

Adaptive Spaces

Baltic Residential Viewpoint 2024

Growing Opportunities for Residents and Developers

VIEWPOINT

As local demographics and preferences evolve, the demand for Built-to-Rent apartments is expected to gradually increase.

Accordingly, more developers are entering this niche market, although saturation levels remain relatively low.

CBRE BALTICS RESEARCH
AUGUST 2024



Current Stance

Following the trends of 2023 and the lingering effects of the pandemic, the Baltic residential markets continue to face challenges. Although inflation is expected to stabilize, with the European Commission predicting it will be close to the 2% target in 2024 for the Baltics, the purchasing power of the region's residents still has room to recover. While interest rates saw slight decreases in June this year, they remain elevated, and real estate prices, especially for newly built residential projects, continue to rise, impacting housing affordability. Simultaneously, the population in the region's capitals continues to grow, or is expected to, driven by local migration and an increase in foreign arrivals. These factors, along with changing housing preferences and the rising popularity of the sharing economy, significantly influence both private and institutional rental markets.

The annual growth rate for housing prices in the Baltics, according to Eurostat, is +9.8% in Lithuania, +3.7% in Latvia, and +5.9% in Estonia when comparing 2022 to 2023. During the period from 2021 to 2022, annual prices increased by 10% to 23% across these countries. For 2024, real estate professionals anticipate that prices will grow moderately, by up to 5-10% in the capitals for new apartment sales. In contrast, the market for older block buildings is expected to stabilize in terms of sales prices, with Riga even beginning to show slight declines due to higher utility costs and financing constraints. However, much depends on further cuts by the ECB to base interest rates, which could subsequently increase demand, while a lack of new supply might lead to additional price growth.

Various factors – rapid urbanization, high financing costs, and sharp price increases – have led to the expansion of the rental market. Even though homeownership rates remain high in the Baltics compared to the EU average (69.2%), the Baltics stand out when compared to other CEE and SEE countries that have undergone similar historical patterns in real estate. With high financing costs and changing habits, particularly among younger generations, it is anticipated that the Baltics will soon experience reductions in homeownership levels, which will consequently fuel the growth of the purpose-built rental market (PRS).

