Intelligent Investment

Baltic Real Estate Market Outlook 2025

REPORT

REAL ESTATE

CBRE BALTICS RESEARCH

Introduction

The Baltic commercial real estate market is navigating a period of mixed outlooks, with a marked shift toward alternative assets and prime properties, which are expected to outshine more traditional sectors. As interest rates begin to ease and bond yields remain elevated, the appeal of conventional property investments faces challenges, especially following recent underperformance.

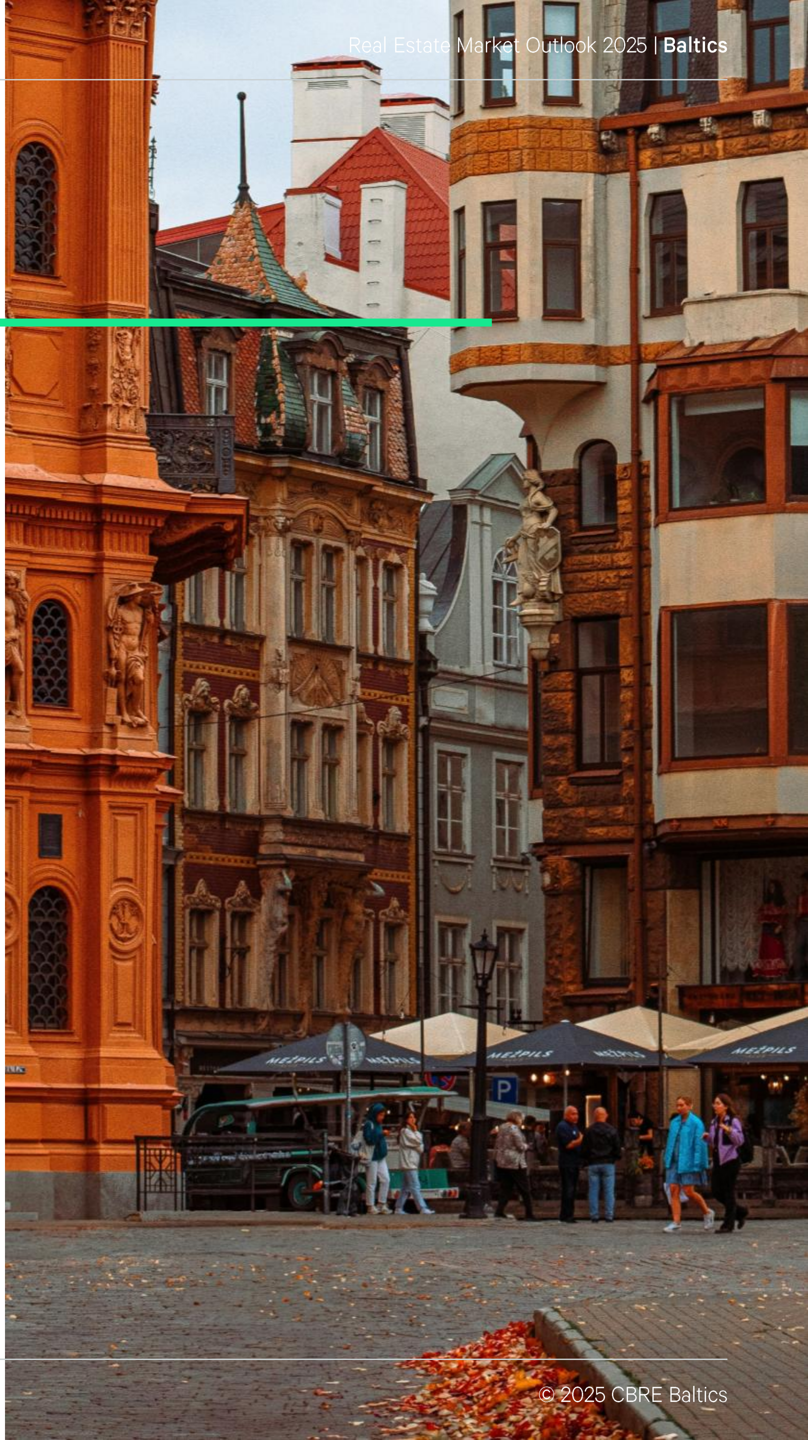
Secondary office and retail markets are anticipated to continue experiencing subdued valuations during 2025. On the flip side, prime office spaces are poised for stronger performance, with rental rates remaining stable and slight improvements in capital values. Meanwhile, prime industrial properties are forecasted to demonstrate positive trends in both rents and capital values, reinforcing confidence in the sector. Alternative asset classes, such as data centers, multifamily residential, student housing, aged care facilities, and hotels, are also projected to see growth in rents and capital values, offering a promising outlook for these segments in the coming 12 months.

The ongoing digital transformation, fueled by AI advancements, is shifting consumer behaviors and reshaping traditional retail models. Shopping centers are adapting, transforming into community-centric hubs that offer enriched experiences. At the same time, a heightened focus on ESG principles is gaining momentum, as the energy transition creates new commercial prospects. Sustainable collaborations are proving to be beneficial not only for the industry but also for local communities and key stakeholders.

As we look toward 2025, we invite you to explore these insights further. The Baltic markets are filled with opportunity, and we are here to help you navigate the path ahead.

Sincerely yours,

CBRE Baltics
PART OF THE AFFILIATE NETWORK



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Economy

Trends to Watch

Divergent Trends in Exports

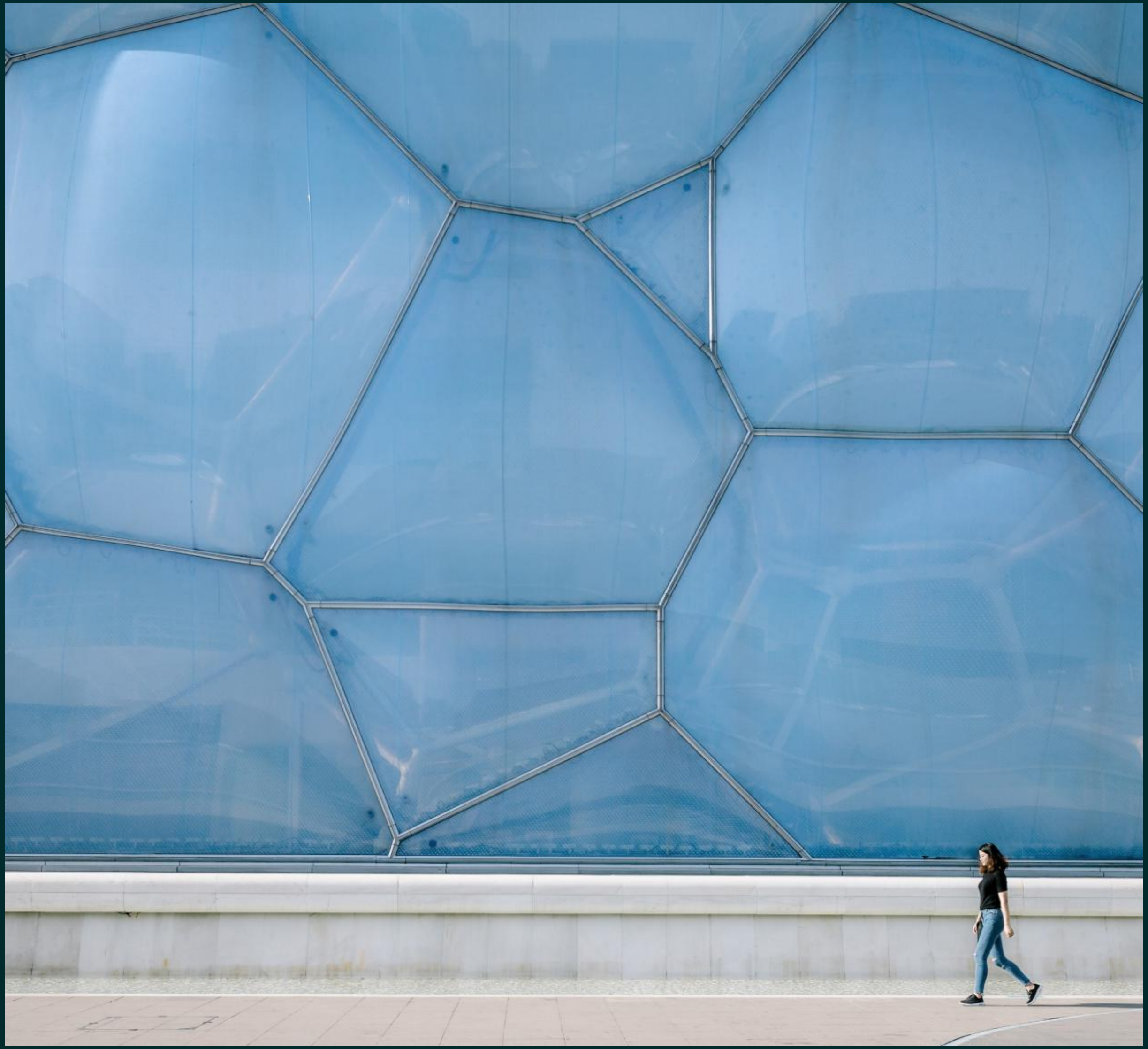
The Baltic economies are experiencing a notable distinction in export growth, with robust growth in service sectors like ICT and finance, while goods exports, especially in Estonia, are struggling due to weaker external demand. Lithuania, on the other hand, is benefiting from strong trade relations with Germany and Poland.

Public Sector Investment and Infrastructure

Public sector spending remains a critical economic driver, particularly in Latvia and Estonia. Significant infrastructure projects are being pursued across all three countries to stimulate growth.

Inflation and Consumer Confidence

Inflation has declined, positively impacting consumer confidence and spending. While real wages keep rising, boosting domestic consumption, Estonia faces some challenges in consumer confidence due to several factors, including inflation and tax increases.



Improving Momentum in Economy

ECONOMIC GROWTH. The Baltic economies are set to continue their recovery in 2025, with steady growth projections.

EXPORTS AND TRADE. The Baltics' export growth highlights a strong distinction between services and goods. Service exports, including ICT, IT, consulting, and transportation services are stable and growing across all three countries. Travel services have also rebounded to pre-COVID levels. In contrast, goods exports face turbulence, particularly in Estonia, due to weaker external demand, while Lithuania benefits from stronger trade ties with Germany and Poland.

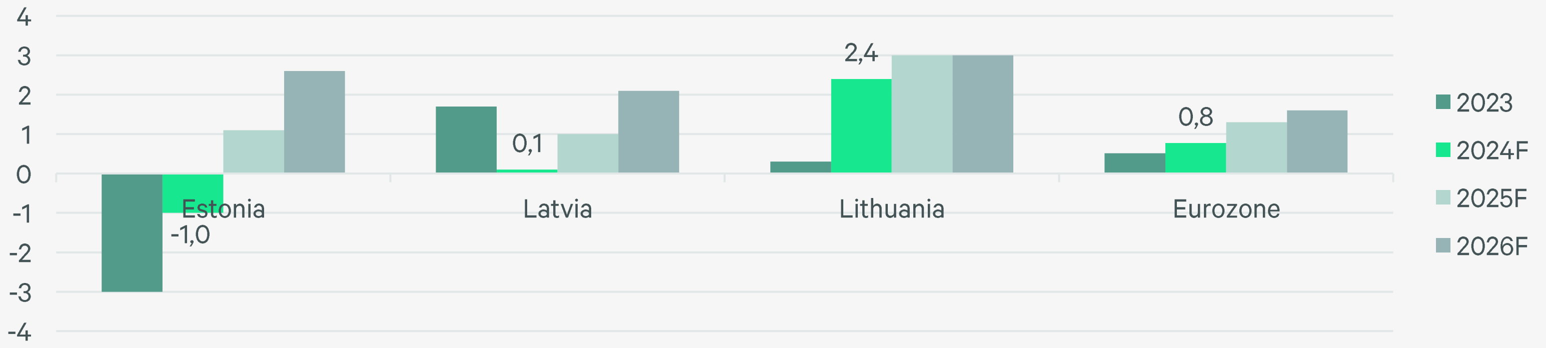
PUBLIC SECTOR SPENDING. Public sector spending is a significant economic driver, particularly in Latvia and Estonia. All three countries are actively fueling their economies through extensive infrastructure projects. Key examples include the Rail Baltica project, airports modernization program, ports' improvements, offshore wind park developments, and others.

INFLATION. Inflation has reached its lowest point since its hike start in 2022, aiding consumer confidence and spending. Real wages are rising, notably in Lithuania and Latvia, boosting domestic consumption, which is expected to be a key driver of economic activity in the short term. Estonia's recovery in real wages lags behind, due to higher inflation driven by tax increases.

INTEREST RATES. Lowering interest rate projections are stimulating economic activity, which show strong potential across the region.

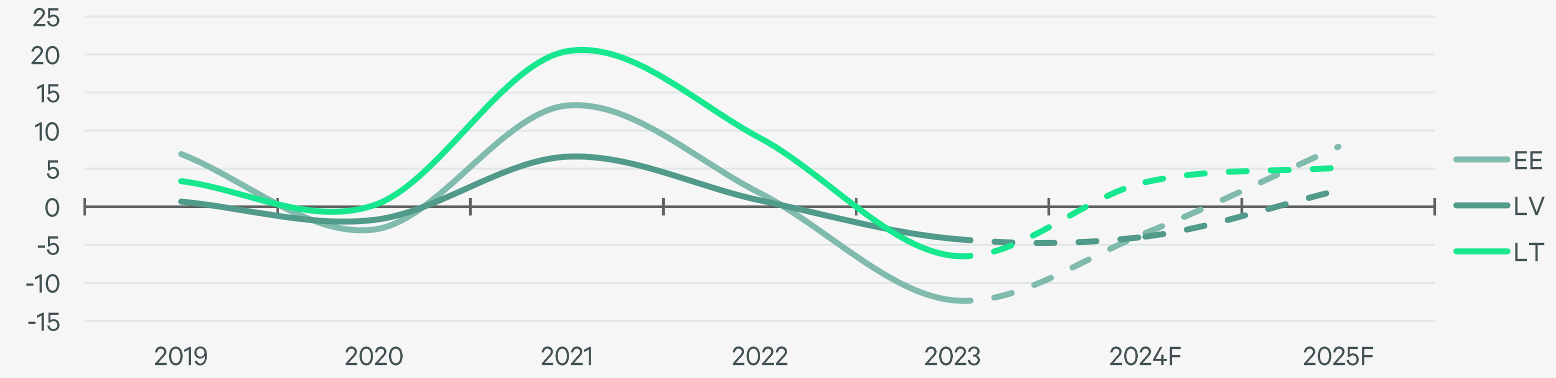
FISCAL POLICIES. Fiscal discipline is evident, with budget deficits nearing 3%. However, excessive reliance on tax hikes or spending cuts could delay recovery. Estonia is pursuing aggressive fiscal consolidation with significant tax increases, while Latvia and Lithuania have opted for moderate adjustments.

Real GDP Growth, %



Source: National Bank of Lithuania, National Bank of Latvia, Eurostat, European Commission's Autumn Forecast 2024, CBRE Baltics Research

Industrial Production (IP) index, YoY change %, 2019-2025F



Source: Oxford Economics, CBRE Baltics Research

02

Capital Market

02
Capital
Market

Trends to Watch

Improving Sentiment

Investment market sentiment is improving, and activity is expected to recover in 2025 with volumes steadily returning.

Adjusted Expectations

Some price discovery is likely to continue in early 2025 as the market establishes its new pricing levels and narrows buyer and seller expectations.

Yields to Stabilize

Real estate spreads are roughly in line with their long-term historical average, and commercial RE yields are on track to start compressing modestly in 2025, but global bond market volatility may pose some risk.

> Overall, Baltic investment volumes are projected to gradually increase in 2025 as the bid-ask spread narrows.

