

Office downsizing and remote working

▲ Completion
52,200 sqm

▲ Prime Yield
6.15%

▲ Vacancy
7.5 %

▲ Stock
885,700 sqm

*Arrows indicate change from the previous year

Picture 1: Viktor Palmi House in Ülemiste

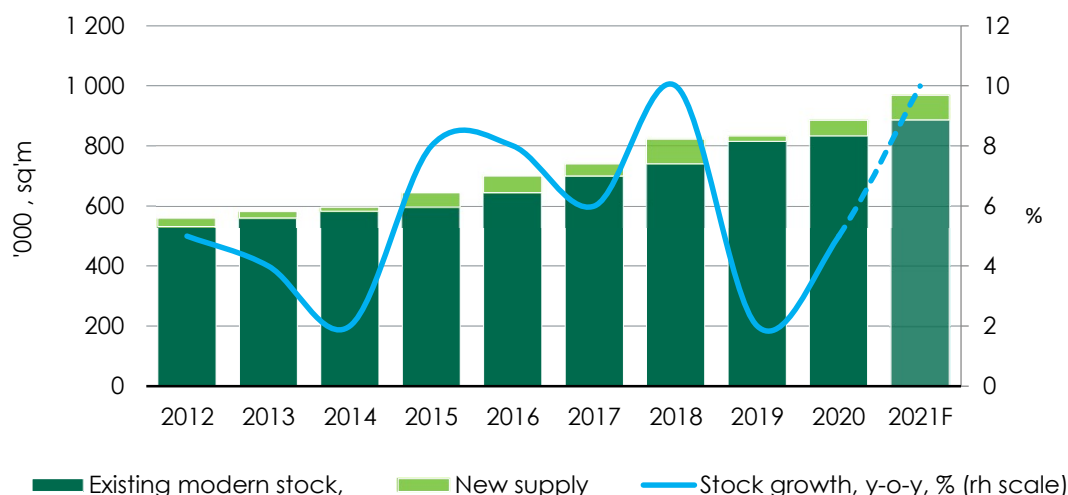


Source: Technopolis, 2021

KEY POINTS

- Nine new projects, totaling 52,500 sqm, were introduced to the Tallinn office market in 2020. This was 65% more than in 2019.
- A record volume of 82,800 sqm of new office space is expected to be delivered in 2021.
- In 2020 the take-up, compared to 2019, dropped considerably. It was mostly impacted by tenants downsizing their premises.
- Vacancy has risen to 7.5%, and it is anticipated that it will continue to grow in 2021.
- The rent prices have remained stable. The rents for B-class offices are between 12-14 EUR/sqm/month. The A-class monthly rent prices are meanwhile between 15-17 EUR/sqm/month
- Office investments in Tallinn amounted to EUR 87.2 mln, which, despite the current economic situation, is 32.7% more than in 2019.
- The prime office yield has increased by 15 p.p. compared to 2019, and currently stands at 6.15%

