

MARKETVIEW | RESIDENTIAL BALTICS

Post-Pandemic Prosperity: Residential Rental Schemes Drive Investors' Interest

CBRE BALTICS RESEARCH
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Market Overview

In 2021, investments in the residential market were a hot topic globally, including Baltics. The demand from private individual investors has significantly outweighed the supply. This has been particularly evident in the core locations, where newly constructed apartments are sold even before they are commissioned. With a lack of residential supply, prices in the Baltic states, Vilnius and Tallinn in particular, have soared.

Several factors have influenced the growth, including delayed construction permits, increasing purchasing power, and financing availability. Furthermore, with a high inflation environment, private individuals have been prompted to buy real estate. Thus, the demand for residential real estate in the primary locations is so high that developers can no longer meet it. However, with further increases in construction costs, continuing supply chain disruptions, extremely high inflation expectations, and upcoming interest rate hikes by the European Central Bank, the end of such a rapid demand growth is close. This market movement should positively affect the appetite of institutional investors for the private rental sector and increase the investment volumes into an evolving multifamily rental sector across the Baltic capitals.

With increasing rents and record high capital values, the multifamily rental assets are becoming a preferred product among the other core sectors for institutional investors in Baltics. Due to a limited pipeline of new developments, more investors will tend to increase their residential portfolio share and enter the segment through forward agreements with the developers.

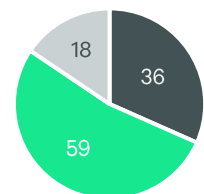
Investment Volume, sqm

76,000

Investment Volume, EUR

111 M

Residential Investment Volume in Baltics 2021, MEUR



■ Estonia ■ Latvia ■ Lithuania

Spargelu Rezidence, Bought by Estonian LHV Pension Fund, 2022



Source: LHV, 2022

Increasing Residential Transactions in Baltic Capitals

In 2021, over 36,000 primary and secondary market residential transactions were registered in the Baltic capital cities, 21% more than a year before and 11% higher than in 2019. For the last five years, demand in Riga was lacking behind the other two neighbouring capitals. However, in 2021, there was a sharp 26% increase compared to 2020. At the same time, transaction volumes increased in Tallinn and Vilnius by 21% and 19%, respectively.

As a result of the low-interest rate environment, insufficient new supply, growing household income, high inflation, and strong domestic private investor demand, the prices for residential apartments have risen drastically. In Vilnius, the price for an average newly constructed apartment located in the city centre varied between 3,300 and 5,000 EUR/sqm and, compared to 2020, has increased by roughly 22%. In Riga, comparable apartment prices range between 3,000-4,200 EUR/sqm and have witnessed a 7% increase, while Tallinn residential prices are in the range of 4,200 and 5,400 EUR/sqm, c.a. 20% increase from 2020.

Due to increasing construction costs, the planned supply in 2-3 years may be limited even if the homebuyer sentiment remains as high as it was in 2021. The construction cost increase will be the biggest challenge during 2022, coming from covid-created supply chain disruptions and elevated inflation. In 2022, the market has witnessed developers heavily increasing unsold apartment prices. In Lithuania, some developers have cancelled buyers' reservations and returned the deposits, while others have stopped the sale processes of upcoming developments to compensate for increasing costs.

The Demand Outweighs Supply, Attracting More Institutional Investors to the Market

Looking at the Baltics' population, only 1.2% to 7.2% prefer rental

Individual Apartment
Transactions in Baltic
Capitals, 2021

36,000+

Vilnius

13,800

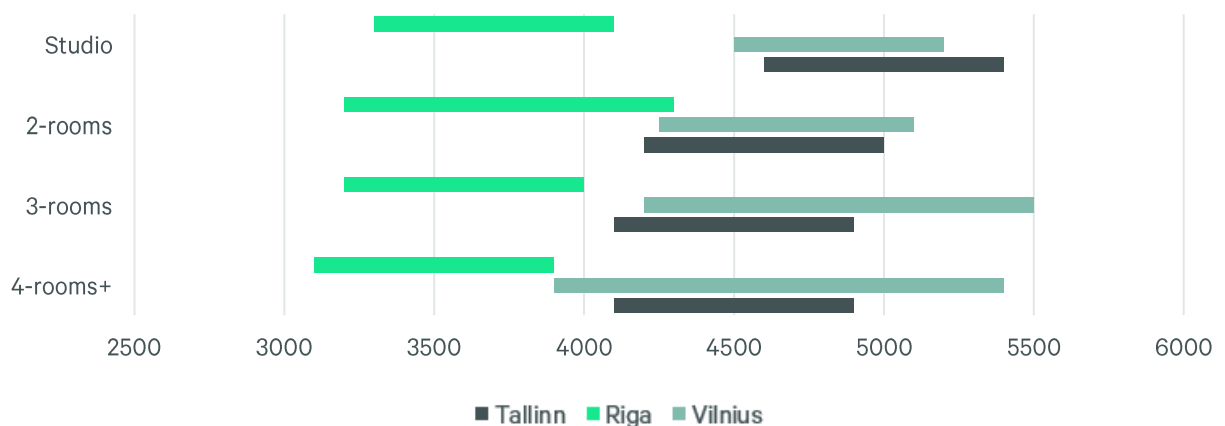
Riga

10,400

Tallinn

12,300

FIGURE 1: Primary Market Apartment Prices in Baltic Capital City Centres, EUR/sqm, 2022



Source: CBRE Baltics, 2022

apartments, while the EU market average is around 20%. This situation leaves a substantial gap and market opportunity for the multifamily rental sector to evolve. The most developed rental market in the Baltics is Latvia, whereas it is close to non-existent in Lithuania. Nonetheless, when real estate ownership becomes financially more complex, and there is an evident change in the demographics, rental markets tend to flourish, as witnessed in Western and Nordic Europe countries.

