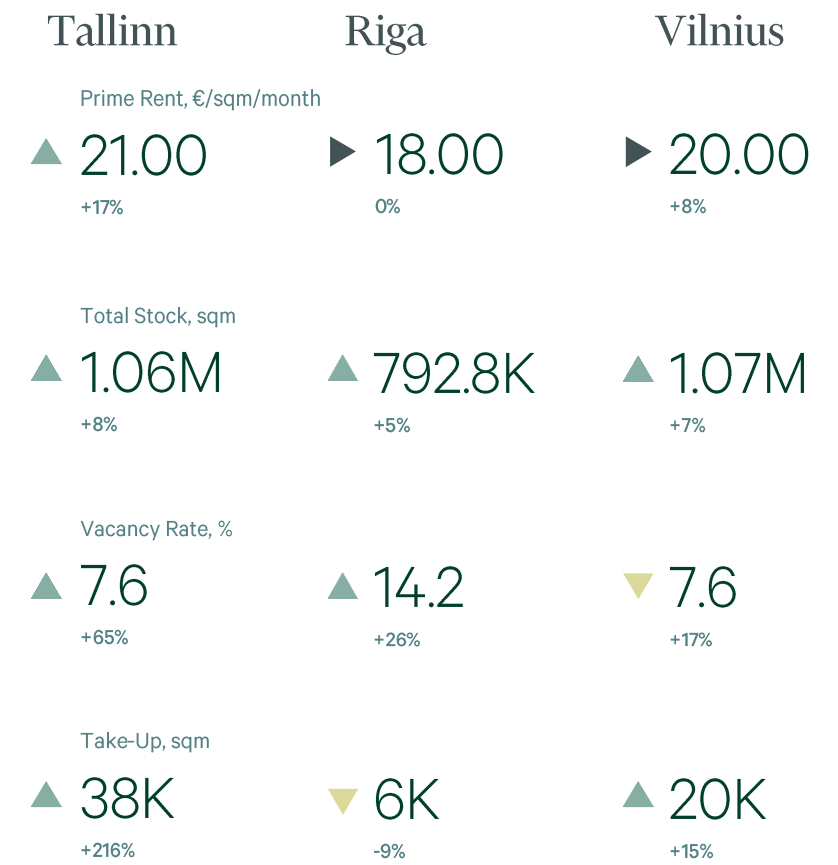


Navigating a Shifting Landscape



KEY PERFORMANCE INDICATORS, Q3 2023

Growth Rate YoY (%)

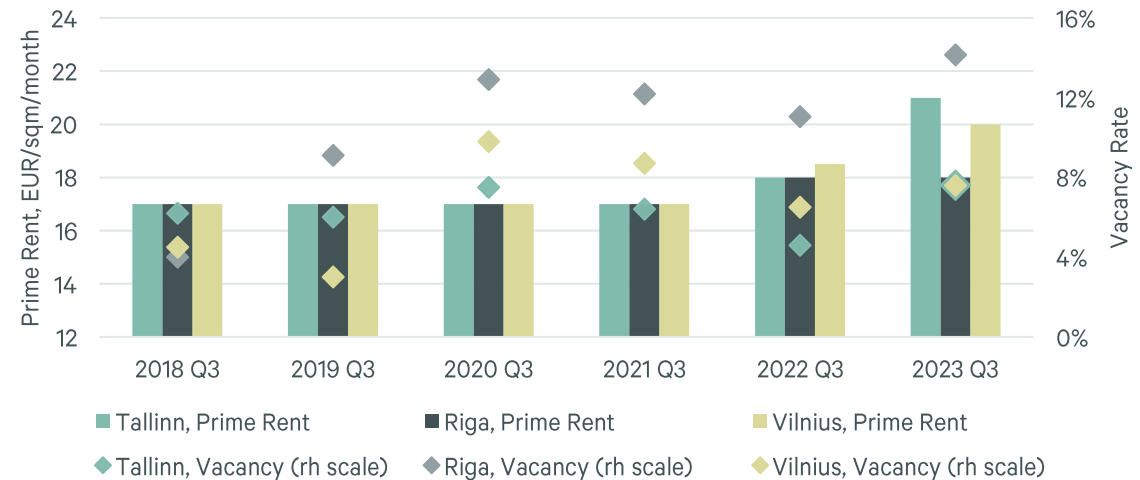
Note: Arrows indicate change from previous quarter.

