

ESTONIA

Cushman & Wakefield

Global Cities Retail Guide



The Estonian retail sector started to develop after regaining independence in 1991. Today, a number of schemes dominate the market.

The first shopping centres in Estonia opened at the end of the nineties. Finnish Stockmann built the first stage of their department store a few years earlier in 1996. At present, the market is dominated by shopping centres and separately standing hyper/supermarkets. Estonia has one of the highest levels of shopping centre stock per capita in Europe. Despite high supply of retail floorspace, the market is performing well, with expected vacancy levels.

Development of modern shopping centres has been concentrated in the capital city, Tallinn, however similar schemes can also be found in most of the major secondary cities such as Tartu, Narva, Pärnu, Rakvere, Jõhvi and Viljandi.

Retail properties in Estonia are attractive to international investors, however some schemes are still owned by original developers. As the majority of retail stock was built in the last 10-20 years, typically, buildings are in a good condition.



ESTONIA OVERVIEW

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ECONOMIC OVERVIEW

ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2018	2019F	2020F	2021F	2022F
GDP growth	3.9	3.0	2.7	2.3	2.4
Consumer spending	4.7	3.7	3.3	3.0	3.0
Industrial production	4.1	7.5	3.6	3.5	3.5
Investment	2.4	5.5	3.9	3.7	3.5
Unemployment rate (%)	5.4	4.5	4.3	4.1	4.0
Inflation	3.4	2.5	2.4	2.2	2.1
US\$/€ (average)	1.2	1.1	1.2	1.2	1.3
Interest rates 3-month (%)	0.0	0.0	0.2	0.5	0.7
Interest rates 10-year (%)	4.2	3.7	3.5	3.3	3.1

ECONOMIC BREAKDOWN

Population	1.3 million (2018)
GDP (nominal)	US\$ 30.3 billion (2018)
Public Sector Balance	-0.2% of GDP (2018)
Public Sector Debt	8.2% of GDP (2018)
Current Account Balance	1.7% of GDP (2018)
Parliament	Riigikogu
Head Of State	President Kersti Kaljulaid
Prime Minister	Jüri Ratas
Election Date	03.03.2019

RETAIL SALES GROWTH: % CHANGE ON PREVIOUS YEAR

ESTONIA	2018	2019F	2020F	2021F	2022F
Retail Volume*	3.2	3.2	3.4	3.4	3.4

NOTE: *annual % growth rate unless otherwise indicated. Figures are based on local currency and real terms. E estimate F forecast.

CITY	POPULATION (2018)
Tallinn	449,000
Tartu	99,000
Narva	59,000
Pärnu	52,000

Source: Republic of Estonia, Ministry of the Interior



ESTONIA LARGEST CITIES

ESTONIA

RETAIL OVERVIEW

MAJOR DOMESTIC FOOD RETAILERS

OG Elektra, Selver

MAJOR INTERNATIONAL FOOD RETAILERS

Coop, Maxima, Prisma, Rimi

MAJOR DOMESTIC NON-FOOD RETAILERS

Apotheka, Bauhof (DIY), Rademar, Sportland,

INTERNATIONAL RETAILERS IN ESTONIA

Benetton, H&M, Inditex Group (Zara, Bershka, Pull & Bear etc), Jysk, Mango, NewYorker, Reserved, Stockmann Group

FOOD AND BEVERAGE OPERATORS

Amps, Hesburger, Lido, McDonalds, Peetri Pizza, Subway, Vapiano

TYPICAL HOURS

MONDAY – FRIDAY	SATURDAY	SUNDAY
08.00-22.00	08.00-22.00	8.00-22.00

NEW ENTRANTS TO MARKET

Calzedonia Intimissimi



ESTONIA

RETAIL SCENE

Estonia is one of Europe's smallest markets with a population 1.3 million. Most retail schemes have been built recently and are performing well, with natural levels of vacancy.

Shopping centre stock is well established in Tallinn and some of the larger secondary cities. Hyper/supermarket anchored schemes with a catering and/or leisure offer continue to dominate the market. In 2017 retail sales increased by 1.5%, compared to 2016. Retail sales have been increasing year on year since 2010.

