

Riga Offices, 2019

# Rent stability unaffected by new office construction records

▲ Total Modern Stock  
**704,000 sq m**

▲ Vacancy Rate  
**9.1%**

▲ Take-up  
**27,000 sq m**

▲ Completions  
**52,300 sq m**

▼ Prime yield  
**6.25%**

\*Arrows indicate change from the corresponding period in the previous year

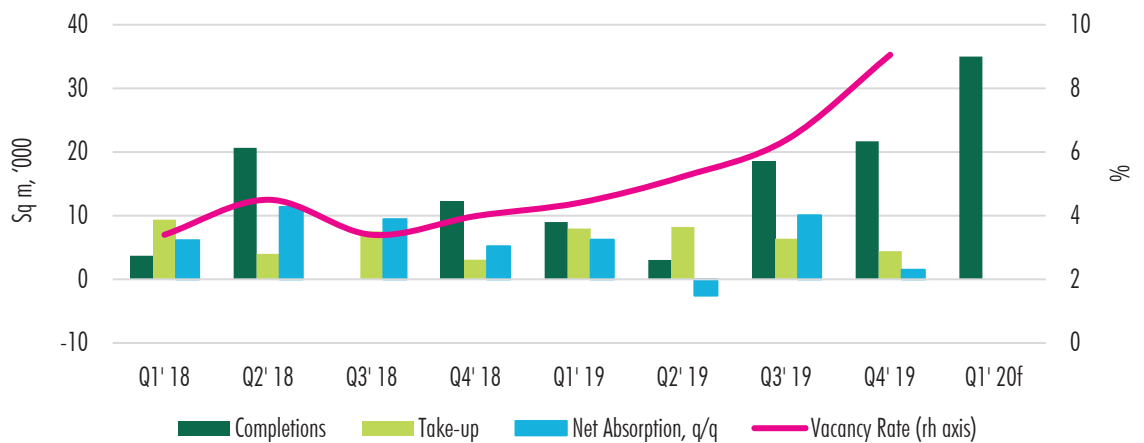


Picture: Business Garden Riga, Office complex. Source: Vastint Latvia

**KEY POINTS:**

- Total stock has grown by 52,300 sq m since 2018 and reached over 704,000 sq m at the end of 2019.
- Seven office buildings were added to the stock in 2019. All are class B1 offices. The biggest deliveries are Business Garden Riga (1st stage), Akropole and Jaunā Teika (3rd stage, Henrihs).
- None of the class A offices were completed in 2019, but this is expected in 2020. Z-Towers was commissioned in January 2020.
- Prime office yields stayed at a historic low at 6.25% over the year.
- Up to 50% of lease deals are sized from 300 sq m to 1,000 sq m, and one third of lease transactions are for premises up to 200 sq m.
- The vacancy rate increased significantly in 2019. By the end of 2019, it stood at ca.9%, or more than double the y/y.
- Rent rates remain stable: 14.0–17.0 EUR/sq m/month for class A, 8.0–14.5 EUR/sq m/month for class B.
- GDP growth slowed down to 2.3% (Q1-Q3 2019) y/y, yet the forecasts remain firmly positive.
- Wages grew by 7.6% on average (Q1-Q3 2019) y/y.
- HICP declined slightly to 2.3% (Q4,2019) y/y.

Figure 1: Main Indicators, Riga Modern Offices Stock, 2018-2020 Outlook



Source: CBRE Baltics; 2020.

**ECONOMIC OUTLOOK**

In 2019, the Latvian economy lost momentum, yet the growth remained above the 2% level. In the first three quarters, real GDP growth accounted for 2.3%. A robust economy has supported the labour market. In Q1-Q3 2019, nominal wages increased 7.6%, and the unemployment rate declined by 1.2 p.p. to 6.4% compared to the same period a year ago. Despite substantial wage growth, inflation remained stable and close to the desired above the 2% level (2.3% in Q4 2019). Oxford Economics forecasts assume that GDP growth in Latvia has stabilized at the 3% level in 2019 and further in 2020 – 2022.