Figure 1: Modern Office Stock Indicators 2010 – 2020 Forecast 2021F



Source: CBRE Baltics, 2021

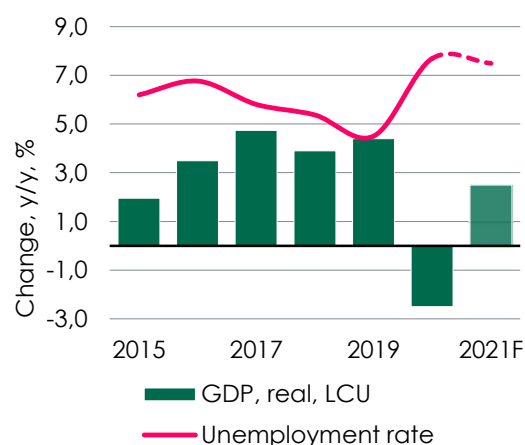
ECONOMIC OUTLOOK

The COVID-19 pandemic second wave did not leave Estonia untouched. According to the latest Estonian Bank and Oxford Economics forecasts, in 2020 the GDP decrease compared to 2019 could be 2.5%, while the Eurozone average is expected to decrease by 7.3%. In 2021 it is forecasted that GDP will grow by 2.9%. The unemployment rate had risen due to the pandemic from 4.4% in 2019 to 6.0% in 2020. The Estonian Bank forecasts that the unemployment rate will still rise because of the second wave of the virus, and it will peak in early 2021 at a little above 10%, falling back to close to 7% by 2023. However, the economy will probably recover to its pre-crisis level in the second half of this year.

MARKET OVERVIEW

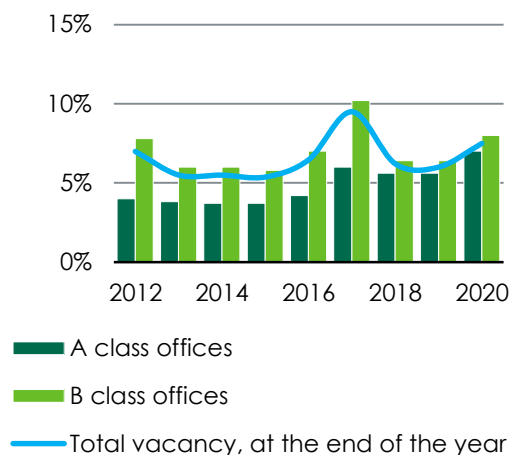
Like the economy as a whole, the commercial real estate market suffered in 2020. However, there were some evident signs of a restoration of activity during the second half of 2020. An increase in investment volumes and new supply brought to the market indicate that the recovery to the pre pandemic level could be quick. Prices remain unaffected, yet developers are even more cautious when it comes to new project development without having agreements in place with anchor tenants.

Figure 2: GDP growth and unemployment rate



Source: CBRE Baltics, 2021

Figure 3: Vacancies at the end of the year 2012-2020



Source: CBRE Baltics, 2021

SUPPLY

The Tallinn market observed a more significant increase in office space supply than in 2019, adding 52,500 sqm of new office space to the market. Although, at the beginning of 2020, it was expected that a record volume of new office space would be completed, due to the COVID-19 pandemic many projects were delayed, and many yet to be started projects were cancelled. The total modern office stock figure in Tallinn has reached ca. 885,700 sqm or 5% more compared to the same period a year ago. The vacancy level of A-class office buildings was 7% in 2020. The availability of A-class office space increased because of several completions, like Lurich House and Viktor Palm House near the Airport and the Fahle Park 2nd phase completion, that added another 15,000 sqm of new office space to the market. In B-class offices, the vacancy rate has risen to 8%. As a consequence of that the availability has also risen.

In 2021 it is expected that a record volume of 82,800 sqm of new office space will be introduced to the market.

With that and the continuing COVID-19 situation, the vacancy rate should rise even more.

DEMAND

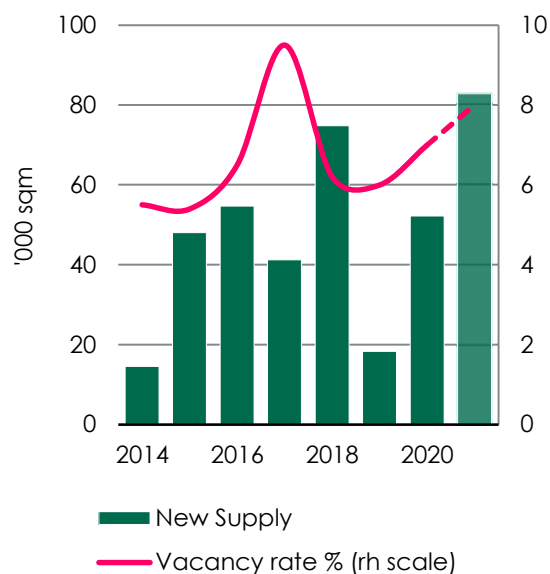
Demand has been driven by tenants seeing that working remotely works fine and then starting a search for smaller offices and downsizing. It is also one of the main reasons why the take-up level in 2020 dropped considerably compared to 2019. With the lockdown measures still having an impact on the tenants, it is expected that downsizing will continue in 2021.

