CBRE Baltics
PART OF THE AFFILIATE NETWORK

Growth amid evolving supply-demand dynamics

	Tallinn	Riga	Vilnius
Prime Rent, €/sqm/month	▲ 20.50 (+17%)	▶ 18.00 (+6%)	▶ 20.00 (+8%)
Total Stock, sqm	▲ 1.04M (+11%)	▲ 773.4K (+4%)	▲ 1.06M (+11%)
Vacancy Rate, %	▲ 7.1 (+42%)	▲ 10.7 (-2%)	▲ 7.8 (+24%)
Take-Up, sqm	▼ 5K (-55%)	▼ 7K (-32%)	▲ 17K (-51%)

KEY PERFORMANCE INDICATORS, Q2 2023
Growth Rate YoY (%)
Note: Arrows indicate change from previous quarter.

Highlights

H2 2023 is expected to increase the current Baltic office stock by approximately 192,000 sqm across Tallinn, Riga, and Vilnius. The considerable development pipeline is likely to exert upward pressure on vacancy rates across the markets. In the short-to-medium term, the overall vacancy in all three capitals may approach or even exceed a double-digit rate, especially driven by lower B-Class absorption. This raises additional considerations for speculative pipeline projects. As of Q2 2023, the under-construction stock amounts to 140,000, 136,100, and 148,500 sqm in Tallinn, Riga, and Vilnius, respectively.

In Q2 2023, the demand was mainly powered by local relocations amid a slowdown in the establishment of new FDIs. The average leased office size has diminished as companies embrace flexible workplace offerings and invest more in fit-out while opting for smaller spaces.

FIGURE 1: Selective Speculative Business Centers' Pipeline for H2 2023, Baltic Capitals

	Developer	GLA (sqm)	Class	Business District	City	Country
Novira Plaza	Novira Capital	23,500	A	CBD	Riga	LV
Artery	Lords LB	21,190	A	CBD	Vilnius	LT
Flow	Eika	15,700	A	CBD	Vilnius	LT
Elemental Skanste	Kapitel	15,000	A	Skanste	Riga	LV
Verde II	Capitalica AM	15,000	A	Skanste	Riga	LV
Maakri HUB	Fausto	9,500	A	CBD	Tallinn	EE
Roseni Maja	NG Investeeringud	8,900	A	CBD	Tallinn	EE
Sky Office	YIT Lietuva	8,800	B	Virsuliskes	Vilnius	LT
Eesti Gaasi Maja	Infortar	6,600	A	CBD	Tallinn	EE

Source: CBRE Baltics Research

Tallinn

SUPPLY

During Q2 2023, the modern office supply in Tallinn did not increase as initially announced. The completion and opening of some buildings (i.e., Roseni Maja & Eesti Gaasi Maja) have been postponed, and they are now expected to start operating in the coming months. At the end of the quarter, the total stock under construction was approximately 140,000 sqm, representing 13% of the existing stock, with ca. 60/40% split of the developments comprising A/B class.

DEMAND

Tenants are currently exploring new lease options when their rental agreements need to be prolonged or renewed. There is also a growing trend among locally-based tenants to downsize the rental area per employee, particularly in the financial sector. Despite these trends, many rental contracts are still being renewed with existing landlords, indicating both the increased bargaining power of tenants and the landlords' acceptance of this changing dynamic.

