

# Local Companies Setting the Office Market Direction



**KEY PERFORMANCE INDICATORS, Q1 2024**

Growth Rate YoY (%)

Note: Arrows indicate change from previous quarter.

## Highlights

Take-up activity decreased during the first quarter, with the demand for new office space largely driven by local companies.

Vacancy rates rose across the Baltic Capitals. In Tallinn and Riga, new office completions drove up A-Class vacancy, while Vilnius saw a rise in B-Class office vacancy.

Over 300,000 sqm of modern office space are currently under construction across the Baltic Capitals, with more than 72,000 sqm expected to be completed this year. The largest building activity is concentrated in Vilnius, where over 140,000 sqm are under construction. The high volumes in construction may lead to further increases in vacancies, particularly considering the recent declines in overall demand.

FIGURE 1: Selective Offices Under Construction to be Completed in 2024, Baltic Capitals

City	Developer	Project	GLA	Delivery
Vilnius	Equite	Yellowstone	9,300	2024 Q2
Vilnius	Capitalica AM	Sand Offices	8,200	2024 Q4
Riga	Capitalica AM	Verde II	15,000	2024 Q2
Riga	Vastint	Magdalena	10,000	2024 Q4
Tallinn	Kapitel	Arter Quarter (B)	9,000	2024 Q3
Tallinn	Triple Net Capital	Vector building	7,700	2024 Q3

Source: CBRE Baltics Research

# Vilnius

## SUPPLY

In the first quarter of 2024, strong development activity was visible with two office projects introduced to the Vilnius market, totaling 14,100 sqm GLA. These include a built-to-suit project for Teltonika’s headquarters (10,600 sqm GLA, A-class) and Premium 2 (3,500 sqm GLA, B-class). The city’s pipeline remains steady, with over 140,000 sqm GLA currently under construction, out of which nearly 30,000 sqm GLA expected to be completed by year-end 2024. A notable portion (66%) of this year’s pipeline projects will be A-class office buildings.

## DEMAND

During the quarter, demand for office space was primarily driven by the industrial & logistics segment occupiers, forming over 35% of the take-up. Serviced Offices also secured a notable share, driven by a larger agreement. Around 19,500 sqm of office space was leased in Q1 2024, with the majority (69%) in B-class offices. Pre-leasing activity remained low, accounting for only 21% of stock. Despite ongoing challenges from the Covid-19 pandemic and prevalent office downsizing, the recent evidence and the emergence of return-to-office policies may signal a gradual recovery in office take-up, albeit uncertain. Nonetheless, the take-up by foreign capital firms is yet to revive, as most of this quarter’s stock was leased by local companies.