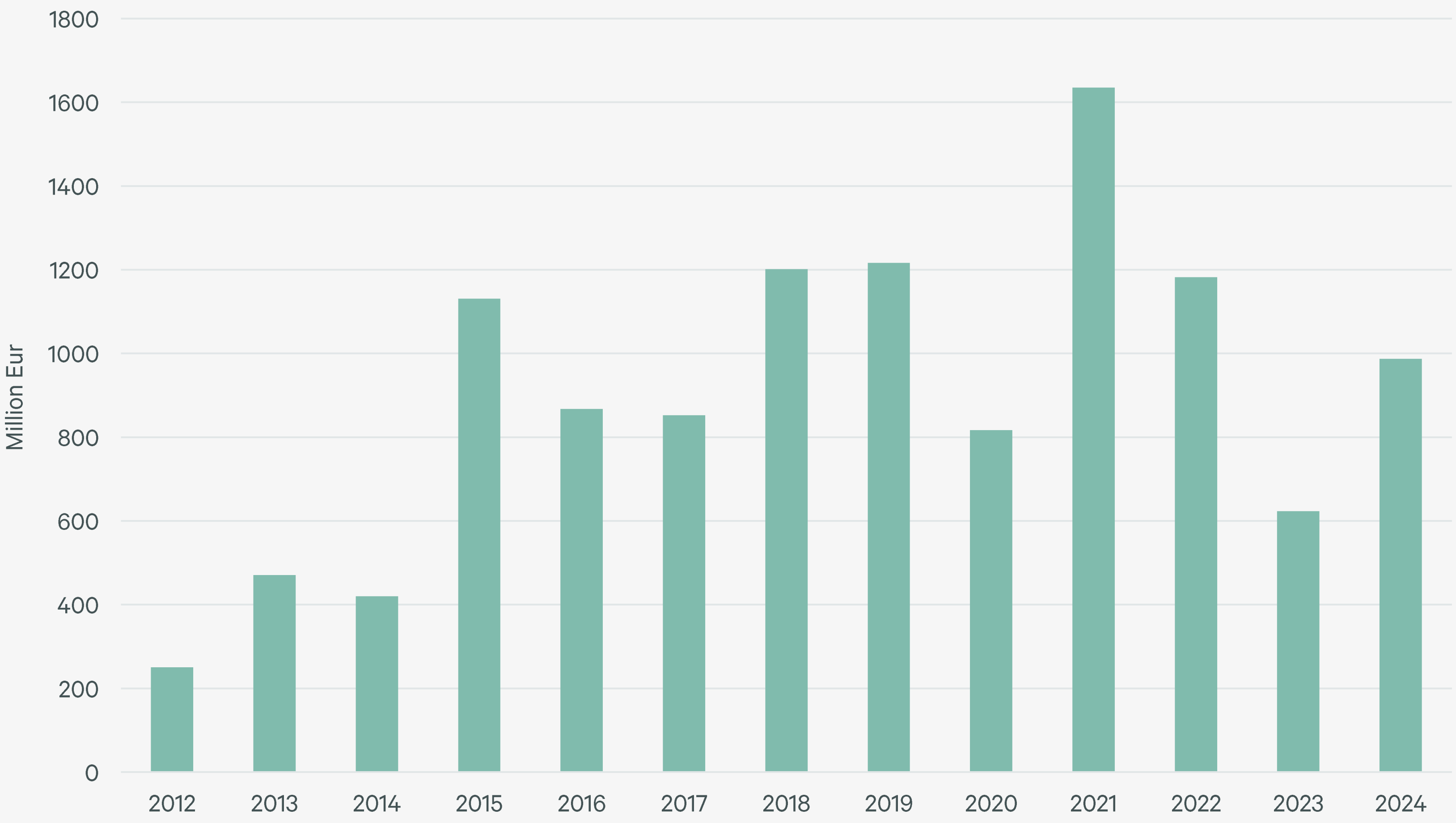
Investment Sentiment Continues to Improve in 2025

Momentum is building in the commercial real estate investment market approaching 2025. Compared to 2023, transaction volumes and activity have increased, reaching about two-thirds of what they were at the peak in 2021. While some asset classes face challenges, the overall market fundamentals are strengthening. There is a growing portfolio of quality supply and consistent recent growth in prime rents, making Baltic real estate an attractive option to consider.

In 2025, alternative assets are expected to attract greater investor interest, supported by a more favorable financing environment. Furthermore, the return of institutional capital is anticipated to boost market liquidity and increase investment activity.

Local investors, particularly from Lithuania, are increasingly targeting CEE countries, especially Poland, to diversify their real estate portfolios, which has led to lower transaction volumes in the Baltics. While capital flows remain pan-Baltic, with local investors seeking opportunities across Vilnius, Riga, and Tallinn, part of the capital flows out of the region. This shift is driven by diversification in larger, more liquid markets, particularly in Poland, which has become a key focus for Baltic investors.

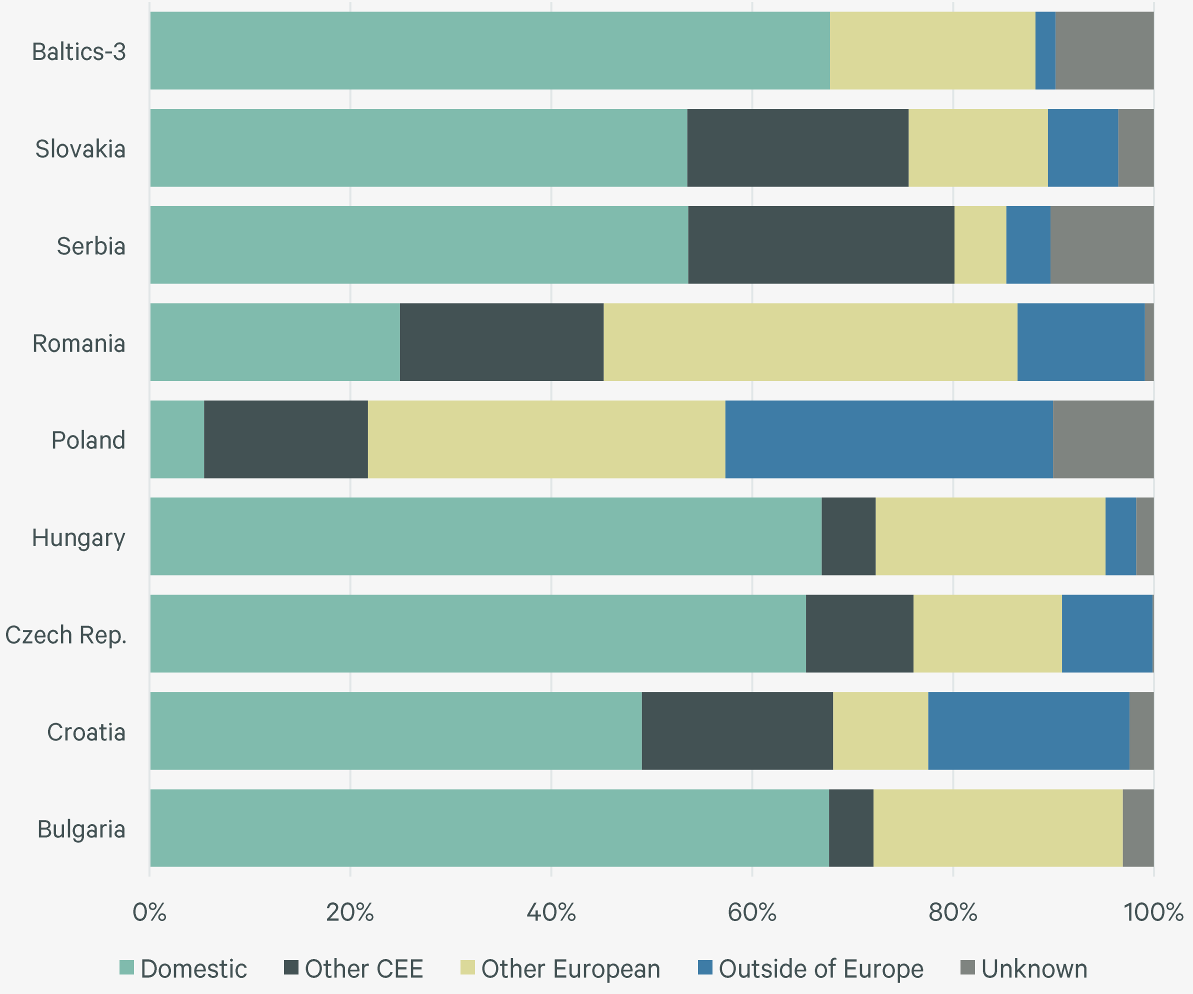
Baltic Commercial Real Estate Investment Volumes



Source: CBRE Baltics Research

The investment environment requires more and more creativity in the approach to business, and at a later stage, creativity in ensuring the ultimate sale of a building.

Source of Capital Across CEE, 2021-2024



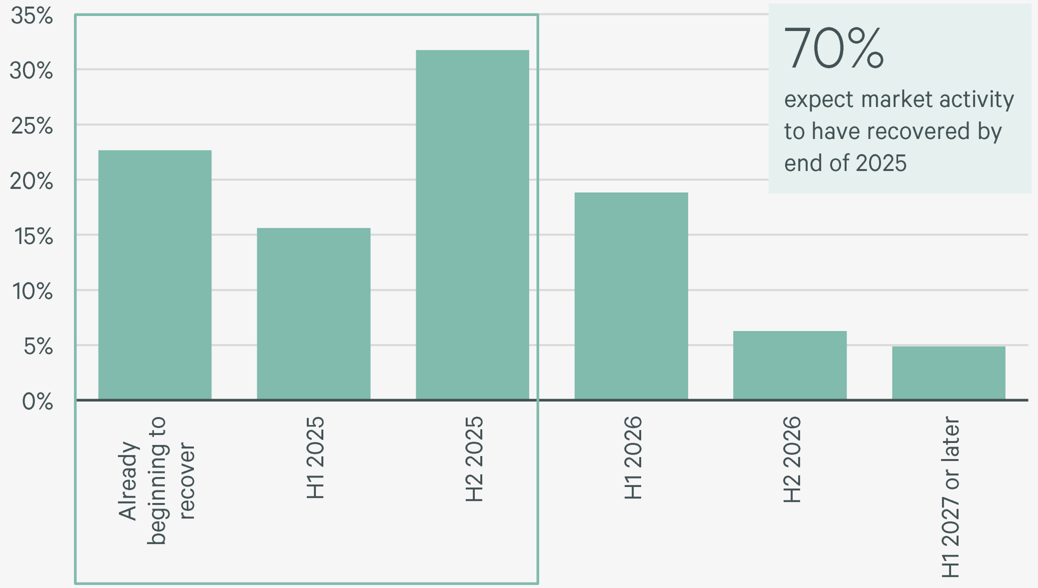
Source: CBRE Research

When Do Investors Expect Market Activity to Recover?

There is growing optimism that a recovery in investment activity is near. While 23% of respondents indicated that the market is already starting to recover, more than 70% expect market activity to recover by the end of 2025. After more than two years of repricing, favorable real estate pricing is most frequently cited (53%) as the main reason for increasing real estate allocations, followed by improved expected returns (40%).

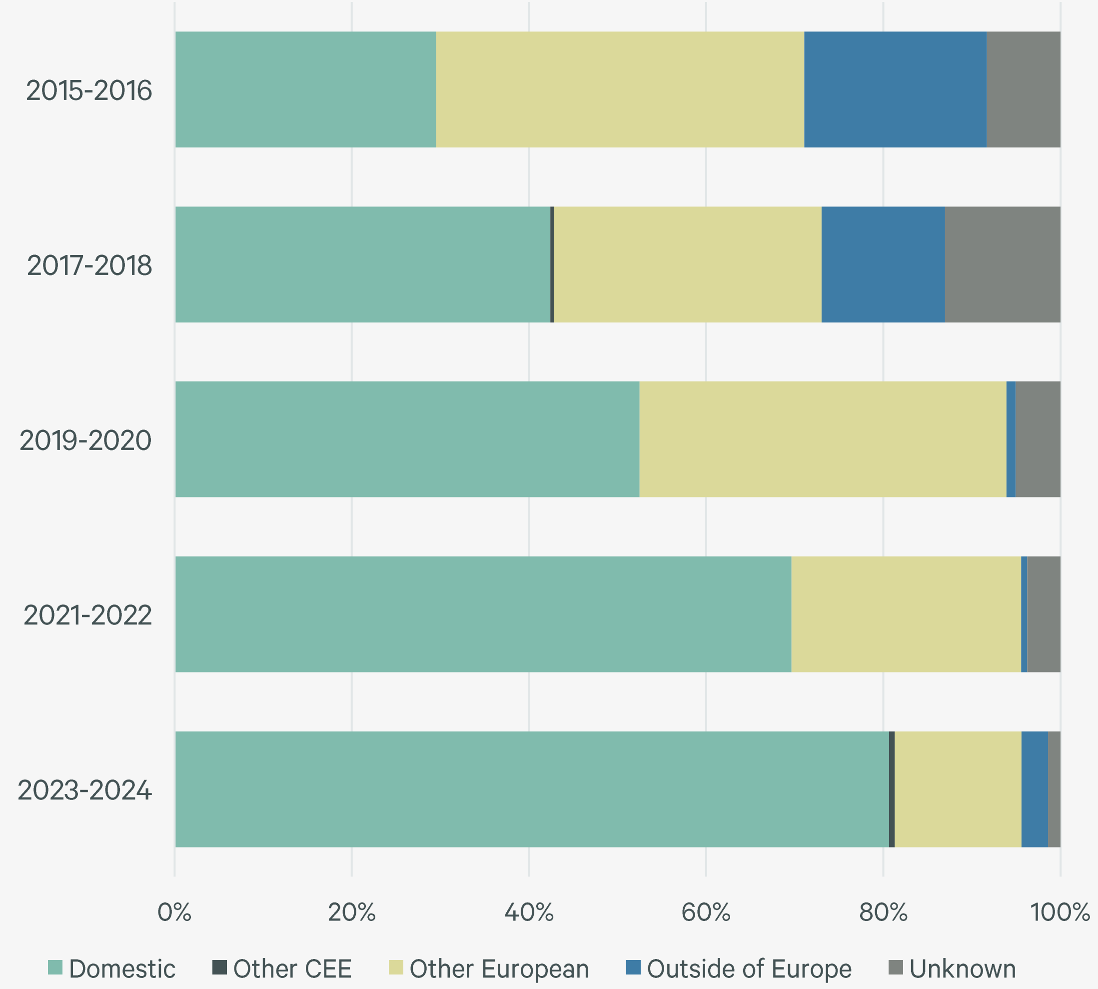
Cross-border investments saw the quickest decline when the transaction market softened, but international capital is known to be agile and will respond quickly to the improving market outlook.

Respondents' Expectations of When Market Will Recover



Source: European Investor Intentions Survey, January 2025

Source of Capital in the Baltics over 2015-2024



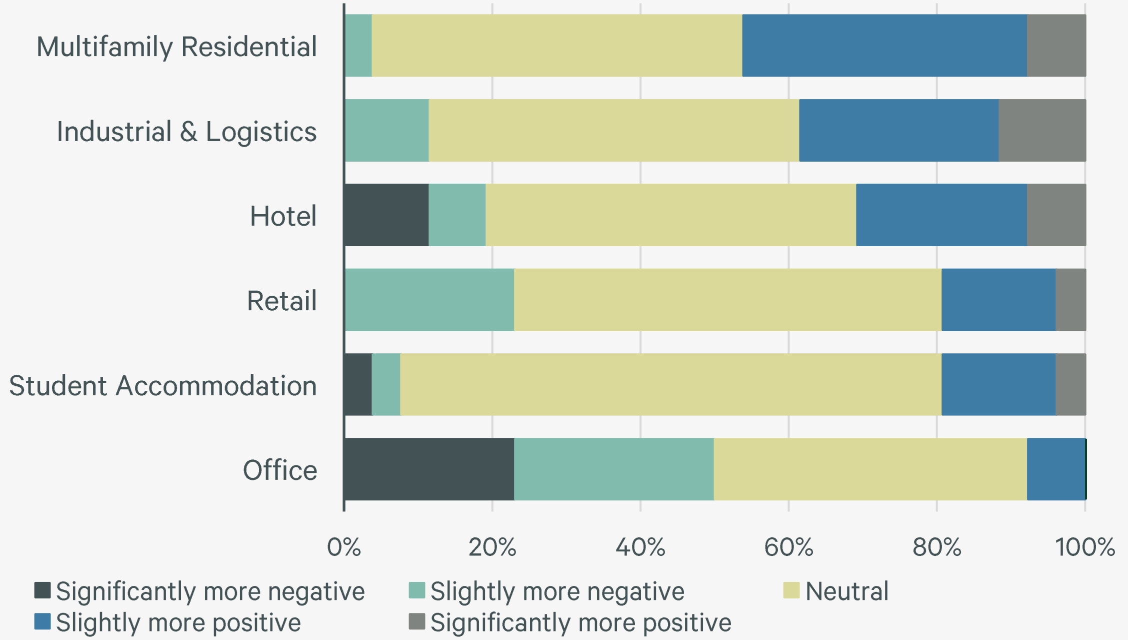
Source: CBRE Research

Which Asset Classes are the Most Attractive for Lenders?

The multifamily residential and industrial sectors are steadily gaining traction in Central and Eastern Europe (CEE), reflecting renewed confidence among lenders following the COVID-19 pandemic. The hotel sector is experiencing high levels of interest, driven by a recovery in tourism. While retail remains less appealing, retail parks attract focused attention from lenders.

Despite being the most attractive asset class across Europe, student accommodation in CEE has not yet captured significant interest, as the market is still in its early stages of development. In contrast, the office sector is currently the least attractive, facing limited lender appetite due to changing work patterns and concerns about oversupply.

Lending Appetite by Sector in CEE Region



Source: European Lender Intentions Survey, CBRE Research, 2024

Turning Yields Cycle?

In 2024, the Baltic countries, along with other CEE economies, experienced a stabilization in yields. By the end of 2024, prime yields began to decrease in some European markets.

