

FIGURES | TALLINN OFFICES | Q4 2021

# Decreased new office supply has dropped the vacancy level

▼ 5-7%

Vacancy Rate

▲ 916K

Total stock

▼ 36K

Completion

▼ 5.5%

Prime Yield

Note: Arrows indicate change from previous year.

## Highlights

- In 2021, the Tallinn office market observed a significant decrease in the supply of new office space compared to 2020, adding 36,200 sqm of new office space to the market. However, a record volume is expected for 2022, with 82,200 sqm of new office space to be commissioned.
- In 2021, office rents were stable, but it is expected that A-class rents will have upward pressure in 2022. The current rents for A-class offices are 15-17 EUR/sqm and 12-14 EUR/sqm for B-class offices.
- Vacancy rates have dropped, and we expect that A-class vacancies will drop even more. The current vacancy rate for offices is between 5-7%.
- New energy efficient and flexible office spaces will be in even higher demand.
- The overall volume of office investment in Estonia constituted ca. EUR 43.5 mln. in 2021, comprising only ca. 50% of the total office investment volume in 2020.

FIGURE 1: Tallinn Office Building Pipeline

| Project name       | Developer | Class | GLA, sqm | Year | Address         | Status |
|--------------------|-----------|-------|----------|------|-----------------|--------|
| Maakri HUB         | Fausto    | A     | 10,000   | 2022 | Maakri 23A      | U/C    |
| Polaris            | Kaamos    | B     | 10,000   | 2022 | Veskiposti 1    | U/C    |
| Tehnopol 3         | Tehnopol  | B     | 12,000   | 2022 | Mäealuse 2-4    | U/C    |
| Alma Tominga House | Mainor    | A     | 20,000   | 2022 | Sepise 7        | U/C    |
| Park Tondi         | US Invest | B     | 6,500    | 2023 | Tammsaare 56    | U/C    |
| Rosen House        | NG Invest | A     | 8,900    | 2023 | Ahtri 4         | U/C    |
| Liivalaia Quarter  | Kapitel   | A     | 28,000   | 2024 | Liivalaia 34/36 | U/C    |

Source: CBRE Baltics Research

## Economy

The latest economic forecast from the Bank of Estonia showed that while the economy grew by 8% in 2021, that growth will slow to below 3% this year. Growth is being reduced by extraordinarily high inflation, which is likely to come down in the second half of this year. Inflation may remain elevated for longer in Estonia for several local reasons. According to the Bank of Estonia, inflation averaged below 5% in 2021, but will approach 7% in 2022.

While 2021’s average price increase was less than 5 %, the rate of increase in prices is expected to approach 7 % in 2022. However, the rapid rise in consumer prices is temporary and is expected to ease in the second half of this year. According to the forecast, the price increases in Estonia will slow down to less than 3 % in 2023-2024. The consumer basket is becoming more expensive mainly due to various energy carriers, the reasons for which are mostly located outside Estonia.

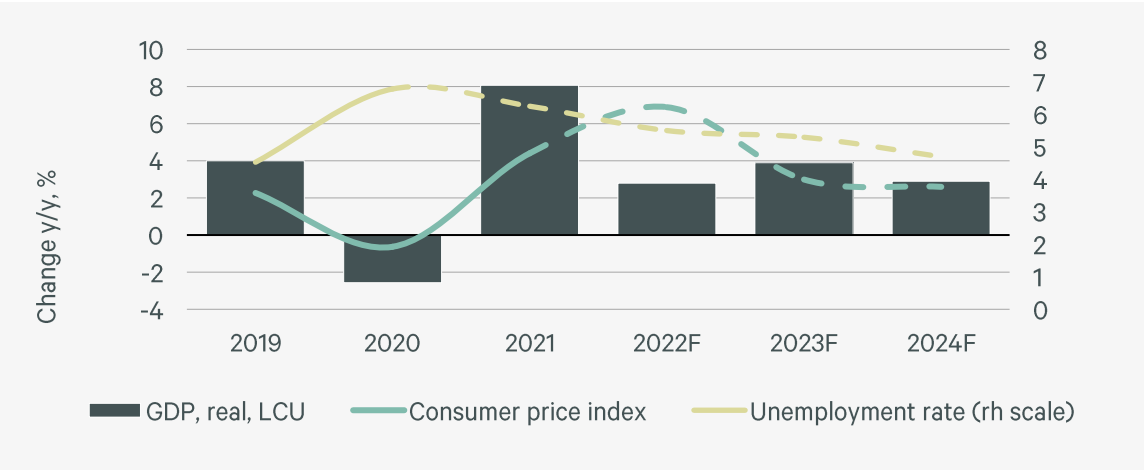
During the pandemic in 2020, unemployment rose by around 20,000 persons. It grew by 13,500 persons in Q1; however, the number of unemployed still fell compared to the three previous quarters. Unemployment decreased from 7.1 % in the first quarter to 6.9 % in the second quarter. In the third quarter, the unemployment rate was 5.7 %, but the last quarter of 2021 has shown a steady decrease in unemployment numbers.