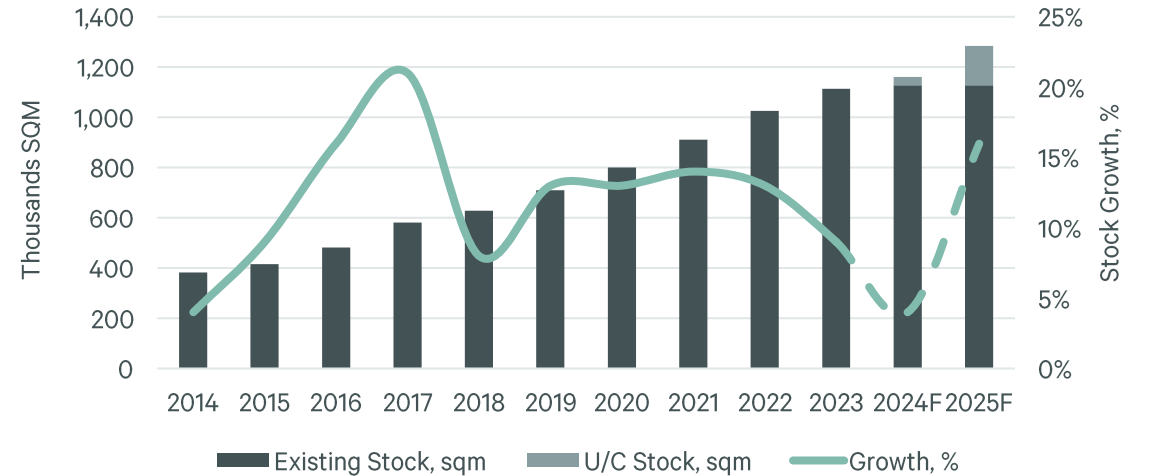
## VACANCY

Total vacancy levels in Q1 2024 remained stable at 7.8%. A-class vacancy rates are now standing at 7.0% compared to 7.9% in Q4 2023, primarily attributed to successful leasing in newly constructed buildings. Conversely, B-class vacancy levels stands at 8.4%, despite ongoing leasing activity within this office class.

## MARKET RENTS

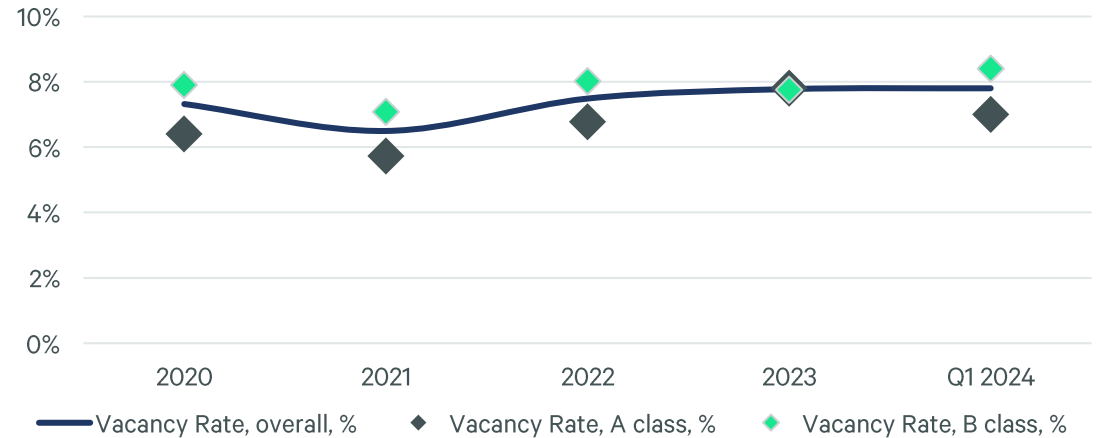
Rent levels remained stable throughout Q1 2024, with prime rents typically ranging from 16.00-19.50 €/sqm/month and B-class rents averaging between 13.00-15.00 €/sqm/month. While rent reductions, particularly in higher price brackets, were observed in Q4 2023, it is anticipated that rents will remain steady in the upcoming few quarters.

FIGURE 2: Office Stock Development in Vilnius, as of Q1 2024, 2014-2025F



Source: CBRE Baltics Research

FIGURE 3: Office Vacancy in Vilnius 2020 –Q1 2024



Source: CBRE Baltics Research

# Riga

## SUPPLY

Riga's modern office supply was enhanced with approximately 24,000 sqm of leasable area during Q1 2023. The most noteworthy completion was Novira Plaza, an A-class office project next to the central station, with around 50% pre-leased, developed by Novira Capital, it added 20,000 sqm of office space to the market. Additionally, the Arcada B-class office building, with a GLA of 3,365 sqm dedicated to offices, was commissioned on the outskirts of Riga. Currently, around 70,000 sqm of modern office space is under construction, with 30,000 sqm still to be completed by the end of this year.

## DEMAND

Take-up levels, which had reached record volumes last year due to pre-lease deals, decreased in Q1 2024, with no remarkable pre-lease deals recorded during the period. Overall transaction volume fell by 30%, meaning around 5,000 sqm less office space was transacted during the period compared to Q1 of the previous year. The demand continues to be primarily driven by local companies, the trend of the tenant market still prevails, and landlords continue to think about their offer favorability and competitiveness in the current market conditions.

