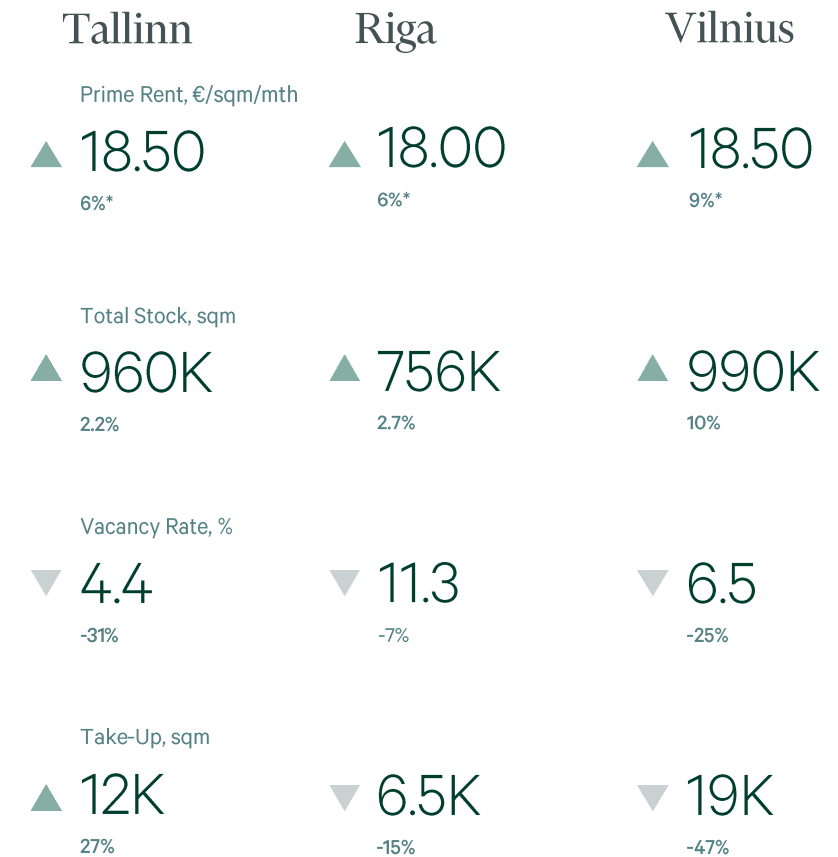


Dual Demand: As Short or As Long As Possible?



KEY PERFORMANCE INDICATORS, Q3 2022
* Change YoY

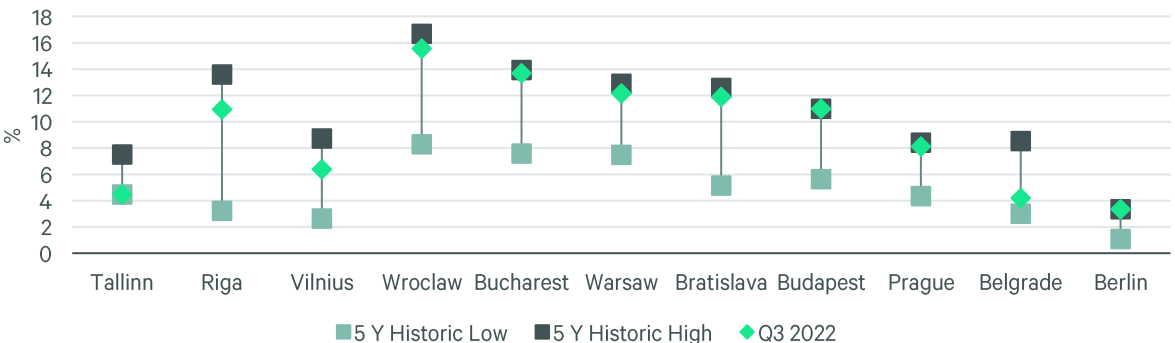
Highlights

The duality of demand is currently noticeable throughout the Baltic office market. There are a few different approaches to how tenants consider their lease terms:

- On the one hand, due to the increased costs of building materials and services, some tenants are trying to sign lease contracts for a shorter term (for 1-3 years) and look for a preferably furnished office;
- Some tenants are also considering extending existing leases and delaying office space change decisions to when the market conditions for fit-out become more favourable;
- On the other hand, hunting talented employees has led to some companies heavily investing in the office fit-out to ensure comfort and a healthy environment and, therefore, signing longer than usual lease contracts (7-10 years).

