

# New developments to increase further pressure on the old stock

▲ Total Modern Stock  
**739,000 sqm**

▲ Vacancy  
**12.6 %**

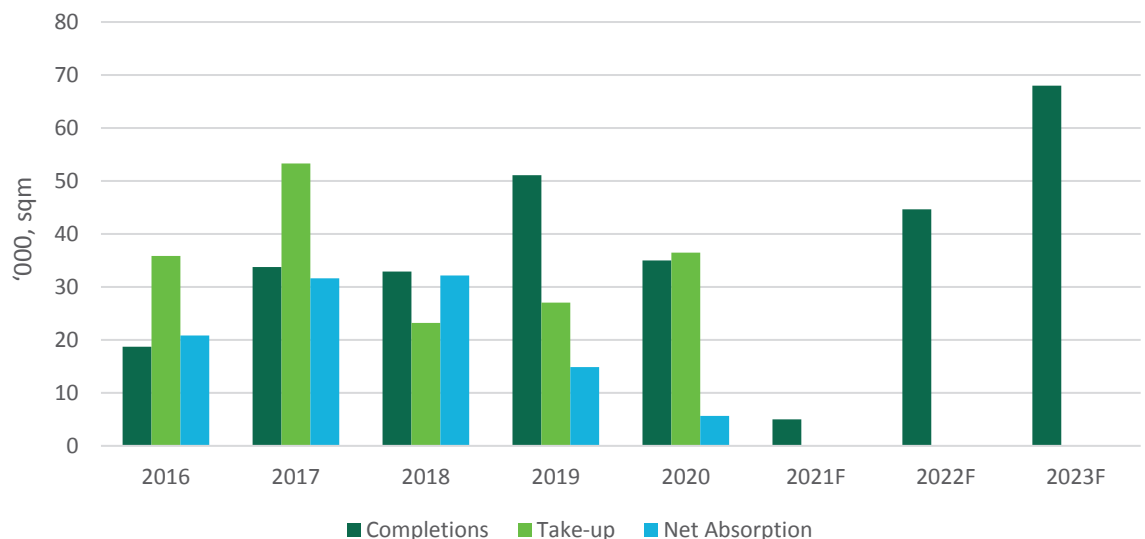
▲ Take-up  
**37,000 sqm**

▼ Completions  
**35,000 sqm**

▼ Prime yield  
**6.0%**

\*Arrows indicate change from the previous year

Figure 1: Main Indicators, Riga Office Stock, 2016 – 2023F



Note: the end of the indicated year. Forecast is based on announced completion dates of the planned projects.  
Source: CBRE Baltics, 2021.

## KEY POINTS

- Total stock has grown by 35,000 sqm and exceeded 739,000 sqm at the end of 2020.
- GBS centres are expanding their presence in Riga (Swisscom, Norwegian Air Resources and others)
- The long waited Z-Tower multifunctional complex building (GLA 24,000 sqm) and newly developed Origo One office building (GLA 11,000 sqm) were delivered to the market at the beginning of 2020.
- Vacancy rates increased in 2020. By the end of 2020, the rate stood at ca. 12.6%, or more than double the y/y figure.
- Yearly take-up has been higher than in 2019 and 2018, standing at ca. 35,000 sqm at the end of the year.
- Unseen volume of sublease options were available on the market during 2020.
- Rent rates remain stable: 14.0–17.0 EUR/sqm/month for class A offices, 8.0–14.5 EUR/sqm/month for class B offices.
- Despite interruptions and the short-lived shut down of the economy, the investment volume in Latvia reached EUR 310 mln, equivalent to the previous year's volume. The office market, as usual, revealed strong confidence with a share of 29% of total investment volume.
- The main target for core and core+ investors was prime offices located in the Old Town or close to it. Investor appetite for prime office assets should continue through 2021.

## ECONOMIC OUTLOOK

By any standards the world has been in pandemic mode now for almost a year and 2020 will remain the year when many things in people's lives changed. The same situation can be seen in global and local economies all over the world. Imposed movement restrictions to reduce virus spread, have resulted in the tourism and hospitality industry being in crisis and have forced a shift to working from home on an unprecedented scale.

