

# Offices Market Reactivates Itself



KEY PERFORMANCE INDICATORS, Q2 2022  
\* Change YoY

## Highlights

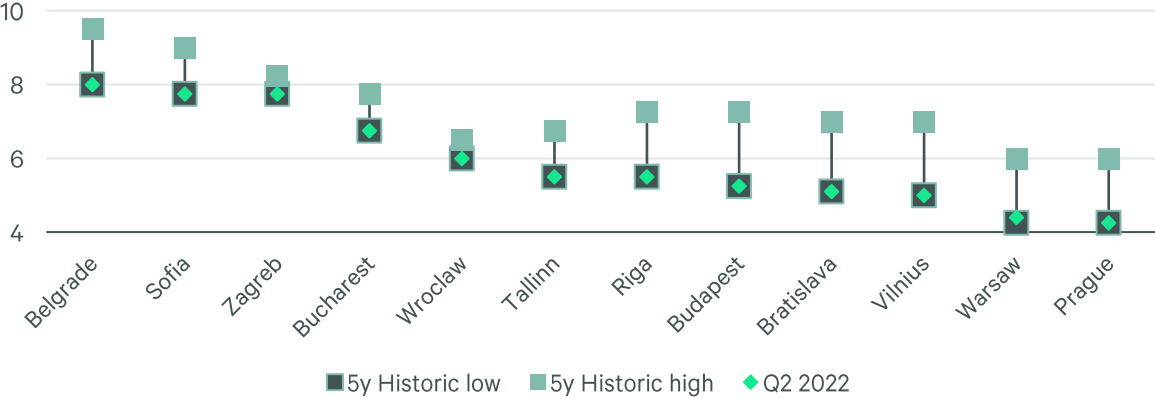
In Q2 2022, the market has reactivated itself in all three Baltic countries: under construction stock expanded, vacancies contracted, take-up remained robust.

While hurdles relating to the construction process continuously impact supply, the interest in Baltics' office space has started to intensify. Strong demand is evident from both local and foreign companies. Reactivated levels of activity relate to the pandemic moving to the endemic stage. Yet, some tenants fear that the market might be moving towards a recession and are resistant to substantial changes.

Active demand further drives the need for quality workspace, with sustainability certifications shaping the market. The active marketing campaigns of BREEAM, LEED, WELL and Fitwell are no longer a nice-to-have attribute, but rather a requirement that tenants regard highly for their workspace.

Overall, the market is sending confident signals, with vacancies declining in the Baltics. A-class graded stock is particularly in demand, with substantial spaces being secured for under construction buildings. However, the sense of an approaching economic slowdown places pressure, especially on prime rents. Rising rental levels unpleasantly surprise local tenants but are less explicitly referenced by international occupiers.

FIGURE 1: Prime Office Yields, Baltics & CEE countries, Q2 2022, %



Source: CBRE Research

## Tallinn

### SUPPLY

Due to the disrupted supply chain, no new projects were introduced to the market in Q2 2022, marking the second quarter in a row with an absence of new deliveries. Construction market forces lead to some completions for new offices being postponed to 2023. However, H2 2022 should bring an additional 65,000 sqm of new office space to the market. As a result, with the projected deliveries, the total modern stock should reach the 1 mln sqm mark. The most notable projects to be delivered this year will be the 20,000 sqm Alma Tominga House by Mainor in Ülemiste and the 10,000 sqm Polaris office building by Kaamos in Veerenni area.

### DEMAND

Take-up numbers continued rising in Q2 2022. This quarter, ca. 11,000 sqm was leased or pre-leased. The demand for new energy-efficient A-class offices remains high, but many occupiers are being forced to lower expectations due to insufficient new supply. This is supported by the fact that, like most of the A-class office buildings, many new B-class office projects are already leased out before being opened.

### VACANCY

Vacancy levels currently stand at 5.0%, a 1.6 pp drop compared to Q2 2021. This has mainly been driven by strong demand and insufficient supply of new A-class offices. The A-class vacancy rate stands at 4.2%, while the B-class vacancy rate is at 5.6%

