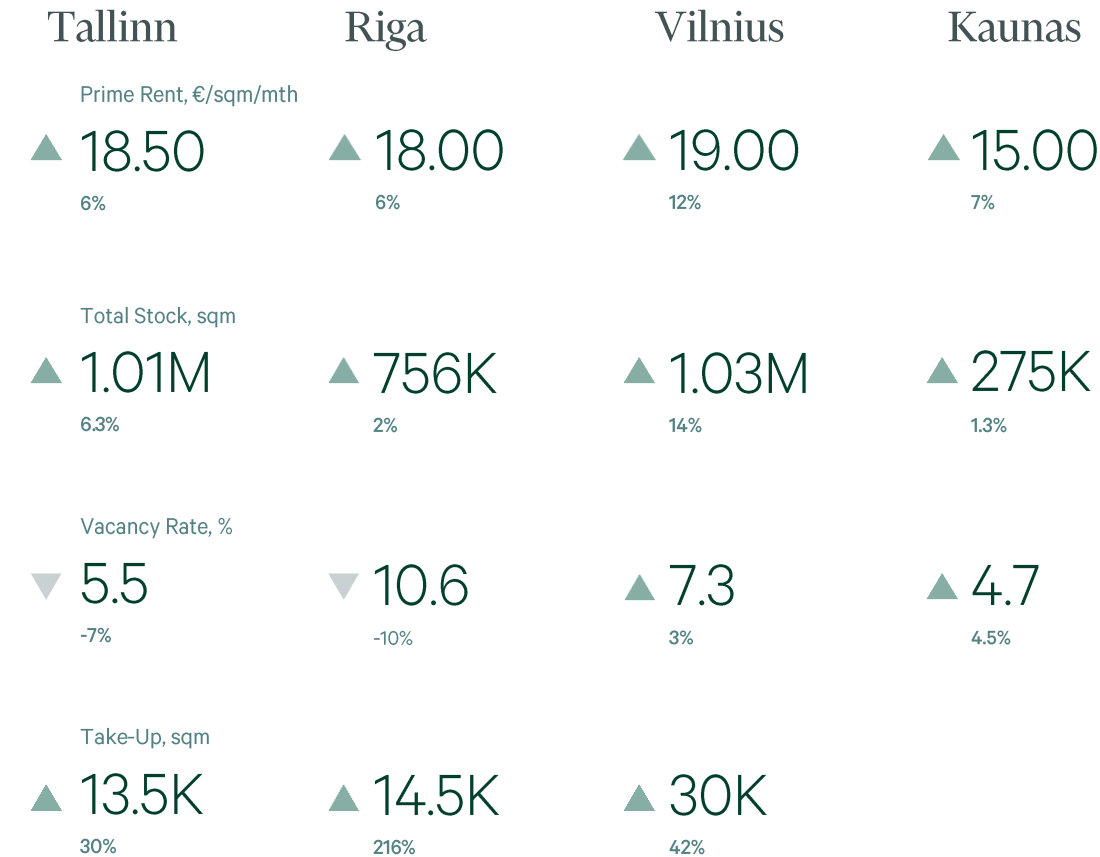


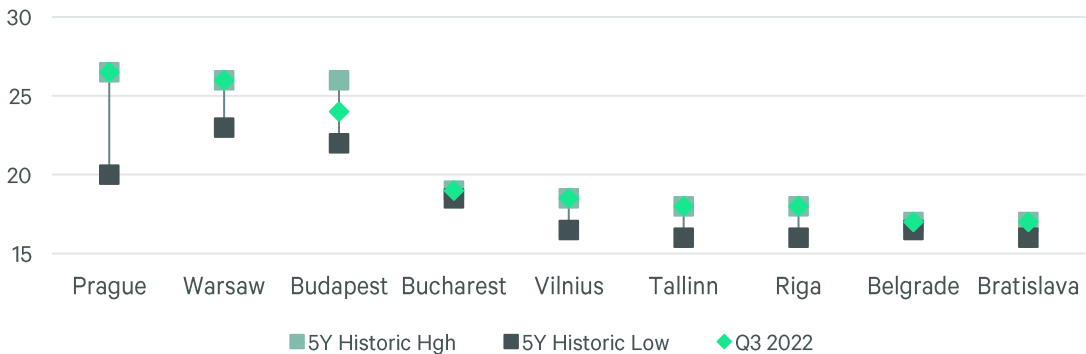
Office Market Proves Resilient



Highlights

- During Q4 2022, Baltic capital cities witnessed similar vacancies as per the same period in 2021. Vacancies decreased by 0.3 and 1.2 in Tallinn, Riga, respectively, while in Vilnius and Kaunas the metric witnessed a slight upward shift (by 0.2 p.p. in both cities), on an annual basis.
- On the contrary, take-up volumes increased in Q4 2022, witnessing the robust year-end demand for offices. The number of pre-lease agreements, especially in A-class buildings, grew in 2022 in all Baltic States.
- The volume of under construction stock is substantial, amounting to around 380,000 sqm of leasable office stock across the Baltic capital cities. U/C stock constitutes to ca. 10%, 19% and 12%, in Tallinn, Riga and Vilnius, respectively. However, some projects may incur delays due to rising development costs, the economic slowdown, and supply chain disruptions.
- Although it is expected that in 2023 the demand for offices will remain stable, developers may lack the courage to start new projects, particularly with the anticipated macroeconomic downturn.

FIGURE 1: Prime Office Rents, Baltics & CEE countries, Q3 2017 - Q3 2022, EUR/sqm/mth



Source: CBRE Research

KEY PERFORMANCE INDICATORS, Q4 2022
Change YoY

Tallinn

SUPPLY