## Demand

Although the Covid-19 pandemic is still present in today’s society, the demand for new office space is high. This is also supported by take-up numbers. Overall, the take-up constituted ca. 29,000 sqm in 2021, which reflects a 42% increase compared to last year.

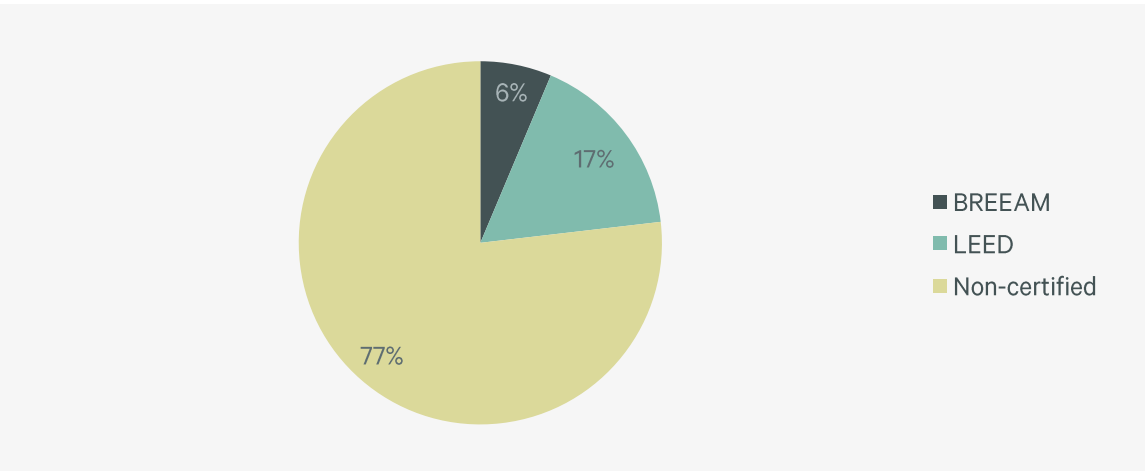
The hybrid work model has become a new standard and the pandemic has just accelerated the transformation. According to the CBRE Baltics Occupier Survey, 52% of occupiers plan to have no change in their office space, while 52% plan to increase their headcount. The survey results also revealed that 83% of occupiers in Estonia have already implemented a hybrid work model of some capacity.

FIGURE 2: GDP growth, inflation and unemployment rate



Source: CBRE Baltics Research

FIGURE 3: Office building certifications in Tallinn



Source: CBRE Baltics Research

Currently, only 23 % of the office buildings in Tallinn are certified. While it wasn't a problem for developers in the past, more recently, investors and occupiers have increasingly been looking towards more sustainable buildings, while developers have kept the certifications for their new constructions high on the agenda. Landlords of older office buildings are also trying to keep up with demand. The owners of these buildings will also try to receive certificates to compete with the newer buildings for occupiers.

### Supply

In 2021, the Tallinn office market observed a significant decrease in the supply of new office space compared to 2020, adding 36,200 sqm of new office space. However, in early 2021, it was expected that double the volume of new office space would be completed, but many projects were delayed due to the COVID-19 pandemic. As a result, the total modern office stock figure in Tallinn has reached ca. 916,000 sqm or 4% more than the same period a year ago.