Since the vacancies in the Baltic capitals markets are conservative, it often results in rental decisions being made faster. In order to accommodate large expansion plans, more and more corporate tenants are willing to sign pre-lease agreements 18-24 months before the building is ready for occupancy.

FIGURE 1: Vacancy Rate in Baltics & CEE Countries, Q3 2017 – Q3 2022, %



Source: CBRE Research

Tallinn

SUPPLY

After the slow H1 2022, two new projects were introduced in the market, adding a total of 19,000 sqm. Polaris business centre by Kaamos extended the market by 10,000 sqm, while another 9,000 sqm was delivered by Kawe in the Kawe City project in Tallinn’s CBD. By the end of 2022, an additional 20,000 sqm of office space should be completed, out of which 15,000 sqm is planned to be commissioned in the Alma Tominga House by Mainor in Ülemiste.

DEMAND

Following the prevailing trend in 2022, the take-up numbers have continued rising steadily. In Q3 2022, ca. 12,000 sqm of office space was leased or pre-leased. The most notable deal was concluded in Fahle Quarter, where the serviced offices operator Workland signed a pre-lease agreement for a new 3,000 sqm area coworking space, to be opened in Q4 2022. Demand for A-class office space remains high and with new supply in the segment being low, some tenants are forced to consider alternatives in B-class buildings.

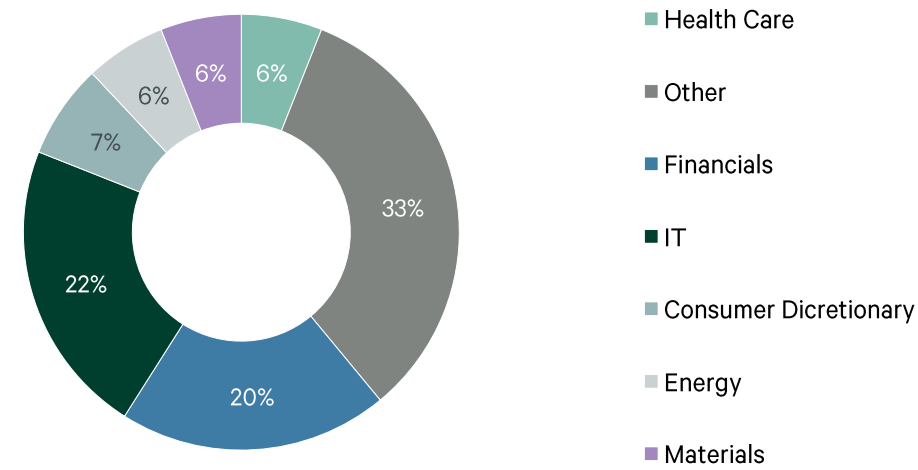
VACANCY

Vacancy levels currently stand at 4.4%, a 2.0% drop compared to Q3 2021. This has mainly been driven by strong demand and insufficient supply for A-class offices. The A-class vacancy rate is very conservative and stands at 3.0%, while the B-class vacancy rate is currently at around 5.8%

MARKET RENTS

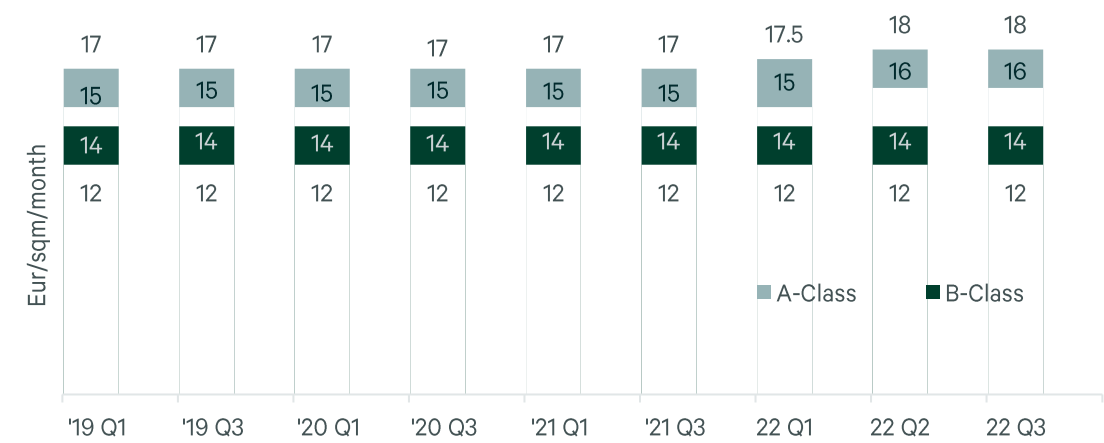
A-class office rental rates have risen slightly in Q3 2022. However, they are expected to increase even more due to inflation and robust demand. B-class rents have remained stable. Due to the low new supply and high demand for A-class offices, B-class rent rates are expected to facilitate the current price level. The rent level for A-class offices fluctuates currently at around 16.0-18.0 Eur/sqm/mth, while 12.0-14.0 Eur/sqm/mth is recorded for the B-class office stock.