By the end of 2022, Tallinn's total modern office stock reached the 1 million sqm benchmark. In Q4 2022, four new projects were completed, adding a total of 42,400 sqm. The biggest was the completion of the 15,600 sqm Alma Tominga House by Mainor in Ülemiste district. Three other projects commissioned in Q4 2022 were the 2nd phase of Porto Franco in the CBD, Tehnopol 3 and Büroo 113. The pipeline also looks strong, with 105,000 sqm currently under construction.

DEMAND

Following the prevailing trend in 2022, the take-up numbers have continued to rise steadily, with 2022 generating a record breaking annual figure. In Q4 2022, ca. 13,500 sqm of office space was leased or pre-leased, leading to the overall annual take-up figure of around 49,000 sqm. The soon-to-be-finished Rosen House, located in the CBD, is a good example proving that demand for A-class office space remains high: >50% of the project is already pre-leased, with financial services company KPMG and law firm Ellex Raidla being anchor tenants. With robust demand and somewhat insufficient new A-class supply, tenants that need an office solution right away are turning into alternatives in B-class buildings.

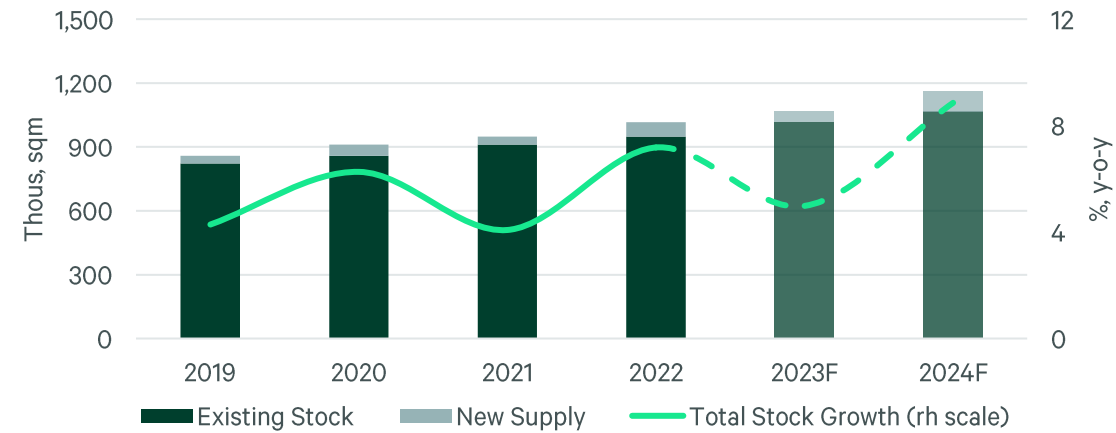
VACANCY

Vacancy levels currently stand at 5.5%, a 0.4% drop compared to Q4 2021. This is one of the lowest vacancy levels recorded in Tallinn. Such an outcome is mainly driven by strong demand and insufficient supply for A-class buildings. Therefore, the A-class vacancy rate is relatively conservative, recorded to stand at 3.1%, while the B-class vacancy rate is at around 6.7%.

