

# Hidden Space Alert in Baltic Office Market

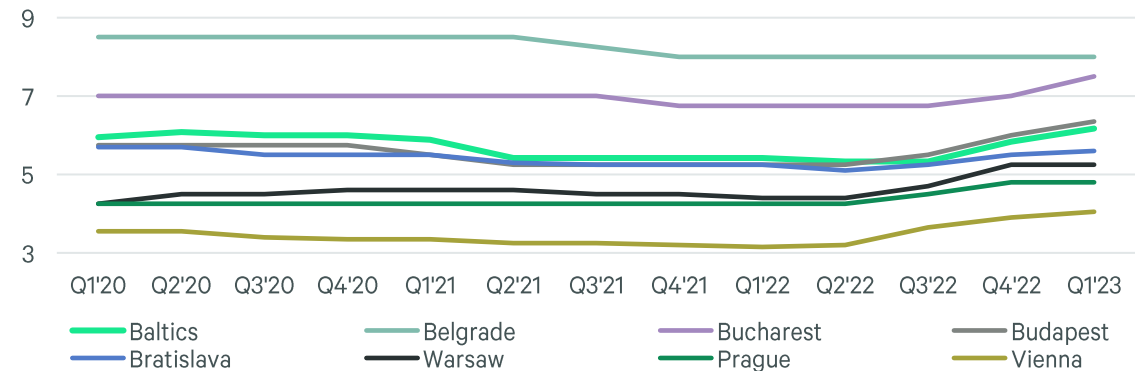


KEY PERFORMANCE INDICATORS, Q1 2023  
Change YoY

## Highlights

- With the start of 2023, the topic of rent indexations sparked a lot of discussions among landlords and tenants. Given the peaking inflation in 2022, most landlords and tenants have found solutions by mutual agreement. However, some landlords give discounts for indexation by asking for a contract extension.
- Returning to the office for the Tuesday–Thursday mid-workweek is the “new normal”. Commute analytics state that the shorter the employee commute is, the more likely they are to attend in-office on a more frequent basis, especially if the commute is under 30 minutes.
- Hidden vacancy is now a wild card. While the reported vacancy metrics stand at 6.7% in Tallinn, 10.4% in Riga, and 6.8% in Vilnius, there are many companies that would be eager to sublease a part of their office space.
- Workplace strategy and ESG considerations have come into sharp focus, especially for international companies, when considering new lease agreements.

FIGURE 1: Prime Office Yields Baltics & CEE countries, %, Q1 2020 – Q1 2023



Source: CBRE Research

# Tallinn

## SUPPLY

By the end of Q1 2023, Tallinn's total modern office stock continued to increase (10,000 sqm in a quarter), albeit at a slower pace than in previous quarters. Two new projects were completed, adding a total of 10,000 sqm, namely Park Tondi 1<sup>st</sup> phase in Kristiine and Sektor House in Veerenni district. Another 40,000-45,000 sqm of office space is expected to be completed in 2023.

## DEMAND

In Q1 2023, ca. 10,000 sqm of office space was leased or pre-leased, being the smallest amount in the last 4 quarters, but higher than the year before. Demand for A-class office space remains high due to better accordance with the needs of tenants regarding ESG parameters. With high demand and somewhat insufficient new A-class supply, tenants that need an office solution right away are turning into alternatives in B-class buildings.

