing Class B1 buildings due to active construction of new office buildings.

Office market map in Kalamaja and Tallinn harbour area

1	Rotermann Quarter
2	Admiral House
3	WTC
4	Navigator, Laeva 2
5	Porto Franco
6	Explorer, Kai 1
7	Tallink HQ
8	Sadama 9
9	Snelli Office Building, Toompuiestee 35
10	I-Building, Telliskivi Quarter
11	ON-Building, Telliskivi Quarter
12	Niine 11
13	Heathmont HQ, Jahu 4
14	eu-LISA HQ, Vesilennuki 5/7
15	Creative House
16	Noblessner
	Planned developments
17	Ministry of the Environment
18	Allveelaeva 1 Business Centre
19	Volta Quarter
20	Balti Station, Telliskivi 62
21	Telliskivi Quarter
22	Merekeskus, Mere pst 10
23	Sadama 4
24	Ahtri 3
25	WTC

Source: Colliers International

RETAIL MARKET 2019

2019 - General Overview

- In 2018, sentiment in the retail sector continued to be moderately optimistic. Turnover of retail trade enterprises reached EUR 7.1 billion in 2018, increasing by 1.0% on the same period in the previous year at constant prices.
- Due to a rising population in the Tallinn region, the city's catchment area is constantly growing, positively affecting the retail industry.
- The stock of Tallinn retail space increased by 56,000 sqm since the beginning of 2018, to a total of 704,300 sqm (1.55 sqm per capita), driven by the opening of the T1 Mall of Tallinn shopping centre.
- Local and international brands remained interested in further expansion - new shopping centres have a considerable share of tenants providing leisure and sporting activities as well as catering.
- Prime shopping centre rents remained stable, although some downward pressure on rents increased due to intensifying competition within the retail sector.
- Vacancy rates in larger shopping centres remained largely stable, turning to a decrease in Q2 2018 after some upward movement previously. Due to the opening of the T1 Mall of Tallinn shopping centre, vacancy surged up to 2%, indicating that the market is approaching saturation point.

Retail development in Põhja-Tallinn

Total retail stock in Põhja-Tallinn city district amounts to approx 49,250 sqm. Põhja-Tallinn has the least stock of retail space (0.83 sqm per capita, increase from 0.59 sqm per capita in 2016) of all districts in Tallinn, whilst occupies third place by population among all Tallinn's districts.

In 2014-2018, Põhja-Tallinn experienced considerable retail development, seeing completion of several neighbourhood shopping centres and grocery stores in the area. The new Stroomi shopping centre, with 50 stores and Maxima grocery store as the anchor tenant, opened in December 2014.

Construction work on Arsenal Centre (redevelopment project with ca 7,500 sqm of retail space, anchor tenant – Selver, occupying 1,995 sqm), located in Põhja-Tallinn city district started in fall 2015 and completed in October 2016.

May 2017 saw the opening of a new Balti Jaama Turg (Baltic Station Market), a unique universal market place in Estonia where people can buy and sell food, manufactured goods, antiques and much more. There are almost 300 different retailers and shops at the market. Trading takes place on three different levels and in the kiosks and stands outside the buildings. Balti Jaama Market covers ca 10,500 sqm of retail GLA and includes Selver and MyFitness as anchor tenants.

In 2018, Selver opened a new supermarket in Põhja-Tallinn city district (Kolde Selver).

Name: Stroomi Centre
Type: Neighbourhood shopping centre
Developer: Kantauro
Project: New completion
GLA: 8'540 m²
Anchor tenants: Maxima
Location: Põhja-Tallinn
Completion: Q4 2014

Name: Aresenal Centre
Type: Neighbourhood centre
Developer: Arsenal Center
Project: Redevelopment
GLA: 7'500 m²
Parking: >200
Anchor tenants: Selver
Location: Põhja-Tallinn
Completion: Q4 2016

Name: Balti Jaama Turg
Type: Neighbourhood centre
Developer: Astri Group
Project: Redevelopment
GLA: 10'500 m²
Parking: 125 underground + 130
Anchor tenants: Selver, MyFitness
Location: Põhja-Tallinn
Completion: Q2 2017

Name: Kolde Selver
Type: Convenience centre / Supermarket
Developer: Kaubamaja Kinnisvara
Project: New completion
GLA: 3'500 m²
Selver sales area: 1'870 m²
Anchor tenants: Selver
Location: Põhja-Tallinn
Completion: Q4 2018