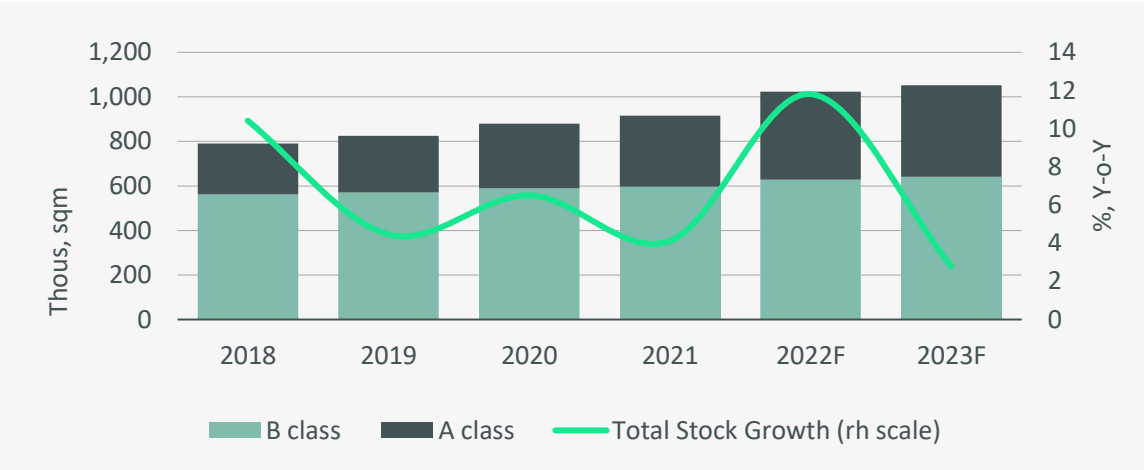
The most sizeable project brought to the market was the R6 building in the Rotermanni Quarter, delivering 11,600 sqm of office area. The second notable project delivered to the market was a new sky scraper in the CBD area, called Skyon, with leasable office space of 8,200 sqm.

A total of 136,200 sqm of new office space is currently under construction in Tallinn; 82,200 sqm is expected to be delivered in 2022, with the biggest being the 20,000 sqm Alma Tominga House in Ülemiste. Despite a record volume of new deliveries, nearly 50% is already pre-leased, showing a high demand for new office space among occupiers.

### Rents

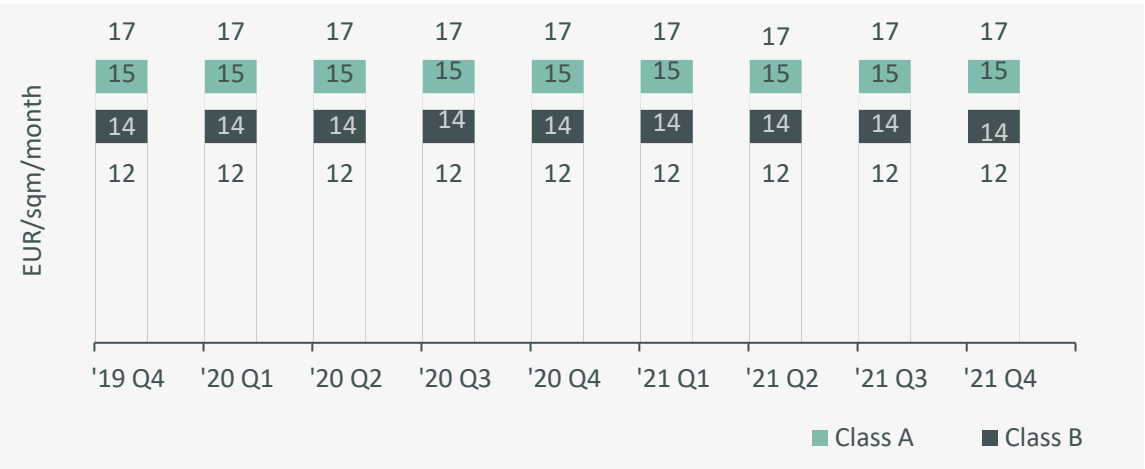
Market rents haven't experienced any changes in 2021. The range of B -class office premises remained stable between 12.0 – 14.0 EUR/sqm/month, with A-class prices between 15.0 – 17.0 EUR/sqm/month. Growing construction costs, strong tenant demand for A-class offices and the limited supply of such premises will put upward pressure on rents for 2022. However, we do not expect substantial rent changes for B class offices