As a result of all these obstacles Latvia's economy has struggled in terms of increasing unemployment, decreased household spending, and a low to almost non-existent tourism industry. In 2020 Latvia's economy faced the largest GDP dip since 2009, decreasing by 4.5% y/y at the end of the year. The economic slowdown, restrictions and lockdowns have resulted in rapidly increased unemployment - at the end of 2020 the rate stood at 8.2%, compared to 6.3% in 2019.

## SUPPLY

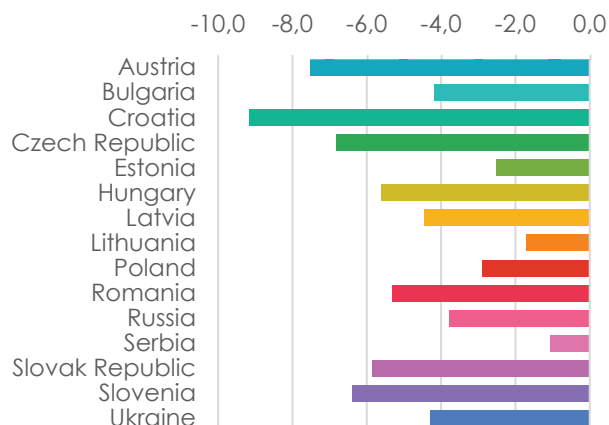
Office supply has increased by around 5% over the year, and stands at 739,000 sqm. Two office projects were delivered to the market in 2020 – Origo One (11,000 sqm) and Z-Towers office complex (24,000 sqm). Origo One is now successfully leased out at around 80% of its leasable area. The projects' central location is one of the main attractions for potential tenants. Z-Towers have announced their first tenants with one of them being Switzerland's telecommunications provider Swisscom which plans to take on 40 employees by the end of 2021. More than 20,000 sqm of office space is still available for lease in Z-Towers.

In 2020, a significant volume of sublease options appeared on the market. In previous years sublease opportunities were available on rare occasions, however currently on the market there are several options, mainly in B1 class office buildings.

## DEMAND & ABSORPTION

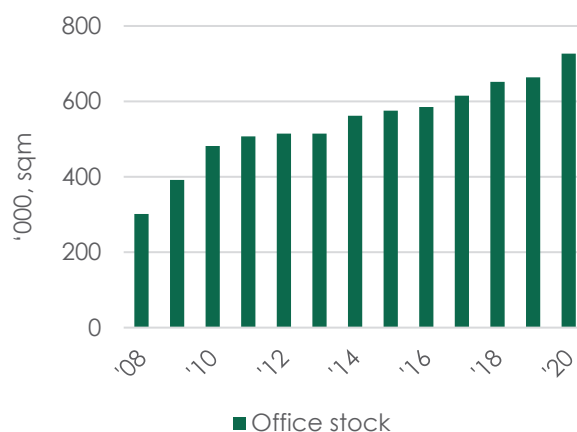
In 2020, take-up reached a volume of over 35,000 sqm or a ca. 35% more than in the previous year. Many occupiers are carrying out strategic reviews of their current premises to determine if they need less space given the rise of remote working. On average occupiers are looking for 15 – 20% less space compared to currently leased premises.

Figure 2: CEE country GDP decrease, y/y, 2020



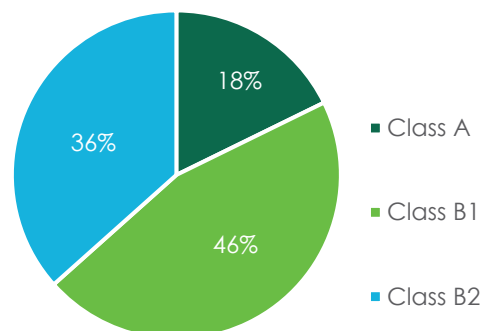
Source: Oxford Economics, 2021.

Figure 3: Modern Office stock, 2008 - 2020



Source: CBRE Baltics, 2021.

Figure 4: Modern Office Stock by Building Class



Source: CBRE Baltics, 2021.