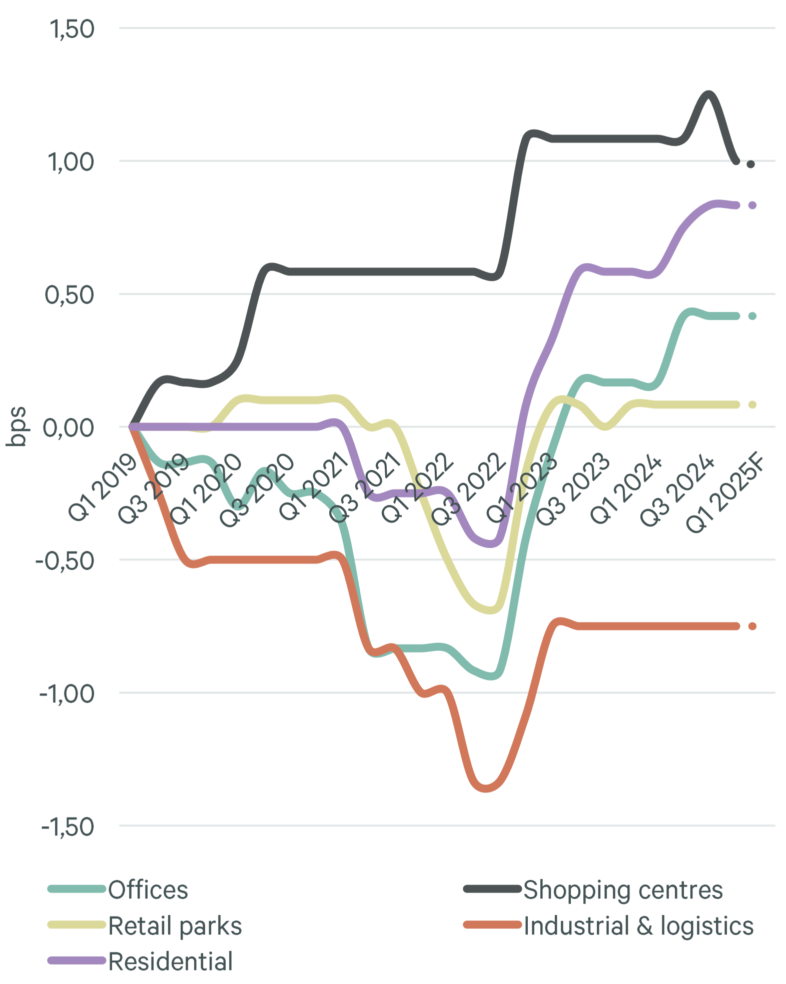
Looking ahead to 2025, yields in the Baltics are expected to remain mostly stable, with potential slight reductions around mid-year due to lower interest rates and an expected revival in capital market activity.

Office yields have surpassed industrial, and logistics yields for the first time in larger global markets, signaling heightened fundamental risks in the office segment. Graphs indicate that while yields in these two sectors are converging, industrial yields exhibit greater resilience to shifts.

This trend has not yet materialized in the Baltics and is unlikely to do so in the near term. Office spaces and shopping centers remain the most mature commercial real estate asset classes, supported by a modern, high-quality supply and robust demand. However, given the ongoing development pipeline for offices and the challenges posed by increasing vacancies in older office stock, the industrial sector may eventually outperform offices in yield attractiveness.

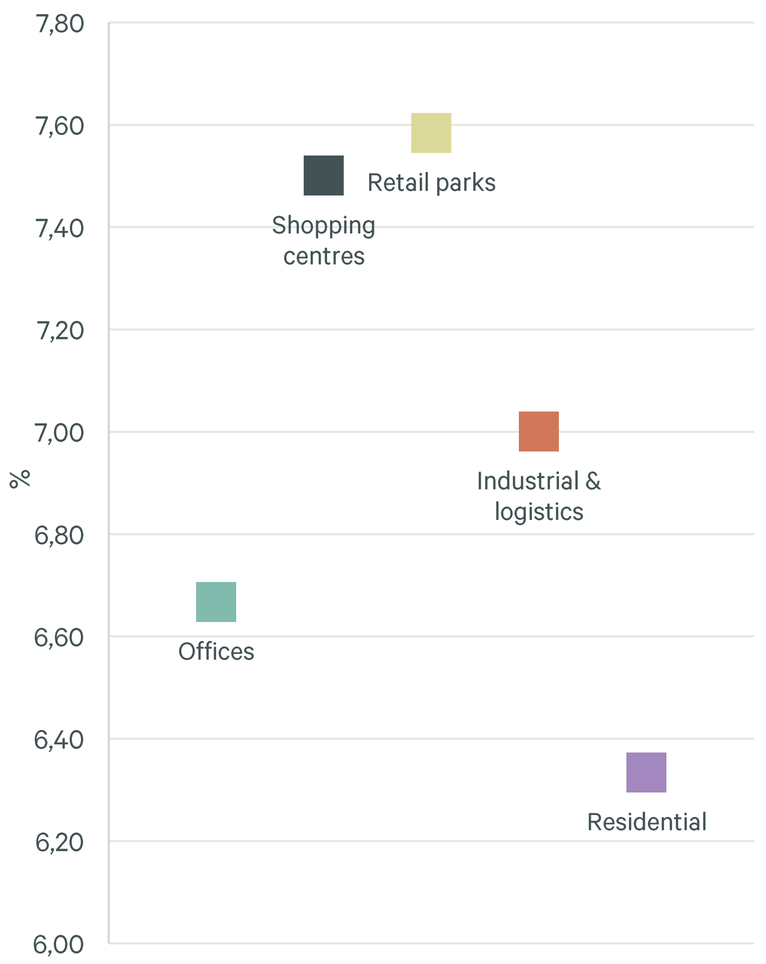
In the short term, the Baltic logistics sector faces elevated risks due to changing business models with Eastern countries, undermining some tenants' creditworthiness.

Prime Yield Shifts in the Baltics



Source: CBRE Baltics Research

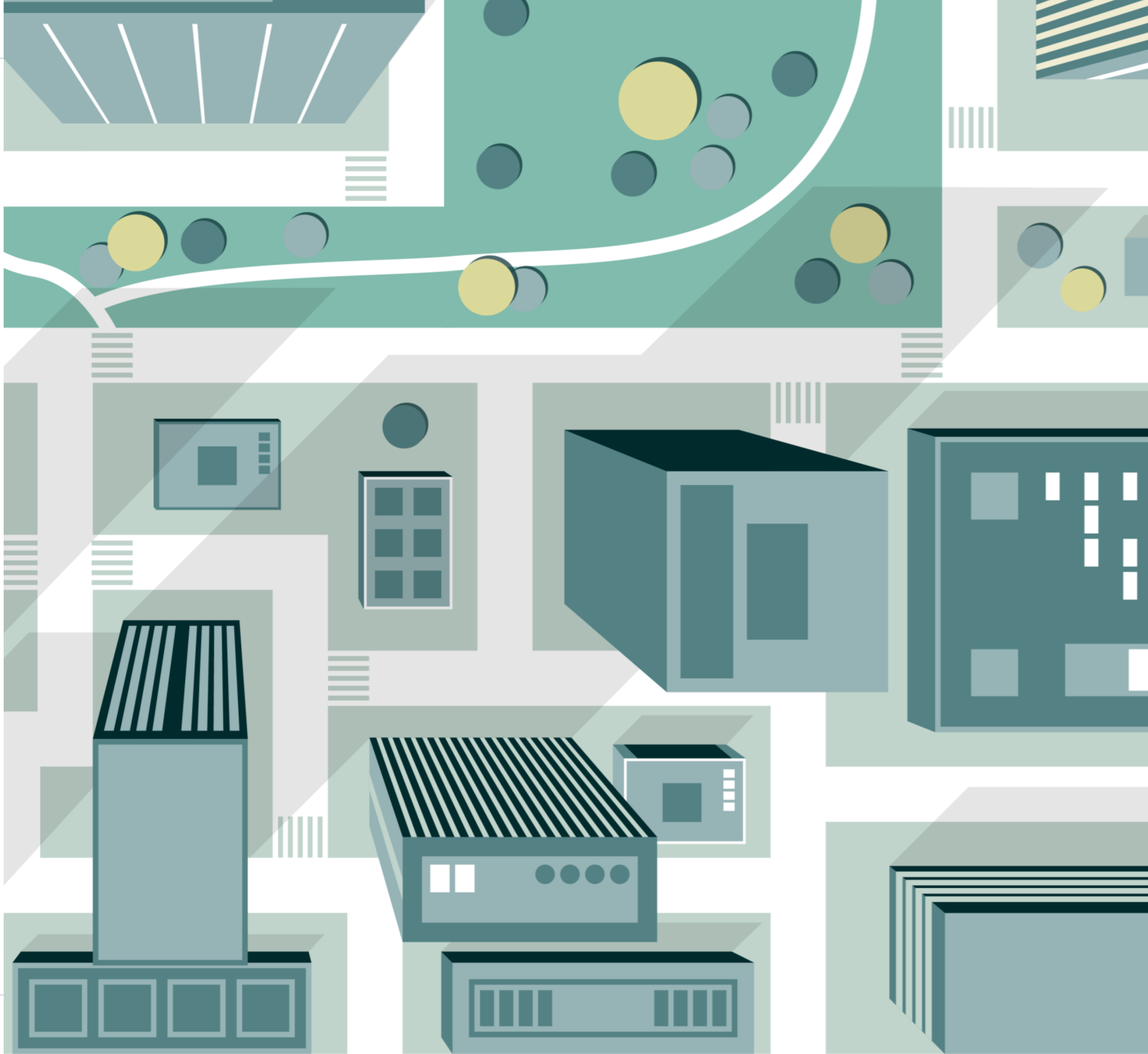
Prime Yields as of January 2025 (Average for Tallinn, Riga, and Vilnius)



Source: CBRE Baltics Research

03 Sustainability

CBRE Baltics X vesta



03
Sustainability

Trends to Watch

Rapid Growth of Certified Buildings

The Baltic countries have seen a healthy rise in the number of certified buildings, increasing from 27 in 2019 to 285 in 2024. By 2025, this number is expected to surpass 350, driven by regulatory compliance, tenant and investor demand, and access to green financing.

Regulatory Pressure Driving ESG Integration

The implementation of the CSRD, EU Taxonomy, and SFDR is compelling real estate players to integrate ESG practices into all aspects of their operations. Compliance with these regulations is mandatory and a significant market differentiator, providing access to green financing and institutional investment.

Prioritization of Energy Efficiency and Renewable Energy

Energy price volatility will drive the adoption of renewable energy sources and energy efficiency retrofits across the Baltic real estate sector.

Complex Reporting Landscape

In 2025, the cumulative impact of regulations will be evident across all segments of the Baltic RE markets.

- ✓ The **CSRD**, effective in 2024 for large public interest entities, will expand ESG reporting to more companies, including large real estate firms by 2025. It mandates comprehensive disclosures on environmental and social impacts, such as carbon emissions and energy efficiency. Compliance is a regulatory necessity for the Baltic real estate sector and a chance to attract ESG-focused institutional investors. Properties with strong sustainability credentials are set to dominate portfolios, while non-certified buildings may lose value and relevance.
- ✓ The practice of assessing real estate assets for **EU Taxonomy** alignment and sustainability certification will extend to the Baltic countries in 2025. The Taxonomy provides a framework for identifying sustainable activities and will inform development and investment strategies focused on energy efficiency, renewable energy, and circular economy principles.
- ✓ The **SFDR** introduces regulations for financial market participants, including real estate funds and asset managers, requiring detailed ESG disclosures since 2023. This has pressured Baltic real estate developers and landlords to provide transparent ESG data and align with green financing. The focus on sustainable funding will likely boost the adoption of certifications like LEED and BREEAM, enhancing marketability and rental potential.

Corporate Sustainability Reporting Directive (CSRD)

2024
First report in 2025

For **large public interest companies** that meet 2 of the following 3:

- Assets value ≥ EUR 20M
- Net revenue ≥ EUR 40M
- Employees ≥ 500

2025
First report in 2026

For all **large companies** that meet 2 of the following 3:

- Assets value ≥ EUR 25M
- Net revenue ≥ EUR 50M
- Employees ≥ 250

2026
First report in 2027

For **listed SMEs** that meet 2 of the following 3:

- Assets value ≥ EUR 400k
- Net revenue ≥ EUR 900k
- Employees ≥ 10

2028
First report in 2029

For **non-EU-country** companies with:

- Net revenue ≥ EUR 150M in the EU
- Have at least one branch or subsidiary in the EU

Source: European Commission, Vesta Consulting

Entering 2025, the proportion of certified office stock reached 45%, industrial & logistics – 13%, while retail – 18% across the Baltic capital cities.

Certification to Remain Important

GROWTH IN TOTAL NUMBERS

- By the end of 2024, Lithuania, Latvia, and Estonia collectively reached 285 certified buildings, a number expected to surpass 350 by 2025. It demonstrates the region's growing alignment with global ESG standards and its commitment to sustainable real estate practices.
- Lithuania leads the region in certified sustainable buildings, accounting for over 50% of the total certifications, with 145 expected by the end of 2024.
- While Lithuania has established itself as the frontrunner, Latvia and Estonia are catching up, supported by increasing investor interest and Riga municipality incentives for sustainable development.

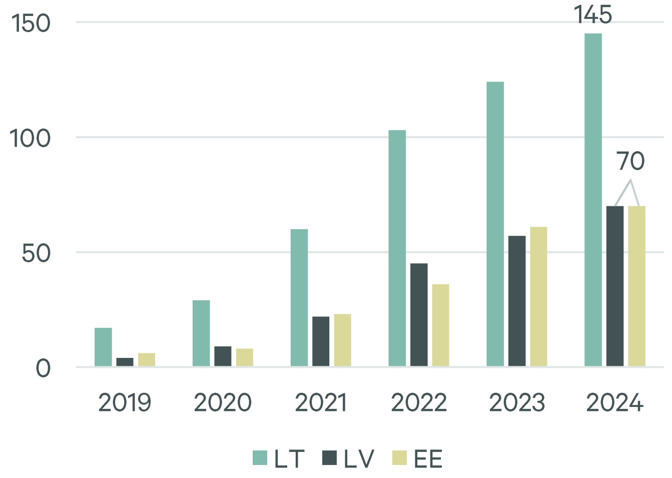
OFFICE SPACES DOMINATE

In 2024, office spaces continue to dominate the landscape of certified buildings, representing 52% of all certifications, a decrease from 75% in 2022. This shift illustrates the strong demand from tenants for sustainable and efficient work environments. Retail and industrial buildings each account for 18% of certifications, underscoring the increasing importance of ESG principles in these sectors, especially with the growth of logistics and flex-office spaces. In contrast, residential and hotel buildings remain underrepresented, making up only 5% and 3% of certifications, respectively.

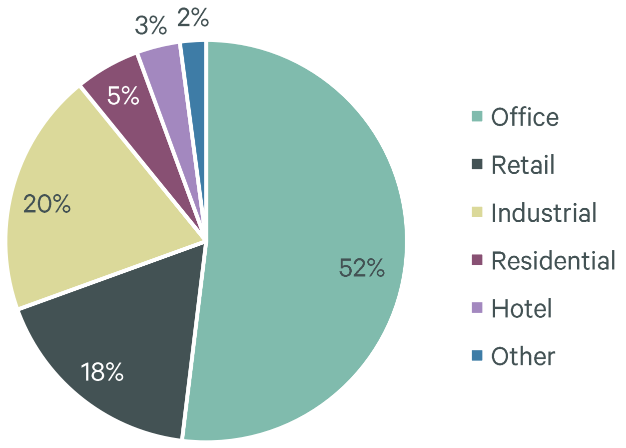
PREVAILING CERTIFICATION – BREEAM

BREEAM dominates the certification market, representing 81% of all certifications. This highlights its versatility for various building types and its widespread acceptance in the region. LEED follows, holding an 18% share, and is especially popular among projects with an international focus. Health and well-being certifications, such as WELL and Fitwel, currently account for just 1% of certifications. However, their importance is expected to grow as developers and landlords address changing tenant demands for healthier and more occupant-friendly environments.

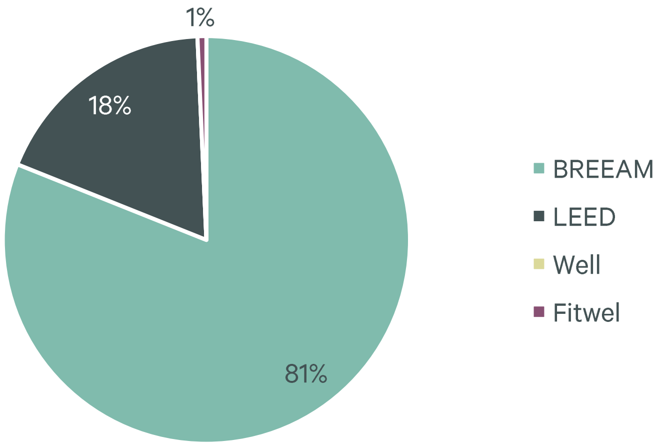
Certified Buildings by Country, 2019-2024



Certified Buildings by Type, 2024



Certified Buildings by System, 2024



Source: Open Databases for Certified Buildings, Vesta Consulting

04

Office

04
Office

Trends to Watch

Shift Towards Smaller, High-Quality Spaces

Hybrid work prevails, even though many leaders prefer staff to return to the office. As hybrid work solidified its place in workplace culture, companies are downsizing their office portfolios and focusing on prime office spaces.

Diverging Market Dynamics Across the Baltics

The office development landscape varies across the region. Lithuania's and Estonia's pipelines remain heightened, while Latvia continues to exhibit steady activity. New projects are putting pressure on older stock across the region.