**SUPPLY**

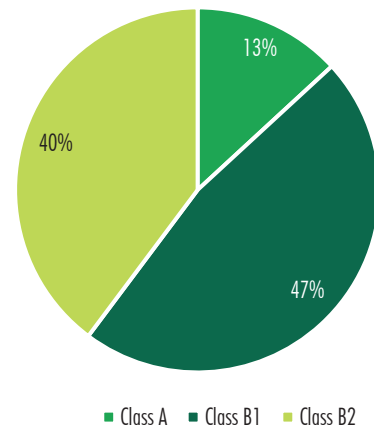
This year marks the highest construction activity since 2009. In total, 7 office buildings were commissioned in 2019 adding to the office stock of ca. 53,400 sq m of modern office premises. Akropole offices, Business Garden Rīga, and the final phase of Jaunā Teika (Henrihs) accounted for 77% of newly added office premises in 2019. Among new business centres of 2019 are Mezaparka Offices, Telegraph offices, and Red Line offices. SWH business centre was renovated and rebranded to a part of Skanstes City in 2019.

The share of class B1 of the total modern stock increased in 2019 – by 4 p.p. (Q4, 2019/2018 change), constituting a little less than 50% of office supply by the end of 2019.

In 2019, no class A offices were commissioned. Completions of two class A office projects were scheduled in 2020 – Origo One and Z-Towers. The latter was commissioned in January 2020 adding 24,000 sq m to office stock. Premium offices currently constitute 13% of the office floor.

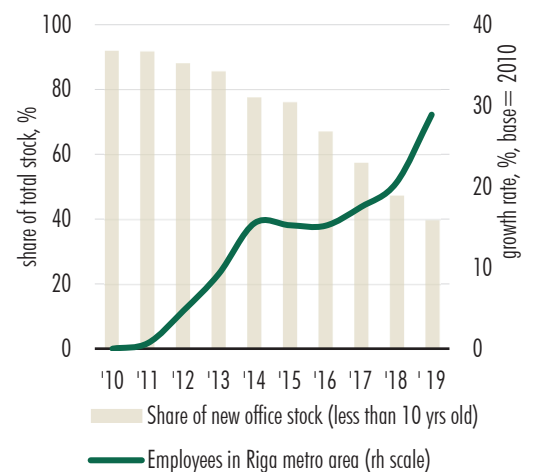
As to supply and demand dynamics, the number of employees has increased as a result of internal migration to Riga over

Figure 2: Modern Office Stock by Building Class



Source: CBRE Baltics; 2020.

Figure 3: Office Stock and Employment Changes Since 2010



Source: CSB of Latvia, CBRE Baltics; 2020.

the course of the past ten years, which will inevitably decline; however, new office deliveries have accelerated. Therefore, considering the low volume of new market entrant enterprises, relocations from older stock properties should remain the main market driver.

**PIPELINE PROJECTS**

2020 will see slower office development in terms of commissioned office buildings compared to 2019. However, several projects have announced their plans to start construction in 2020 – Verde, Elemental Skanste, the second phase of Business Garden Rīga and Pine. With this expected activity, ca. 100,000 sq m of modern office premises will be delivered by 2023. All of the above-mentioned projects will be certified according to sustainability standards (BREEAM or LEED).

**DEMAND & ABSORPTION**

In 2019, take-up reached a volume of over 27,000 sq m or a 16% increase in comparison to 2018. Pre-lease and signed agreements in the newly built office centres created about half of take-up in 2019. The notable occupancies of 2019 were expansion deals for Visma Labs (1,500 sq m) to Business Garden Rīga, Workland (ca.1,400 sq m) at Telegraph Offices, and Cabot’s expansion and relocation to Jaunā Teika. Most of the space taken was small to mid-sized areas. Up to 50% of all lease transactions were of the size of 300 sq m to 1,000 sq m and about 1/3 of lease deals were for offices of a small scale – below 200 sq m in 2019.

Overall, services and retail companies are the main business segments, the activity of which caused positive absorption in the office market in 2019. In addition, co-working expansion continued in 2019 and is expected in the foreseeable future as new business encourages expansion.

