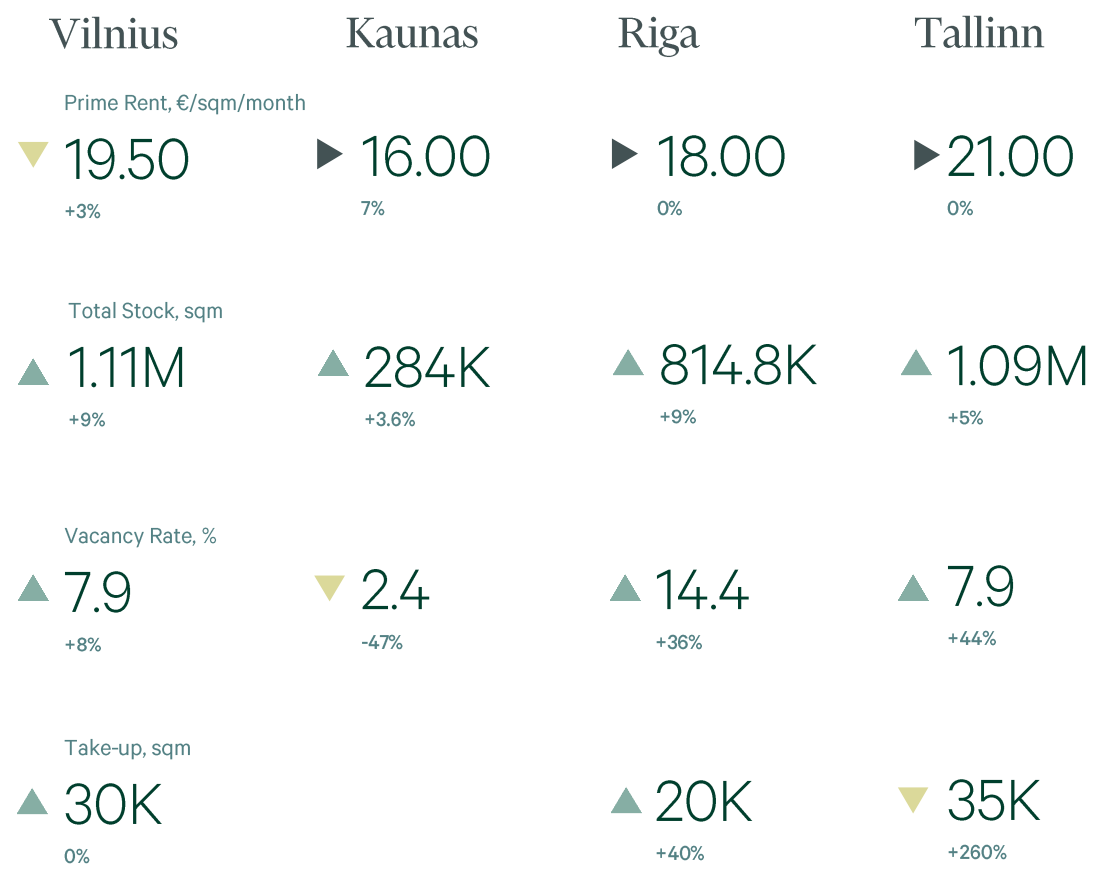


Awaited CBD Jewels Widen A & B Class Gap



KEY PERFORMANCE INDICATORS, Q4 2023
Growth Rate YoY (%)
Note: Arrows indicate change from previous quarter.

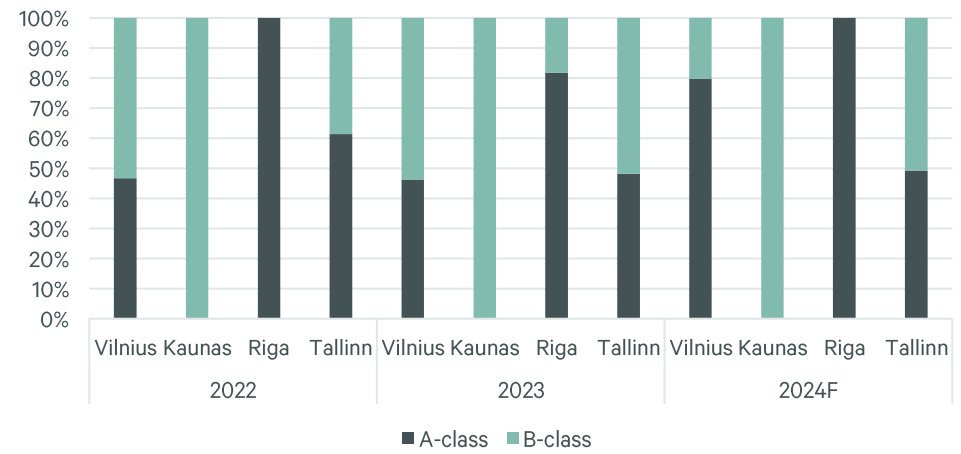
Highlights

Pre-lease transactions fueled the high take-up numbers for all the Baltic capitals during the last quarter of the year.