Highlights

During the third quarter of the year, new building completions in Riga were the primary drivers of growth in the region's office stock. In total, approximately 35,000 sqm of GLA were added across Tallinn, Riga, and Vilnius, with Riga's completions accounting for around 55% of it.

Vacancy growth trends have continued into the quarter and significantly increased in Tallinn and Riga, while the opposite trend was observed in Vilnius. With more than 110,000 sqm forecasted for delivery in the remaining quarter of 2023, vacancies are expected to rise again, especially given the ongoing drops in overall demand observed for several quarters. Market rents have, for the most part, remained stable, however, they are expected to face downward pressure in the upcoming quarters.

FIGURE 1: Historical Prime Rent and Vacancy Rate Levels, Baltic Capitals, 2018 Q3 – 2023 Q3



Source: CBRE Baltics Research

Tallinn

SUPPLY

In Q3 2023, the Eesti Gaasi Maja office building, located in the CBD and comprising 6,600 sqm of GLA, was newly introduced to the market. Additionally, the office building on Narva Street 7a completed a portion of its reconstruction. As of this quarter, more than 127,000 sqm of office space is currently under construction, with 28% of it expected to be completed by the end of 2023. Furthermore, an additional 70,000 sqm is in the planning phases, with projected delivery by 2025.

DEMAND

During the third quarter of 2023, Tallinn's office market witnessed a significant surge in take-up space. However, out of the approximately 38,000 sqm in take-ups, the pre-lease agreement by Swedbank for 26,000 sqm in the Arter Quarter dominated, representing the largest deal observed not only in Estonia but also across the entire Baltic region. The 28-story office building is set to accommodate around 2,000 Swedbank employees and will serve as the new headquarters for its Estonian branch. Meanwhile, take-up numbers in existing office buildings decreased by approximately 8% when compared to the same period the previous year.

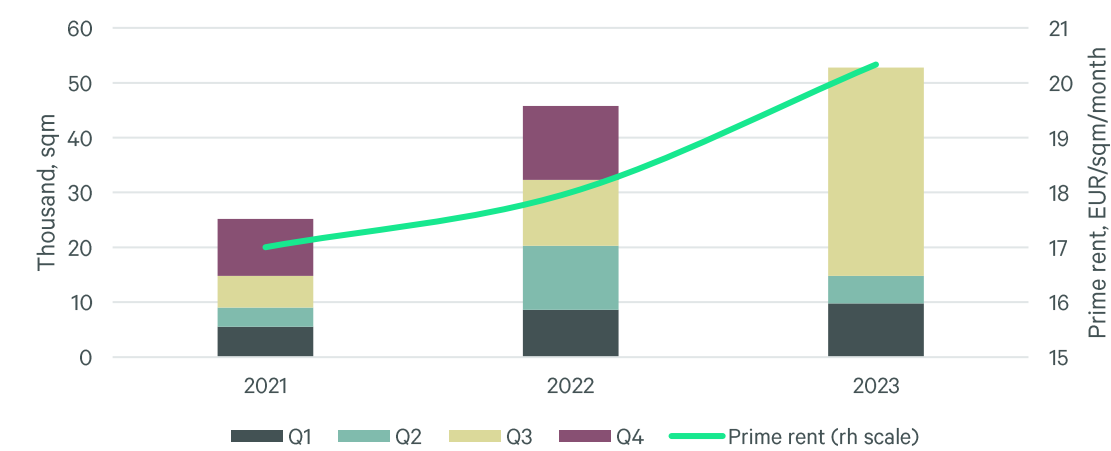
VACANCY

With shifting demand patterns, vacancy rates have seen a noticeable increase. In the last quarter, overall vacancies rose by 0.5 p.p. compared to Q2 2023, and over the past 12 months, they have grown by 3 p.p., currently standing at 7.6%. Notably, when analyzing B-class buildings, growth patterns have been more pronounced, with vacancies increasing by 1.4 p.p. during the quarter. In contrast, vacancies in A-class buildings decreased by 1 p.p. in the same period. These trends underscore tenants' inclination toward higher-quality premises and the mounting pressure on landlords to invest in their properties to attract tenants.