### MARKET RENTS

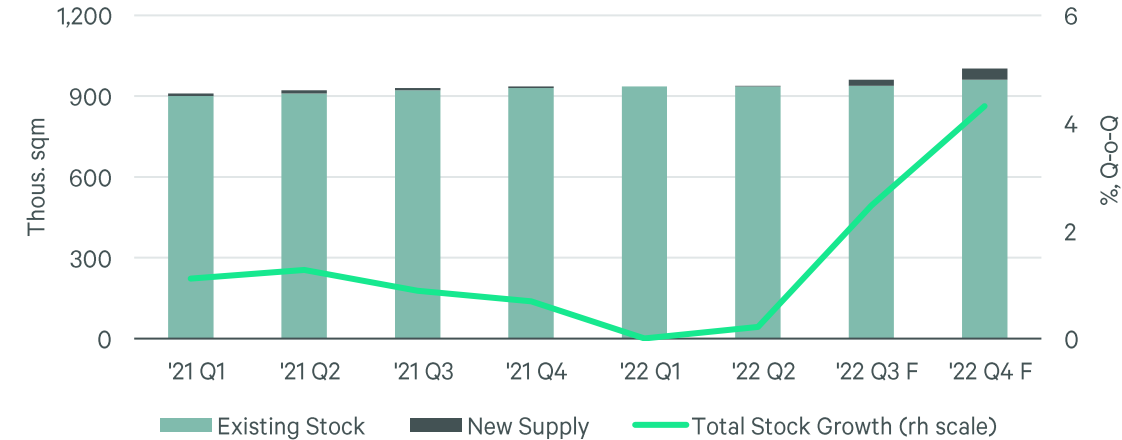
A-class office rental rates have risen slightly in Q2 2022. However, they are expected to increase even more due to inflation and robust demand. The B-class rents have remained stable. Due to low new supply and high demand for A-class offices, B-class rent rates are expected to facilitate the current price level. The rent level for A-class offices is currently 15.5 – 17.5 EUR/sqm/month and 12.0 – 14.0 EUR/sqm/month for B-class offices.

FIGURE 2: Pipeline Projects Under Construction, 2022-2024

No	Project	Developer	Class	GLA, sqm	Year of completion
1	Alma Tominga House	Mainor	A	20,000	2022
2	Tehnopol 3	Tehnopol	B	12,000	2022
3	Polaris	Kaamos	B	10,000	2022
4	Maakri HUB	Fausto	A	10,000	2023
5	Rosen House	NG Invest	A	8,900	2023
6	Park Tondi	US Invest	B	6,500	2023
7	Liivalaia Quarter	Kapitel	A	28,000	2024

Source: CBRE Baltics Research

FIGURE 3: Tallinn Modern Office Stock



Source: CBRE Baltics Research

## Riga

### SUPPLY

No new office buildings were commissioned in Q2 2022 and no new projects were started. Overall, projects under construction (exceeding 130,000 sqm) are being built as per initially planned schedules, with a few delays in initially expected commissioning. The main reasons for delays are problems with supply chains, which have lead to shortages of raw construction materials. Some pipeline projects could be postponed further due to increasing inflation and construction costs.

### DEMAND

The demand level remains stable. Occupiers are looking to optimize their offices and adapt to increased hybrid working. Tenants, whose leases are about to expire, are more actively looking for relocation opportunities, as the majority of existing stock does not offer reasonable downsize options. Most tenants are ready to pay higher rents for more sustainable and technically advanced projects. Several sublease deals were recorded in Q2. This trend is expected to continue in H2 2022. Pre-leases constituted around 1/3 of total take-up (~10,000 sqm).

### VACANCY

Vacancy has remained in double digits but has fallen under 11% for the first time in 2 years. Currently, it stands at 10.9%, while the office space vacancy in Riga CBD has gone even lower to 9%. Vacancy in the whole city decreased by 0.7 pp, and in the CBD by 11 pp compared to the previous quarter and is expected to remain at the same level in 2022 before the anticipated increase in 2023 related to new completions in the market.