The growing preference among tenants for higher-quality spaces resulted in increased B-class vacancies throughout the year. At the same time, the latest new completions drove the rise in A-class vacancies in the Baltic capitals. Over 70,000 sqm of new A-class office space (80% of all completions) was commissioned during Q4 2023 (Tallinn 20,000 sqm, Vilnius 37,000 sqm, Riga 15,000 sqm).

Despite a consistent trend in market rents throughout 2023, the expectation is for some pressure to become evident due to forthcoming completions.

FIGURE 1: Office Completions Share by Class, Baltic Capitals, 2022-2024F



Source: CBRE Baltics Research

Vilnius

SUPPLY

In the last quarter of the year, Vilnius has seen the completion of some highly anticipated projects – Sky Office (B class), Flow (A class), and Artery (A class), all together offering more than 45,000 sqm GLA to the city's market. In 2023, the total stock of Vilnius' office buildings grew by 87,500 sqm (~8.5%), and it is expected to grow by another 3.5% in 2024. In total, four office buildings with approximately 27,500 sqm are expected to be built in 2024, while two buildings are currently undergoing renovations and expected to offer another 9,500 sqm GLA of newly refurbished space.

DEMAND

Leasing activity in Q4 2023 has picked up pace with close to 30,000 sqm GLA recorded in (pre)lease transactions, which is approximately 45% more than the previous quarter. Out of this, around 60% of space was leased in existing stock, with most of the deals taking place in B-class offices (almost 80%), indicating that in uncertain times, tenants tend to prioritize competitive pricing over quality attributes typically found in A-class offices, such as strategic location or energy efficiency. During the quarter, the IT and financial sectors offered a significant share of demand for office space, while the public sector was also active in their leasing activity.

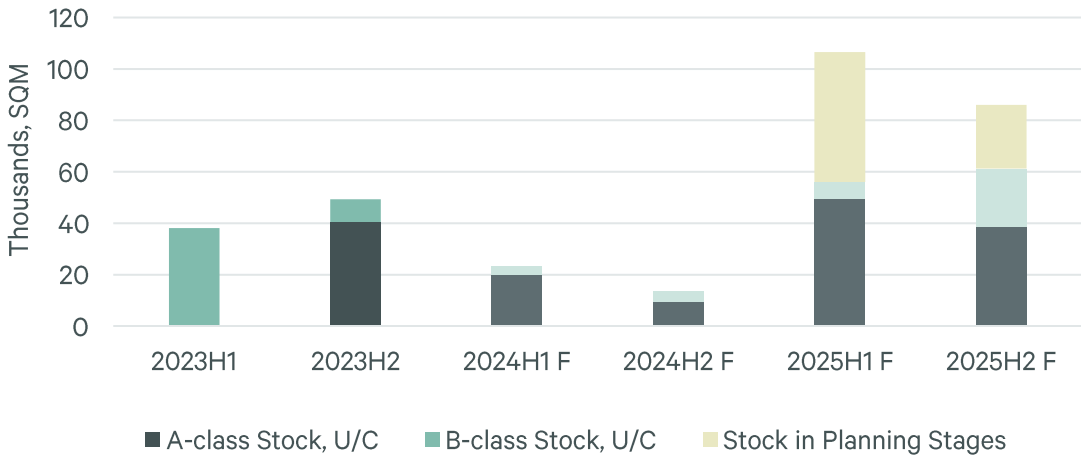
VACANCY

At the end of the year, the overall vacancy rate stood at 7.9%, showing a 0.2 p.p. increase compared to Q3 2023 and a 0.5 p.p. increase compared to the same period last year. The vacancy rate for A-class properties was 7.9%, while the vacancy rate for B-class properties decreased to 7.8%. It is important to note that the high vacancy rate for A-class properties does not accurately reflect the market situation because several large A-class projects were recently introduced to the market and have not pre-leased 100% of their premises before opening.