MARKET RENTS

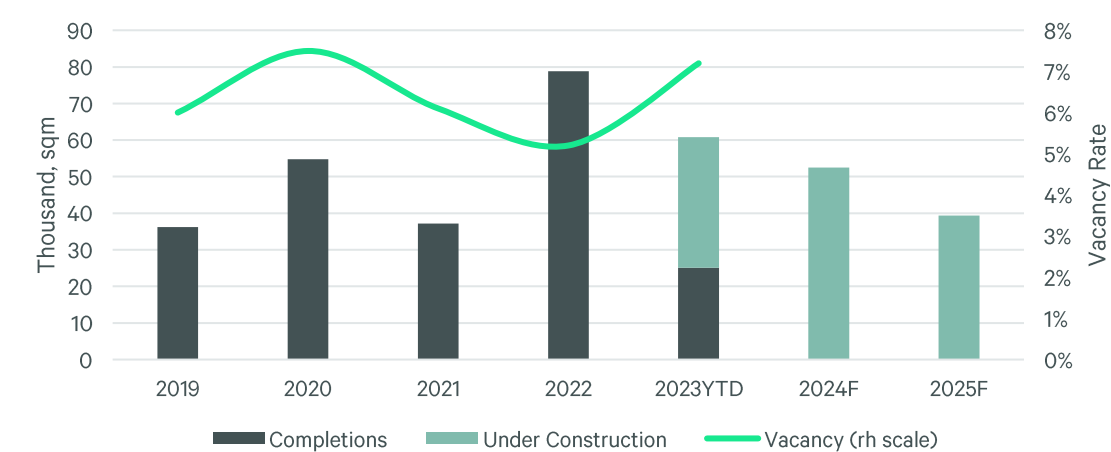
Prime rents are presently in the range of 17-21 EUR/sqm/month, while rents for B-class buildings are in the range of 11-16.5 EUR/sqm/month. The rental rate ranges continue to expand, reflecting the dual pressures of rising construction costs for completed buildings on one hand and landlords' willingness to accept lower rental rates instead of making further investments on the other.

FIGURE 2: Market Trend (Take-Up | Prime Rent)



Source: CBRE Baltics Research

FIGURE 3: Development Activity (Completions | Vacancy Rate)



Source: CBRE Baltics Research

Riga

SUPPLY

In Q3 2023, Riga witnessed the completion of three A-class projects, adding approximately 20,000 sqm of new office space to the city. These projects include Zeiss Offices (GLA: 4,300 sqm) by MBC Capital in the Mukusalas district, an office building developed by Pillar in the New Hanza territory at 1 Mihaila Tāla Street (GLA: 12,680 sqm), and an office located at Pērses street 2 (GLA: 2,406 sqm) by River Properties. The Elemental Business Centre, developed by Kapitel, is expected to be commissioned at the beginning of Q4 2023. Furthermore, over 100,000 sqm of modern office space is under construction, which will further enhance the supply of modern office spaces in Riga over the next two years.

DEMAND

Take-up in the office sector remains relatively stable, reaching ca. 6,000 sqm, which is 9% lower compared to Q3 2022 and 13% less compared to Q2 2023. Most transactions have occurred within buildings with sustainable certifications, and the information technology sector continues to be the leading contributor. Additionally, more companies are willing to commit to a pre-lease deal, e.g., Elemental Business Center has pre-leased ca. 75% of its space before commissioning.