**VACANCY**

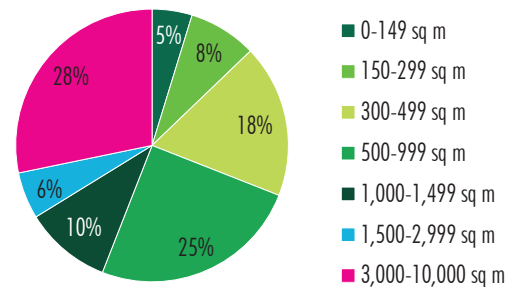
The overall office vacancy rate was 6.3 % in 2019. It has increased more than twice from 3.9% in January to 9.1% in December of 2019.

A significant change in the vacancy rate was recorded for class B1 offices – by 9 p.p. as their volume in total modern office stock grew by 19% from the beginning of 2019.

**RENT RATES**

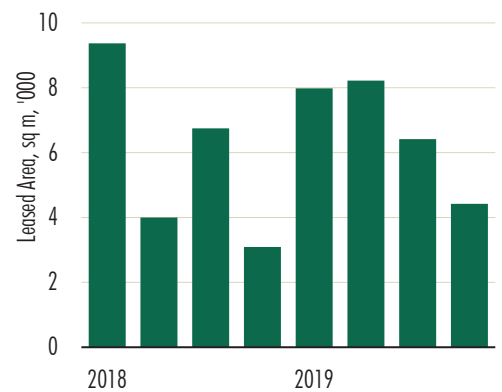
The monthly rent rates for class A and B were stable in 2019. The range of the asking rent price for class A office premises was 14 - 17 EUR/sq m/ month. For class B1 offices,

**Figure 4: Leased Area by Transaction by Size in 2019**



Source: CBRE Baltics; 2020.

**Figure 5: Riga Office Market Quarterly Take-up, 2018-2019**



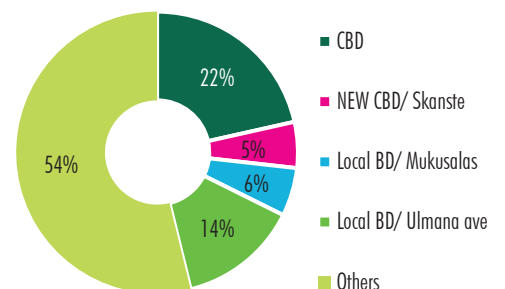
Source: CBRE Baltics; 2020.

**Figure 6: Vacancy Rate in Modern Offices by Class and Quarter, %**

Rate \ Period	Q4' 18	Q1' 19	Q2' 19	Q3' 19	Q4' 19
<b>Overall</b>	<b>3.9</b>	<b>5.1</b>	<b>5.2</b>	<b>6.4</b>	<b>9.1</b>
Class A	2.5	2.8	2.8	2.4	2.4
Class B1	4.2	5.3	6.1	8.9	14.6
Class B2	4.4	5.6	5.2	4.9	5.8

Source: CBRE Baltics; 2020.

**Figure 7: Vacancy Distribution by Location in 2019**

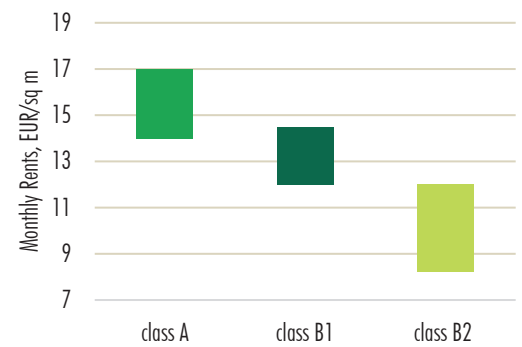


Source: CBRE Baltics; 2020.

the range of net monthly rent was from 12 EUR/sq m to 14.5 EUR/sq m. There could, however, be concessions to rent prices in some lower quality offices due to stronger competition for level class B2 office premises at the asking rent range of 8 to 12 EUR/sq m/month in 2019.

Currently, rent pricing in the newest developments exceeds the bulk of relocation demand from lower-class offices to the modern. As a result, systemic take-up volume fluctuations and insufficient demand for new offices could be a characteristic in the medium-term. The reasons are the challenges in developing budget offices at comparatively high construction costs in the market and the excess supply of low-quality office buildings that contribute to declining prices in less desirable office buildings and increase competition.