MARKET RENTS

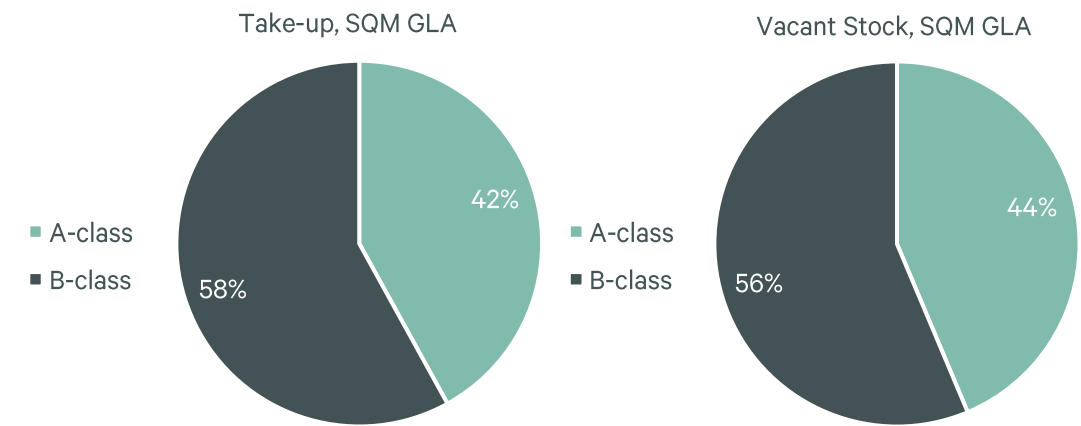
The fourth quarter has not seen considerable deviations in rent levels, although some retraction trends have been noticeable on the upper side of prime rents, which currently stand at 16.00-19.50 €/sqm/month. At the same time, rent prices for B-class offices have proved to be more resilient, ranging between 13.00 and 15.00 €/sqm/month – same as the quarter before.

FIGURE 2: Existing, Under Construction and Planned Stock in Vilnius, Completion Forecast, 2023 H1 – 2025 H2 F



Source: CBRE Baltics Research

FIGURE 3: Total Annual Take-up and Total Vacancy at the End of the Year, by Class, 2023



Source: CBRE Baltics Research

Kaunas

SUPPLY

As of the end of Q4 2023, the total office space available in Kaunas market was approximately 285,000 sqm of GLA. During 2023, only one office project was completed - the Sanitex headquarters of ca. 5,000 sqm GLA. Currently, three office projects are underway, of which two are expected to be completed in 2024, adding an extra 5,000 sqm GLA to the market. Despite the relatively low activity in the office segment, nine new projects are in the planning stages by various developers. If these projects come to fruition, they could add an additional 59,500 sqm of office space to Kaunas market.

DEMAND

Demand trends in 2023 reflected the slow growth seen on the supply side, with only a few significant lease transactions taking place. In the first half of the year, Juodeliai leased over 1,100 sqm GLA in Jonavos 244 business center, while Vinted took up a 650 sqm GLA office in the recently converted Drobės factory project. Smaller transactions throughout the year showed strong demand from players in the financial, IT, and industrial sectors. Looking ahead to 2024, it is expected that the current low activity trend will continue, with an increase in activity only anticipated once new developments enter the market. Although some companies may consider strategic expansion to Kaunas, the limited availability of office space puts such plans on hold.