In between the two waves of the pandemic, occupiers began to see the positives of the shared office concept. With the opportunity of a short term lease, it started gaining popularity, and it is expected that it will continue to do so in 2021.

MARKET RENTS

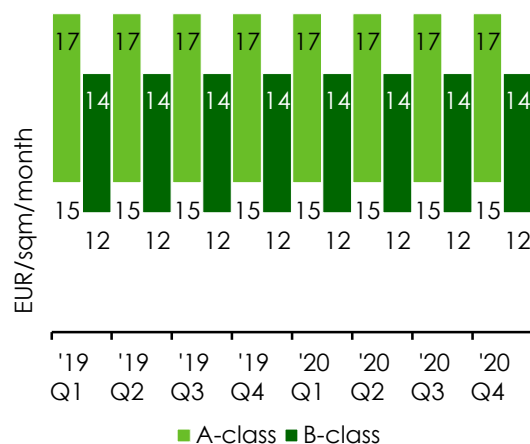
Rental levels have remained unchanged compared to the last period. A-class rent rates are currently between 15 – 17 EUR/sqm/month, while the rent price range for B-class offices is between 12 – 14 EUR/sqm/month. Occasionally, A-class office rents reach even 20 EUR/sqm/month in better located new premises. Conversely, B-class office rents are

Figure 4: New supply and vacancy rate



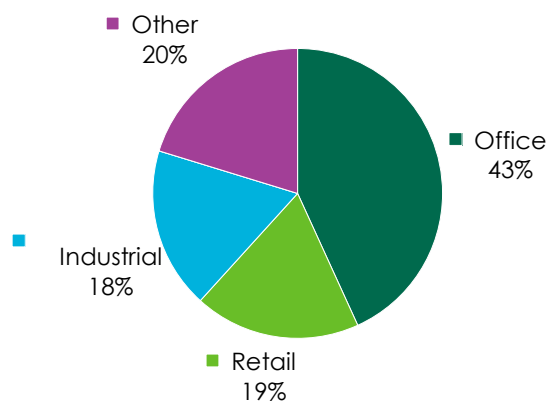
Source: CBRE Baltics, 2021

Figure 5: Office rent prices in Tallinn



Source: CBRE Baltics, 2021

Figure 6: Investment volumes by sector in Estonia 2020



Source: CBRE Baltics, 2021

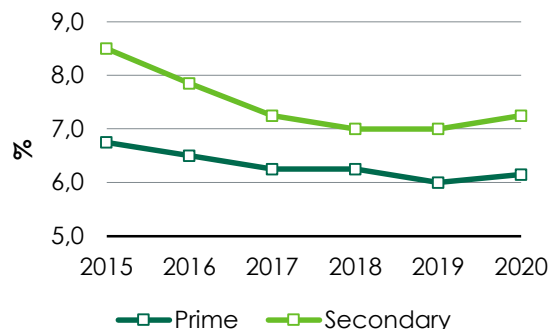
somewhat pressured downwards by potential tenants that are willing to move and upgrade their existing office buildings, with substantial discounts bargained for accordingly, when agreeing terms for office spaces in older premises.

INVESTMENT MARKET

In 2020 the Estonian Commercial real estate investment volume reached EUR 201.8 mln, down by 38% compared to 2019, a better performance than was expected in light of the Covid-19 pandemic. The office investment volume constituted EUR 87.2 mln, representing 43 % of the total investment volume. It was mainly excelled by two office transactions in the market comprising ca.70% from total office investment volume in 2020 and were completed in line with an exit strategy of Laurus S.a.r.l., a joint venture of the clients of the Swiss investment company Partners Group and Northern Horizon Capital (Laurus). Thus, the most notable transactions in Estonia were the sales of the SEB HQ and Valge Maja. The SEB HQ property of 16,000 sqm, commissioned in 1999, was purchased for EUR 45.75 mln by a Sweden based East Capital. Another office property in Tallinn known as Valge Maja comprising 16,360 sqm also was sold by Laurus to LHV pension funds for EUR 14.6 mln.