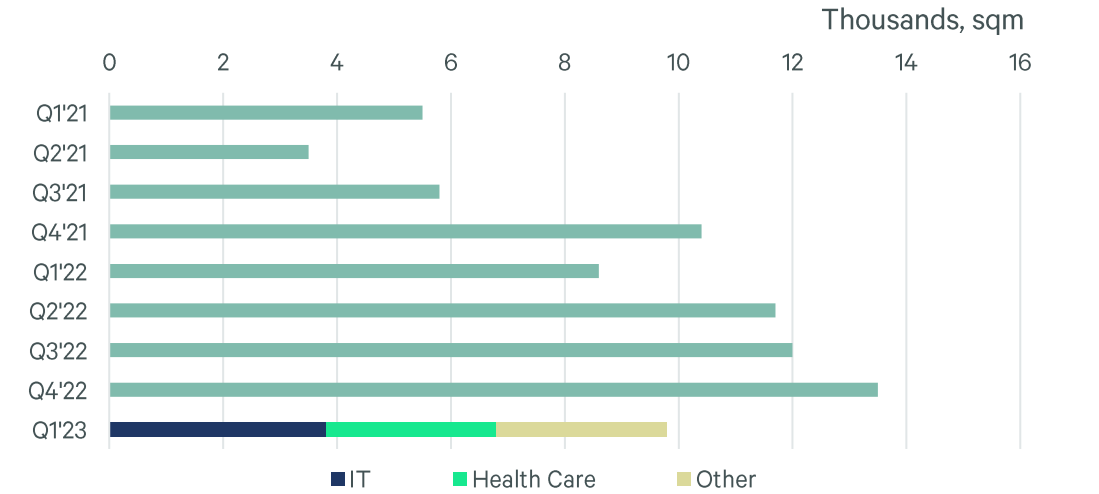
## VACANCY

In Q1 2023, the vacancy has increased by 1.2 percentage points (q/q). Currently vacancy is at 6.7%: 4.2% A-class and 8.1% B-class. Although the vacancies for both classes have increased quarterly, A-class vacancies decreased by 0.4 pp. y/y, while B-class increased by roughly 1.5 pp. The numbers confirm the trend that occupiers are preferring high-quality, well located, and modern premises.

## MARKET RENTS

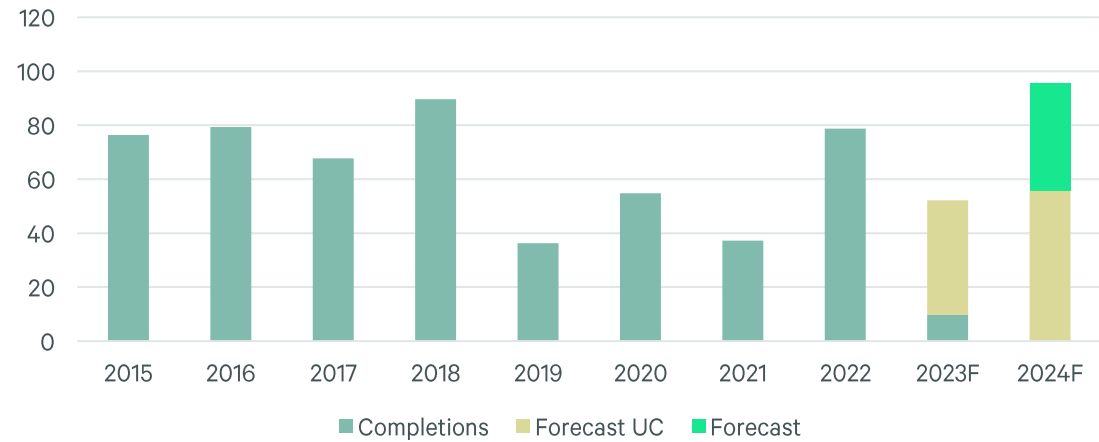
The rent level fluctuates currently at around 16.5-19.5 EUR/sqm/month for A-class and 12.0-16.0 EUR/sqm/month for B-class offices. Due to the high inflation, landlords have increased the rents as much as possible having regard to the possibilities allowed in rental agreements on one hand and the ability of tenants to pay on the other. Increasingly, it can be seen that landlords approach tenants individually case by case instead of treating all similarly.

FIGURE 2: Quarterly Take-Up Transaction Volume, Q1 2021 – Q1 2023



Source: CBRE Baltics Research

FIGURE 3: Stock Development, Tallinn, 2015 – 2024F



Source: CBRE Baltics Research

# Riga

## SUPPLY

During Q1 2023, one office building - Gustavs by *Galio Group* (GLA 12,400 sqm) - was added to the Riga office market, initiating the expected growth of modern office stock in the city. Currently, over 140,000 sqm of modern office space is under construction, and it is anticipated that the modern office market in Riga will grow by approximately 25% over the next three years, reaching the 1 million sqm mark by 2026. By the end of year almost 100,000 sqm of modern offices premises are scheduled to be commissioned.

## DEMAND

Following the record activity in terms of take-up in 2022 market was active in Q1 2023 with take-up amounting to 11,500 sqm, mainly driven by IT and flexible office solutions sectors. High occupier interest in buildings under construction is an encouraging sign for the developers and investors.