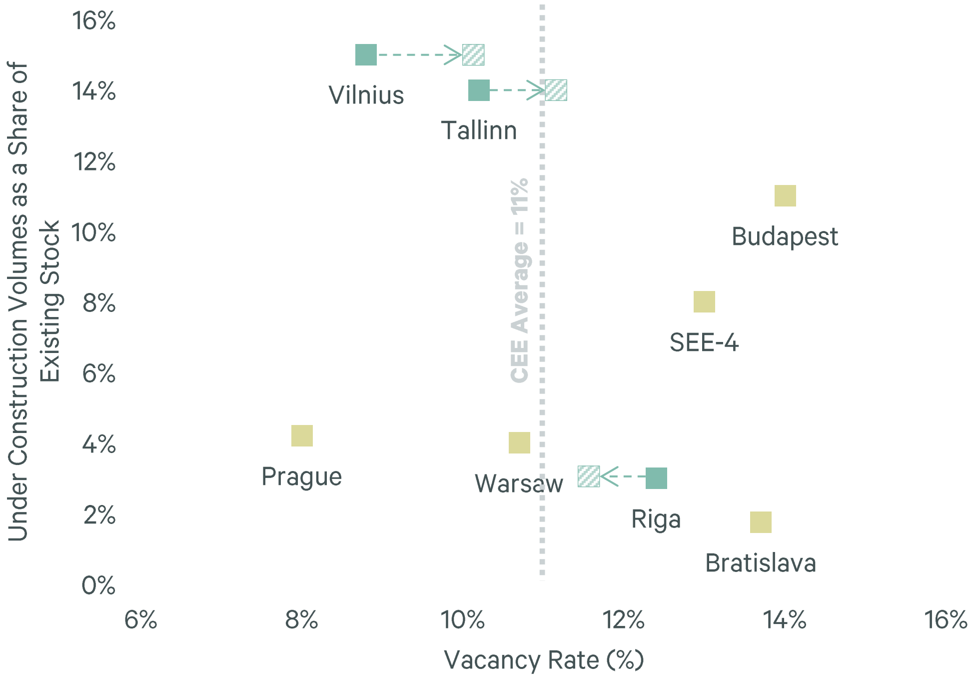
Tech-Driven Adaptation

Companies are embracing technology – such as occupancy sensors and advanced video conferencing – to optimize space utilization and enhance collaboration, signaling a transformative approach to modern workplace management.

Office Supply Outpaces Demand

The take-up landscape in the Baltics is undergoing notable shifts. Historically, external capital has been a key driver of demand for office space in the region. However, a decline in office-based foreign investments is expected to lower take-up rates across the Baltics. In Lithuania and Estonia, a substantial pipeline of upcoming projects is likely to exceed market demand, potentially driving up vacancy rates. Conversely, in Latvia, where the development pipeline is smaller, space absorption remains steadier, and vacancy rate fluctuations are less pronounced.

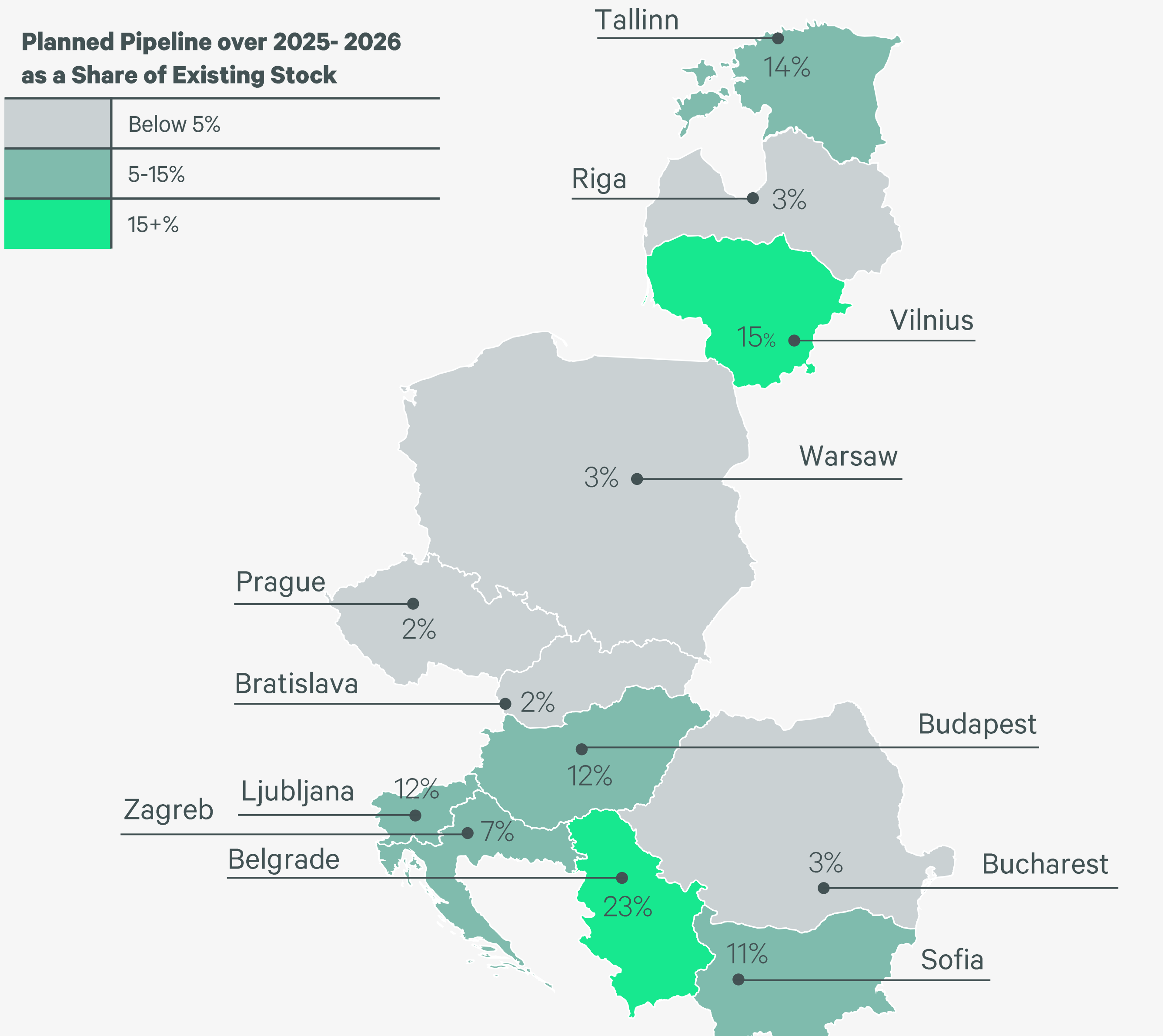
Under Construction Volumes as a Share of Existing Stock, H2 2024



Note: Arrows and moving points for Tallinn, Riga, and Vilnius indicate expected vacancy rate as of 2025-2026.

Source: CBRE Baltics Research

Planned Pipeline over 2025- 2026 as a Share of Existing Stock



Source: CBRE Baltics Research

Scaling Down, Prioritizing Prime

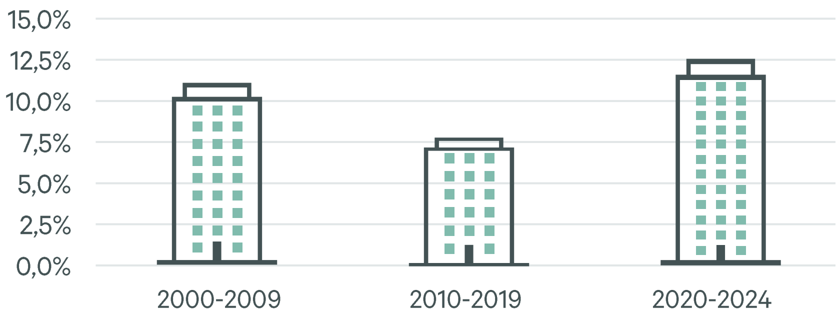
As the hybrid work environment becomes the norm in office workplaces, global occupiers are increasingly trending toward reducing their office spaces.

> **>55%** of companies anticipate **reducing** their **portfolio** size within the next three years.
>
> *CBRE European Office Occupier Survey 2024*

In the Baltics, tenants are actively downsizing their portfolios, as evidenced by the declining average size of lease agreements. They are increasingly favoring A-class office spaces in prime areas, opting for smaller, more efficient layouts that better address their evolving needs.

Newer buildings may initially have higher vacancy rates because their pre-lease rates are lower than historical averages. However, they meet current tenant requirements. In contrast, older buildings are seeing a steady increase in vacancies. This trend indicates an increasing need to repurpose older office properties to better align with the changing demands of the market.

Weighted Average Vacancy Rate Based On The Age and Class of Offices, Baltic Capital Cities

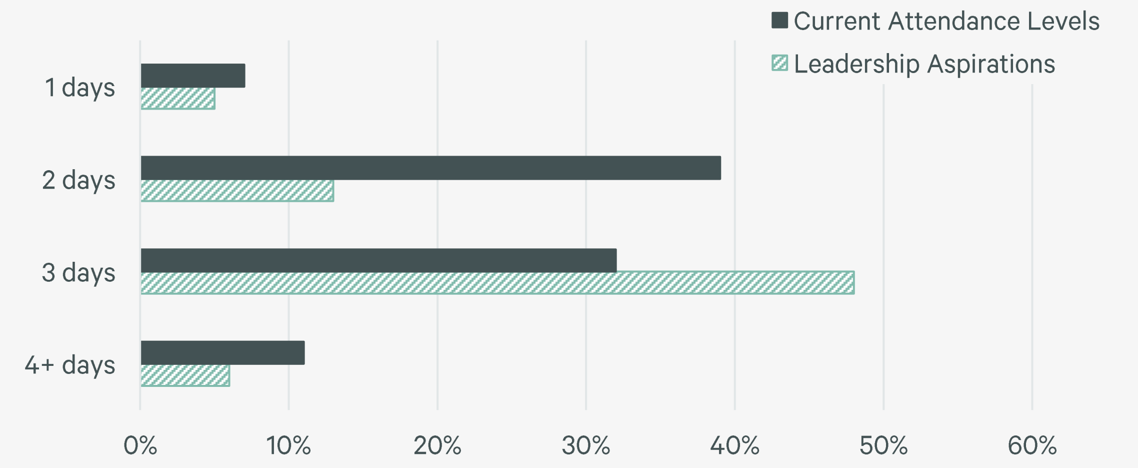


The size of the business center illustration shows the estimated vacancy rate for buildings based on their construction years, as of Q4 2024.
Source: CBRE Baltics Research

Office Attendance is Rising

The Baltic office market is still undergoing transformation due to the rise of hybrid work, which is reshaping workplace dynamics. Businesses across Europe, including the Baltics, are adapting to new employee expectations for flexibility and collaboration, leading to changes in office requirements.

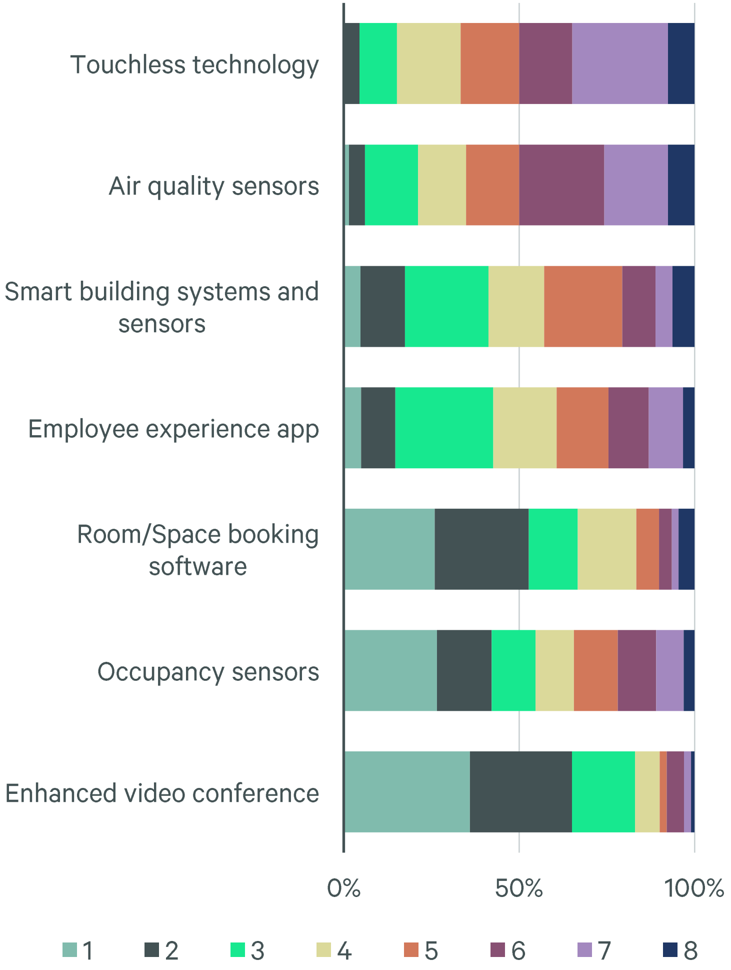
Current Attendance Levels and Leadership Aspirations, 2024



Source: CBRE European Office Occupier Sentiment Survey 2024

Over the past year, efforts to bring employees back to the office have met with some success, as companies report higher building utilization rates. Across Europe, most employees (71%) work from the office two or three days a week, with 39% choosing two days. However, this is slightly less than employers prefer, as nearly half of the companies would like employees to be in the office three days a week.

Adoption of Workplace Technologies
(Ranked 1 (most important) – 8 (least important))



Source: CBRE Office Occupier Sentiment Survey 2024

The Workplace of Tomorrow

Defining and measuring workplace effectiveness is a prerequisite for optimizing portfolios and providing peak user experience, and technology has a growing role to play.

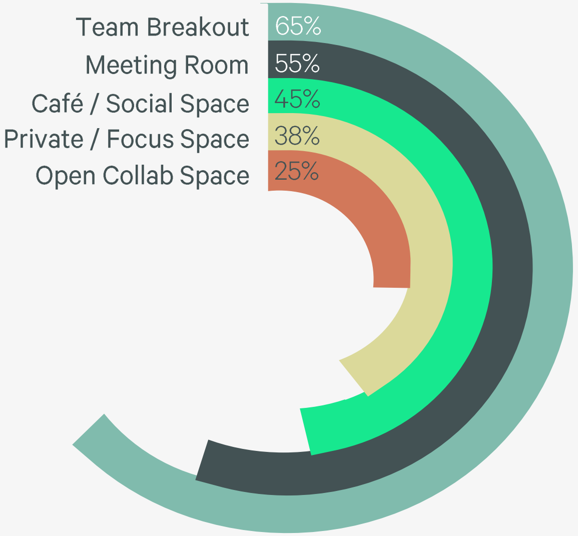
The most popular technologies being deployed or considered to support utilization and collaboration are:

- Enhanced video conferencing
- Software for room and space booking
- Occupancy sensors

The Baltic office market is transforming significantly as hybrid work reshapes workplace dynamics. In this evolving landscape, the future office is not just a place for productivity but a hub for collaboration, culture, and engagement. Vibrant spaces that encourage innovation and teamwork replace traditional static designs, aligning with the hybrid workforce's need for flexibility and connection. Smart workplace solutions and tailored designs are essential for fostering employee satisfaction and ensuring offices remain relevant.

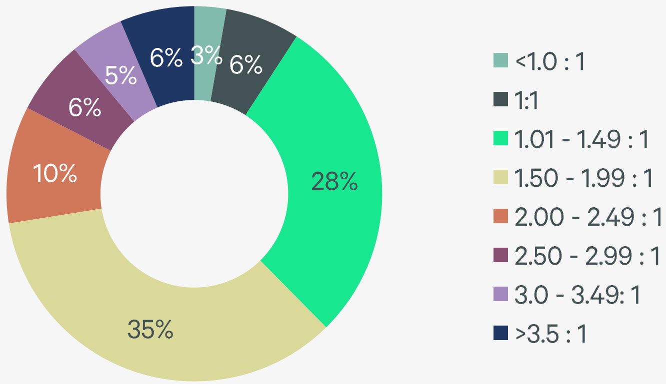
However, tenants in the Baltics face a challenging tradeoff between implementing innovative office layouts and managing rising construction costs. Balancing these priorities requires strategic planning to create cost-efficient, high-quality spaces that meet both financial and operational goals.

Most Popular Space Types (by Utilization Hours)



Source: XY Sense Workplace Utilization Index, Q3 2024

Desk Ratios, People per Desk, Two Years' Time



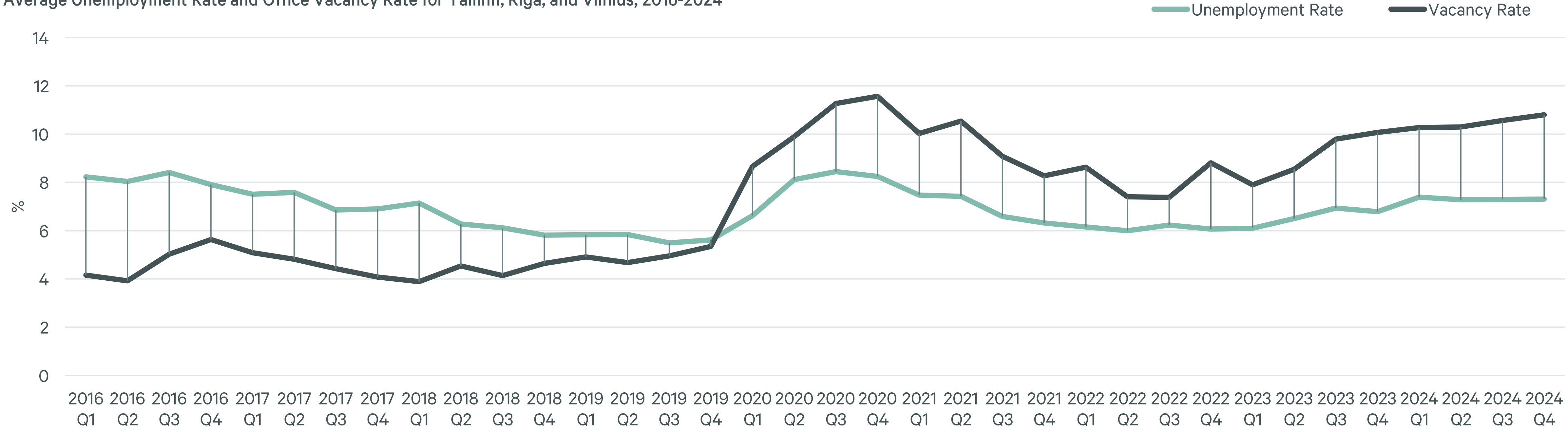
Source: CBRE Office Occupier Sentiment Survey 2024

Baltic Economy & Corporate Real Estate Demand

Over the past decade, the corporate real estate and economic cycles in the Baltics have shown a strong correlation. The overall positive performance of the economy has resulted in low vacancy rates, driven by high tenant demand. However, the COVID-19 period (2020) marked a disruption in this correlation. The sharp spike in vacancy rates supports the hypothesis that remote work has fundamentally changed office demand patterns. It's not just a temporary phenomenon; vacancy rates remain elevated post-COVID despite recovering unemployment levels.