Since the beginning of 2022, most of universities in the region have returned to in-person lectures, bringing back both international and local students. At the same time, office employees are steadily returning to the workplace. A return to everyday pre-covid life and war-related immigration highlighted an exceptionally strong leasing season during the spring months. Lack of quality supply brings pressure on the rental sector. In Riga, average rents increased by 8%, in Tallinn by 15%, and in Vilnius by more than 12% over 2021/2022.

Professionally Managed Rental Schemes

Apart from already mentioned transactions in Riga and Tallinn, newcomer in Riga rental residential market, LHV, an Estonian pension fund that has been actively investing in multi-family rental since 2018, acquired 109 apartments in 5 buildings with an acquisition price of ca. EUR 9M. Three of the buildings were commissioned in 2021. Following this transaction, LHV owns more than 400 apartments in Riga and Tallinn.

Investor competition continues to grow for good quality assets but yields in the sector remained stable in 2021 and are expected to remain stable in 2022. A highly competitive environment is putting downward pressure on yields, but, on the other hand, the market offers increasing rent rates and cost of capital.

Stock of Professionally
Managed Apartments in
Baltics

2,500+

Prime Rents Furnished
Apartments, 2022

Vilnius

18-21 EUR/sqm

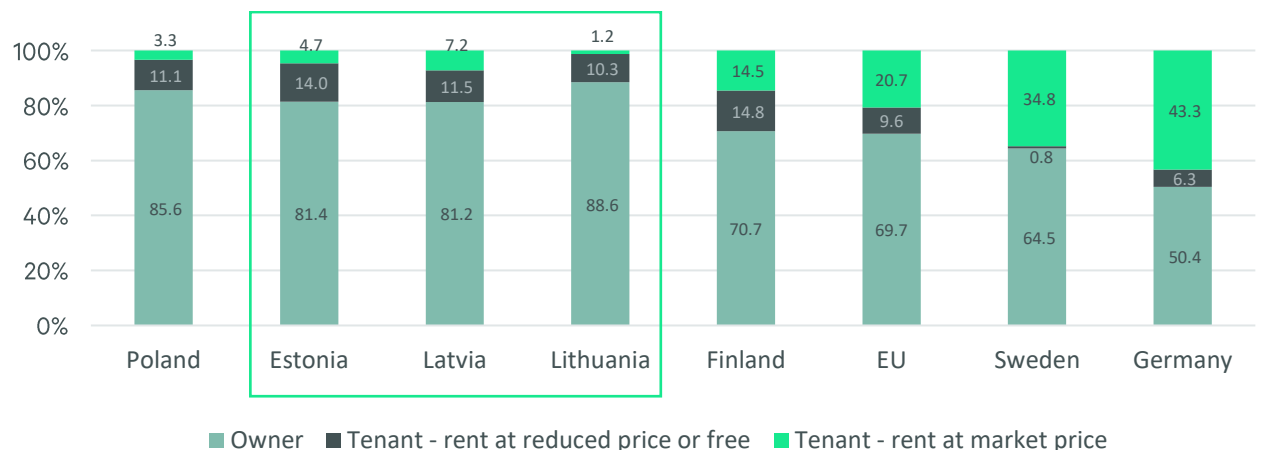
Riga

16-18 EUR/sqm

Tallinn

18-20 EUR/sqm

FIGURE 2: Home Ownership and Leasehold Structure, 2021



Source: CBRE Baltics, 2022

What's Next

Following significant interest in the sector during 2021, we expect to witness resilience in the residential rental market across Baltics. Demand from occupiers will remain strong as thousands of Ukrainian citizens might permanently stay in the Baltics, people will return to their city lives, and the covid pandemic has entered the endemic stage. With multiple rental residential developments available in the market for a forward purchase, we expect the market momentum to be sustained over 2022.

TABLE 1: Selected existing and upcoming residential rental projects

Status	City	Project name	No. of Apartments	Developer
Existing	Tallinn	Uus-Mustamäe	168	Lumi
Existing	Tallinn	Manufaktuuri Quarter	127	Lumi
Existing	Tallinn	Eften Living	112	Eften
Existing	Tallinn	Trigon residential	100	Trigon
Existing	Riga	Katoļu Kvartāls	141	Katolu kvartals
Existing	Riga	Lindeholma Quarter	119	Vastint
Existing	Riga	Spargelu residence	63	Park Residence
UC (2023)	Tallinn	Päevalille	100	YIT/BTA
UC (2022)	Riga	Green City	84	YIT/BTA
UC (2022)	Riga	Cesu Terases	62	City Star Group
UC (2023)	Riga	Terbatas str. 72	171	YIT/BTA
UC (2022)	Vilnius	Naujasis Skansenas	124	YIT/BTA
UC (2023)	Kaunas	O5 Namai	96	Etapas/Eften

Source: CBRE Baltics, 2022

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Lindeholma Quarter, Riga



Source: Vastint, 2022

Trigon Residential, Tallinn



Source: Trigon Capital, 2022

Naujasis Skansenas, Vilnius



Source: YIT Lietuva, 2022

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