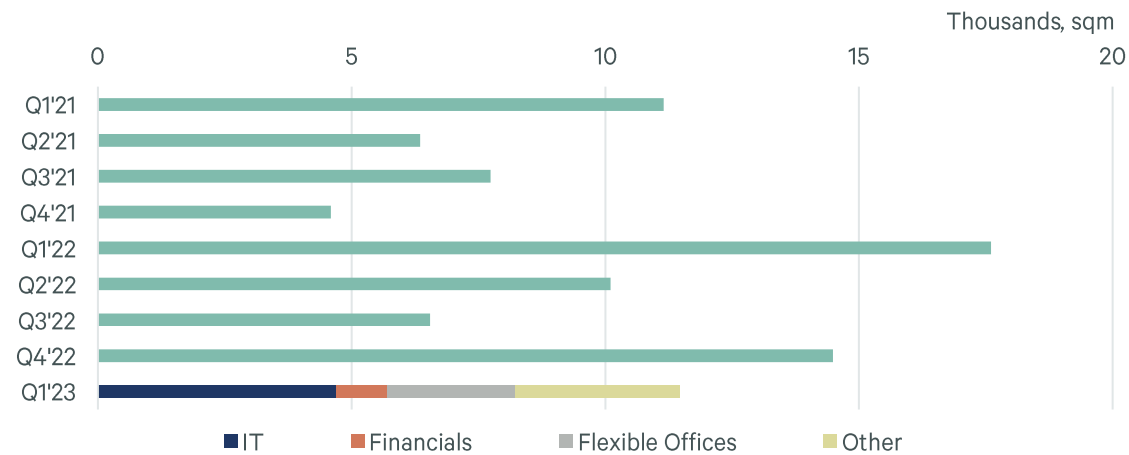
## VACANCY

At the end of Q1 2023, the overall vacancy rate in Riga's office market remained stable at 10.4%, reflecting a marginal decrease of 0.3 pp (q/q). The decline was primarily driven by the 2.3 pp decrease in A-class vacancies over the past year. Additionally, B-class office building vacancies slightly decreased (-1.5 pp y/y, -0.2 pp q/q), reaching 8.3%. These trends highlight the growing preference for modern, high-quality and more energy efficient buildings that cater to occupiers' needs.

## MARKET RENTS

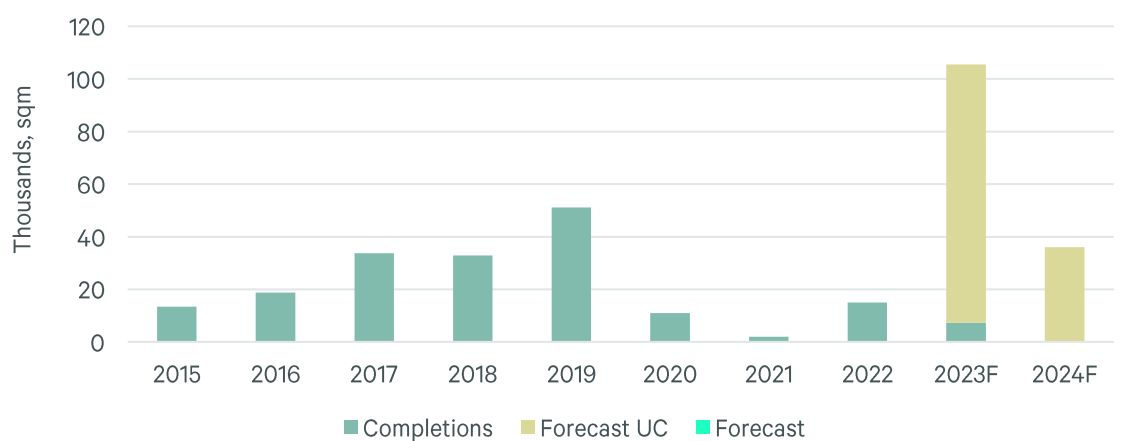
Despite facing an overall price surge and growing maintenance costs, the modern Riga office market has exhibited remarkable stability in rental rates during Q1 2023. Rent for A-class buildings remained constant at a level between 14-18 EUR/sqm/month, while B-class buildings' rent ranged from 8.5 to 15 EUR/sqm/month. Rents are expected to continue to hold steady throughout the year, with no significant increases.

FIGURE 4: Take-Up and Split for the last Quarter in Sectors, Q1 2021 – Q1 2023



Source: CBRE Baltics Research

FIGURE 5: Stock Development, Riga, 2015 – 2024F



Source: CBRE Baltics Research

# Vilnius

## SUPPLY

In Q1 2023, three B-class office properties were commissioned in Vilnius, constituting about 38,200 sqm of GLA. The largest of these was the completion of the 1<sup>st</sup> stage of Cyber City (GLA >32 thous. sqm), followed by K22 (GLA 3,300 sqm) and Kintu 11 (GLA 2,500 sqm). Nearly 113,000 sqm (11% of the total existent stock) remains under construction, 50% of which is expected to be approved by sustainability standards, with an anticipated delivery between 2023-2025. As of 2023, over 60% of modern office stock in Vilnius is certified and this trend is forecast to increase significantly. Suppliers may incur liquidity issues resulting in project delays as the financial pressures persist in the region.