With the current slow down in the economic growth, interfering with the significant pipeline developments in Vilnius and Tallinn, the effect on office vacancies will be more pronounced in the Baltics over 2025. The gap between economic growth and vacancy rates is widening and is likely to continue this trend in the short term. In the long term, however, real estate demand is closely linked to population growth, and the outlook for the capital cities in the Baltic commercial real estate market remains positive.

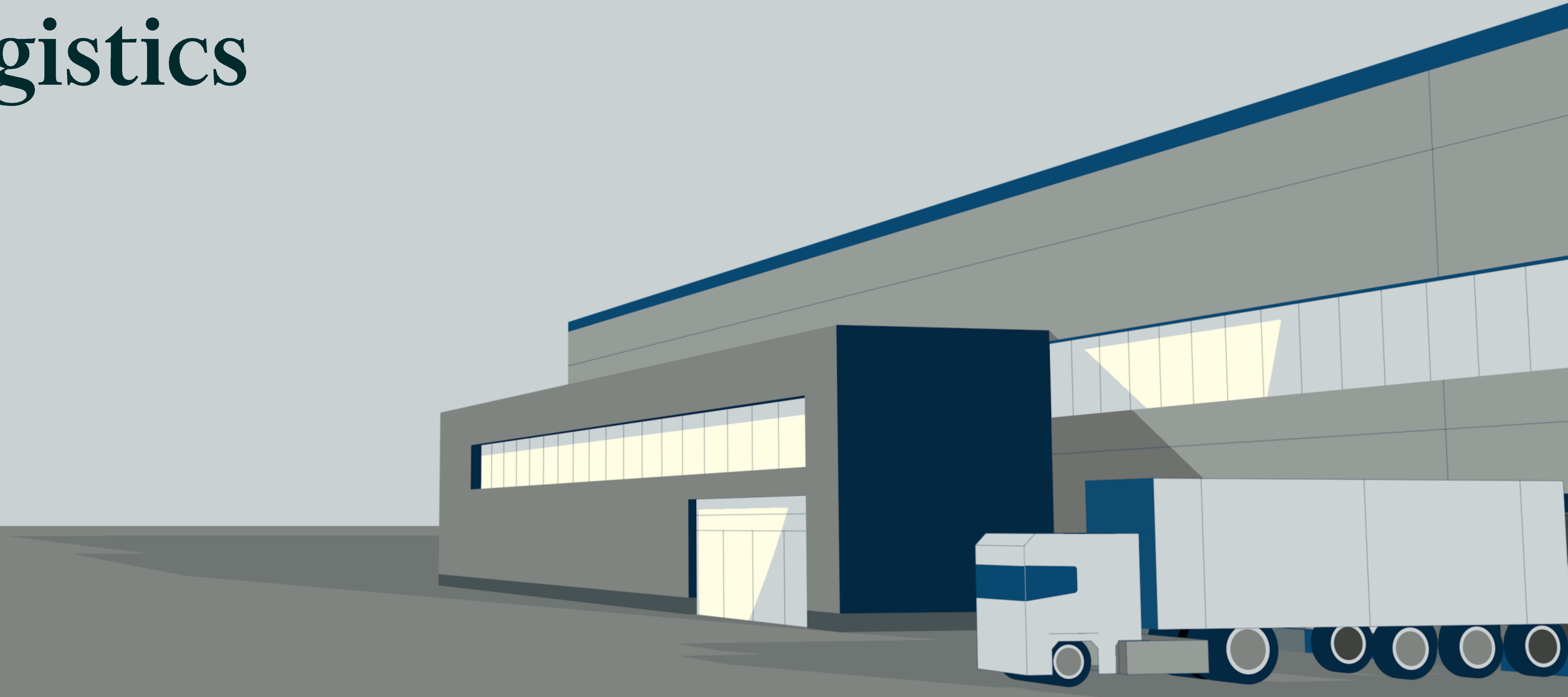
Average Unemployment Rate and Office Vacancy Rate for Tallinn, Riga, and Vilnius, 2016-2024



Source: CBRE Baltics Research, Oxford Economics

05

Industrial & Logistics



05
Industrial & Logistics

Trends to Watch

Cost Challenges in Times of Economic Instability

As we approach 2025, the Baltic industrial and logistics sectors face key challenges including rising energy prices, a shortage of labour, economic instability, declining consumer demand, environmental issues, and geopolitical tensions.

Geographical Constraints on Nearshoring

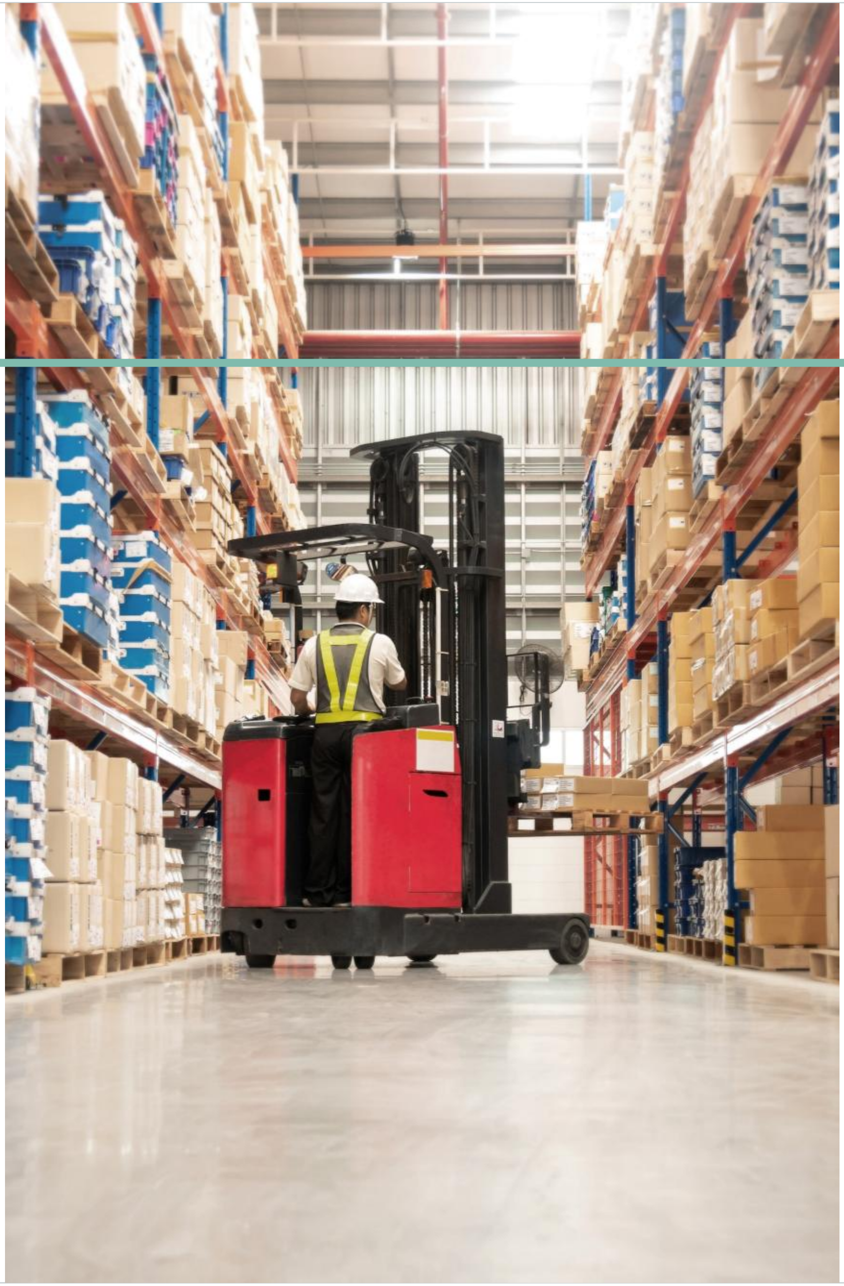
While the Baltics sought to leverage nearshoring to address supply chain challenges, their geographic location could hinder their ability to fully take advantage of this trend.

Ensuring Warehouses are Future-Ready for Robust Operations

Various factors that may affect a warehouse's preparedness for the future include (but are not limited to): availability of power, sustainability credentials, ceiling height and column spacing, flooring quality, and available amenities.

Market Challenges

What are the **greatest challenges** for industrial & logistics occupiers?



Top challenges

Cost escalation (energy and labour)
In the Baltics, energy prices have surged, affecting logistics operations. The region, which historically relied on energy imports from Russia, has had to adjust to alternative suppliers, leading to price volatility. While labour costs are rising, the region's relatively lower wages compared to Western Europe still attract businesses, but the labour market remains tight.

Labour and skills shortages
In the Baltics, the logistics sector struggles with a shortage of skilled workers, which hampers efficiency and growth.

Economic uncertainty/softening of consumer demand
The Baltics' economies, heavily reliant on exports, particularly to Germany, Scandinavia, and Western Europe, face challenges due to shifting consumer demand and economic slowdowns in key markets, impacting retail and logistics sectors.

Environmental concerns
As part of the EU, the Baltics are increasingly focusing on sustainability, but there are concerns over the ability of logistics providers to adapt to new environmental regulations, leading to delays and rising costs.

Geopolitical issues
The geopolitical situation, especially with tensions involving Russia, impacts the Baltics' logistics and trade routes. There is a growing sense of uncertainty, affecting long-term planning and investments.

Source: CBRE and Analytiqa
(European Logistics Occupier Survey 2024).
Arrows show movement from 2023

Nearshoring to Shore Outside the Baltics?

Occupiers initially viewed nearshoring as a potential solution to supply chain disruptions, with the Baltics hoping to capitalize on this trend. However, despite the earlier optimism, it appears that the region may not be geographically positioned to fully benefit from the ongoing nearshoring and reshoring movements.

While occupiers have identified CEE and SEE as regions with greater potential to benefit from these trends, the geopolitical instability in Ukraine has led some occupiers to pause or reconsider their reshoring strategies within Europe.

BALTIC EXPORT MARKETS

The Baltic export markets are primarily driven by trade with the European Union, with key partners including Germany, Poland, Sweden, and Finland.

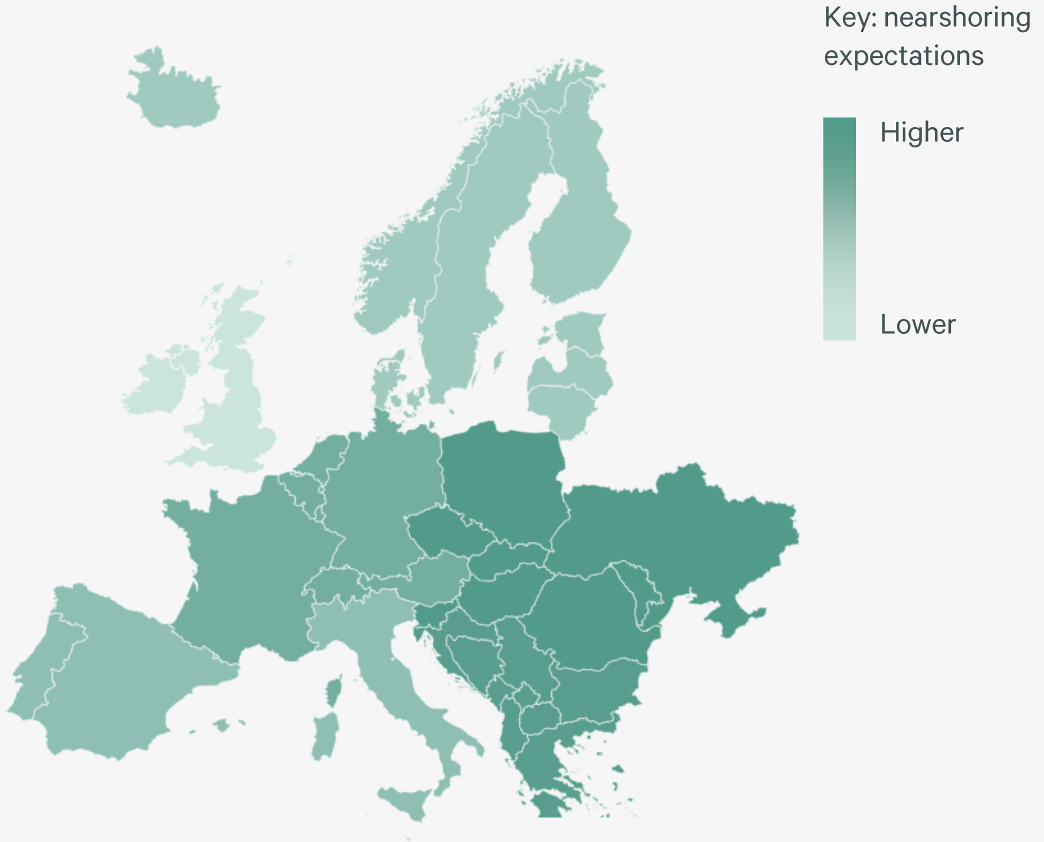
The Baltic manufacturing sector, which is heavily reliant on exports, has been impacted by a slowdown in external demand, particularly from Germany and other Western European countries. As major trading partners face economic challenges, demand for industrial goods from the Baltics has weakened. This is particularly noticeable in industries such as machinery, electronics, and chemicals, where the region has traditionally been strong.

Despite these challenges, the region remains resilient, with efforts to diversify export markets beyond the EU and strengthen ties with Asia and other emerging markets.

Which European regions do occupiers expect to benefit most from nearshoring activity?

68%

of 2024 respondents believe nearshoring will have a significant effect on Europe's logistics take-up



Source: CBRE and Analytiqa (European Logistics Occupier Survey 2024).
Note: Darker colour represents higher potential impact of nearshoring according to occupiers.

Obsolescence is a Challenge for the Baltic Industrial & Logistics Real Estate

Factors that may influence the **future-proofing** of a warehouse include (but are not limited to):

Sustainability credentials

Linked to tightening regulations and the zero carbon targets of occupiers.

Floors

Increasingly demanding specifications on flat and level flooring to optimise operations and eliminate rack impact.

Power availability

To allow robotics and automation but also to charge electric vehicles. Independence from the grid is also a plus.

Clear height and column spacing

Maximising use of GLA.

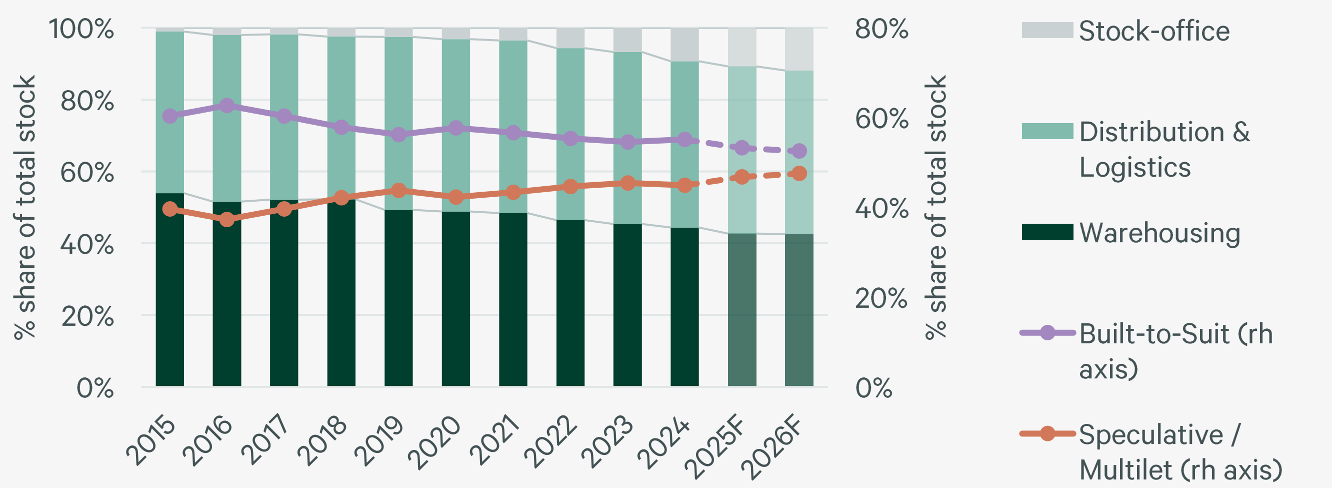
Amenities

To attract and retain talent.