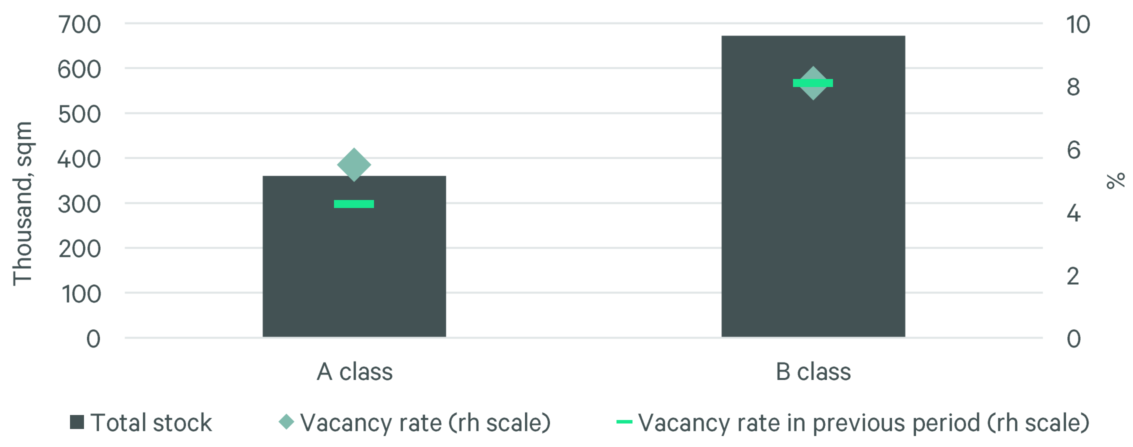
VACANCY

Vacancy rates, currently at 7.1%, are anticipated to increase due to a surplus of available speculative office properties, especially in older and lower-class premises. As of Q2 2023, vacancy rates are 5.5% and 8.1% in A and B-Class, respectively. As tenants gain increased bargaining power, the office market seems to be entering the *Tenants* or *Buyers* market phase.

MARKET RENTS

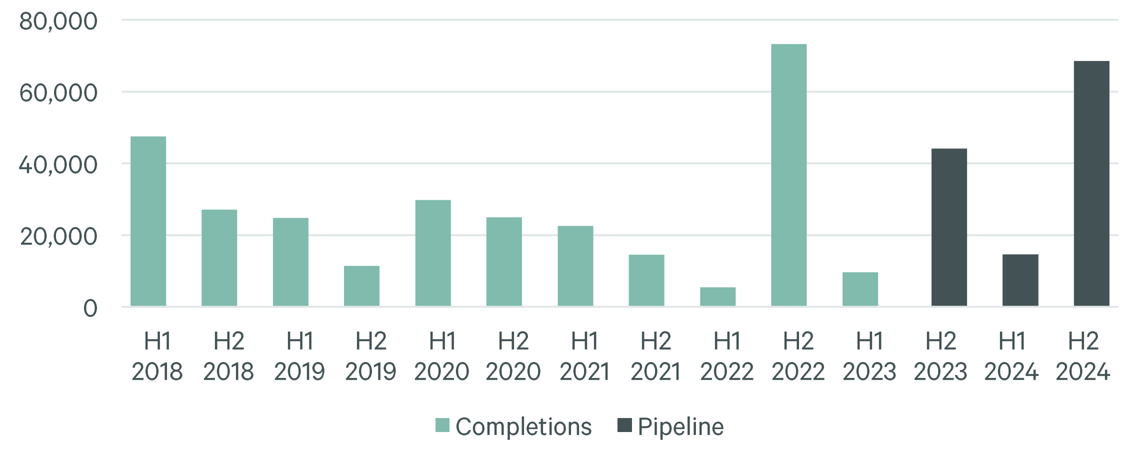
Rental rates are still experiencing an upward trend, especially in the A-Class segment (16.5-20.5 Eur/sqm/month), while the B-Class properties (12-16.5 Eur/sqm/month) might not see further increases or could even decrease if landlords of older buildings fail to invest in their premises. The development of multiple new office buildings in Tallinn's CBD is projected to intensify competition among A-class office spaces, potentially affecting the rental rates of older properties in need of modernization.

FIGURE 2: Vacancy Rates and Total Stock, A-Class and B-Class Office Buildings, Q2 2023



Source: CBRE Baltics Research

FIGURE 3: New Supply Deliveries in Tallinn, H1 2018 – H1 2023



Source: CBRE Baltics Research

Riga

SUPPLY

During Q2 2023, the modern office supply in Riga received a boost with the completion of a newly built office building in the Barons Kvartals project, adding 5,000 sqm. Although some anticipated completions faced slight delays, they are expected to contribute to the market in the upcoming months. Looking ahead, it is projected that by the end of the year, an additional 88,000 sqm of office space will be commissioned in Riga. This high activity from developers will continue to put pressure on B2 and older B1-class office buildings as occupiers are increasingly seeking more sustainable office projects.

DEMAND

Although the number of lease transactions during the quarter was relatively low, the total square meters absorbed in the market remained consistent with previous Q2 periods. Notably, the pipeline is saturated, resulting in pre-lease deals accounting for a significant portion of the overall take-up in the quarter.