MARKET RENTS

The rent level fluctuates currently at around 16.5-18.5 Eur/sqm/mth for A-class and 12.0-14.0 Eur/sqm/mth for B-class offices. Even though rents have remained stable in Q4 2022, it is expected that given the high inflation, low new supply, and robust demand, the A-class rent will be pushed up, while B-class rent rates are expected to remain stable in the quarter to come.

FIGURE 2: Tallinn Existing Office Stock, New Supply and Stock Growth Rate, 2019 – 2024F



Source: CBRE Baltics Research

FIGURE 3: Selective Pipeline Developments (Under Construction), Tallinn, 2023 – 2024

No.	Development	Developer	Class	GLA, sqm	Year of Completion
1	Tulemaja	4D Capital Managment	B	16,000	2023
2	Maakri HUB	Fausto	A	9,500	2023
3	Rosen House	NG Invest	A	8,900	2023
4	Park Tondi	US Invest	B	6,700	2023
5	Sektor	Fund	B	3,000	2023
6	Arter Quarter	Kapitel	A	28,000	2024
7	Golden Gate	US Invest	A	13,400	2024

Source: CBRE Baltics Research

Riga

SUPPLY

The modern office supply in Riga in Q4 2022 remained 756,000 sqm. The final quarter of the year was relatively calm, with no new completions. However, the future looks promising with relatively substantial volumes of the new developments in the pipeline, more than 140,000 sqm of office space is currently under construction. Some planned openings for 2023 have been delayed for a few months. However, none of the projects planned for the next 2 years have been suspended.

DEMAND

In Q4 2022, the Riga office market saw an impressive take-up of 14,500 sqm, continuing the high transaction volume achieved throughout the year. This was driven by a significant number of leases in projects under construction. Notably, around 40% of transactions were pre-lease deals in upcoming projects. Overall, the transaction volume for 2022 reached almost 50,000 sqm, representing the highest volume over the past five years and a 65% increase compared to the previous year.

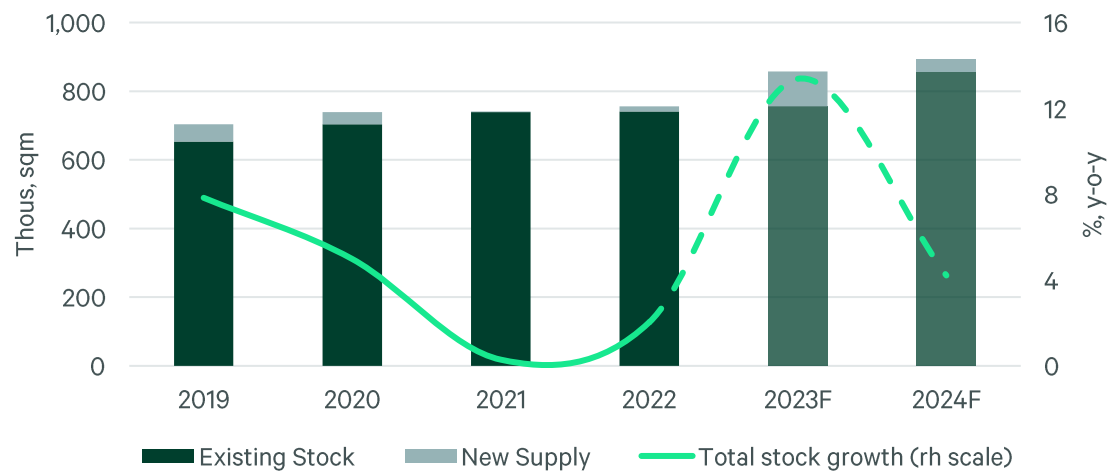
VACANCY

The Riga office market is showing strong signs of recovery as vacancy rates continue to decrease. Compared to 2021, A-class office vacancy fell by -2.3 p.p. and B-class by -1.3 p.p., bringing the overall vacancy rate to 10.6% in Q4 2022. In 2023, overall vacancy should remain stable with a slight upward trend, as newly completed office buildings are not expected to be fully leased out at the moment of commissioning. Nevertheless, landlords can expect that after commissioning occupier interest will increase significantly.

MARKET RENTS

During 2022, upper rents in the market have seen an increase due to elevated inflation and economic conditions. A-class buildings have reached the level of 14-18 EUR/sqm/mth, while B-class offices have seen rents in the range of 8.2-15 EUR/sqm/mth.