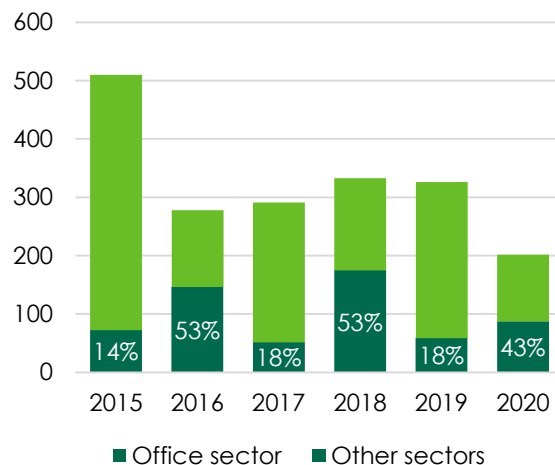
Like the office investment market, office investment yields have not been affected very much by the pandemic. The prime office yield has increased by 15 p.p. compared to 2019, and it's currently at 6.15% The yields for secondary offices have suffered a bit more, increasing by 25 p.p since 2019 and stood at 7.25% as of the end of 2020.

Figure 7: Office investment yields



Source: CBRE Baltics, 2021

Figure 8: Office and other commercial real estate investment volume and share in Estonia



Source: CBRE Baltics, 2021

Figure 9: Office project pipeline

No.	Project	Street	Landlord	Year of expected completion	Class	GLA, sqm
1	Skyon	Maakri	Capital Mill	2021	A	8,200
2	R6	Rotermanni	US Invest	2021	A	11,600
3	Büroo 113	Pärnu mnt	Hepsor	2021	A	3,900
4	Tehnopol 3	Mäealuse	Tehnopol	2021	B1	12,000
5	Elektrilevi HQ	Veskiposti	Kaamos	2021	A	10,000
6	Veerenni 38b	Veerenni	Fund Assets	2021	B1	3,000
7	Fahle Park 2nd phase	Tartu mnt	Fausto Grupp	2021	A	15,000
8	Avala Kvartal	Veskiposti	Kaamos	2022	A	22,000
9	E104	Ehitajate tee	EKE Invest	2022	B1	8,000
Total						93,700

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, including 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.

ABOUT CBRE BALTICS:

- Part of the **CBRE** Affiliate Network
- Providing services in:
 - **Research & Analysis,**
 - **Consulting,**
 - **Valuation,**
 - **Property Sales,**
 - **Property & Asset Management,**
 - **Tenant Representation,**
 - **Agency Services – Retail, Offices, Industrial & Logistics,**
 - **Financial Services, Accountancy**
 - **Landlord/Investor Representation,**
 - **Transaction Management**



CONTACTS

ROBERT ROODE

Market Analyst | Research & Consulting
M +372 564 59222
robert.roode@cbre.ee

IGNAS GOSTAUTAS, PHD

Senior Analyst | Research & Consulting
M +370 694 88318
ignas.gostautas@cbre.lt

MARTIN ROOTARE

Senior Consultant Baltics | Advisory & Transaction
M: +372 511 2089
martin.rootare@cbre.ee

CBRE BALTICS

TALLINN OFFICE

UMA Maakri
4. korrus, Maakri 19-1,
Tallinn, Estonia, EE-10145

RIGA OFFICE

Z1
Zala Street 1,
Riga, Latvia, LV-1010

VILNIUS OFFICE

Green Hall 2
Upes Street 23,
Vilnius, Lithuania, LT-08128