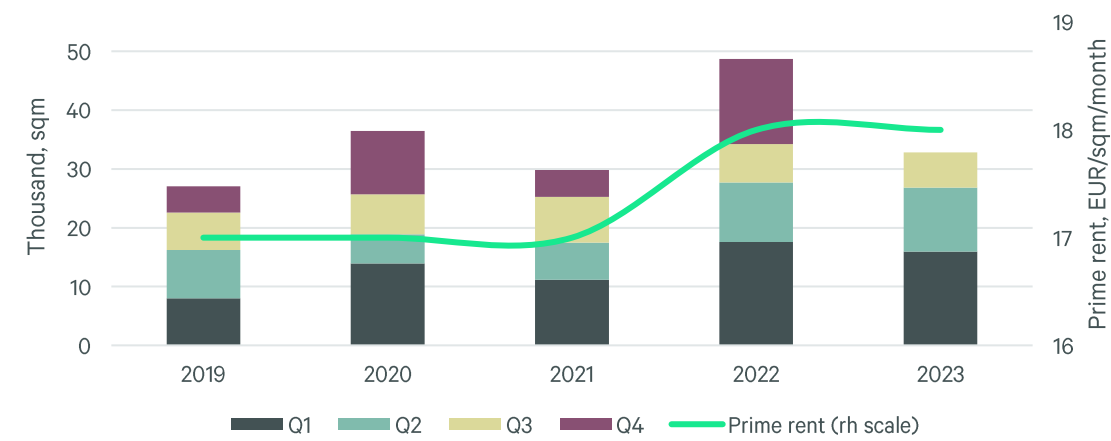
VACANCY

The increase in the vacancy rate can be primarily attributed to companies adapting to more hybrid working models, necessitating the reconfiguration of existing office spaces. In many cases, the square meters per working desk are increasing, while the total leasable area is decreasing. As of the end of Q3, the overall vacancy rate stands at 14%. This marks a 3.6 p.p. increase from the previous quarter and a 2.9 p.p. increase compared to the same period in the previous year.

MARKET RENTS

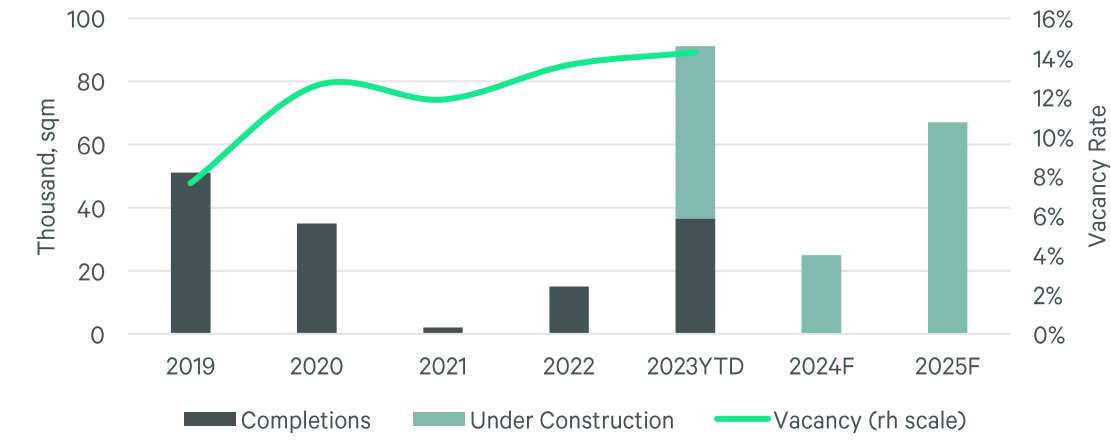
Market rents have remained relatively stable despite ongoing economic challenges. For B-Class properties, rents have fluctuated between 8.50 - 15.00 EUR/sqm/month, while for A-Class properties, they have ranged from 14.00 to 18.00 EUR/sqm/month. The forthcoming completions may introduce some changes in rental levels, potentially exerting pressure on older B-Class offices to consider lowering their rental rates.

FIGURE 4: Market Trend (Take-Up | Prime Rent)



Source: CBRE Baltics Research

FIGURE 5: Development Activity (Completions | Vacancy Rate)



Source: CBRE Baltics Research

Vilnius

SUPPLY

During Q3 2023, only one building was completed in the Lithuanian capital: the headquarters of Lietuvos Draudimas, comprising ca. 8,500 sqm. Although the second and third quarters of the year experienced a rather slower pace, the final quarter is expected to significantly expand the market's supply by over 45,000 sqm of GLA with the anticipated commissioning of the Artery (A-class), Flow (A-class), and Sky Office (B-class) buildings. In total, the current Vilnius' office stock pipeline (under construction) stands at ca. 150,000 sqm GLA.

DEMAND

Office take-up in the quarter amounted to more than 20,000 sqm, marking a 16% increase compared to the previous quarter and a 15% rise above the take-up levels of Q3 2022. The notable trend of tenants requiring smaller office spaces persisted into Q3 2023, with the median leased space at approximately 400 sqm, a significant shift from the 1,000 sqm median in 2020. Of all lease transactions, 55% occurred in B-class offices, while 64% of the deals were completed in buildings certified under BREEAM or LEED standards.