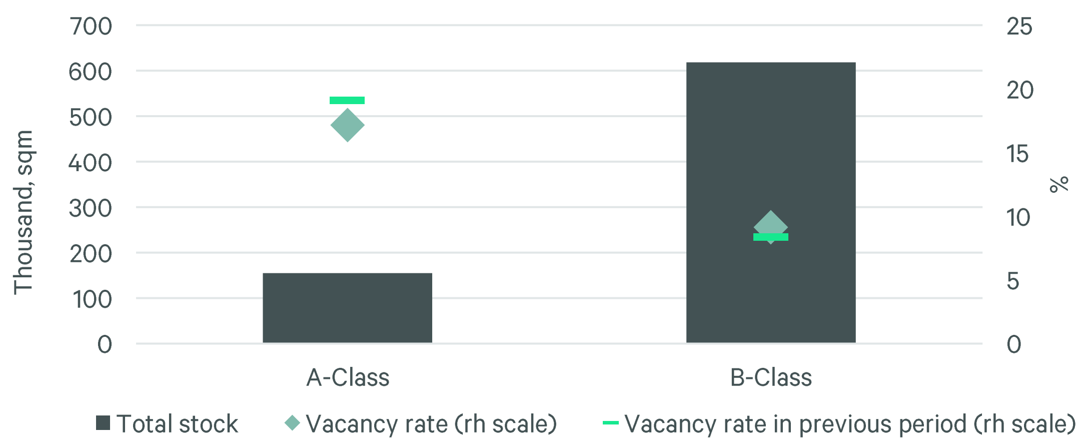
VACANCY

In Q2, the vacancy levels in Riga experienced a marginal increase of 0.4 p.p. compared to the previous quarter, reaching 10.7%. The A-class vacancy continues to decrease for the fourth quarter in a row, showing a 5% y/y decrease, while the B-class has slightly increased by 0.8 p.p. from the previous quarter. However, when considering the annual data, there has been an overall decrease in vacancy rate.

MARKET RENTS

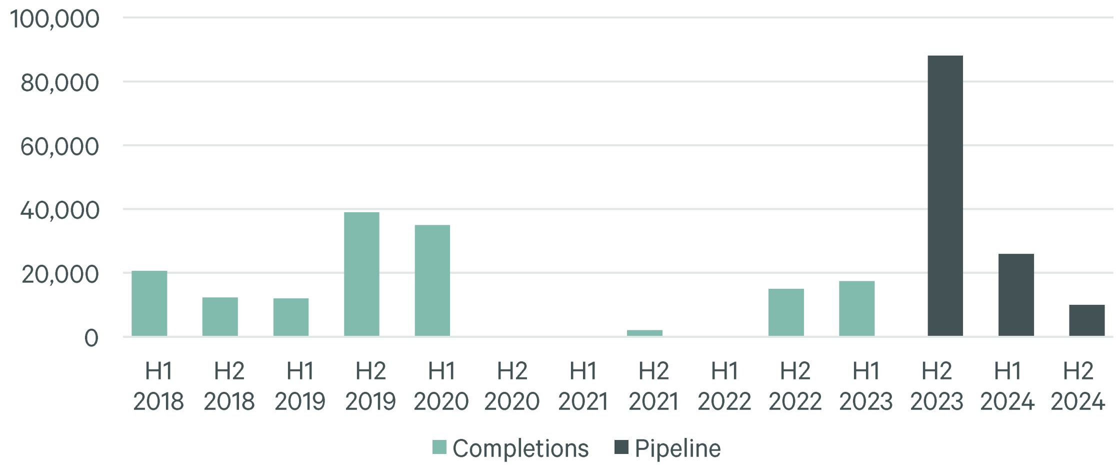
Market rents have remained stable, reaching 14-18 EUR/sqm/month in A-Class office buildings. This represents a 6% increase compared to the same period last year. In B-Class offices, rents have also increased, reaching 8.5-14 EUR/sqm/month. As new office spaces continue to be absorbed in the market, it is possible that further adjustments to rental prices may occur.

FIGURE 4: Vacancy Rates and Total Stock, A-Class and B-Class Office Buildings, Q2 2023



Source: CBRE Baltics Research

FIGURE 5: S New Supply Deliveries in Riga, H1 2018 – H1 2023



Source: CBRE Baltics Research

Vilnius

SUPPLY

Q2 2023 was relatively calm in terms of new commissioning, as no new business centers were delivered to the market. However, by the end of the year, the market is expected to see an additional 60,000 sqm added with the commissioning of A-class CBD-based office projects Artery and Flow, B-class Sky Office, and two owner-occupied business centers: Lietuvos Draudimas and Teltonika HQs. The under-construction stock remains relatively robust, totaling 148,500 sqm at the end of Q2 2023, with A/B class accounting for a 70/30% share, respectively.

DEMAND

The take-up reached 17,200 sqm in Q2 2023, which is 51% (or 18,200 sqm) lower than the take-up figure in the same period a year ago. The largest deal was a pre-lease in Artery, where Medicinos bankas agreed to take 1,800 sqm of office space. Another noteworthy transaction took place in Business Stadium North East, where Epam Systems expanded their current occupancy by leasing an additional 1,600 sqm. The dominant type of tenant remained in the Financial Services and IT industries. However, public sector companies were also relatively active in engaging in office lease transactions. Notably, tenants are now searching for smaller office spaces compared to before the pandemic, with the average leased office size in 2023 YTD down by 31% compared to 2022.