Changes in Average New Apartment Sales Prices, H1 2024 / H1 2023

Vilnius

+8.6%

Riga

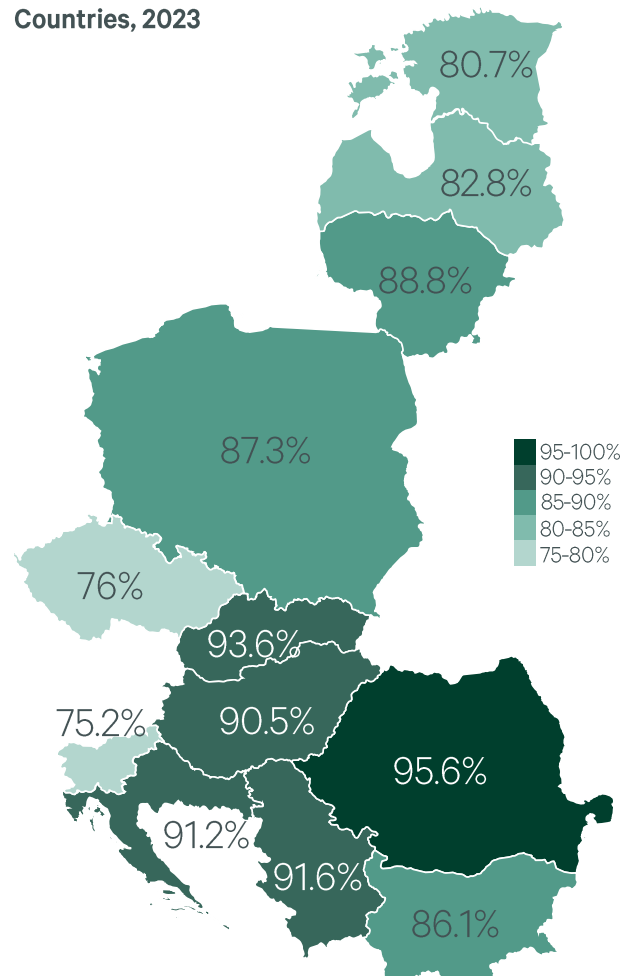
+6.5%

Tallinn

+5.2%

Source: Centre of Registers, State Land Service, Estonian Land Board

Home Ownership Rates in the Baltics, CEE & SEE Countries, 2023



Source: Eurostat

Prospects of the Rental Market

Throughout 2023, apartment prices across the Baltics saw only moderate increases, a stark contrast to the significant spikes observed in 2021-2022. However, housing affordability remains at historically low levels, primarily due to limited financing options. By the end of 2023, our calculations showed that renting an apartment had become up to 30% more cost-effective than buying one with a loan, driving increased demand for rental properties. Traditional developers like Hanner, Bonava, and YIT, attracted by the potential of the built-to-rent (BtR) sector, have already entered or are planning to enter this market. Nevertheless, many developers still prefer built-to-sell properties, due to historically higher confidence in this business model.

Average Asking Prices for Rental Apartments, H1 2024

Location	PRS apartments*, €/sqm/month	Prime Co-living apartments*, €/sqm/month	Average rent in the private market**, €/sqm/month	Average Loan Payment***, €/sqm/month
Vilnius, Lithuania	16.0-28.0	21.5-29.5	16.0-26.0	22.9
Riga, Latvia	10.0-20.5	19.0-28.5	13.0-22.5	16.7
Tallinn, Estonia	16.5-30.0	21.5-27.5	17.0-27.0	26.9

*Prices for the PRS apartments usually include administrative costs, while co-living offers generally include utilities and other communal expenses

**Includes new construction apartments (built in 2020-2024)

***Estimations made considering a 55 sqm two-room apartment with partial finishings in new construction buildings and a fit-out investment of 800 €/sqm. A loan term of 30 years and local interest rates for July 2024 were considered.

Source: Official Landlord Websites, Aruodas.lt, City24.lv, City24.ee, CBRE Baltics Research

The overcrowding rate in the Baltics, particularly in Latvia, stands among the highest in Europe, meaning that a significant portion of the population lives in dwellings with an insufficient number of rooms. This presents an opportunity for local developers and is likely to further drive demand for rental apartments. Also, due to limited demand, the development of new residential buildings is progressing slowly, potentially leading to supply shortages once financing conditions improve. This situation might drive many to the rental market, particularly into the PRS segment, which offers various advantages over private rental offerings.

Overcrowding Rates in EU Cities, 2023



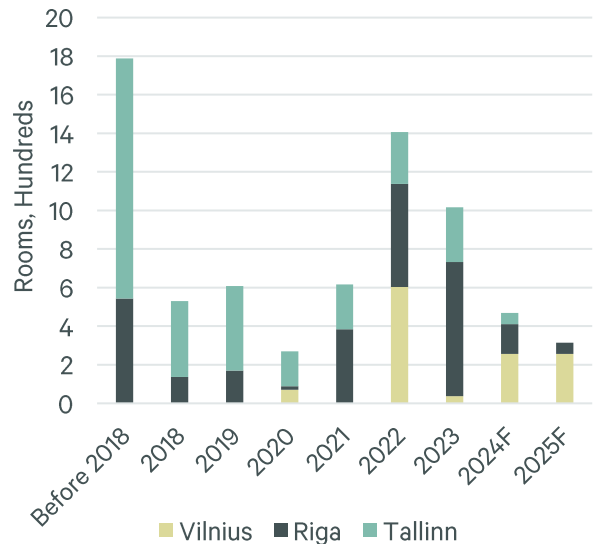
Source: Eurostat

Will the Current PRS Stock Be Enough to Service Growing Demand?

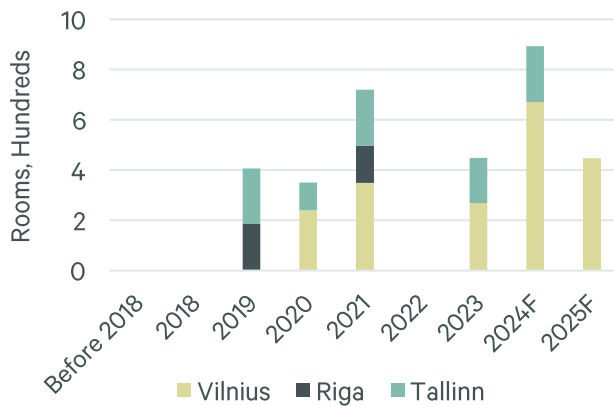
Purpose-Built Rental (PRS) Accommodation

PRS apartment projects have recently gained popularity among developers, especially in Riga and Vilnius, while in Tallinn, projects where investors acquire several apartments in a building and then professionally manage it take the lead. As of the end of H1 2024, the Baltic capitals host ~6,600 rental rooms, ~500 are currently under construction, while almost 1,000 is in the plans of developers. Even if more developers step into the scene, the PRS segment remains a niche for many, as the region traditionally has a strong culture of homeownership, making rental schemes less established. However, many of the existing PRS apartment buildings are fully rented out, and when vacancies occur, they are quickly absorbed, signaling to developers that the market has plenty of room to grow.