FIGURE 4: Riga Existing Office Stock, New Supply and Stock Growth Rate, 2019 – 2024F



Source: CBRE Baltics Research

FIGURE 5: Selective Pipeline Developments (Under Construction), Riga, 2023 – 2024

No.	Development	Developer	Class	GLA, sqm	Year of Completion
1	Novira Plaza	Novira Capital	A	23,500	2023
2	Elemental Skanste	Kapitel	A	20,500	2023
3	Verde II	Capitalica Asset Management	A	15,000	2023
4	Gustavs, satge I	Galio Group	A	12,400	2023
5	MH1	Pillar	A	12,000	2023
6	Zeiss Office	MBC	A	4,200	2023
7	Preses Nams Quarter	Lords LB	A	25,000	2024
8	Magdalena	Vastint	A	10,000	2024

Source: CBRE Baltics Research

Vilnius

SUPPLY

During Q4 2022, two projects were completed - Business Stadium North East (3rd stage), with over 15,500 sqm, and S28, with 10,000 sqm of rentable area. Currently, Vilnius office stock has already surpassed 1 mln. sqm. The pipeline stock volume is also significant: ca. 122,000 sqm is under construction, with over 350,000 sqm more planned for the next 3 years. Development volumes are to remain active in 2023 (with over 100,000 sqm in the pipeline), with a slower development backdrop in 2024 and then a reemerging intensive development pipeline for 2025.

DEMAND

In Q4 2022, transaction volume amounted to >30,000 sqm, accumulating to the annual take-up of close to 110,000 sqm. This is the second year in a row when the total take-up has exceeded the 100,000 sqm benchmark in Vilnius, fueled by a record high supply and consolidation of employees in modern and sustainable offices. The largest transactions were concluded in the Core Business Centre, where the Wargaming Group and BMI GBS occupied 7,200 and 4,900 sqm, respectively. Overall, companies operating in the IT sector accounted for around 40% of total take-up in 2022.

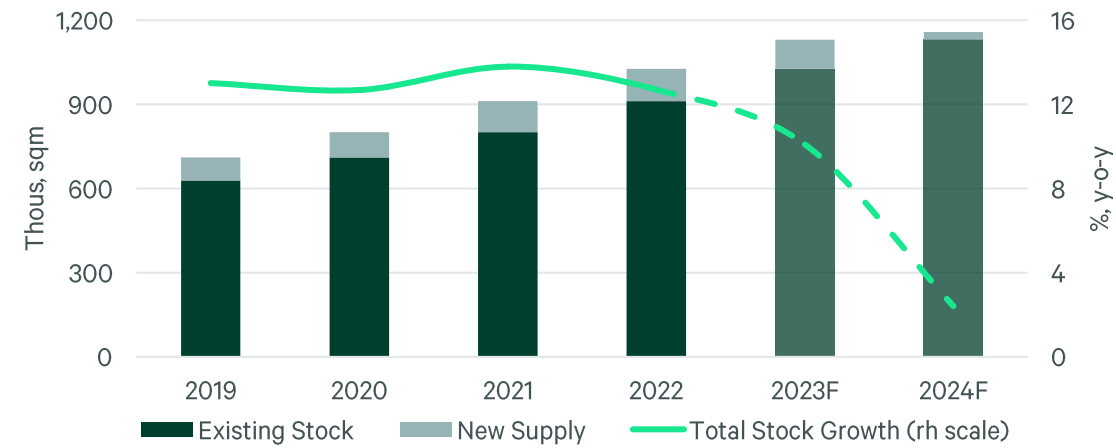
VACANCY

Vacancy has slightly increased on a quarterly basis. Such a dynamic shift is mainly due to a few large newly commissioned buildings, lacking occupancy and contributing to the metric disbalance. Currently total vacancy stands at 7.3% (6.9% for A-class, 7.7% for B-class). Overall, vacancies are projected to climb, as the Vilnius market will receive sizeable deliveries in 2023. Yet, the A-class occupancy rates are likely to remain lower than B-class, as >70% of new deliveries are B-class properties in the 2023-2024 pipeline.

MARKET RENTS

Currently, rental prices range between 16.00-19.00 EUR/sqm/mth in A-class, with 13.00-15.00 EUR/sqm/mth for B-class offices. Both A-class and B-class ranges have adjusted upwards over 2022. High inflation remains the main driving force behind rising rents.