FIGURE 2: Take-Up by Sector Based on Leased Area, Q1 2022 – Q3 2022



Source: CBRE Baltics Research

FIGURE 3: Office Rent Price Development, Q1 2019 – Q3 2022



Source: CBRE Baltics Research

Riga

SUPPLY

The first building of the Verde office complex was finished during Q3 2022, adding 15,000 sqm GLA to Riga's modern office stock. This eleven-story A-class office building, together with the upcoming second stage projects, is being developed in accordance with the requirements of the BREEAM standard "Excellent" certification level for sustainable construction. Verde is the first office project developed by Capitalica Asset Management in Latvia. Furthermore, over 120,000 sqm of modern office space is currently under construction and will supplement the Riga office market over the next two years but increasing construction costs and delayed material deliveries could result in corrections being made on previously announced developer project completion dates.

DEMAND

The take-up levels in Riga exceeded 10,000 sqm over the first half of the year, highly impacted by pre-lease deals in the pipeline projects. However, the take-up has decreased in Q3, reaching only ca. 6,500 sqm. The largest lease deals were concluded within the IT and financial sector.

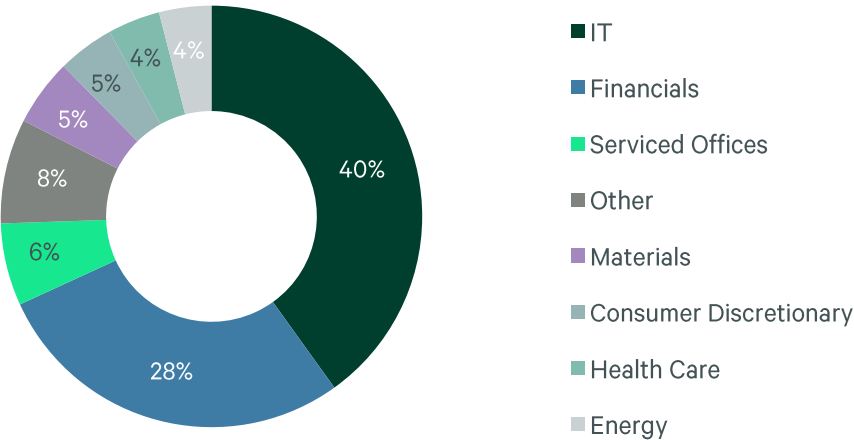
VACANCY

After falling under 11% in the previous quarter, the vacancy levels in the Riga office market have slightly increased in Q3 to 11.3%. However, the vacancy metric remains below the last 2-year average. The vacancy in Riga is relatively sensitive and is impacted by elevated vacancies in a few A-class projects. On the other hand, office vacancy in the CBD has been slowly decreasing during the year and has reduced to just slightly below 9%.

MARKET RENTS

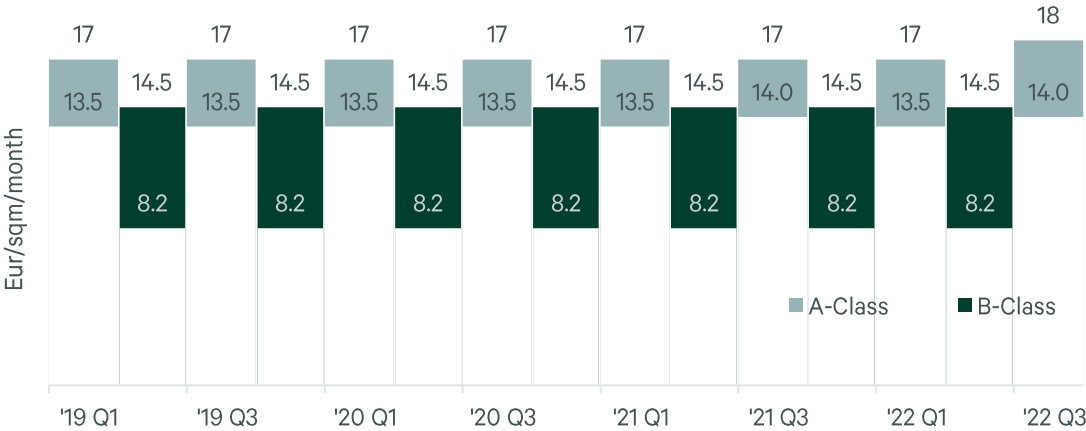
While the lower end of rents has remained stable in older office buildings, the offers for new office space are raising the rent prices in Riga. Currently, A-class rents remain at 14.0-18.0 EUR/sqm/mth, while B-class projects are offered at around 8.2-14.5 EUR/sqm/mth.

