

Tempered Optimism: Slowly Rising Confidence



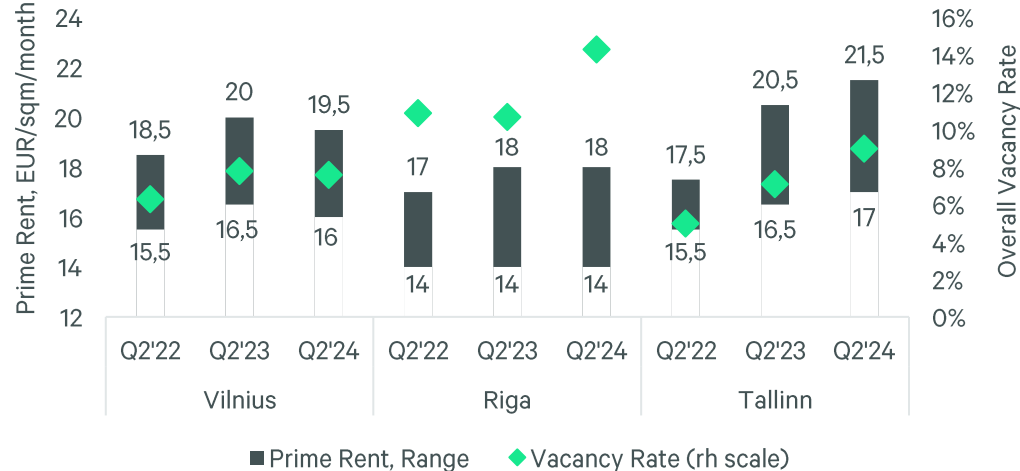
KEY PERFORMANCE INDICATORS, Q2 2024
Growth Rate YoY (%)
Note: Arrows indicate change from previous quarter.

Highlights

All three Baltic office markets have welcomed new office completions during Q2 2024, totaling ~33,000 sqm, while development works started for a total of 7 projects, expected to supply another ~60,000 sqm of GLA in the years to come. As of Q2 2024, more than 300,000 sqm are under construction across the Baltic capitals, with the largest construction activity taking place in Vilnius.

The leasing market began showing signs of recovery, at least in Vilnius and Tallinn, with tenants particularly putting emphasis on the quality and sustainability of their target spaces. However, prime rents are increasing further in Tallinn, which might negatively impact vacancy rates moving further, which have been observed to decrease Q-o-Q in Vilnius and Riga.

FIGURE 1: Annual Prime Rent and Vacancy Rate Movements, Baltic Capitals, Q2 2022 – Q2 2023 – Q2 2024



Source: CBRE Baltics Research

Vilnius

SUPPLY

The second quarter of the year has been relatively slow in terms of development, as only one partly speculative office building was brought to the city’s market – the B-class “Vestum” Business Park with ca. 5.600 sqm GLA. Additionally, the built-to-suit office project for Pro Bro Group was finalized, expanding the market by 2,000 sqm GLA. Nonetheless, in Q2 2024, development started for a total of 4 projects, altogether expected to supply another 32,000 sqm GLA in the upcoming few years. This has brought the number of total stock under construction to over 172,500 sqm of GLA (most of it – speculative), with 13% of it anticipated to be finished until the end of 2024.

DEMAND

Leasing activity is slowly getting back to 2022 levels, as during the quarter, ca. 30,600 sqm were either leased or pre-leased. Pre-lease agreements were common, with 39% of all space rented in currently constructed offices, signaling that demand for quality office premises remains robust, which also reflects in A-class take-up numbers – 67% of all leased space was in prime office locations. The most substantial deal took place in the Konstitucijos 14A project, currently developed by Lords LB Asset Management, where Šiaulių bankas has signed an agreement for 9,500 sqm. Also, several deals over 2,000 sqm were signed across multiple CBD and Extended-CBD locations. Simultaneously, during the quarter, demand from local companies was the highest, with most of it coming from financial, IT, and public sector’s firms.