### MARKET RENTS

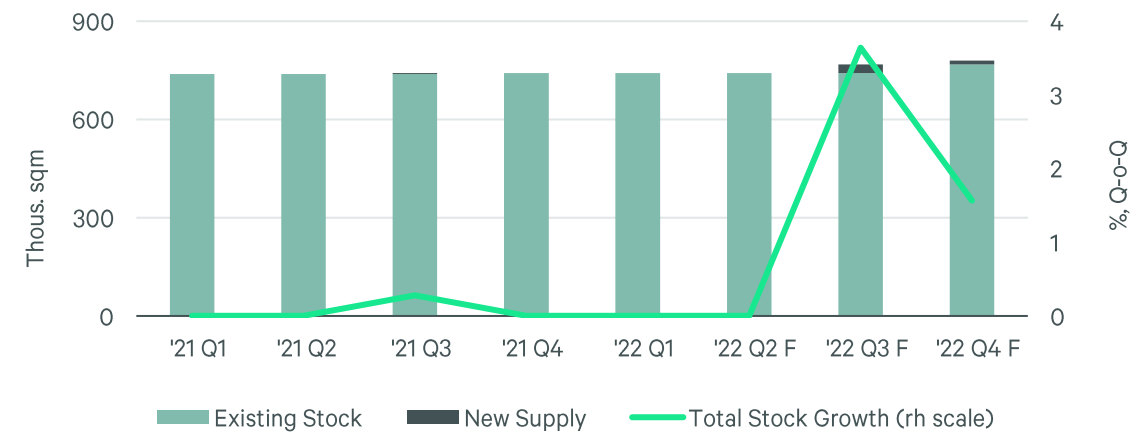
A and B1 class office building rent prices have remained at the same levels. For A-class offices the rent stands at 14 – 17 EUR/sqm/month, while for B-class it is 8.2 – 14.5EUR/sqm/month. A slight downward trend for B2 office class buildings might be evident, as some projects are struggling to attract new tenants. Rent prices in existing A and B1 class office buildings should remain stable, with increasing construction costs and, thus, extra investment in the standard office fit-out.

FIGURE 4: Pipeline Projects Under Construction, 2022-2023

No	Project	Developer	Class	GLA, sqm	Year of completion
1	Verde I	Capitalica Asset Management	A	15,000	2022
2	MH1	Pillar	A	12,000	2022
3	Dzelzavas 45	Arcada	B	7,000	2022
4	Barons Kvartals	Barona Kvartāls	B	4,992	2022
5	Preses Nama Kvartāls	Lords LB	A	25,000	2023
6	Novira Plaza	Novira Capital	A	23,500	2023
7	Elemental Skanste	Kapitel	A	20,500	2023
8	Verde II	Capitalica Asset Management	A	15,000	2023
9	Zeiss Office	MBC	A	4,200	2023

Source: CBRE Baltics Research

FIGURE 5: Riga Modern Office Stock



Source: CBRE Baltics Research

## Vilnius

### SUPPLY

In Q2 2022, the total modern office stock increased to 937,000 sqm, which constitutes 8% annual growth. Currently, 41% of the total stock is classified as A-class, while B-class offices represent the remaining 59%. In Q2 2022, Core (1st stage) and Cloud business centres were delivered to Vilnius office market, accounting for ca. 9,700 sqm. The modern office stock is anticipated to surpass the 1 mln sqm mark in the quarters to come, with intensifying volumes of new modern stock, as the market has in excess of 200,000 sqm of stock currently under construction. However, pressure on supply is affected by the global supply chain and materials' prices. Thus, some delays from the initial schedules may be evident.

### DEMAND

Take-up constituted ca. 30,000 sqm in Q2 2022. The biggest pre-lease agreement was conducted in Premium business centre, where logistics and transportation company Integre Trans announced the take-up of ca. 3,400 sqm. Wargaming and BTA draudimas also leased considerable spaces of 2,600 sqm in Uniq and 2,100 sqm in Business Garden Vilnius, respectively. IT companies were the most active in absorbing offices and added up to almost a third of the take-up. Demand for A and B-classes was split in somewhat similar proportions.

### VACANCY

The overall vacancy level stood at around 6.3% in Q2 2022. While the vacancy metric is conservative in A-class stock (ca. 2.6%), B-class premises drive the metric up (ca. 8.8%). Vacancy for A-class premises is expected to contract further, as not many sizeable tenants are exercising lease expirations and most of the premium under construction stock is already pre-leased.

### MARKET RENTS

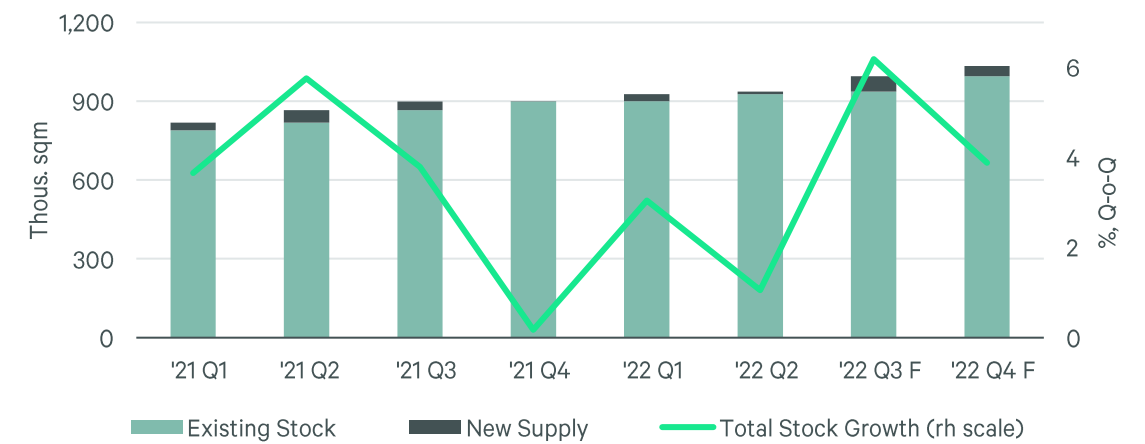
Rents are going up, mainly for A-class office centres, with more stability for B-class graded stock. The current rent rates are ranging between 15.50 – 18.50 EUR/sqm/month for the A-class office, whilst B class office rents remain within the 11.50 – 14.50 EUR/sqm/month border line.