## DEMAND

Throughout Q1 2023, office take-up volumes fell by over 50% quarterly (45% drop Y/Y). Dominating lessee sectors were IT (21%), followed by health care (17%) and financials (10%). Alongside the total transaction volume decline, average leasable space contracted by roughly 30% annually in Q1 2023.

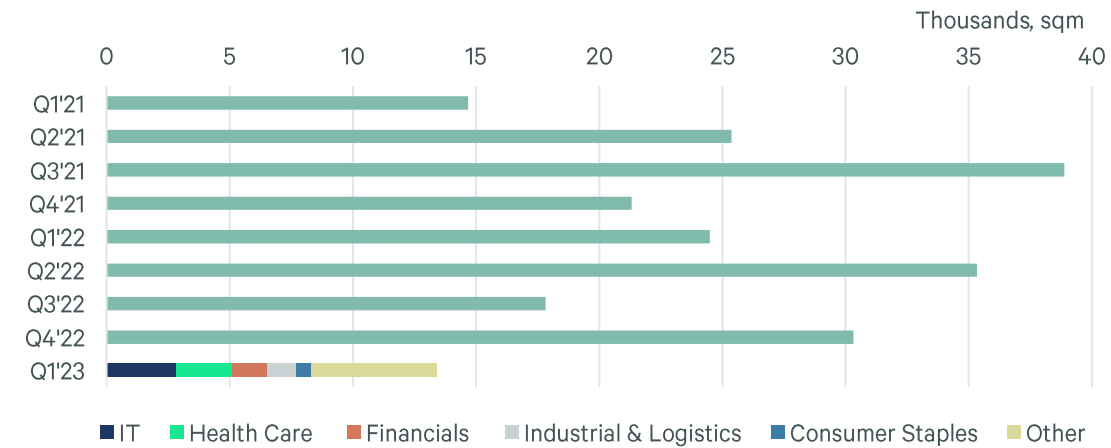
## VACANCY

In Q1 2023, the vacancy rate declined by 0.5 pp (q/q). Currently, vacancy is at 6.8%: 6.1% A-class and 7.3% B-class. Although both class vacancies contracted quarterly, A-class vacancies increased by 3.2 pp. y/y, while B-class fell by roughly 4.8 pp. Still, A-class vacancies are below B-class levels and are expected to remain so throughout 2023.

## MARKET RENTS

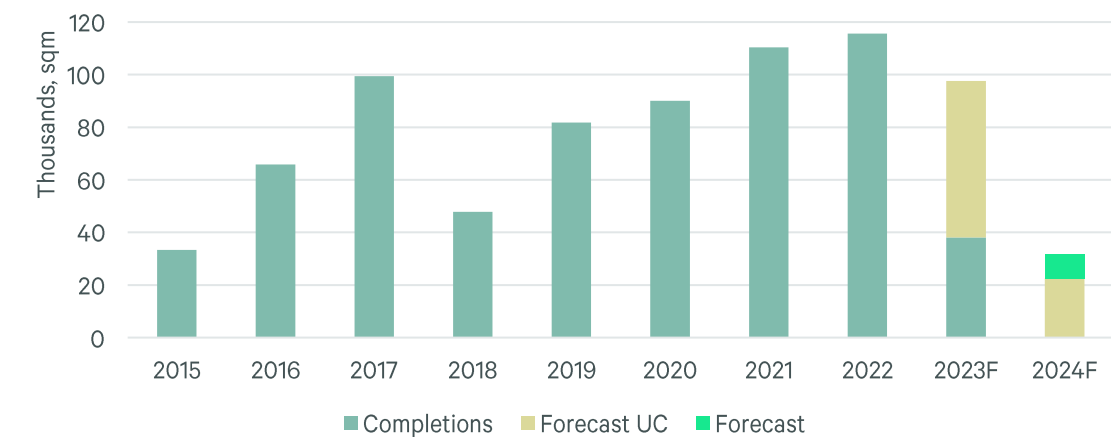
The Vilnius office market did not record quarterly rent adjustments for B-class, while prime rents continued pushing upwards (+5% q/q, +14% y/y). As of Q1 2023, the A-class rent varies from 16.50 to 20.00 EUR/sqm/month and B-class from 13.00 to 15.00 EUR/sqm/month. Upward rent rate shifts are expected to persist due to built-in inflation.

FIGURE 6: Quarterly Take-Up Transaction Volume and Sector Split, Q1 2021 – Q1 2023



Source: CBRE Baltics Research

FIGURE 7: Stock Development, Vilnius, 2015 – 2024F



Source: CBRE Baltics Research

Market Area Overview



TALLINN OFFICE

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

RIGA OFFICE

Z1  
Zala st. 1  
Riga Latvia, LV-1010

VILNIUS OFFICE

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