The industrial & logistics sector is starting to recognize the issue of obsolescence, which has been overlooked due to low vacancy rates and high demand. As businesses have more options for warehouse space, they are increasingly choosing facilities that enhance operations or reduce costs. Sustainability is becoming a key consideration for companies planning expansions or relocations, but compliant warehouses are in short supply. This trend toward higher-quality spaces is expected to continue throughout 2025, with businesses preferring warehouses that offer better features, advanced technology, and improved logistics. Quality, sustainability, and efficiency are becoming essential in selecting warehouse spaces.

Widening Diversification of I&L Projects

Stock of I&L Modern Stock by Use, BtS vs. Speculative Stock, Baltic Hubs (Vilnius, Kaunas, Klaipeda, Riga, Tallinn), 2015-2026F



Source: CBRE Baltics Research

The rise of e-commerce has increased the importance of distribution and logistics, leading to a growing need for advanced logistics hubs and fulfillment centers for last-mile delivery. In contrast, stock offices may be more vulnerable to risks due to economic uncertainties affecting small businesses, making the anticipated growth for 2025-2026 to be approached with caution. The increasing diversification of the I&L market enhances the attractiveness of this sector in the Baltics, supported by improving infrastructure and EU-backed projects. Cities such as Vilnius, Kaunas, Klaipeda, Riga, and Tallinn – particularly projects offering modern and energy-efficient buildings – continue to generate substantial demand. However, industrial properties in smaller cities may experience lower desirability and longer vacancy periods. One of the key investment considerations in the I&L segment is the creditworthiness of tenants, as projects often rely on a single or few sizable leases.

06

Retail

06
Retail

Trends to Watch

The Resurgence of Consumer Confidence

Rising consumer confidence is driving a shift toward discretionary spending in categories like travel, luxury goods, and entertainment. Internal consumption growth and tourism revival are further bolstering the retail and services sectors across the Baltics.

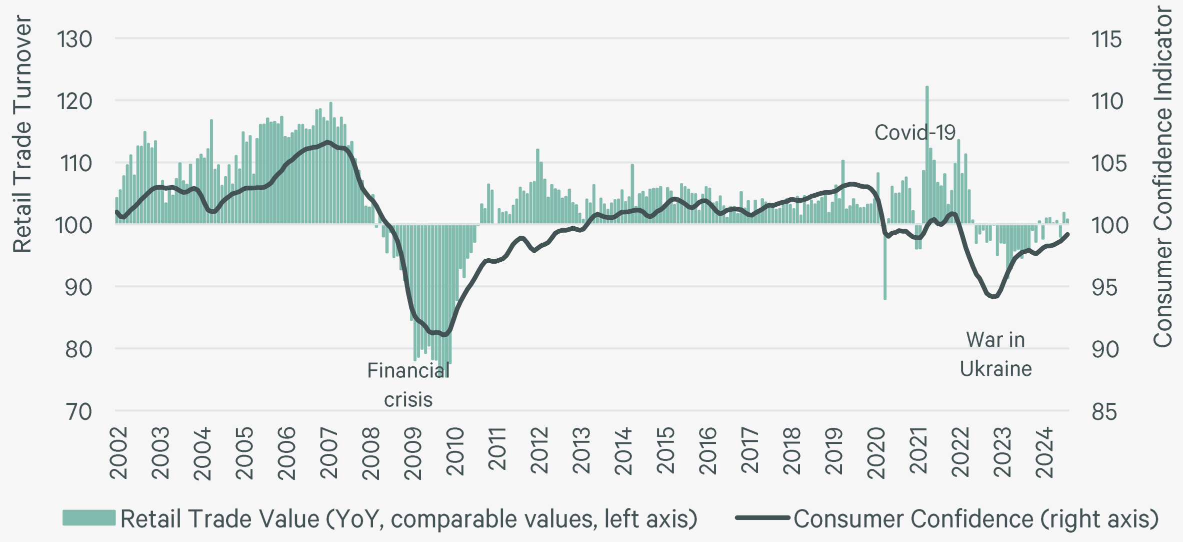
Retail Space for Multifunctional Lifestyle

Shopping centers are transforming into vibrant, inclusive community destinations, integrating elements like health and fitness studios, coworking spaces, and curated lifestyle tenants. The rise of mixed-use developments, blending retail with residential, office, and recreational spaces, underscores a shift toward creating experiential, accessible, and age-inclusive urban environments.

AI and Innovation Revolutionizing Retail

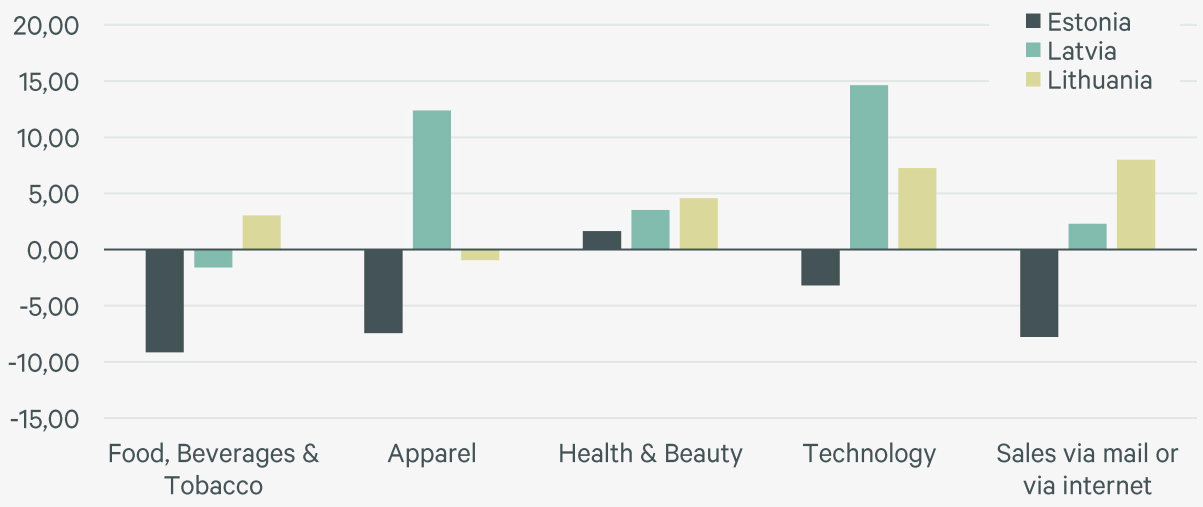
AI-driven technologies like autonomous stores, self-checkouts, and advanced inventory management are transforming the Baltic retail sector.

Consumer Confidence vs Retail Sales, Baltics, 2001-2024



Source: Eurostat, National Statistics, CBRE Baltics Research

Retail Sales Volume by Economic Activity, YoY Change*



*Compares Q1-Q3 2024 over Q1-Q3 2023
Source: National Statistics, CBRE Baltics Research

Regaining Confidence?

The Baltic retail market is steadily recovering after weathering multiple economic shocks over the past two decades. Lithuania is leading the way with robust performance, Latvia is demonstrating resilience, while Estonia faces a slower recovery path. Retail sales volumes – a key barometer of consumer sentiment – are showing signs of consistent improvement after years of volatility. The aftershocks of the 2022 economic downturn are still visible, but the tide is turning. As the Baltic economies strengthen, the retail sector is gearing up for sustainable, long-term growth.

What's driving this momentum? A surge in consumer confidence and inflation are fueling higher spending, while the largest retailers are seizing the moment by innovating, expanding, and adopting fresh strategies to stay ahead. From exploring regional markets to unveiling modern retail formats, industry players are reimagining their strategies.

Shifts in Spending

The economic landscape in the Baltics is changing the way consumers spend their money. During economic downturns, households prioritize essentials such as groceries and healthcare while saving for uncertain times. However, there are early signs of economic recovery, as spending on technology, beauty products, and discretionary items like travel and clothing is increasing, which indicates a renewed interest in non-essential purchases. Although growth in some countries, such as Estonia, may be slower due to short-term adjustments in fiscal policies, a recovery in discretionary spending for retailers is expected by 2025.

> Increased internal consumption and tourism are boosting the services sector, paving the way for growth in 2025.

Transforming Spaces Into Entertainment Hubs

In the Baltics, shopping centers remain the main pivotal retail asset among consumers and retailers. While the supply of shopping centers has stabilized, with new developments and expansions now limited, owners continue to invest in maintaining and enhancing their properties to ensure they remain appealing.

The entertainment sector is transforming the Baltic shopping centers landscape, responding to a rising demand for family-oriented and innovative leisure experiences like trampoline parks, gyms, electric karting, and interactive gaming. These attractions are turning shopping centers into vibrant, multifunctional hubs where retail, dining, and entertainment converge. To overcome challenges such as smaller urban populations, operators are adopting creative approaches like school partnerships and corporate team-building programs to draw visitors. The rise of new operators and the success stories from pioneers are expected to drive this transformation in 2025.

Meanwhile, the integration of coworking spaces is redefining the shopping center experience, fostering community, and encouraging longer visits. While not a direct driver of retail sales, coworking spaces add vitality and create a dynamic environment, positioning Baltic malls as essential lifestyle destinations that reflect global trends.

Shopping Center Composition by Tenant Type

Note: Light green cubes represent traditional establishments, while dark grey cubes indicate new and emerging segments.

Source: CBRE Research

Urban Quarters

Vilnius Paupys Quarter

Mixed-use developments are increasingly becoming a focal point in urban planning and real estate investment. In the Baltics, the trend towards integrating retail with residential, office, and recreational spaces is gaining significant momentum. Retail spaces within these developments are evolving beyond traditional shopping functions to become destinations that offer unique experiences, such as pop-up events, cultural activities, and interactive installations.

Demographic changes are leading to an increasingly aging population. Areas and properties with a functional mix of uses are ideally suited to provide facilities close to home, making them particularly beneficial for an aging society. Accessibility to daily necessities, specialty retail, and healthcare facilities is especially crucial for this demographic.

Mixed-use properties are often created by redeveloping older, underutilized structures. In the Baltics, these transformations have included the conversion of old factories, warehouses, and even prisons into vibrant mixed-use spaces.

What to Expect Next?

PHYSICAL PRESENCE FUELS OMNICHANNEL STRATEGY

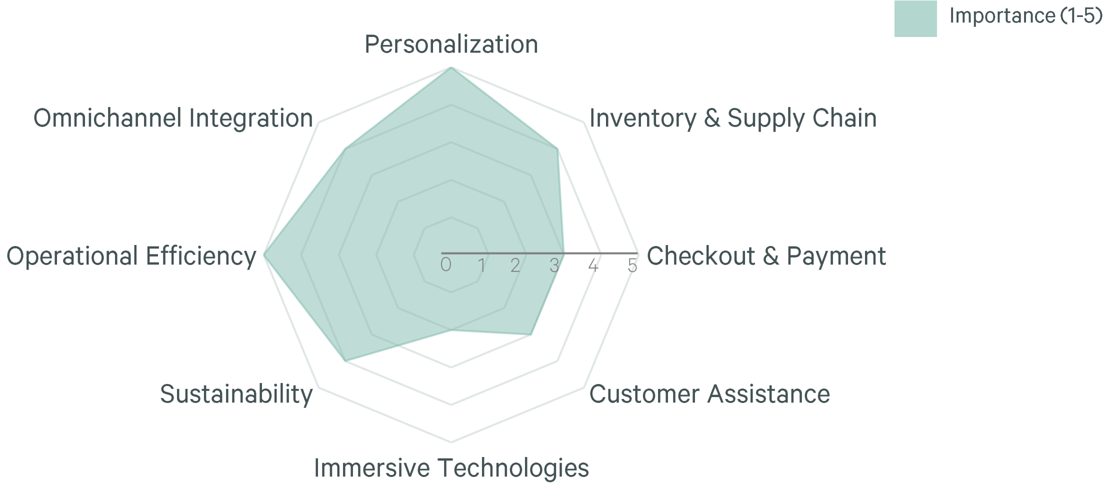
Retail Occupier Views on Online vs. Brick-and-Mortar Retail

Source: CBRE Research

In the Baltics, retail is embracing a hybrid model as consumers blend online browsing with in-store shopping. Despite e-commerce growth, physical stores remain essential, with global trends showing two-thirds of shoppers still favor in-person purchases. As the region's economies strengthen, retailers are poised to leverage both channels, creating seamless experiences that align with evolving consumer preferences.

INNOVATION AND ADAPTABILITY

AI Feature Relevance for Retailers



Source: CBRE Research

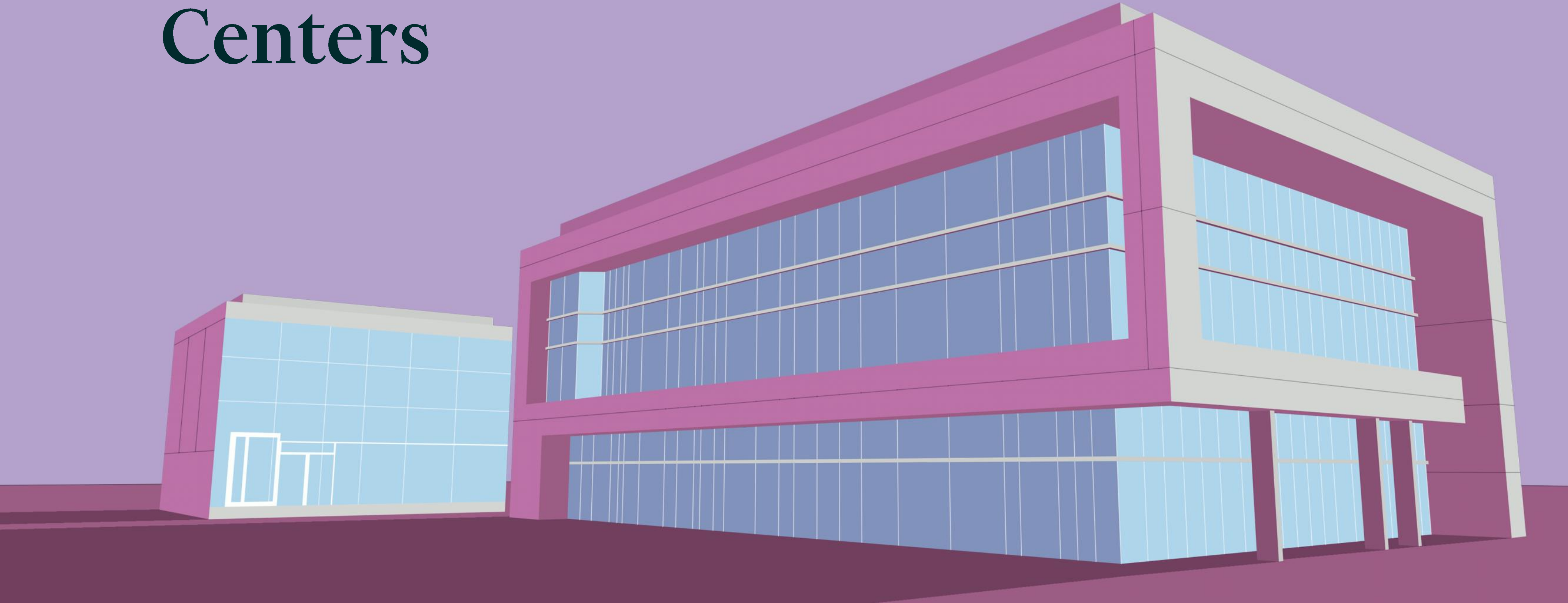
Innovative technologies are rapidly transforming the Baltic market. Among those, autonomous stores, self-checkout systems, and optimized space planning are becoming increasingly prevalent as retailers harness the power of cutting-edge AI solutions.

While most retailers are actively exploring AI, only around 25% have already implemented AI solutions.

Enhancing operational efficiency and personalizing customer experiences by tailoring product offerings to individual profiles are becoming essential for both customers and retailers. Furthermore, AI is driving innovation across key areas such as inventory management, sustainability, and advanced payment solutions.

07

Data Centers



07
Data Centers

Trends to Watch

Colocation Providers Dominate

The Baltic region's data center market is predominantly shaped by colocation providers and remains immature, lacking hyperscale operators' presence.

Hyperscaler Expansion to Secondary Markets

The expanding needs of hyperscalers, driven by increasing land, power, and talent constraints in primary FLAPD markets (Frankfurt, London, Amsterdam, Paris, Dublin), present new opportunities for growth in secondary markets.

Baltics Positioning for Growth with Renewable Energy and Low Latency

Looking ahead to 2025 and beyond, the Baltic region could see gradual growth as it seeks to leverage its renewable energy potential, low latency, and supportive legislative environment.