FIGURE 4: Take-Up by Sector Based on Leased Area, Q1 2022 – Q3 2022



Source: CBRE Baltics Research

FIGURE 5: Office Rent Price Development, Q1 2019 – Q3 2022



Source: CBRE Baltics Research

Vilnius

SUPPLY

During Q3 2022, several new business centres were completed: BH Meraki, Core (2nd phase), "Iki" HQ and the final renovation works are now almost complete at Jogaila BC. Adding these 45,000 sqm, the total area of the Vilnius office market almost reached 1 mln sqm (this level will be crossed during this or next month after one business centre reaches construction completion). Vilnius will be the first capital in the Baltic States to surpass this symbolic 1 mln sqm mark. The pipeline stock volume is also significant: ca. 177,000 sqm is under construction, with more than 370,000 sqm planned over the next 3 years. However, due to supply chain disruptions and material costs, the construction of some projects may be delayed.

DEMAND

In Q3 2022, the area of concluded lease transactions amounted to ca. 19,000 sqm. The largest lease deal was concluded in Beta business centre, where the state-owned Lithuanian Post company agreed on the ca. 3,000 sqm lease. Companies operating in the IT sphere continued to remain among the most active office tenants in Vilnius and year-to-date account for more than a third of registered lease transactions.

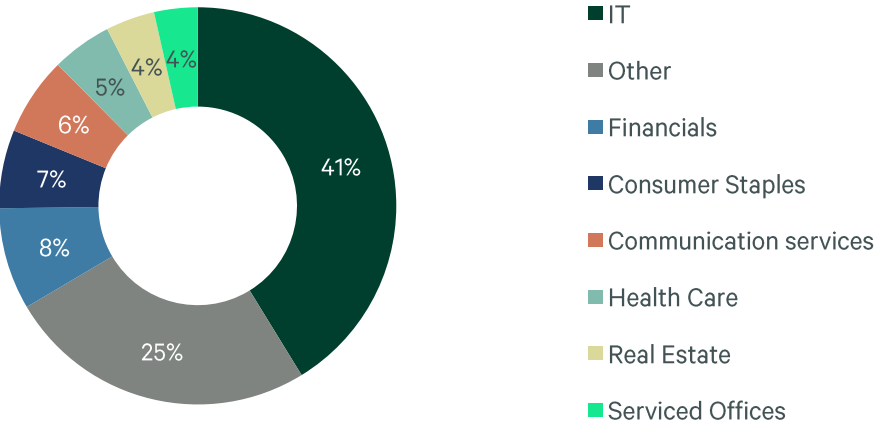
VACANCY

The high volumes of under construction/planned office stock are likely to lead to an increasing vacancy rate, which currently stands at 6.5% (5.7% for A-class, 7.1% for B-class). On a regional scale, the Vilnius office market has the potential for further development as the average CEE capitals vacancy rate has fluctuated at around 9.5% in recent years. However, the vacancy rate in Vilnius is quite sensitive and a few larger unleased projects can affect the metric.