There is a remarkable number of separately standing hyper/supermarkets in Estonia. In recent years, many discounter supermarkets have been changed to more expensive supermarkets. However, Lidl has activated their plans to enter the Estonian market, which will have a big influence on the existing supermarket sector in Estonia.

E-commerce is developing rapidly in Estonia. The turnover of ecommerce increased by 26% in 2017. In most sectors the overall contribution from ecommerce is marginal, but like other European countries, ecommerce is likely to be a key factor affecting physical retail in the coming years.

It is possible to enter the Estonian retail market directly, though many also franchise and enter via concessions/shop-in-shops because of the small size of the market. There are no restrictions on foreign companies either buying or renting property in Estonia.

Although it is possible to occupy premises within a few weeks, it is more realistic to expect that on average it will take 3-4 months from initialising the property search to taking occupation of an existing property. The main issue is related to very limited vacancy in the major shopping centres, making it difficult to find available space.



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SHOPPING CENTRES

TOP SHOPPING CENTRES BY SIZE

NAME	CITY	SIZE (GLA SQM)	YEAR OPENED
Lõunakeskus	Tartu	72,000	2001
Ülemiste	Tallinn	60,000	2004
Rocca al Mare	Tallinn	57,300	1998
Kristiine	Tallinn	43,700	1999
Järve Keskus	Tallinn	41,800	2000
Astri Keskus	Narva	40,000	2006
Põhjakeskus	Rakvere	35,000	2011
Viru Keskus	Tallinn	26,300	2004
Solaris	Tallinn	23,500	2009
Kaubamajakas	Pärnu	22,000	2004

Source: Kinnisvaraekspert Research

ESTONIA

KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	COMMENT
Lease Terms	Leases are mainly for a term of 5 years, 5 + 5 years is also commonly used. 10 years is rather unusual in general but still often used for anchor tenants. Some agreements are signed with no possibilities to terminate the agreement.
Rental Payment	Rents are typically payable monthly in advance and usually there are fixed area-based rents. Sometimes fixed rents are combined with turnover-based rents. In this case most often the lessee has to pay a fixed payment plus a percentage of turnover, only if determined turnover level is exceeded. A security deposit is commonly used.
Rent Review	Most of rents are indexed based on CPI. Typically indexation is based on local CPI, sometimes Eurozone CPI or fixed % is used. In case of negative CPI it is not considered in indexation. Quite often indexation is limited to certain level (up to 3% annually for example).
Service Charges, repairs and insurance	A service charge is usually payable in multi-tenanted buildings and covers management fees, security, cleaning and internal maintenance of common parts, external maintenance and insurance, etc. Different lessors adopt different methods of collecting service charges: some may use variable charge with a reference to services which were used by the lessee at a particular month, and some may use fixed rate per sqm which is reviewed annually. Service charge excludes internal maintenance and insurance of rented accommodation. The landlord is responsible for external/structural matters in shopping centres.
Property taxes and other costs	The only property tax is a land tax which in most cases is rather marginal. Land tax should be paid by the landlord and is recovered through service charges. VAT at 20% is charged on rental payments.
Disposal of a lease	Sub-letting is usually not possible under the terms of the lease, strictly subject to landlord's approval. Possibility and effect of early termination depends on the statements in the agreement and negotiation. At lease end, the tenant is responsible for re-instating the premises to the same condition as at the start of the lease, subject to normal wear and tear. All tenant improvements must be approved by the landlord subject to the alteration covenant in the lease and the fact that approval should not be unreasonably withheld.
Valuation methods	Each landlord determines individual valuation method for its premises. The most valuable units are along the main customer flows: next to anchor tenants, near entrances, in front of hypermarkets cash lines. Premises on the first floor of the shopping centres are the most valuable and valuation of upper floors depends on shopping centre layout and customers circulation.
Legislation	The Estonian Civil Code provides much of the framework for lease agreements. Lease agreements must comply with the laws of the Republic of Estonia.

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