Some companies have postponed their expansion plans in terms of adding extra space but still are planning to expand in terms of headcount. This trend will remain at least as long as the economic situation becomes more predictable. Several GBS centres have opened their offices in Riga during 2020, with the most notable companies being Norwegian Air Resources, Prime Force, q.beyond and Swisscom.

According to the CBRE survey of European Occupiers flexible office space options, shared meeting spaces, indoor air quality and sustainable building design will play a more significant role moving forward. Riga's co-working/flexible office market is underdeveloped with very few high-quality options on the market. We expect new entrants to the market as modern office stock will grow during the next few years.

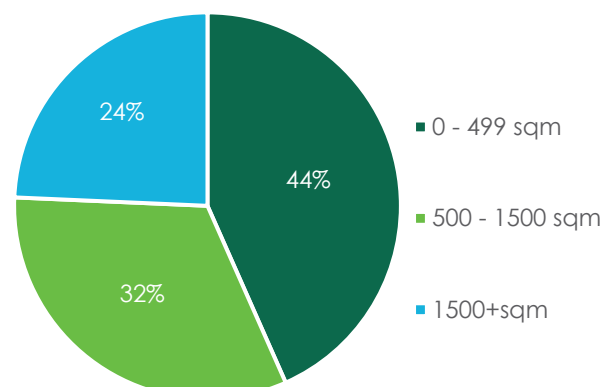
Small and mid-sized office space had the highest demand. More than 45% of leased office space were offices up to 500 sqm in size, and more than 60% of all transactions were for offices not exceeding 1,000 sqm.

#### PIPELINE PROJECTS

In 2021 only one office project is scheduled to be delivered to the market (Barons Kvartals with ca. 5,000 sqm). In 2020 two office projects entered a construction phase and are planned to be delivered in 2022 – Verde in Skanste area with GLA 15,000 sqm and Preses Nams Quarter in near Pardaugava with 25,000 sqm of office space. With the most optimistic scenario, if all the announced office projects are delivered according to initial timelines, the office market stock will be increased by more than 170,000 sqm by the end of 2024, however considering the current unstable economic situation some projects could see setbacks.

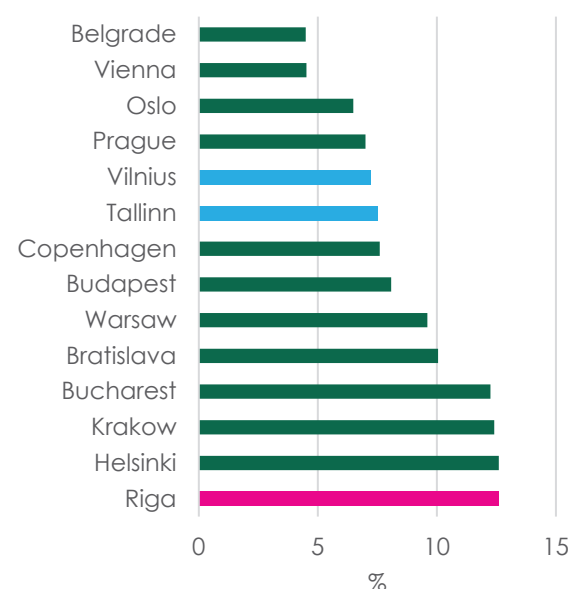
The leasing of space during the project construction phase remains rather low. This could change during the next few years as tenants adapt to post-Covid offices and will focus on less density in the office and pay closer attention to technical parameters (especially the HVAC system). The most significant shift to newly built office buildings is expected from older office stock with outdated technical parameters and limited flexibility within the building and premises.

Figure 5: Modern Office Take-Up by the size of leased space, 2020



Source: CBRE Baltics, 2021.

Figure 6: Vacancy rate in selected European cities 2020



Note: the data for Vilnius, Riga and Tallinn represent Q4 2020 observations. Other cities are reported as of Q3 2020.

Source: CBRE Research, CBRE Baltics, 2021.

Figure 7: Modern Office Rent Rates 2018 - 2020, EUR/sqm/period

Rent Rate, EUR/ sqm	2018	2019	2020
Class A	13.5 – 16.5	13.5 – 17.0	13.5 – 17.0
Class B	8.0 – 14.0	8.2 – 14.5	8.2 – 14.5

Source: CBRE Baltics, 2021.