Annual Completions of PRS Rooms, Baltic Capitals



Annual Completions of Co-Living Rooms, Baltic Capitals



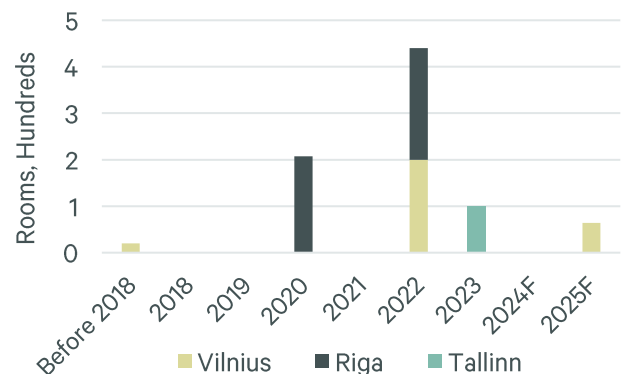
Co-Living

The concept of co-living is rather new to the Baltics, as first co-living projects started operating in 2019 only. However, multiple developers prompted by the success of others, have been expanding more fiercely into the sector, especially in Vilnius, which hosts around 60% of all co-living rooms in the Baltics. Developers are recognizing the profitability of this niche market, capitalizing on the city's vibrant, youthful demographic and the cultural shift towards communal living. Currently, ~2,600 co-living rooms exist across the Baltic capitals, with ~670 under construction, and ~700 planned.

Purpose-Built Student Housing

Student accommodation has long been in the hands of educational institutions, and only recently it began to be privately developed. However, student housing is less tempting to local developers as it targets one group only, while co-living targets multiple, students included, ensuring more or less stable revenues and demand throughout the year. Accordingly, student housing projects are rarely announced in the Baltics, and only 1,050 privately managed rooms exist across Vilnius, Riga, and Tallinn, with 65 under construction and another 560 planned.

Annual Completions of Purpose-Built Student Housing Rooms*, Baltic Capitals



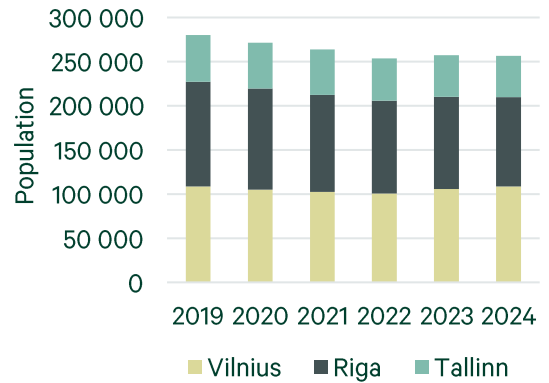
*Includes rooms in speculative projects only, rooms in university dormitories have been excluded.

PRS Target Audience Insights

Young Professionals and Families – Main Audience for Rental Residential Apartments

The demand for built-to-rent apartments in the Baltics is rising among young professionals and families, driven by strong economic growth in cities like Tallinn, Riga, and Vilnius, increased urbanization and mobility, the affordability and flexibility of renting, and the appeal of modern amenities. Although the number of young people in these capitals had been decreasing until 2022, it is now stabilizing, ensuring continued demand. This, coupled with a cultural shift towards valuing convenience over ownership, makes the built-to-rent sector an attractive and growing market in the region.