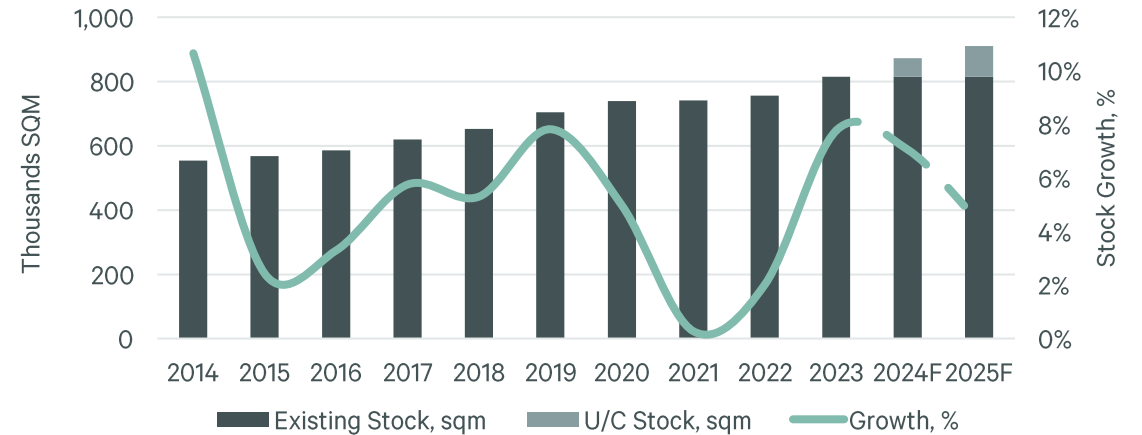
## VACANCY

The average vacancy levels in Riga have risen slightly by 0.1 p.p. from the previous quarter and, more notably, by more than 4 p.p. over the year, reaching an overall vacancy rate of 14.5% at the end of the first quarter. The main reason for the vacancy increase is connected to substantial new office project deliveries that are not fully let at the commissioning, thus increasing overall office stock vacancy.

## MARKET RENTS

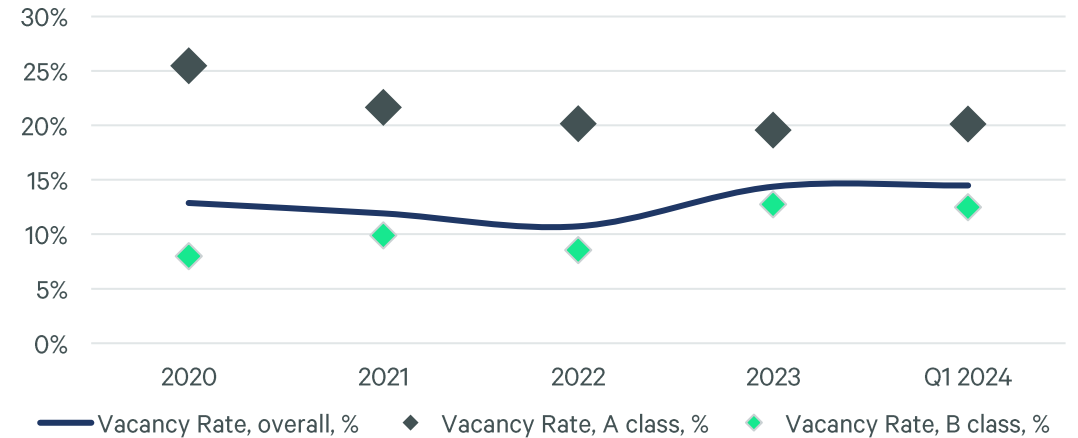
Rent levels in Riga's office market have remained reassuringly stable, with prime rents typically falling within the range of 14.00 to 18.00 €/sqm/month. B-class rents, on the other hand, averaged between 8.50 and 15.00 €/sqm/month. We expect that rent levels for A-class office buildings will remain stable for the next periods while older B-class office building landlords will face challenges in attracting new tenants for vacated office premises.