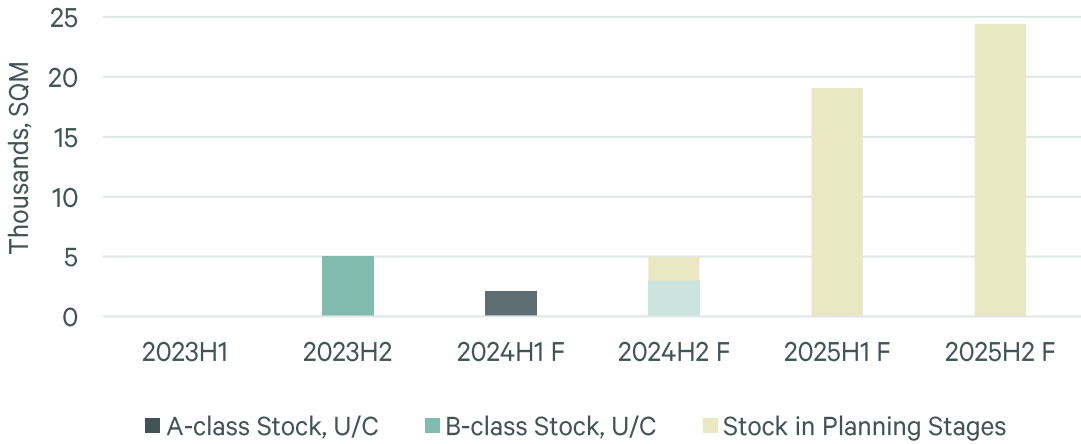
VACANCY

The Kaunas office market, as of the end of 2023, has a vacancy rate of 2.4%, which is considered modest. It is worth noting that B-class office vacancies are slightly lower than A-class, with 2.2% and 2.8%, respectively. However, both are relatively insignificant due to the low overall new supply in the market. It is expected that vacancy rates will remain at similar levels throughout 2024.

MARKET RENTS

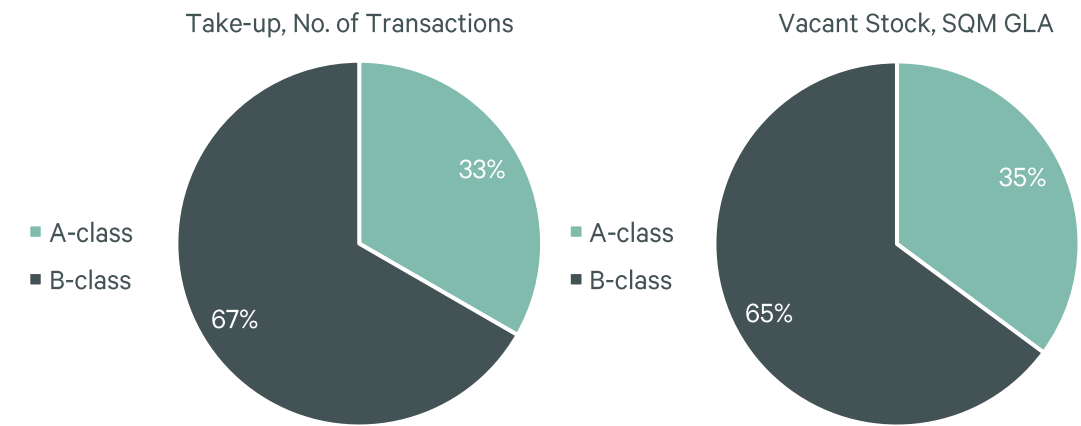
Over the past year, rental rates in Kaunas have remained stable, holding at elevated levels of 13.50-16.00 €/sqm/month for A-class and 9.00-12.00 €/sqm/month for B-class spaces. Given the limited stock growth in the market, there is a likelihood of a slight increase in rents or the stability of current levels moving forward.

FIGURE 4: Existing, Under Construction and Planned Stock in Kaunas, Completion Forecast, 2023 H1 – 2025 H2 F



Source: CBRE Baltics Research

FIGURE 5: Total Annual Take-up and Total Vacancy at the End of the Year, by Class, 2023



Source: CBRE Baltics Research

Riga

SUPPLY

During the last quarter of the year, in Riga, only one project was completed in the Skanste area. The *Elemental Business Centre* project was developed by Kapitел with a GLA of 21,000 sqm and was mostly leased out before commissioning. Throughout the year, the supply of A-class projects in Riga has increased by more than 35%. This trend is expected to continue as approximately 90% of projects currently under construction also fall into the A-class category.

DEMAND

In 2023, the amount of office space occupied in Riga exceeded the already high levels of the previous year, reaching over 65,000 sqm. Out of this, 20,300 sqm were transacted during the final quarter. This increase in occupancy was mainly due to pre-lease deals in upcoming projects, which accounted for ca. 30% of lease transactions and significantly contributed to the overall volume. The IT and financial sectors played a significant role in the 2023 occupancy volumes, with local companies being the key drivers of the capital's office market. Notably, during Q4, the largest deal was concluded with the Latvian State Police, signing a lease agreement in Upmalas Biroji for over 4,000 sqm.