Figure 8: Office Rent Prices, excl. VAT



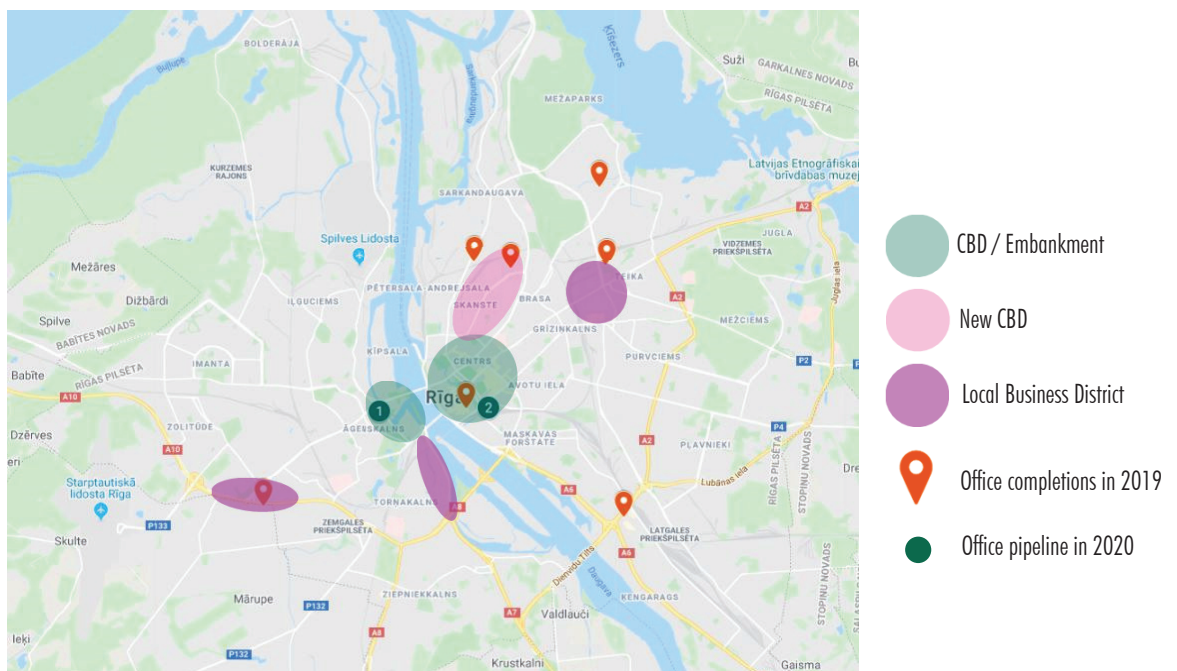
Source: CBRE Baltics; 2020.

Figure 9: Largest Office Scheme Planned Deliveries for 2020

No	Project	Street	District	Class	Landlord	Expected	Phase	GLA, sq m
1	Z-Towers	Ranka dambis	CBD	A	SPI RE Holdings S.a.r.l.	2020	Commissioned in Jan 2020	24,000
2	Origo One	Satekles	CBD	A	Linstow	2020	Construction	11,000
<b>Total under construction</b>								<b>35,000</b>

Source: CBRE Baltics; 2020.

Figure 10: Riga Business Districts Map of Office Schemes Completed in 2019 and Planned for Commission in 2020



Source: CBRE Baltics; 2020.

**RESEARCH DEFINITIONS**

**Total Modern Stock** – represents the total completed class A and B space (occupied or vacant) in the private and public sector at the survey date. Includes owner occupied (OO) space.

**Vacant Space** – represents the total net rentable floor space in existing properties, which is physically vacant and being actively marketed as at the survey date.

**Vacancy Rate** - represents the percentage ratio of total Vacant Space to Modern Total Stock.

**Take-Up** – represents the total floor space, including renewals, known to have been pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

**Prime Rent** – represents the top open-market tier of rent that could be expected for a unit of standard size (commensurate with demand in each location) of the highest quality and specification and the best location in a market at the survey date. The Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on an expert opinion of market conditions.

**Absorption** – represents the change in occupied stock within a market during the survey period.

**Net Effective Rent** – represents a rent that would be achieved, less the incentives paid by the owner. The average net effective rent for a market is the market net base rent, less incentives, which are amortised over the term of the lease.

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