FIGURE 4: Modern stock, new supply and stock growth rate 2018 – 2022 with forecast for 2022F-2023F



Source: CBRE Baltics Research

FIGURE 5: Office rents by class



Source: CBRE Baltics Research

## Vacancies

The B-class vacancy level remained stable in 2021; although a record volume of new office space is expected to be delivered in 2022, it is expected to rise in the future. The main reason is that most of the stock consists of older buildings that do not meet the increasing demands of tenants for flexible space, comprehensive services, air quality, etc. These are essential amenities for tenants in new talent recruitment and for getting existing tenants back to the office. Older B-class office buildings are struggling to provide this. At the moment, B-class vacancy stands at 5.9%.

The A-class vacancy level is expected to drop even more with the demand for A-class offices increasing, a lack of new deliveries coming to the market and the high pre-lease percentage for high quality premises. At the moment, it stands at 4.9%.

## Investment

In 2021, the volume of Estonian commercial real estate investment reached EUR 405 mln., up by 100% compared to 2020, a record volume since 2007. However, the volume of office investment constituted EUR 66.2 mln., representing only 16.4% of total investment volume. Although it was a record year for the investment market, the volume of office investment went down 25% compared to 2020. Almost all of the office investment value was generated in Tallinn. The demand for office investment is continuously strong, while the supply is very limited, being the main reason for decreased volume.

The most notable transactions in Tallinn were the G4S HQ and Elering Old HQ sales. The G4S HQ property of 9,000 sqm, commissioned in 2013, was purchased for EUR 15.3 mln. Another office property in Tallinn, the Elering Old HQ comprising 8,200 sqm, was sold by Eften Capital to US Invest for EUR 8.2 mln.

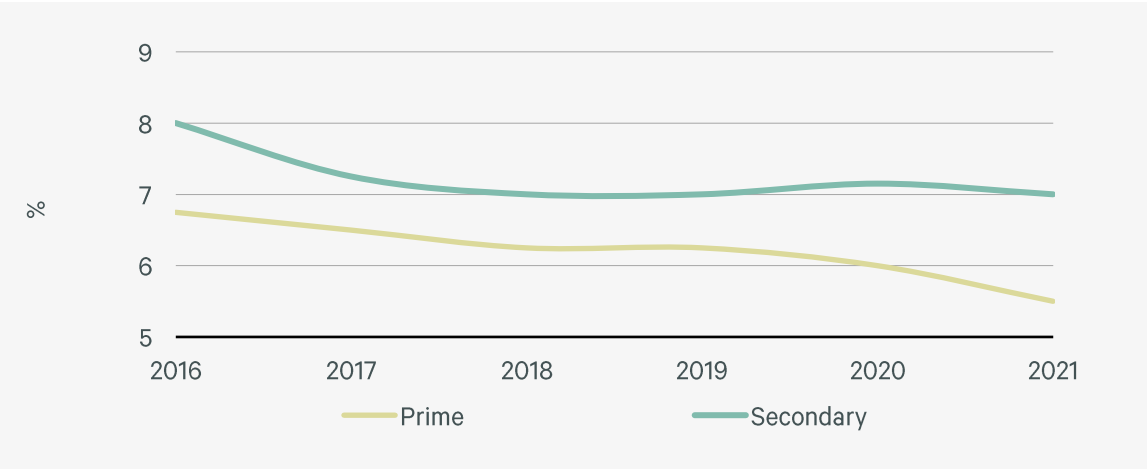
The prime office yield is currently at 5.5%. The yields for secondary offices stood at 7.0%, as of the end of 2021.

FIGURE 6: Vacancy rate by office class



Source: CBRE Baltics Research

FIGURE 7: Office investment yields



Source: CBRE Baltics Research

Market Area Overview



TALLINN OFFICE

Workland Maakri,  
4th floor, Maakri 19-1,  
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RIGA OFFICE

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