FIGURE 4: Office Stock Development in Riga, as of Q1 2024, 2014-2025F



Source: CBRE Baltics Research

FIGURE 5: Office Vacancy in Riga 2020 –Q1 2024



Source: CBRE Baltics Research

# Tallinn

## SUPPLY

During Q1 2024, one office building was added to Tallinn Office market – Rosen House with 8,900 sqm leasable area. A-class building located in Rotermanni Quarter, CBD, has 6 floors above ground and 2 floors underground for parking (89 spaces for cars and 28 for bicycles). At the same time lower class premises have been taken out from the market for renovation works, resulting in a decrease of total stock by ca. 10,000 sqm to 1.08 million sqm. Additionally, there are ca. 80,000 sqm of office space under construction in Tallinn, out of which 36% should be commenced in 2024.

## DEMAND

The trend of *Tenant Shopping* continues – the 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 take-up level was ca. 15,000 sqm, the main sectors contributing were financials and health care. A significant portion can be attributed to pre-lease contracts.

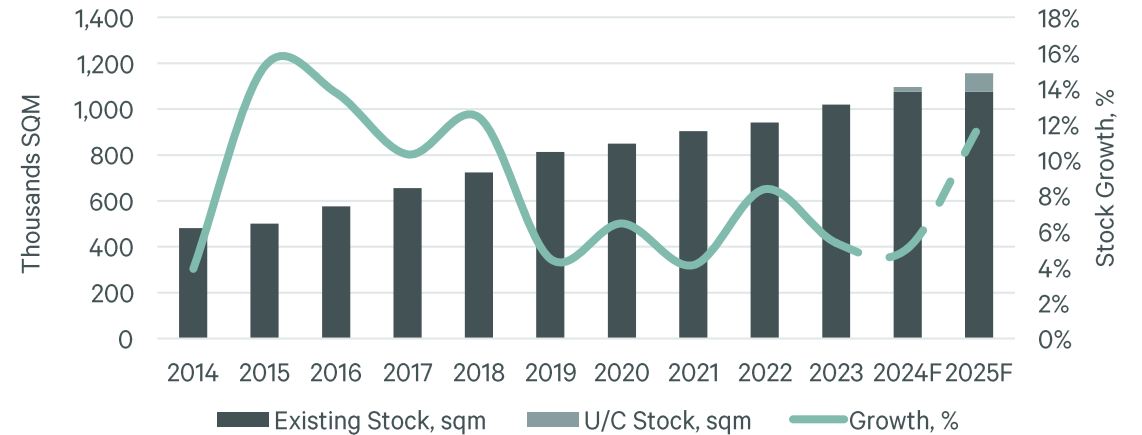
## VACANCY

The average vacancy in the Tallinn office market keeps inching upwards, standing at 8.5% in Q1. Whereas in 2023, the B-class vacancy was the primary contributor to the rise of overall vacancy, then in the last quarter, the vacancy of A-class offices rose from 6.3% to 7.1%, while B-class vacancy remained at 9.4%. The reason behind this is that the latest A-class buildings that have entered the market have had a higher share of vacant premises than the existing A-class buildings. On the other hand, some B-class buildings have been taken out of the market for renovation works.

## MARKET RENTS

Rent levels remained stable throughout Q1 2024, with prime rents typically ranging from 17.00-21.00 €/sqm/month and B-class rents averaging between 11.00-16.50 €/sqm/month. It is anticipated that rents will remain steady in the upcoming few quarters, although indexation pressurizes rents upwards, the competition holds back the rise of the average.

FIGURE 6: Office Stock Development in Tallinn, as of Q1 2024, 2014-2025F



Source: CBRE Baltics Research

FIGURE 7: Office Vacancy in Tallinn 2020 –Q1 2024



Source: CBRE Baltics Research



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