VACANCY

Overall vacancy has slightly fallen from 7.8% in Q1 2024 to 7.6% in Q2 2024. That is mostly attributable to strong A-class leasing performance, where prime office vacancies dropped by 0.9 p.p. to 6.1%, while B-class vacancies slightly increased to 8.7% from the previously recorded 8.4%.

MARKET RENTS

Same as in the quarter before, in Q2 2024, rents have remained leveled, standing at 16.00-19.50 €/sqm/month for A-class offices, and 13.00-15.00 €/sqm/month for B-class premises. Until market conditions stabilize, it is unlikely that landlords will begin increasing the price levels to the heights observed in 2023.

FIGURE 2: Office Stock Development in Vilnius by Class, as of Q2 2024, 2015-2025F



Source: CBRE Baltics Research

FIGURE 3: Historical Take-Up Levels and Average Sizes of Leased Offices, 2022 Q1 – 2024 Q2



Source: CBRE Baltics Research

Riga

SUPPLY

In Q2 2024, one office project, the 2nd stage of Verde by Capitalica AM, was commissioned, adding 15,000 sqm of modern office space to the total stock. While the last two years have seen active new building commissioning with more than 100,000 sqm added to the market, currently only three office projects with a total GLA of ca. 24,000 sqm are under construction and set for commissioning by the end of 2025. However, vast plans are on the horizon, as multiple developers have recently announced their intentions to start construction for sizeable business center projects. These could potentially bring up to 60,000 sqm of GLA to the city’s market in the upcoming few years.

DEMAND

In Q2 2024, take-up amounted to approximately 9,600 sqm, 43% less than the previous year. The main reason for weaker tenant activity was a decrease in pre-lease transactions. It is expected that the take-up activity will remain approximately the same for the rest of 2024 because of scarce office commissioning projections. Occupiers are showing an increased interest in sustainable office developments and accept paying above-market-average rent for sustainable office premises. Additionally, potential tenants emphasize offices that provide more collaboration options, increasing space per working desk.

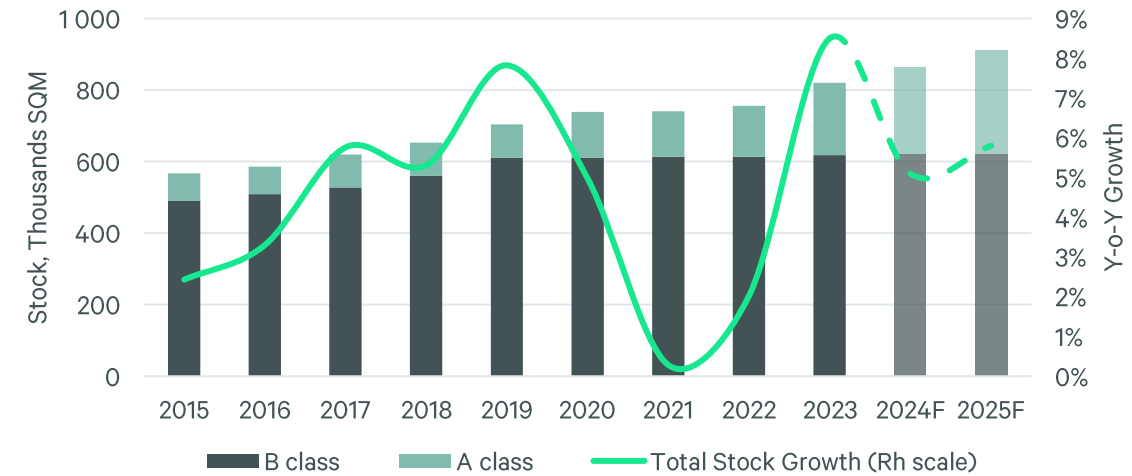
VACANCY

Overall office vacancy in Riga stands at ca. 14.3% in Q2 2024. The vacancy level is expected to slightly decrease in the following quarters due to a dry pipeline in the next couple of years, which leads to the current stock absorption. The highest demand is for office premises in technically advanced buildings, meaning that lower-class (B2) office buildings will be absorbed at a slower pace.