MARKET RENTS

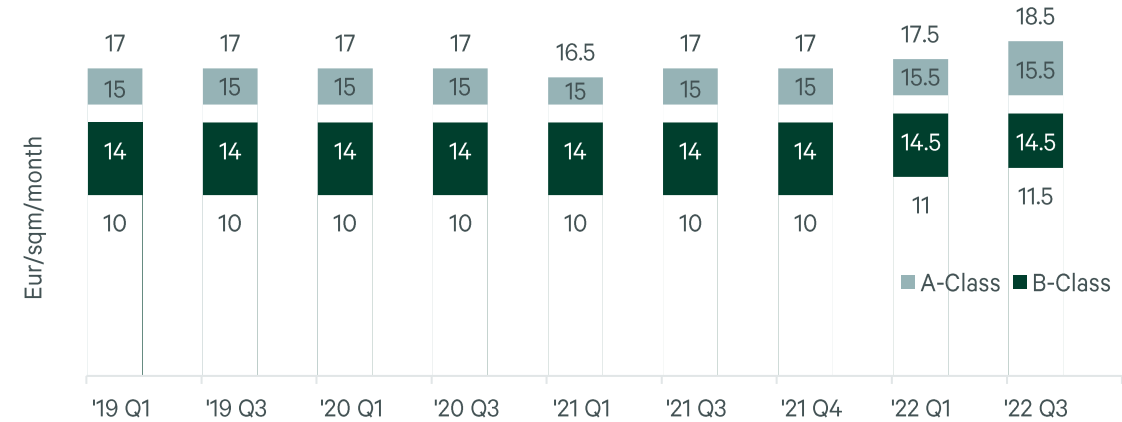
Currently, rental prices range between 15.50-18.50 Eur/sqm in A-class, with 11.50-14.50 Eur/sqm for B-class offices. High inflation remains the main driving force behind rising rents. However, the lively market demand and increased building maintenance costs also have a significant impact.

FIGURE 6: Take-Up by Sector Based on Leased Area, Q1 2022 – Q3 2022



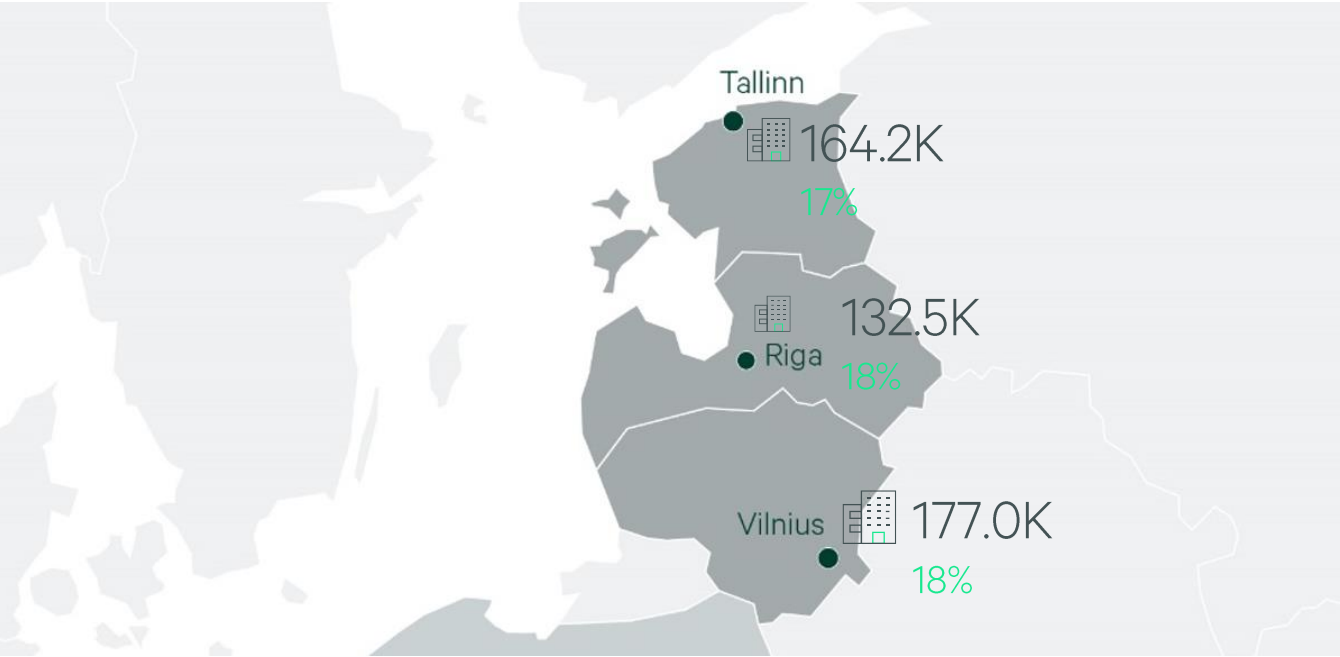
Source: CBRE Baltics Research

FIGURE 7: Office Rent Price Development, Q1 2019 – Q3 2022



Source: CBRE Baltics Research

Market Area Overview Modern Under Construction Office Space, sqm, % of Existing Stock



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