## RENT RATES

Prime office rent rates in Riga remained unchanged throughout the year. Although during the spring and summer months several landlords faced a numerous enquiry's regarding rent rate discounts and rent rate reductions at least for some period. Landlords with higher vacancy levels at this point may consider rent rate additional incentives such as rent free periods and a step rent approach. The monthly rent rates for class A office premises range between 14 – 17 EUR/ sqm/month. For a class B1 office areas the range is between 12 EUR/sqm/month up to 14.5 EUR/sqm/month.

## VACANCY

The overall office vacancy rate was 12.6 % at the end of 2020. Tenant caution was a dominant trend in office leasing during 2020. We expect that flexible and short-term leases will play a bigger role in the next few years. Considering this trend almost every pipeline project has dedicated a part of the building for flexible/co-working purposes either attracting operators or to operate themselves. Although this trend will continue to grow, standard leases will not lose their importance, but developers must be ready to negotiate unbreakable lease terms as tenants will try to minimize their commitments. We expect that overall vacancy will decrease during 2021 and 2022, as only ca. of 5,000 sqm is scheduled to be commissioned in 2021 and the next notable commissioning is only planned at the end of 2022.

## OUTLOOK

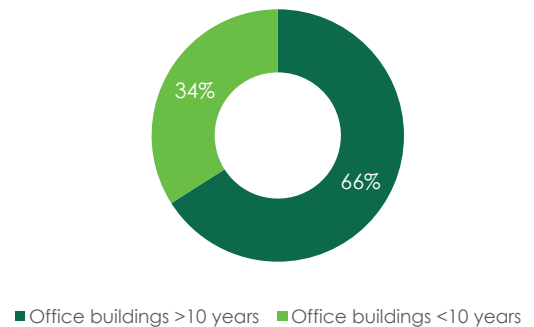
One of the pandemic effects will be that companies will pay even greater attention to convenience, wellbeing and safety related issues. Therefore company migration from outdated stock to new developments will be increasingly evidenced in 2021-2023.

Less densely populated cities in the European context, with a smart future agenda and good life quality, will be in focus for corporates to explore opportunities for employing local talent and relocate operations, what then will support office take-up. The Baltics' capitals are well placed to attract more global business service centres, especially Riga with the least GBS concentration among the rivals.

Headline rents are to remain stable with slight decreases on the net rent level due to increased incentives, with the aim of facilitating take-up in existing and new projects.

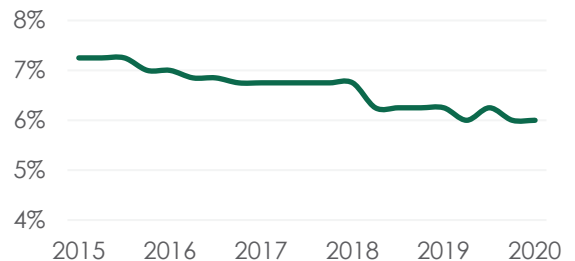
Demand for quality investment product will remain high in 2021. According to EMEA Real Estate Outlook 2021 total investment volumes may grow by ca. 8.5%. Class A offices suited for future occupier wellbeing demands will continue trading at a premium.

Figure 8: Age of Riga's Office Stock



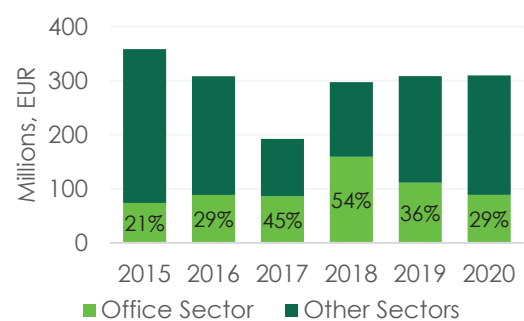
Source: CBRE Baltics, 2021.

Figure 9: Prime Office investment yields, 2015 - 2020



Source: CBRE Baltics, 2021.

Figure 10: Office investment share in Latvia, 2015 - 2020



Source: CBRE Baltics, 2021.

## 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 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.

**Core property investors** - conservative investors looking to generate stable income with very low risk.

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