FIGURE 6: Pipeline Projects Under Construction, 2022

No	Project	Developer	Class	GLA, sqm	Year of completion
1	Cyber City	Sparta	B	35,000	2022
2	Core (II stage)	Baltijos Gildija	A	29,400	2022
3	Business Stadium North East (III stage)	Hanner	A	15,500	2022
4	BH Meraki	Baltic Horizon Fund	B	8,900	2022
5	Jogailos 9A	Orion Asset Management	A	4,100	2022
6	Lietuvos Draudimas HQ	Lietuvos Draudimas	B	3,600	2022

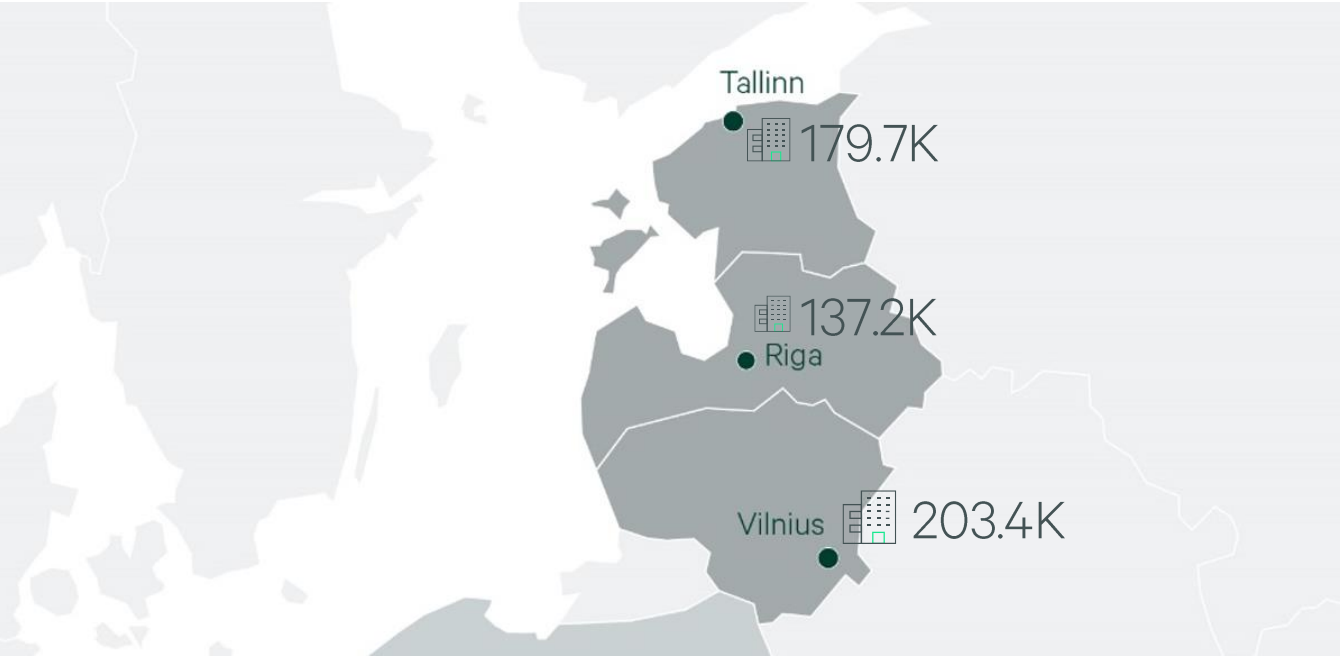
Source: CBRE Baltics Research

FIGURE 7: Vilnius Modern Office Stock



Source: CBRE Baltics Research

Market Area Overview Modern Office Space U/C



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