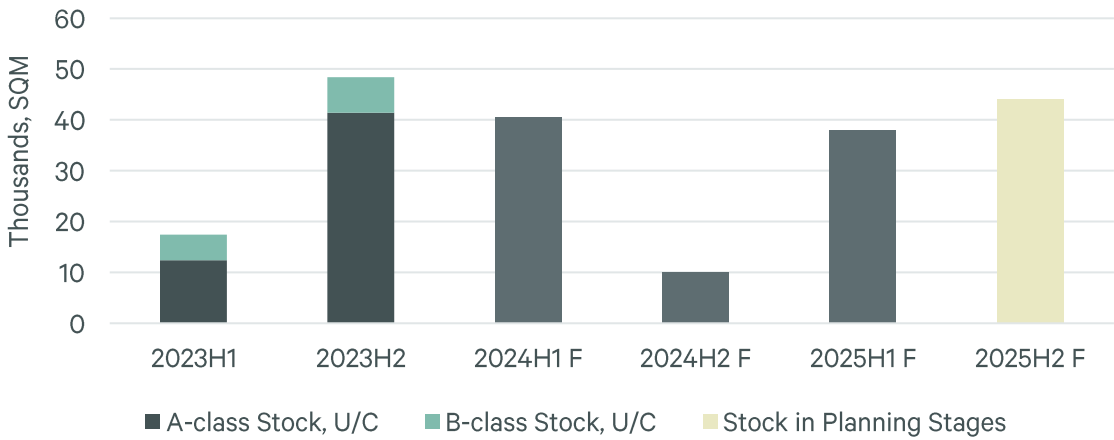
VACANCY

Although only A-class offices were commissioned during the quarter, vacancy increased by 1.1 p.p. for B-class, while lessening by 3.6 p.p. for A-class, as finalized projects were already largely pre-leased. The overall vacancy increased just by 0.2 p.p. over the quarter, reaching 14.4%, while over the year, by 3.3 p.p., impacted by many commissionings during 2023.

MARKET RENTS

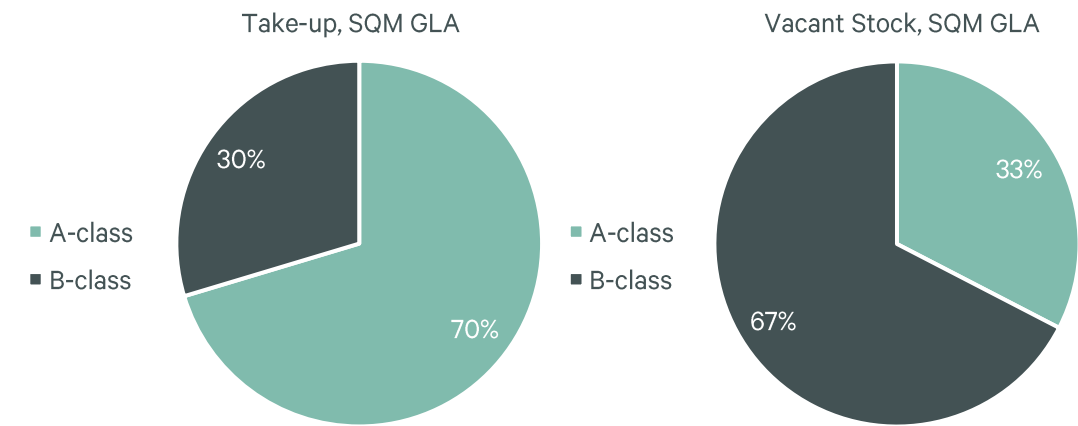
Market rents have demonstrated resilience, and no notable changes have been observed during the year. B-Class property rents range between 8.50 and 15.00 €/sqm/month, whereas A-Class properties have observed fluctuations between 14.00 and 18.00 €/sqm/month. The anticipated completion in the upcoming year might introduce alterations to rental levels, potentially prompting older B-Class offices to contemplate adjustments in their rental rates.

FIGURE 6: Existing, Under Construction and Planned Stock in Riga, Completion Forecast, 2023 H1 – 2025 H2 F



Source: CBRE Baltics Research

FIGURE 7: Total Annual Take-up and Total Vacancy at the End of the Year, by Class, 2023



Source: CBRE Baltics Research

Tallinn

SUPPLY

In Q4 2023, the office market in Tallinn expanded with the addition of five new or renovated buildings. These new buildings added approximately 29,000 sqm to the total market area, bringing the overall stock level to 1.09 million sqm. The most significant contributions to this expansion were Maakri HUB, which added 9,200 sqm, and Sõle Ärikeskus, which added 8,300 sqm. Additionally, by the end of Q4 2023, an estimated 100,000 sqm of office space were under construction and expected to be completed within the next two years.

DEMAND

The main reason for the increase in demand is the current tenants who are looking for better premises to relocate to. These tenants are taking their time to explore various options, evaluate them thoroughly and make informed decisions, which tends to prolong the decision-making process. As a result, landlords are adjusting their expectations to meet the needs of their tenants. In the last quarter, the uptake surpassed 35,000 sqm, following the trend observed in Q3. A significant portion of this increase can be attributed to pre-lease contracts.