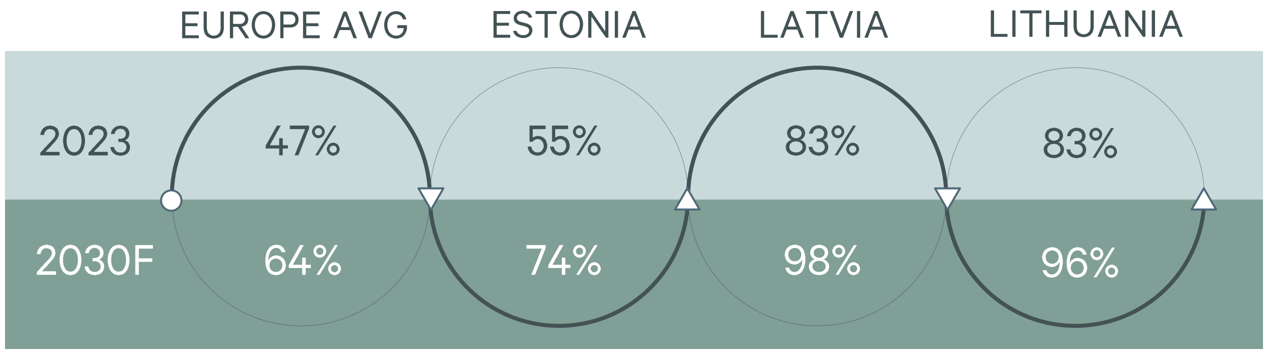
> **With European secondary markets poised for double-digit supply growth, the Baltics could attract significant interest if it aligns its offerings with the broader data center landscape.**

The Baltic region's data center market is predominantly shaped by colocation providers, a trend reflective of its current stage of maturity. However, the expanding needs of hyperscalers, driven by increasing land, power, and talent constraints in primary FLAPD markets (Frankfurt, London, Amsterdam, Paris, Dublin), present new opportunities for growth in secondary markets. The Baltic region's proximity to emerging hubs like Poland and Finland, which have already begun positioning themselves as prominent secondary markets, signals the potential for the Baltics to attract similar attention. This is bolstered by the broader European trend where digital transformation, AI adoption, and cloud computing drive unprecedented demand for computational capacity and innovative infrastructure solutions.

Key drivers of the ongoing data center investment boom include the rapid growth of AI and cloud services, which demand significant computational power and energy. Simultaneously, businesses undergoing digital transformation require scalable, secure, and sustainable data infrastructure. Vacancy rates across Europe are declining, with around 10% rates now common in leading secondary markets like Milan and Oslo, compelling investors to consider newer regions. Sustainability is becoming paramount as energy-intensive AI workloads push operators to adopt renewable energy and efficiency-driven practices. The Baltics, focusing on energy-efficient operations and renewable energy potential, align well with these evolving industry demands.

In this context, the Nordics' advantages – renewable energy, government support, and available land – illustrate how adjacent regions cater to hyperscaler needs and AI deployments. The Baltic region has an opportunity to carve out its niche by capitalizing on these regional dynamics and addressing key constraints like power availability and workforce development.

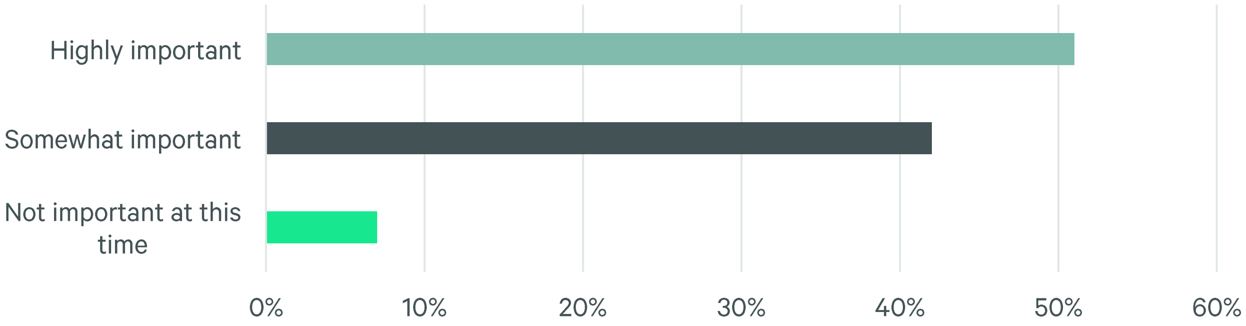
Share of Renewable Energy in Power Generation



Source: IEA, CBRE Baltics Research

CBRE Investor Intentions Survey Responses

How important are Environmental, Social and Governance (ESG) considerations in your overall data center investment strategy?



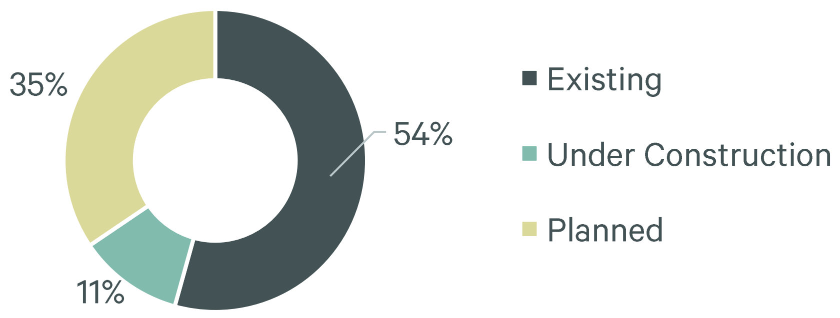
Source: CBRE Global Data Center 2024 Investor Sentiment Survey

Hyperscale Cloud Providers are Competing Across Europe to Gain More Market Share

The Baltic data center market remains immature, lacking hyperscale operators' presence. While the region offers favorable conditions like excellent connectivity, a cooler climate for cost-effective cooling, and emerging renewable energy projects, challenges such as high electricity costs, reliance on imports, and geopolitical concerns temper its immediate attractiveness. The current reliance on cloud providers in foreign markets and minimal market growth reflect constrained scalability for hyperscale operators who tend to expand in well-established and growing markets.

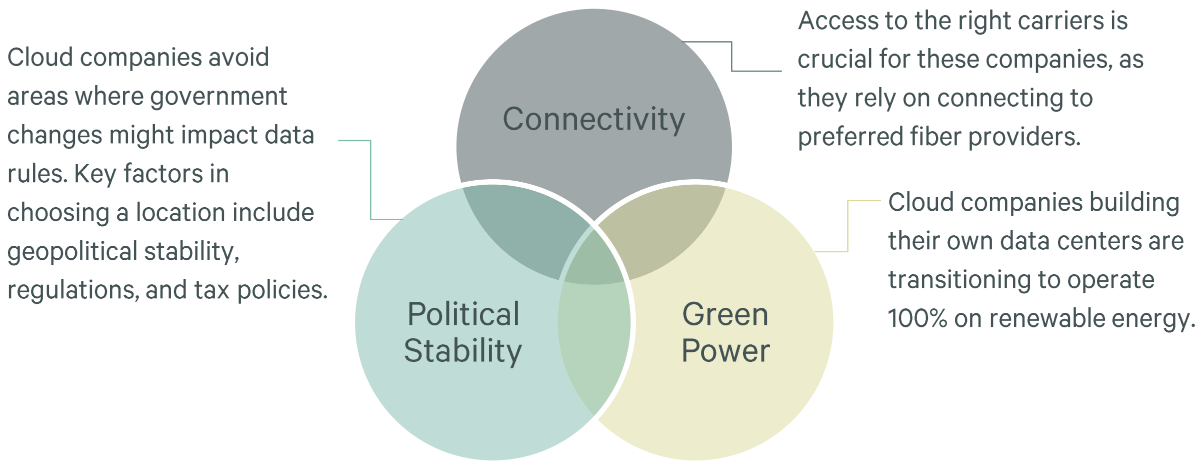
Looking ahead to 2025 and beyond, the Baltic region could see gradual growth as it seeks to leverage its renewable energy potential, low latency, and supportive legislative environment. Strategic initiatives like the Three Seas Initiative and governmental efforts aim to position the Baltic countries as a regional hub for data-centric industries. Spillover demand from mature markets like Poland and the Nordics, combined with the growing adoption of AI DCs, may drive expansion in the medium term. However, capturing this growth will require targeted strategies, such as addressing end-user needs, ensuring compliance with international standards, and mitigating security concerns to attract long-term investment.

Total Data Centers Capacity in the Baltics



Source: CBRE Baltics Research

Venn Diagram for Data Center Location



08

Living

08

Living

Trends to Watch

Growth Amid Affordability Challenges

Residential property prices in the Baltics are expected to continue growing, albeit at a slower pace. Inflation and rising taxes will prevent a price decline, but affordability concerns in Vilnius, Riga, and Tallinn, will limit growth potential. Riga remains the most affordable housing market, with prices significantly lower than in Tallinn and Vilnius.

Shift Toward Rental Housing

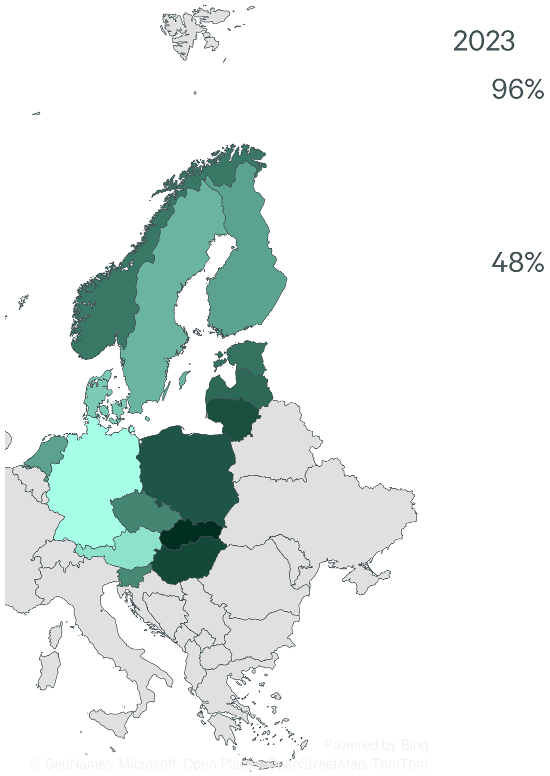
Rental demand is anticipated to rise, driven by factors like increased workforce mobility, international educational opportunities, and declining housing affordability.

Policy Implications

While the housing cost overburden rate for tenants is at its lowest since the Global Financial Crisis, societal and policy debates around affordability are intensifying.

To Buy or to Rent?

Home Ownership Rate



Source: Eurostat, CBRE Baltics Research

RESIDENTIAL PRICES GROWTH TO SLOW DOWN

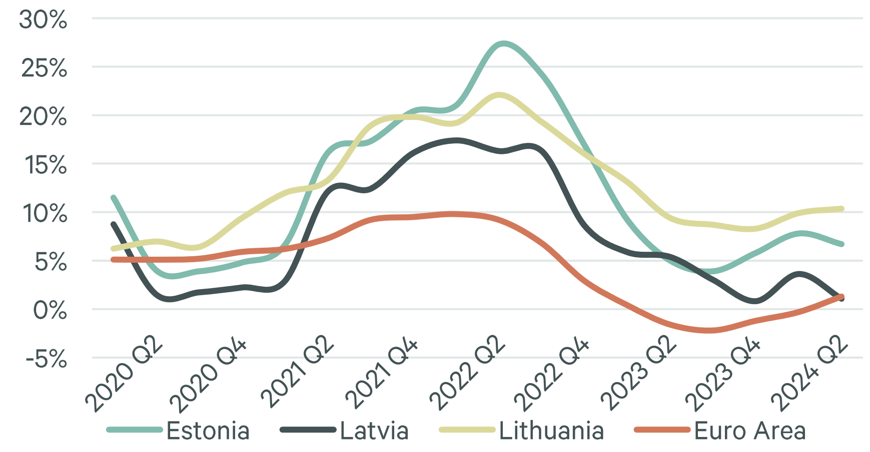
Despite the decline in residential property prices and low transaction activity in the Euro Area, property prices in the Baltic region continue to rise. In 2025, prices are expected to increase steadily, although slower. Riga will retain its position as the most affordable housing market, surpassing Tallinn and Vilnius by approximately 50%. Inflation and rising taxes will serve as a buffer, preventing a decline in prices in 2025. However, the market's growth potential remains limited due to weak affordability, and we may witness a further slowdown in the price growth rate.

Demand is tending to rise for larger family rental apartments compared to smaller flats. In the Baltic countries, the homeownership rate ranges from 80% to 90%, among the highest in the region, while the Euro area averages around 65%. As workforce mobility increases, international educational opportunities expand, and housing affordability declines, more people will prefer renting a home instead of buying. Looking at the experience of the Nordic countries, Finland and Denmark saw a 10-year growth in rental demand of 4% and 3%, respectively.

ESTONIANS AND LITHUANIANS STARTED RENTING MORE

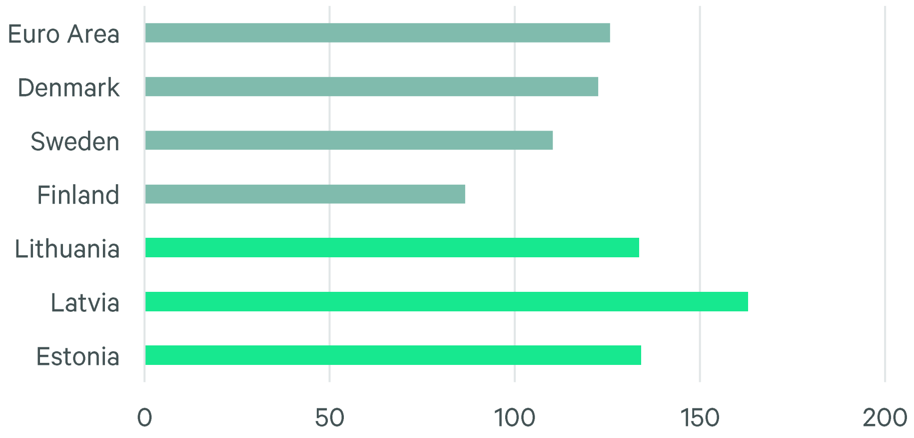
Latvians tend to prefer buying homes while renting has become a more attractive option for residents of Estonia and Lithuania. This is caused not only by affordability but also by traditions. Compared to the Euro Area average and also in relation to Finland, Sweden, and Denmark, the price-to-rent ratio in the Baltics is higher. In Latvia, this ratio has declined since the beginning of 2023, whereas in Estonia and Lithuania, it is showing an upward trend.

Residential Property Price Changes



Source: Bank for International Settlements, CBRE Baltics Research

Price-to-Rent Ratio



Note: The index shows the nominal house price index divided by the housing rent price index.

Source: National Statistics, CBRE Baltics Research

Rental Residential Segment Offers Affordability and Innovation

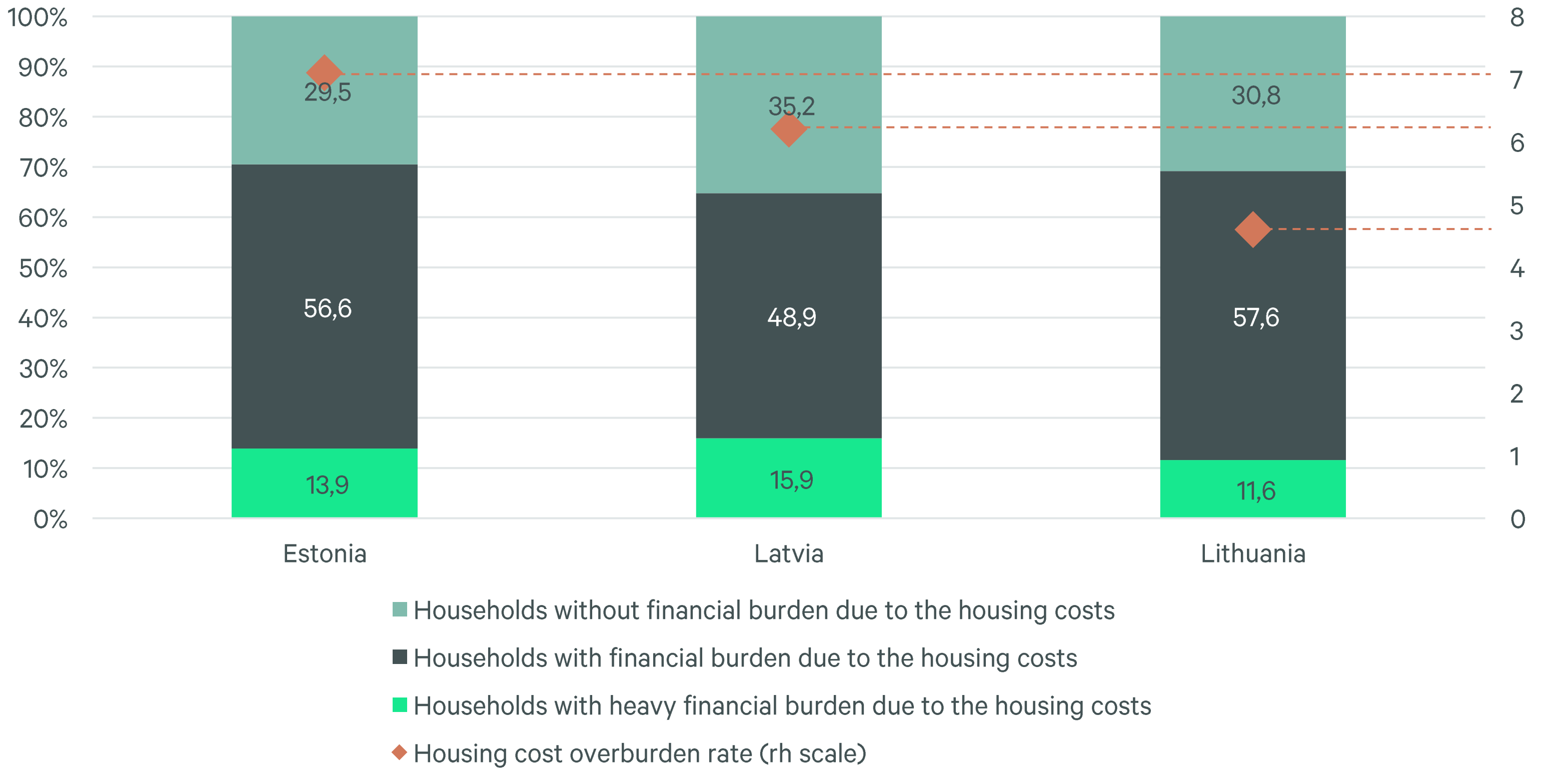
Affordability concerns are on the rise in the Baltics.