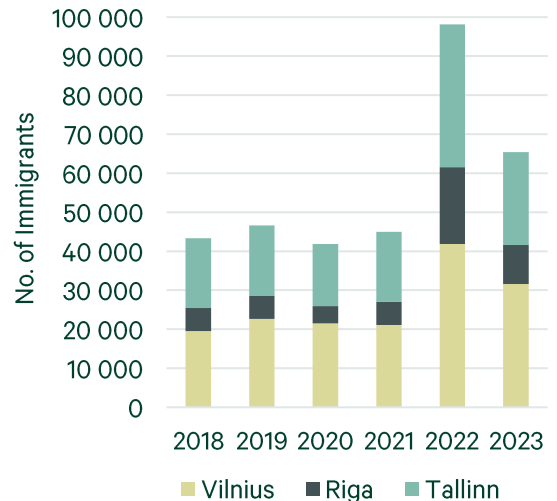
Population Aged 20-34 at the Beginning of the Year, Baltic Capitals, 2019-2024



Foreign Professionals, Youth, and Exchange Students – Driving the Demand for Co-Living

The Baltic region is experiencing an influx of people from foreign countries and an increase in exchange students, attracted by its growing economic opportunities, quality education, and vibrant cultural scenes. These groups, along with the younger generations, value the sense of community that co-living spaces provide, as they often seek to form connections and networks in a new environment. Co-living not only offers affordability and flexibility but also fosters a supportive community atmosphere that appeals to those away from home. This communal aspect, combined with the desire for shared experiences and social engagement, ensures a sustainable demand for co-living spaces in the Baltics, catering to the needs of a diverse and dynamic population.

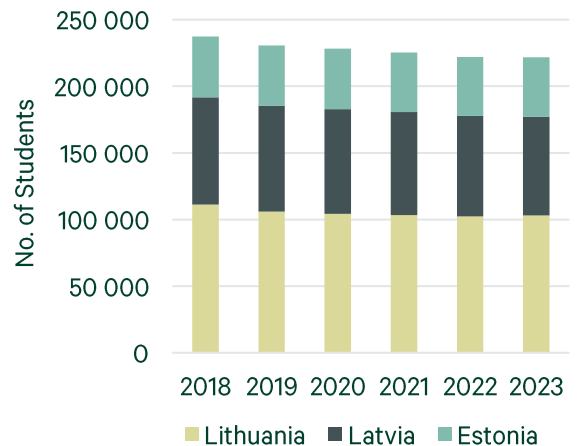
Annual Immigration Into the Baltic Capitals, 2018-2023



Students – the Main Force of Demand for Professionally Managed Student Housing

The Baltic region faces a growing need for privately managed student housing schemes, despite a slight decline in student numbers. The existing university-managed accommodations have long reported shortages, unable to meet the demand of both local and international students. This gap presents a strong business case for private investment, as these housing schemes can offer better facilities, greater comfort, and more modern amenities. As the region continues to attract a diverse student population seeking quality living arrangements, the demand for well-managed, purpose-built student housing is expected to remain strong.

Annual Student Enrolment in Higher Education Institutions, Baltics, 2018-2023

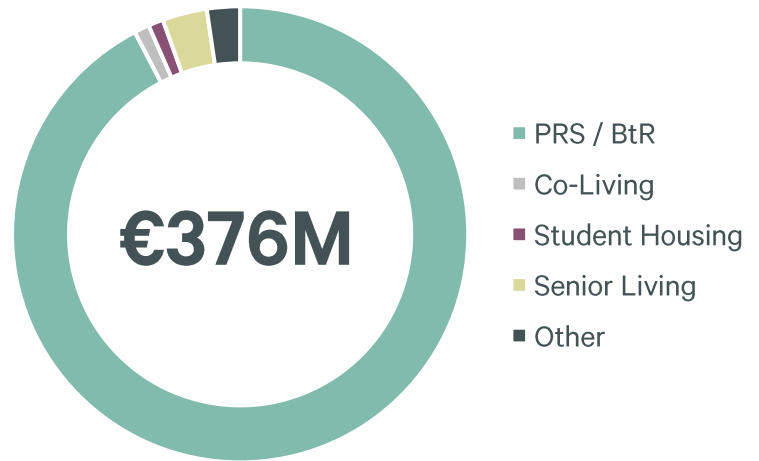


Source: National Statistics Portals

Residential Investment Landscape

As a result of increased activity in the rental market, both from the side of the residents and the developers, the Baltic PRS sector has become an attractive investment target for institutional investors. Although residential investments make up only a small proportion of overall investments in the Baltic region, as simply there is a lack of supply, they are becoming increasingly popular among investors. According to the CBRE's European Investor Intentions Survey conducted in December 2023, 24% of respondents in the CEE stated that they would focus primarily on the residential (PRS, BtR) sector in 2024. The only sector to surpass this figure was the Industrial & Logistics sector, with 44% of investors targeting it.