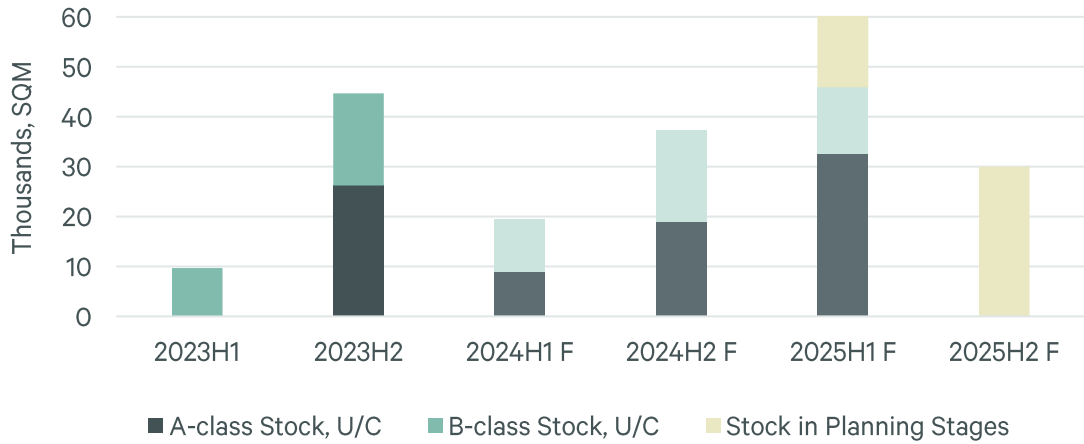
VACANCY

The office market in Tallinn has witnessed an increase in vacancy rates, with the average vacancy rate climbing to 7.9% in 2023, marking a significant rise of 2.7 p.p. A-class premises have seen a slight increase in vacancy rates, from approximately 3.1% to 6.1%, while B-class premises have experienced a more significant shift from just under 7.0% to 8.8%. These trends indicate that tenants are increasingly opting for higher-quality office spaces, which puts more pressure on landlords to invest in their properties to attract and retain tenants.

MARKET RENTS

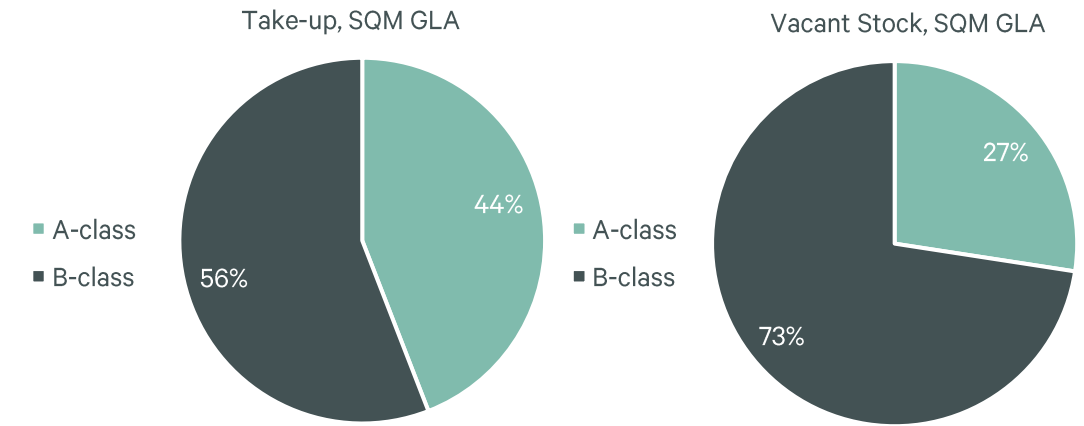
Market rent levels remained stable during Q4 2023. Prime rents fluctuated within the 17.00-21.00 €/sqm/month range, while rents for B-class buildings ranged from 11.00 to 16.50 €/sqm/month. The gradual expansion of these rental rate ranges reflects the dual challenges faced by the market — escalating construction costs for completed buildings on one side and landlords' inclination to accommodate lower rental rates rather than making additional investments on the other.

FIGURE 8: Existing, Under Construction and Planned Stock in Tallinn, Completion Forecast, 2023 H1 – 2025 H2 F



Source: CBRE Baltics Research

FIGURE 9: Total Annual Take-up and Total Vacancy at the End of the Year, by Class, 2023



Source: CBRE Baltics Research

Market Area Overview



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