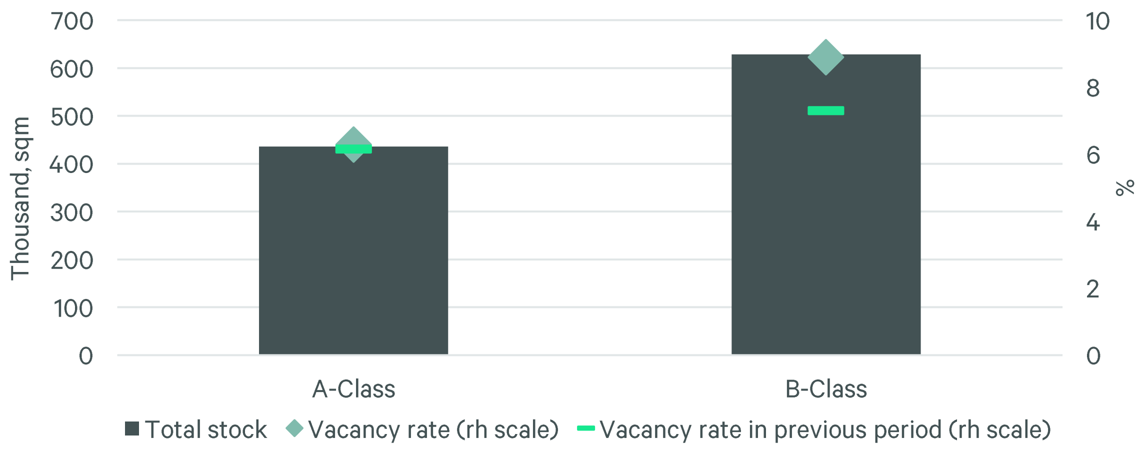
VACANCY

The vacancy rate has increased to 7.8% in Q2 2023. The A-class vacancy rate is reported at 6.3%, while the B-class at 8.9%. The considerable pipeline of under construction stock is expected to exert subsequent pressure, potentially leading to further increases in vacancy rates.

MARKET RENTS

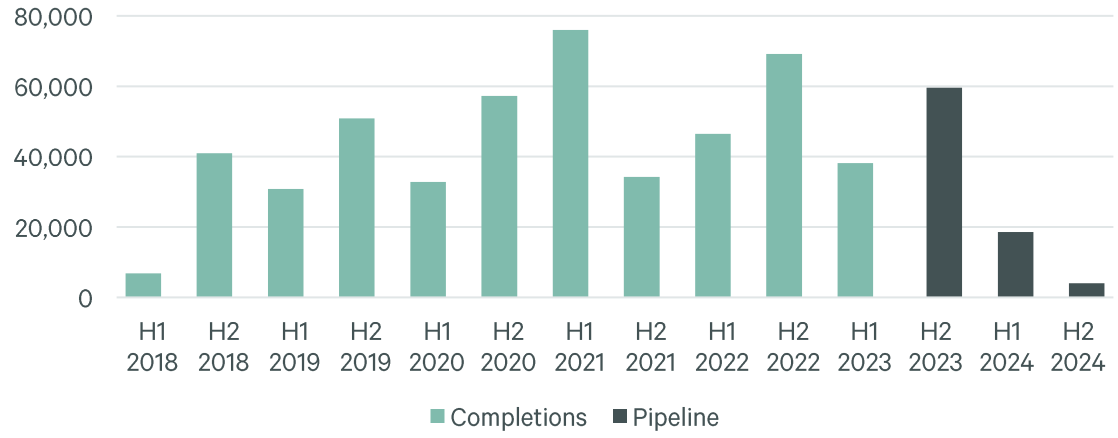
The rent prices have remained stable, with A-class rents ranging between 16.5-20 Eur/sqm/month, while B-class rents range between 13-15 Eur/sqm/month. However, due to the increasing vacancy rates, tenants now have more bargaining power, which may lead to a slight downward repricing of business centers in the city.

FIGURE 6: Vacancy Rates and Total Stock, A-Class and B-Class Office Buildings, Q2 2023



Source: CBRE Baltics Research

FIGURE 7: New Supply Deliveries in Vilnius, H1 2018 – H1 2023



Source: CBRE Baltics Research

Market Area Overview

TALLINN OFFICE

Porto Franco
Laeva st. 1,
Tallinn, Estonia, EE-10111

RIGA OFFICE

Z1
Zala st. 1
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