Residential Investment Volumes by Use, Baltics, 2018-2023

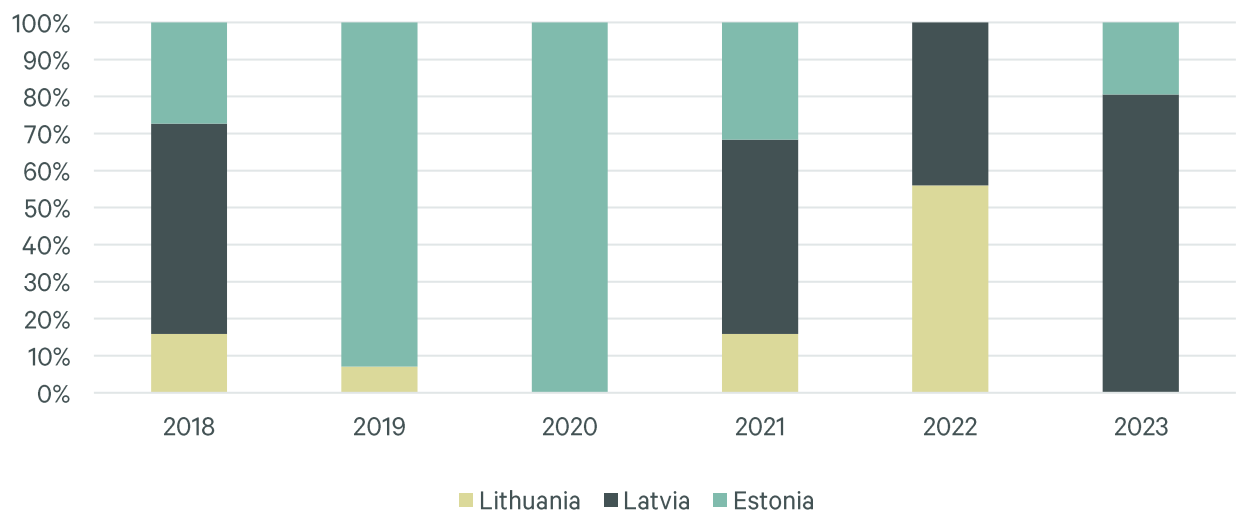


Source: CBRE Baltics Research

The PRS/BtR segment transactions have been the most popular for investment in the Baltics so far. However, local investors are starting to trust the co-living segment more as evidence shows that redevelopment projects are becoming increasingly popular. For instance, Eika Asset Management's fund has purchased a legacy educational campus in Riga with plans to transform it into co-living apartments and is also looking to convert old office buildings into co-living spaces. Similarly, Sostinés parkas is redeveloping a hotel in Vilnius into co-living accommodations.

Investment distribution across the three Baltic countries shows that Latvia and Estonia are the main targets for residential investments. This is because the sector started developing earlier in these countries than in Lithuania. However, in the coming years, it is expected that Lithuania will see an increase in capital flow.

Residential Investment Volumes by Country, % Share, Baltics, 2018-2023



Source: CBRE Baltics Research

Case Study

How Municipal Rental Apartments Address Supply Issues in Growing Regional Cities

Seven years ago, the Valmiera Municipality in Latvia initiated a project to address the shortage of rental properties. As a result, two rental apartment buildings with 150 units, including studios and two- and three-room flats, were constructed. The demand for these apartments was high, with potential tenants quickly filling vacancies. Recognizing the ongoing need, in the summer of 2024, the municipality began constructing two additional buildings with 120 rental apartments. According to LSM, approximately 7,000 people commute to Valmiera daily for work from surrounding areas, many of whom prefer to live in the city but are deterred by either the lack of supply or high apartment rents. While these municipal projects do not entirely solve the issue, they contribute to the economic growth of the region and support many families working in Valmiera. That is why similar projects are planned to be carried out in other regional cities of Latvia, while Valmiera is also considering expanding the scope of the project in the future.

The Valmiera Municipality took the initiative because local real estate developers have been hesitant to invest in less developed regions, perceiving them as high-risk for investment payback. Similar issues exist in Riga, the country's capital, where approximately 80,000 to 100,000 people commute daily for work but struggle to find attractive and/or affordable rental options. This situation presents a significant opportunity for institutional investors and larger developers to consider the potential of rental residential projects. Expanding the pool of PRS apartments in Riga could help alleviate modern housing shortages and reduce overcrowding, while also contributing to urban revitalization. Investment in Riga's underdeveloped and declining areas could improve infrastructure, amenities, and overall quality of life, making these areas more attractive to residents and businesses.