FIGURE 6: Vilnius Existing Office Stock, New Supply and Stock Growth Rate, 2019 – 2024F



Source: CBRE Baltics Research

FIGURE 7: Selective Pipeline Developments (Under Construction), Vilnius, 2023

No.	Development	Developer	Class	GLA, sqm	Year of Completion
1	Cyber City	Sparta	B	35,000	2023
2	Artery	Lords LB	A	21,500	2023
3	Flow	Eika	A	15,670	2023
4	Teltonika HQ	Teltonika	A	10,000	2023
5	Sky Office	YIT Kausta	B	8,600	2023
6	Yellowstone	Equite	B	9,300	2024

Source: CBRE Baltics Research

Kaunas

SUPPLY

In 2022, Kaunas office stock amounted to approximately 275,000 sqm. The majority of Kaunas office stock is B-class (69%), and only 26% of buildings are <2 years old. 2021-2022 period was relatively dry in terms of new developments, except for a few renovation projects. Current Kaunas office supply is scarce, and the existing stock constitutes only 26% of the current Vilnius office stock and has a relatively low growth rate. However, the latter trend is likely to revert over 2023, with the influx of new supply. The growth cycle is expected to accelerate in 2024. Overall, low vacancies – strong demand – should incentivize developers to focus on the Kaunas market.

DEMAND

Due to the market size and a relatively slower pace, Kaunas market transaction volume is small, and frequency is low. Nevertheless, the IT companies made the most substantial deals in H1 2022, expanding their facilities. For example, Oxylabs and Zenitech occupied office space in Magnum BC. Demand is likely to contract slightly in the near term as there are no immediate A-class solutions available for sizeable occupiers, while some market entrants may be hesitant to expand given the economic uncertainty that adversely affects decisions regarding new leases.

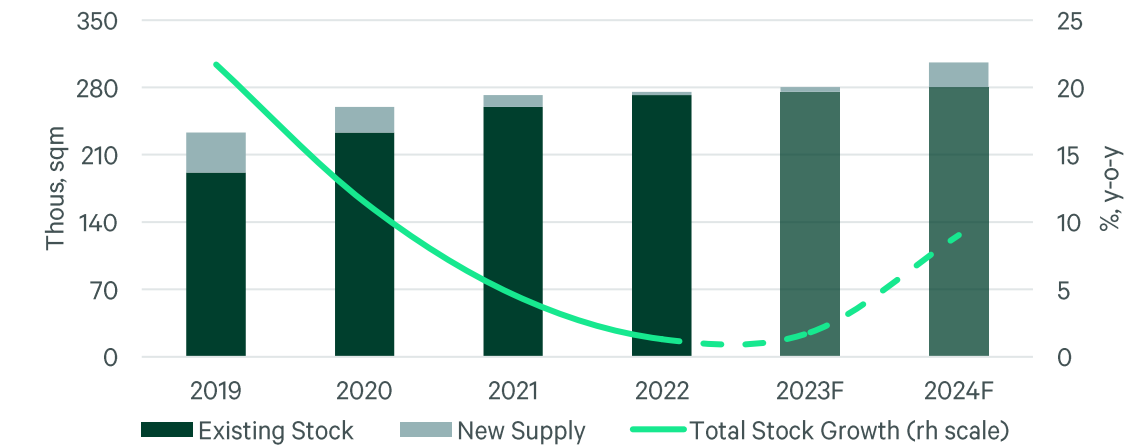
VACANCY

Overall, Kaunas office market vacancy is at 4.7%. A-class office premises remain in high demand, as evidenced by the low vacancy level of 0.8%, while B-class vacancy is around 6.5%. Vacancies will remain low throughout 2023 as the market supply is dry.

MARKET RENTS

Average rents in Kaunas are elevated in comparison to 2021 levels. A-class rents range between 12-15 EUR/sqm/mth, while B-class rents vary within the scope of 9-12 EUR/sqm/mth. The upper range has increased for both the A and B classes. Rents are likely to remain elevated, corresponding to market conditions.