Retail Market – General Trends and Forecasts

- Ca 56,000 sqm of new retail space is expected to be delivered to the market in 2019-2020, driven largely by the expansion of Ülemiste Centre and the expected opening of the Porto Franco complex in Tallinn harbour area in 2020.
- Grocery retailers continue to seek possibilities for further expansion in Tallinn and its suburbs. Prisma will open new supermarket format stores in 2019 in Old Town, while Lidl announced plans to enter the Estonian market after 2020.
- Rent rates are expected to remain stable with some downward movement anticipated as well - growing competition will have an effect on turnover per GLA and put additional pressure on rent rates in the near term.
- Upward movement in vacancy levels could be further expected in all types of shopping centre in 2019 as the opening of the T1 Mall of Tallinn sharply intensified industry rivalry, resulting in redistribution of footfall and affecting retailer profitability.
- Turnover rents and more flexible leasing arrangements will become increasingly common in 2019.
- There is a limited choice of new prospective tenants, especially in the fashion segment. At the same time, despite the cautious mood among retailers, several notable international brands remain interested in entering or further expanding in 2019-2020.
- The start of construction work on several previously-announced new retail development projects is being postponed due to the fact that potential tenants for new developments are becoming increasingly complicated to find.
- Tenants are becoming more cautious and thoughtful because of intensifying competition and decline in shopper footfall.

Porto Franco centre

Source: Porto Franco

Total area of ca 150,000 m², including:

- a shopping centre with the total area of ca 32,000 m²
  - hypermarket with the total area of ca 4,220m²
  - cafés and restaurants with the total area of ca 5,700 m²
  - summer terraces and balconies with the total area of ca 2,500 m²
  - fashion stores with the total area of ca 14,000 m²
- underground car park for ca 1,170 vehicles
- hotel about 8,570 m² with 270 hotel rooms
- office premises with the total area of ca 25,530 m² for rent.

Porto Franco offices are targeted to accommodate more than 3,000 work spaces.

Telliskivi Quarter

Telliskivi Loomelinnak or Telliskivi Creative City (Telliskivi 60), located in a former industrial complex on the borders of the Old Town and Pelgulinna and Kalamaja districts, is the creative centre of Tallinn. This is the largest creative centre in Estonia, consisting of studios, creative companies, and offices of NGOs.

There are several small designer stores and studios, unique eating and drinking places, photo galleries, and a lot of street art. The Telliskivi Creative City has its own shop street with design, interior and eco shops selling fashionable creations as well as fun recycled items.

Nearly 600 cultural events take place annually and a flea market is organised on every Saturday.

Rotermann Quarter

The 19th century industrial complex in Rotermann Quarter has been redeveloped into a contemporary residential and commercial quarter with a very unique urban vibe right in the heart of the city. Rotermann City has an abundance of restaurants, shops and offices.

Rotermann City has been chosen as the home of several noted marketing, advertising and law firms such as on ADM, Hedman Partners & Co, Maqs Law Firm, Age McCann, Det Norske Veritas, iGame, Scandinavian Fuel Company, Servier Laboratories, Swiss Property Estonia and many others.

Total retail area (incl. catering) in Rotermann Quarter amounts to ca 8,200 sqm. Rotermann City boutiques and stores are characterized by the keywords - ‘fashion’, ‘quality’, and ‘price’. The City features Bershka, Pull and Bear, Stradivarius, Springfield, Reede, Suitsupply, Women’secret etc.

Restaurants and cafes already represent Spanish, Latin American, Mexican, Japanese, and international cuisine. 2016 saw the opening of a butchery, a cosy wine bar, and a restaurant offering Asian taste sensations.

HOTEL MARKET

2018 - General Overview

- The tourism sector in Estonia posted a very positive start to the year, leading to an overall increase in the number of arrivals and nights spent in accommodation establishments in the first half of the year.
- Overall, domestic tourism in Estonia continued growing in 2018, increasing by 4.5% y-o-y, while the total number of foreign tourists slightly decreased.
- The number of tourists increased from several major partner markets, including Russia, Germany, Latvia, Lithuania and the UK, although the Scandinavian markets showed a decline.
- The number of passengers at Tallinn Airport set a new all-time record in 2018, surpassing 3 million passengers and thus positively affecting the hospitality industry.
- Hotel revenue per available room in Tallinn saw a slight increase in 2018, driven by a moderate rising average daily rate and occupancy rate.
- 2018 saw the opening of the Metropol Spa Hotel (137 hotel rooms) in the Rotermann Quarter area of Tallinn and the Hotel Regent (34 hotel rooms) in Tallinn Old Town.