Rent Prices for Rental Apartments in Valmiera owned by the Municipality

Existing Apartments

6.8 €/sqm/month

Apartments Under Construction

~7 €/sqm/month

Source: Valmiera Municipality

Average Rent Prices in the Private Market, Valmiera

Private Apartments

5.5-8.5 €/sqm/month

Source: SS.com

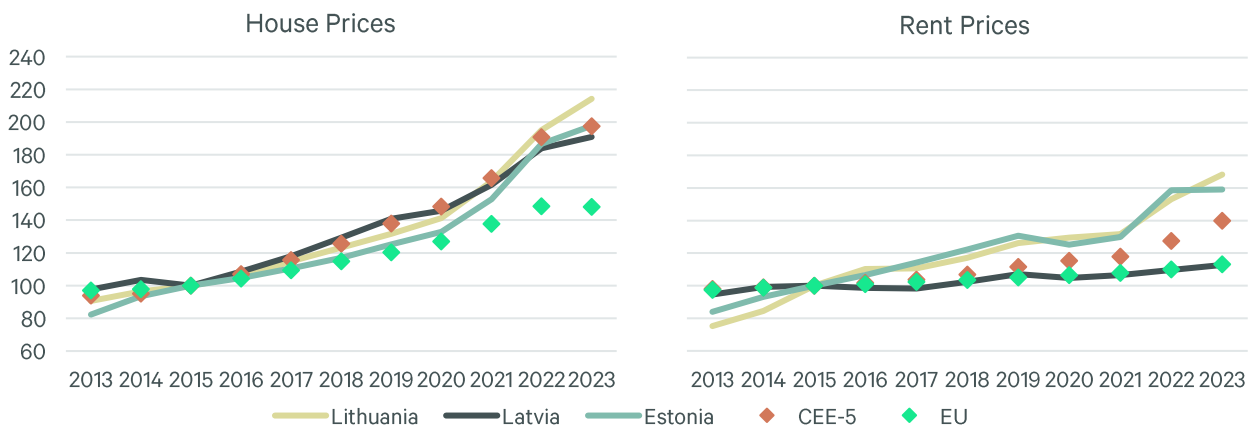


Source: Invest in Valmiera

Outlook

- European private housing companies and fund managers are actively exploring ways to expand their market presence and diversify into new segments. The Baltic capitals present a compelling opportunity for increased investment, especially given the potential for acquiring sizable development projects or portfolios.
- The ongoing urbanization trends and internal migration towards major Baltic cities are likely to sustain and even increase the demand for rental housing. The influx of students and expatriates further drives the need for rental accommodations, particularly those suited for short- to medium-term stays.
- While apartment prices in the region are starting to stabilize, they remain high, whereas rental prices have seen slower growth. This dynamic makes the rental market increasingly attractive to local residents. Properties with PRS features - such as cleaning services and high-quality finishes - are expected to garner significant interest. These PRS apartments, offering benefits not commonly found in the private rental market while maintaining competitive pricing, are well-positioned to meet the growing demand.

House Price Index (Left) & Rent Price Index (Right), 2015=100, Baltics, CEE-5*, and the EU, 2013-2023



CEE-5 includes Poland, Hungary, Czech Republic, Romania, and Slovakia

Source: Eurostat

Definitions

Purpose-Built Rental (PRS) is defined residential properties for rent that are held in the single ownership and are professionally managed.

Build-to-Rent (BTR) refers to the purpose-built housing designed for rent rather than sale.

Co-Living is a form of purpose-built rental housing, comprising studio bedroom units and large amounts of high-quality communal space.

Purpose Built Student Accommodation (PBSA) refers to accommodation specifically designed, built or adapted for the purpose of housing students.

Contacts

Mārtiņš Grinbergs
Associate Director
Investment Properties
martins.grinbergs@cbre.lv

Ieva Vitaitytė
Manager
Research & Consulting
ieva.vitaityte@cbre.lt

Evita Gaudutyte
Market Analyst
Research & Consulting
evita.gaudutyte@cbre.lt

Dārta Estere Rozenbaha
Market Analyst
Research & Consulting
darta.rozenbaha@cbre.lv

© Copyright 2024. All rights reserved. This report has been prepared in good faith, based on CBRE's current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.