FIGURE 8: Kaunas Existing Office Stock, New Supply and Stock Growth Rate, 2019 – 2024F



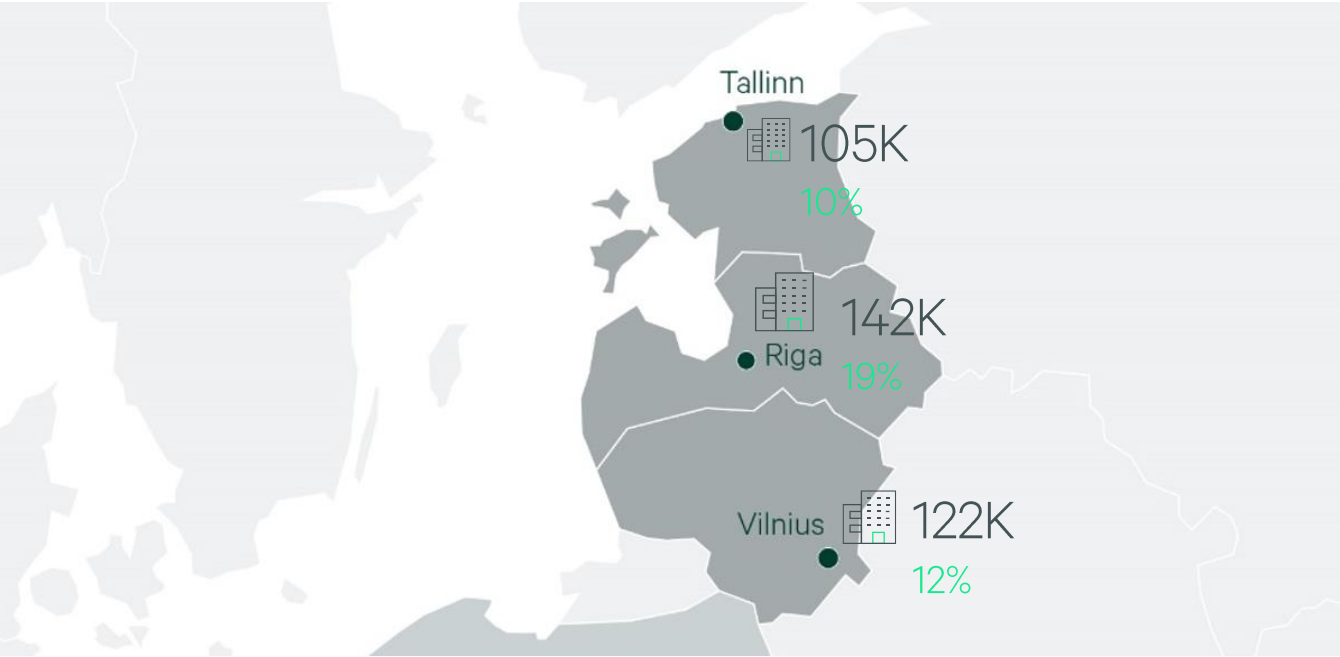
Source: CBRE Baltics Research

FIGURE 9: Pipeline Developments, Kaunas

No.	Development	Developer	Class	GLA, sqm	Current Status
1	Sanitex HQ	Sanitex	B	5,000	Under Construction
2	Savanoriu ave. 239	Windowsa	B	2,100	Under Construction
3	Nemunaiciai	Urban Inventors	B	9,500	Planned
4	Piliamiescio BC	YIT Kausta	B	6,300	Planned
5	Savanoriu ave. 406A	Kauno saulėtekis	B	5,700	Planned
6	Merkurijus	Litvalda	A	5,500	Planned

Source: CBRE Baltics Research

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



TALLINN OFFICE

Porto Franco
Laeva st. 1,
Tallinn, Estonia, EE-10111

RIGA OFFICE

Z1
Zala st. 1
Riga Latvia, LV-1010

VILNIUS OFFICE

S2
Saltoniskiu st. 2
Vilnius, Lithuania, LT-08126

Contacts

Research

Ieva Vitaitytė

Manager
Research & Consulting
+370 6560 9710
ieva.vitaityte@cbre.lt

Justė Subatavičiūtė

Analyst
Research & Consulting
+370 6058 2527
juste.subataviciute@cbre.lt

Elza Muraševa

Analyst
Research & Consulting
+371 2038 9233
elza.muraseva@cbre.lv

Robert Roode

Analyst
Research & Consulting
+372 5645 9222
robert.roode@cbre.ee

A&T (Offices)

Reinis Lauskis

Associate Director
Advisory & Transaction Services
+371 2832 4165
reinis.lauskis@cbre.lv

Denis Rein

Associate Director
Advisory & Transaction Services
+370 6985 1716
denis.rein@cbre.lt

Dainius Šarka

Senior Consultant
Investor Leasing
+370 6948 8318
dainius.sarka@cbre.lt

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