Trends and Forecasts

- European tourism enjoyed a sustained expansion amid less relaxed global financial conditions and risks of a disruptive trade war posing a threat to global economic growth. The region saw a +7 per cent increase in international tourist arrivals in the first six months of the year compared to the same period in 2017.
- Occupancy rates in European hotels saw an increase of 1.1 per cent in the first nine months of 2018, while average daily rate (ADR) and revenue per available room (RevPAR) remained positive at 1.9 per cent and 3.0 per cent respectively. ADR growth has returned as the chief driver of RevPAR growth in Europe in 2018.
- According to the European Travel Commission, inbound tourism is expected to grow by approx 1.8 per cent in 2019 and 2.6 per cent in 2020 respectively in Central Europe and the Baltic States.
- Growth in the number of tourists accommodated in Estonia is expected to remain modest due to a high reference base, increased ADR and external uncertainty. All of these factors put downward pressure on the ADR level in 2019.
- Development of inbound tourism is substantially dependent on the volume of Estonia's air travel. Tallinn Airport expects the number of passengers to continue growing by at least 5% in 2019.
- Tallinn hotel room stock is expected to increase significantly in the next three years by more than 1,000 rooms due to expansion and the opening of several new hotels.
- New hotel chains, such as Accor, Pandox, Citybox, and Mogotel, are expected to enter and/or expand in the Tallinn hotel market in the 2-3-year perspective. Accor will open a second group hotel in Tallinn – the first Ibis Tallinn hotel is expected to open in mid-2019 in Tallinn city centre and a new fully-automated hotel in the Porto Franco Centre operated by Citybox will come to the market in autumn 2019.
- The hotel development market will continue to be active in the coming years with several small- and medium-scale projects across the city in the pipeline, although the time for completion of several projects remains undefined.
- As the majority of hotel room stock in Tallinn is located in the city centre, the area is considered to be the most attractive place for possible hotel developments in the short- and near-term perspective. Additionally, areas in the close surroundings of the Central City area, e.g. Kalamaja/Telliskivi area in Northern-Tallinn city district are also becoming more attractive for hotel operators.

New, on-going and planned hotel developments in Kalamaja and Tallinn harbour area

1	Metropol Spa Hotel
2	Hotel Regent Tallinn
3	Kalev Spa Hotel, ext
4	Citybox
5	Tallink Express Hotel, espansion
6	The Park Mansion
7	Telliskivi 62
8	Telliskivi 60
9	Merekeskus, Mere pst 10
10	Sadama 4

Source: Colliers International

SUMMARY

- Local housing is mostly represented by with 1 to 2-storey wooden houses in Kalamaja, more modern wooden buildings in Pelgulinn as well as 3–5 storeys high panel blocks of flats, started in the 1950s and mainly completed in the 1960s and 1970s (mostly in Pelguranna).
- New residential development in Põhja-Tallinn and Kalamaja started to gain momentum in 2011-2012.
- In 2014–2018, approx. 1,000 new apartments were constructed in Kalamaja area, bringing more than 2,100 inhabitants to the area located close to Patarei and Tallinn Seaside.
- Competition in the residential development market in Tallinn remains strong, supported by low interest rates and big number of purchase-sale deals (more than 9,150 deals per annum in 2016-2018 with Põhja-Tallinn corresponding for ca 17% of total number of deals in Tallinn and Kalamaja corresponding for ca 5-6% of total number of deals in Tallinn).
- Retail market in Põhja-Tallinn is dominated by Stroomi and Arsenal neighbourhood shopping centres and newly constructed Balti Jaama Turg (Baltic Station Market), a unique universal market place in Telliskivi area with Selver and MyFitness as anchor tenants.
- Several new small- and medium-scale retail developments are planned in the area.
- Hotels in Tallinn are mostly concentrated in Old Town and City Centre. The competition in the hotel segment remains tense with several new projects under construction or in pipeline in City Centre, Old Town and Tallinn harbour area next to the Old Town.
- Total contemporary office stock in Põhja-Tallinn city district amounts to approx 31,750 sqm.
- Contemporary office space in Põhja-Tallinn is dominated by several new projects completed in 2001-2008 in Toompuiestee area next to the Baltic Station and new office development projects in Telliskivi Quarter (ON-Building and I-Building), Arsenal Centre and Noblessner (Creative House and ground floor commercial-office premises) completed in 2014-2018.
- Põhja-Tallinn has considerable stock of older administrative Class B2 and Class C buildings (partially renovated in 2000s).
- Speculative office development in Põhja-Tallinn city district is and will remain modest with total 8,000-12,000 sqm expected by 2022 in the area.
- There is a strong demand for renovated loft style office space in Põhja-Tallinn, especially in the areas (Kalamaja) close to the city centre and Tallinn harbour.
- Several large space occupiers indicated that leasing office space in Telliskivi and Kalaranna areas are one of the primary options due to close location to major office and commercial centres and hubs.
- Rent rates in Põhja-Tallinn remain somewhat below Tallinn average rental level. There is a growing downward pressure on rents in existing Class B1 and Class B2 office buildings increased due to high supply and increasing competition on the market.