MARKET RENTS

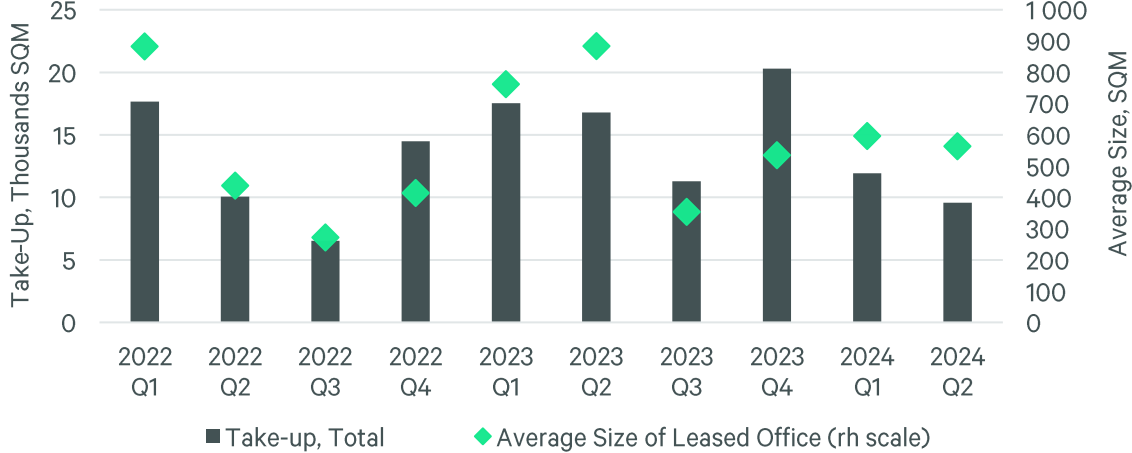
Market rents have remained stable in A and B-class offices at 14-18 €/sqm/month and 8.5-14 €/sqm/month, respectively. Rents are expected to remain stable for the foreseeable future, with slight downward pressure for less advanced buildings.

FIGURE 4: Office Stock Development in Riga by Class, as of Q2 2024, 2015-2025F



Source: CBRE Baltics Research

FIGURE 5: Historical Take-Up Levels and Average Sizes of Leased Offices, 2022 Q1 – 2024 Q2



Source: CBRE Baltics Research

Tallinn

SUPPLY

In Q2 2024, 10,500 sqm of new commercial premises were added to Tallinn’s office market, bringing the total stock level to almost 1.1 million sqm. Newly constructed buildings – A-class Telliskivi 57B and B-class Vektor (1st stage) – have already secured anchor tenants and will host Kõu Mobility Group and Workland, respectively. Additionally, construction started for 3 projects – City Plaza 2, Mara Arimaja and Park Tondi – which will additionally bring 26,500 sqm of GLA to the market. Also, the Valge Maja building has started reconstruction works. As a result of these new developments, in total, there are 111,000 sqm of premises under construction in Tallinn as of Q2 2024, out of which ca. 20% are expected to be finished in the rest of 2024.

DEMAND

During the quarter, 16,200 sqm of office space was leased or pre-leased, with majority leases taking place in B-class offices (ca. 65%). Main parameters the tenants are looking for when considering new/alternative office space: distinctive solutions in terms of architecture, location in a complete environment where there is public transport connection, availability of places to eat, other companies working in the neighborhood as well as the energy efficiency of the building. Tenants are willing to pay higher rent per sqm if abovementioned conditions are fulfilled, at the same time downsizing the rental area due to hybrid work practises which in total is not increasing the total cost of rent.