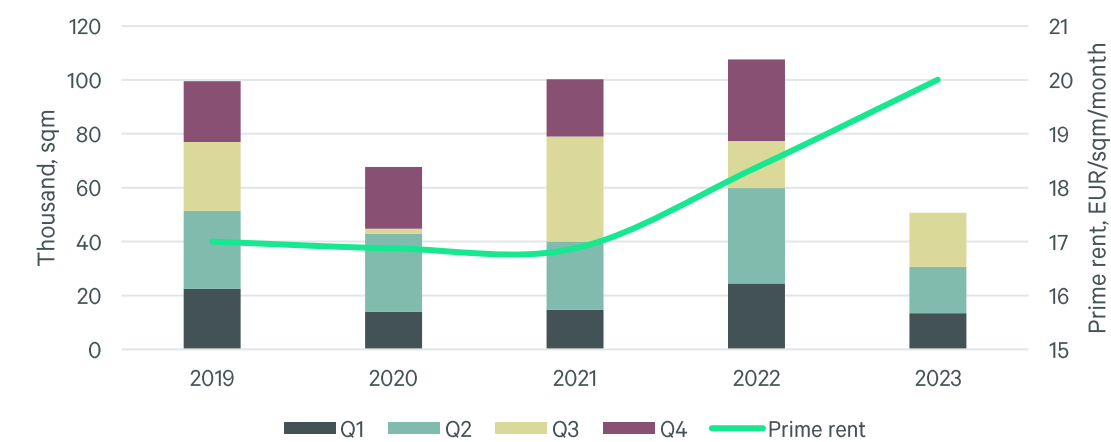
VACANCY

At the end of Q3, office vacancies were at 6.0% for A-class buildings and 8.7% for B-class buildings, each decreasing by 0.2 p.p. from the previous quarter. However, when compared to the same period the previous year, overall vacancy rates saw a 1.1 p.p. increase. The rise can be attributed to the increasing costs of business operations and ongoing downsizing trends due to the persistent adoption of hybrid working conditions. In the short term, vacancies are expected to continue experiencing upward pressure.

MARKET RENTS

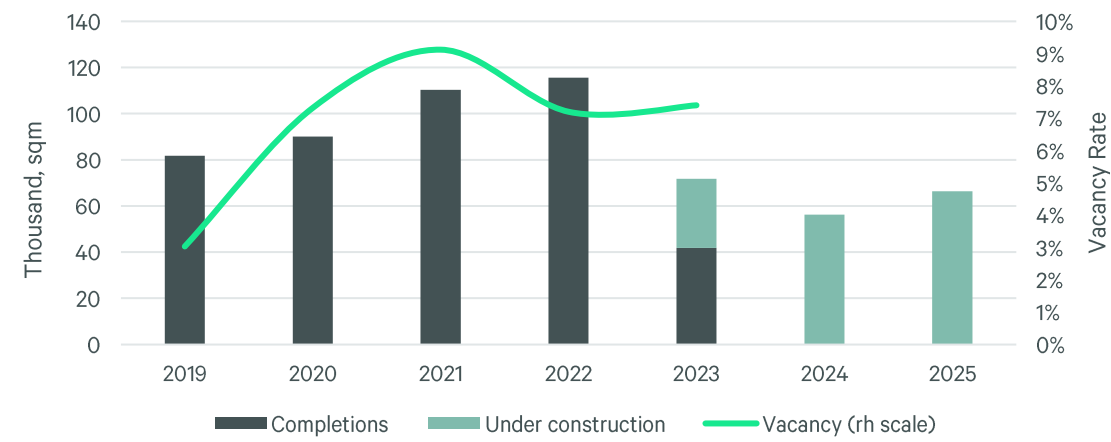
During the past quarter, the office rental market remained relatively stable, with no significant deviations in rental rates. Prime rents stood within the range of 16-20 EUR/sqm/month, while B-class building rents held steady at 13-15 EUR/sqm/month. Nonetheless, the expectations for the vacancy rates to increase further in the near future might put downward pressure on rents for both A and B-class offices, particularly at the higher end of the price spectrum.

FIGURE 6: Market Trend (Take-Up | Prime Rent)



Source: CBRE Baltics Research

FIGURE 7: Development Activity (Completions | Vacancy Rate)



Source: CBRE Baltics Research

Market Area Overview



TALLINN OFFICE

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

RIGA OFFICE

Z1
Zala st. 1
Riga Latvia, LV-1010

VILNIUS OFFICE

S2
Saltoniskiu st. 2
Vilnius, Lithuania, LT-08126

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