The rental residential segment in the Baltics is poised for significant growth in 2025, driven by increasing urbanization, wage growth, and continued demand for high-quality rental properties. Despite rental costs remaining a lower proportion of disposable income than other European regions, affordability concerns are gaining traction as tight rental markets push rents higher, particularly in Vilnius, Riga, and Tallinn.

Interestingly, the housing cost overburden rate for tenants paying market rents has decreased to its lowest level since the Global Financial Crisis, largely thanks to steady wage increases. This dynamic creates a unique opportunity for the rental market to flourish in 2025, with landlords and investors benefiting from steady tenant demand.

However, societal pressures and policy debates around affordability are intensifying across the region. While some European markets, such as Germany and the Netherlands, have introduced rent control measures to address affordability, such interventions have often resulted in reduced rental stock availability. For the Baltics, maintaining a balance between market growth and affordability will be key to sustaining the segment's momentum.

Breakdown of Households by Financial Burden* vs. Tenants with Housing Cost Overburden in Estonia, Latvia, and Lithuania**



Source: Eurostat, CBRE Baltics Research

*Assessment of heavy financial burden, financial burden, or no financial burden is done by respondents of the EU-SILC (European Union Statistics on Income and Living Conditions) themselves.

**Housing cost overburden is defined as housing costs exceeding 40% of disposable income.

09

Operational Real Estate

09
Operational Real Estate

Trends to Watch

Hospitality Recovery and Innovation

Tourist flows are rebounding, with hotels exploring niches like wellness and eco-tourism. Sustainability and technology enhance guest experiences, while operators in Tallinn focus on maintaining occupancy amid VAT increases.

Senior Living Opportunities

An aging population and rising life expectancy drive demand for diverse senior living options beyond traditional care homes, including shared living and integrated healthcare amenities.

Demographic Shifts and Labor Market Impact

Declining rental-age populations and labor shortages highlight the need for external workforce attraction, indirectly boosting residential and operational real estate demand.

Senior Living Solutions

The demographic shift has emerged as one of the major trends in society. Eurostat forecasts that the population of the EU27 will reach 447.9 million by 2050, a slight decrease from the current population of approximately 449 million.

However, this seemingly minor change is accompanied by two opposing trends: an increase in the proportion of people over 65 years old and a decline in the number of individuals aged 25-39, typically seen as the active rental age group. In the Baltics, for instance, the share of people aged 25-39 is currently lower than that of the older age group, and this trend is expected to continue downward.

> While the population is aging, people are also living longer. By 2050, life expectancy in Europe is projected to rise by an average of 5 years.

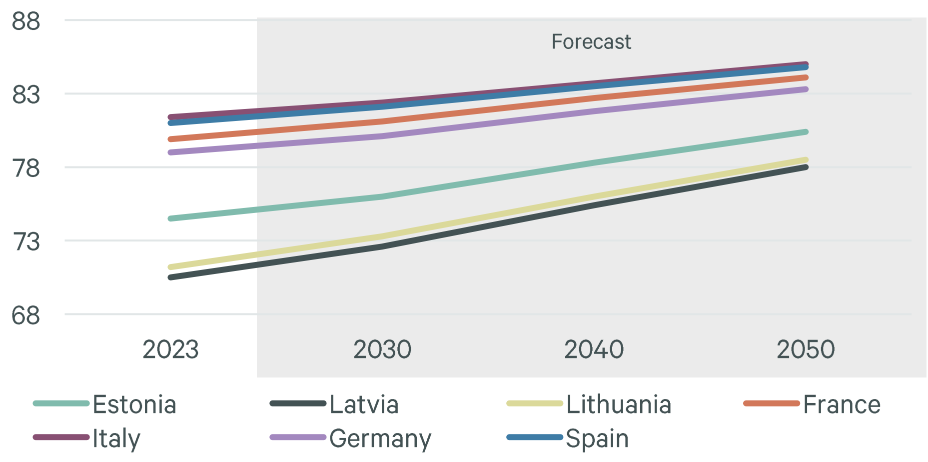
The ongoing decline in population growth rates will adversely affect the supply side of the labor market. This situation will necessitate the attraction of labor from outside the region, ultimately creating increased demand in the residential sector.

The shrinking rental age group, combined with the expanding senior population, rising life expectancy, evolving healthcare industry, and the potential extension of retirement age in various European countries, presents new opportunities in the senior living segment.

These opportunities extend beyond the traditional nursing and care homes commonly found in the Baltics. As today's active tenants age, their needs will shift significantly. The older segment of the current rental age group will transition into the senior category in just 26 years. This demographic has already embraced the sharing economy, including shared living arrangements.

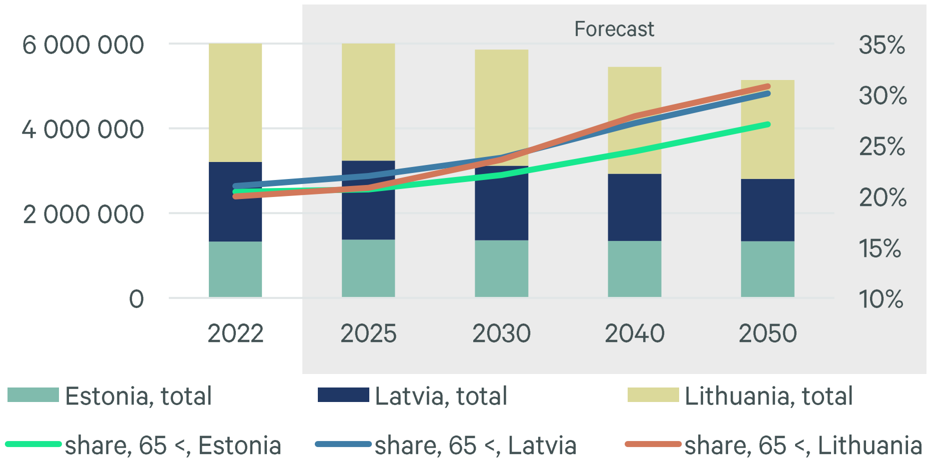
The market must adapt by offering a wider range of retirement properties beyond care homes. Developments should provide various options to cater to diverse needs and preferences, incorporating amenities such as communal dining, social activities, and healthcare services.

Projected Life Expectancy by Age (in Completed Years)



Source: Eurostat, CBRE Baltics Research

Population Projection for the Baltic countries, 2022 – 2050



Source: Eurostat, CBRE Baltics Research

Exploring the Evolving Landscape of Tourism and Hospitality

Tourist flow in Tallinn and Vilnius has mostly recovered, while Riga keeps up, seeing a 14% year-on-year increase.

Tallinn, the only operating passenger port in the Baltics and the 5th busiest in the EU, is nearing pre-COVID passenger flow.

The share of foreign tourists in hotel revenues is rising, and domestic and regional tourism is boosting the hospitality market outside capital cities.

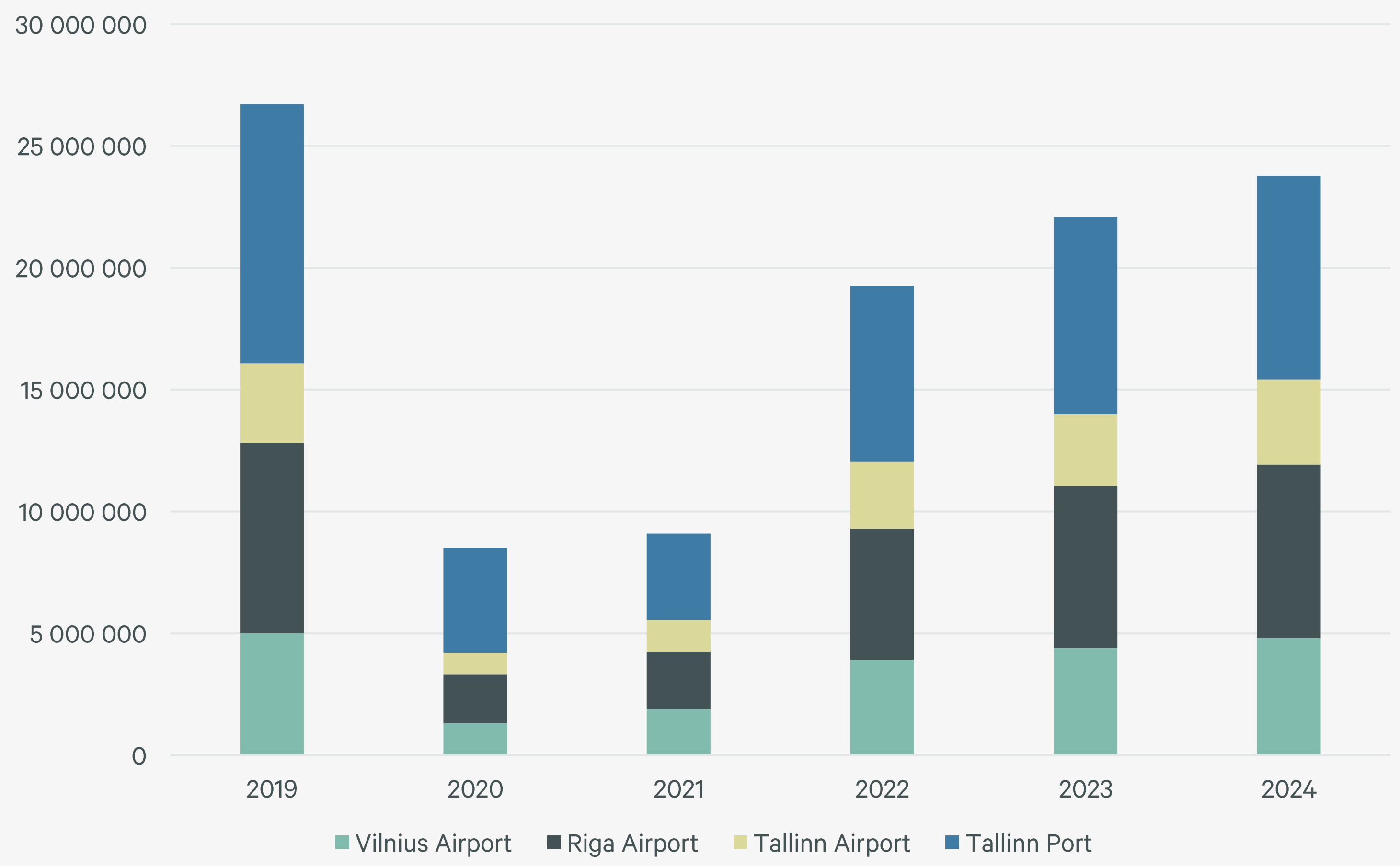
Several hotels are under construction or have been refurbished in the Baltic capitals. Hotels are exploring niches like wellness tourism, eco-friendly accommodations, and unique local experiences while emphasizing green initiatives and technology to enhance guest experiences.

Despite high average daily rates, operators prefer reducing profit margins over raising prices.

Vilnius leads in hotel investments, surpassing Riga as runner-up by 30% since 2019 and securing around the same investment size as in 2024 going into 2025.

According to the Riga City Council, Riga is adjusting to changes in global tourism. Western visitors are replacing Russian tourists, while German and British tourists have risen by 38% and 11%, respectively, indicating a market recovery.

Largest Airports and Ports Passenger Flow in the Baltic Capital, 2019-2024



Source: Riga Airport, Tallinn Airport, Vilnius Airport, Tallinn Port Statistics, CBRE Baltics Research

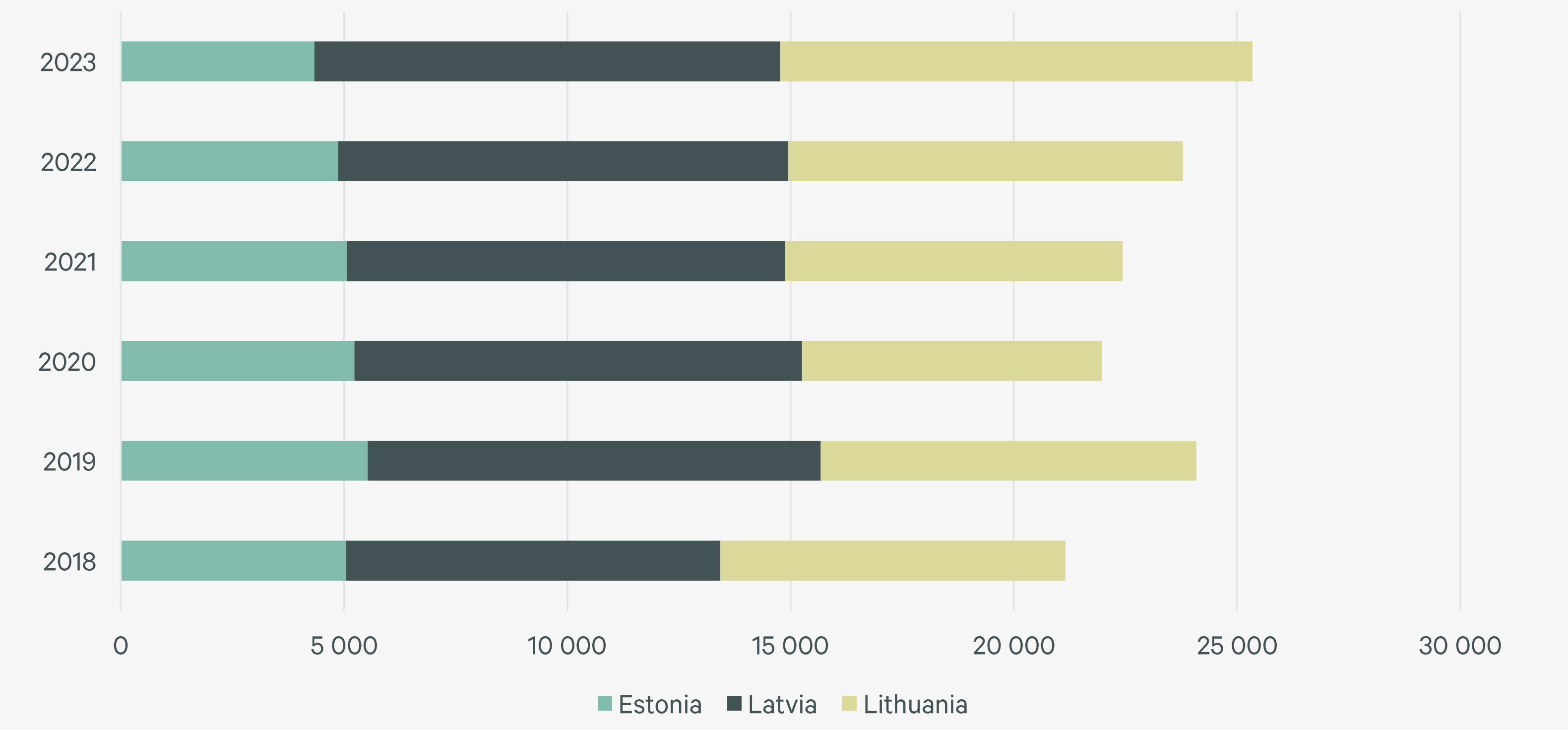
Co-Living and Student Living

The number of international students at Baltic universities is increasing, a trend likely to persist due to the region's aging population and the need for young talent in the industrial and tech sectors. The Purpose-Built Student Accommodation (PBSA) supply lags behind demand, with rising construction costs hindering affordable housing options.

The co-living sector has started to address some of this demand, with active development commencing in the Baltics in 2019. However, due to the economic downturn, developers focus on rental residential properties with lower costs and can attract a broader audience. We may also see the repurposing of vacant office buildings for co-living or rental spaces across the CEE region, similar to trends in other markets.

Co-living is evolving to include flexible concepts that appeal to digital nomads and travelers seeking short-term accommodations. AI is being used more extensively for facility management and enhancing community interactions. As living costs rise, demand for affordable housing solutions based on shared resources has grown. Significant institutional investments are needed to develop large-scale co-living projects. Given high satisfaction rates in commercial real estate, we expect increased capital flow into the residential sector in the coming years.

Number of International students in Baltic Countries, 2018-2023



Source: Eurostat, CBRE Baltics Research

Contacts

CBRE Baltics
PART OF THE AFFILIATE NETWORK

Research Contacts

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

Jelena Dubrovski
Senior Analyst | Research & Consulting
jelena.dubrovski@cbre.ee

Agency Contacts

Santa Rozenkopfa
Managing Director
santa.rozenkopfa@cbre.lv

Roberts Ardavs MRICS
Head of Valuation & Advisory
roberts.ardavs@cbre.lv

Denis Rein
Director | Investments & Advisory
denis.rein@cbre.lt

Iveta Ardava
Head of Retail Baltics
iveta.ardava@cbre.lv

Reinis Lauskis
Associate Director | Advisory & Transactions
reinis.lauskis@cbre.lv

Dainius Šarka
Associate Director | Investor Leasing
dainius.sarka@cbre.lt

Martins Grinbergs
Associate Director | Investment Properties
martins.grinbergs@cbre.lv

Triin Kolk
Senior Consultant | Advisory & Transactions
triin.kolk@cbre.ee

Monika Vilkancienė
Senior Valuer | Valuation & Advisory
monika.vilkanciene@cbre.lt