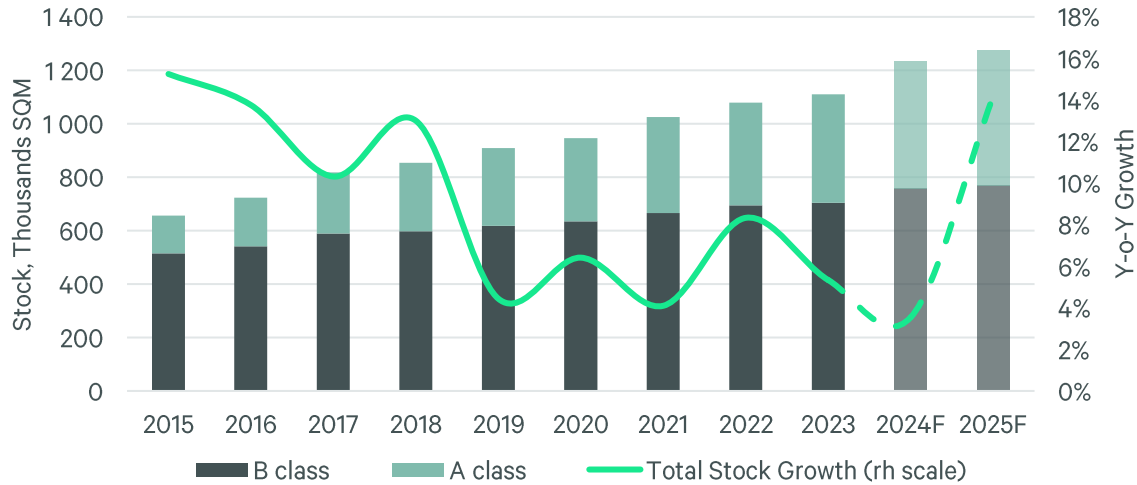
VACANCY

Overall vacancy level of Tallinn’s modern office space stood at 9.0% in Q2 2024. A-class vacancy has increased during the last 12 months from 6.7% to 7.4% and B-class from 8.0% to 9.9%. The trends confirm that higher class premises are more resistant to the pressures coming from the demand side and investing into quality is a must. Some owners have taken the older premises off the market for reconstructing the buildings completely.

MARKET RENTS

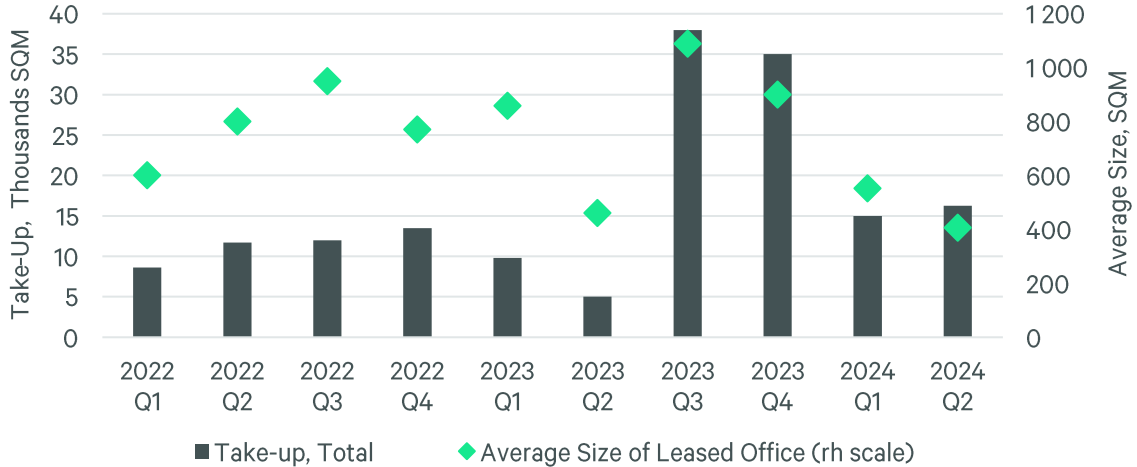
Average rent levels have remained mainly stable throughout Q2 2024, although the upper range of A-class buildings has experienced some increases. Currently, A-class rents typically range from 17.00 to 21.50 €/sqm/month and B-class rents average between 10.00 and 17.00 €/sqm/month.

FIGURE 6: Office Stock Development in Tallinn by Class, as of Q2 2024, 2015-2025F



Source: CBRE Baltics Research

FIGURE 7: Historical Take-Up Levels and Average Sizes of Leased Offices*, 2022 Q1 – 2024 Q2



*In Q3 and Q4 of 2023, several large anchor deals have taken place in Tallinn which were not considered when estimating averages.
Source: CBRE Baltics Research



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