

Tallinn Offices, 2019

# Office market activity remains steady; tenants are shopping for quality

Completion **18,255 sq m**

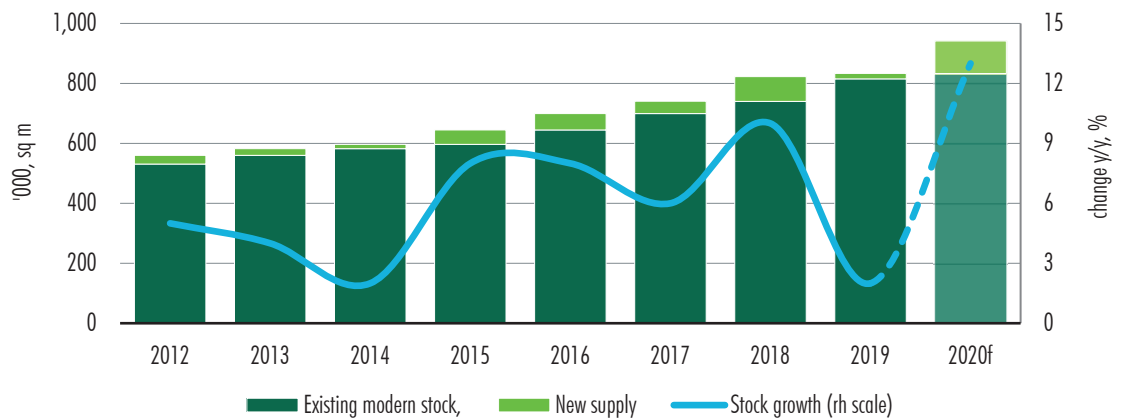
Prime Yield **6.25 %**

Vacancy **6%**

Stock **833,500 sq m**

\*Arrows indicate change from the previous year

Figure 1: Modern Office Stock Indicators 2012 – 2019 Forecast 2020F



Source: CBRE Baltics; 2020

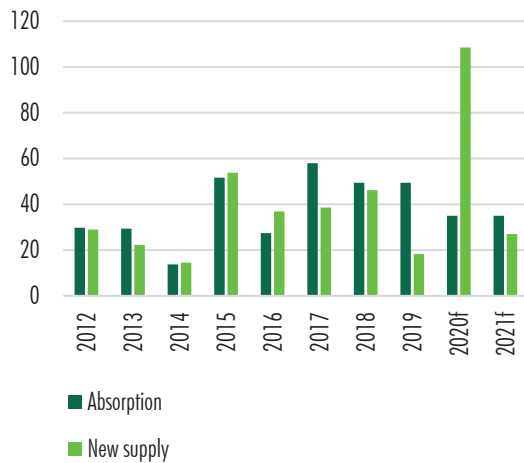
**KEY POINTS**

- The country’s economy continues healthy growth, reaching 4.2% in Q3 2019 and was one of the strongest growing economies in the EU.
- The commercial real estate market remains in good shape, yet activity is moderating, expressed in more extended sale and rent periods.
- Tenants are willingly migrating from old office premises into contemporary buildings, thus creating pressure on the landlords of the former properties.
- Total modern office stock increased 2% compared to the same period a year ago.
- The vacancy rate decreased to 6% compared to Q4 2018. The vacancy level of A-class office buildings was 5%, while the vacancy level of B-class offices was 6%.
- A-class rent rates are currently between 12 – 16 EUR/sqm/month, B-class – between 8 – 12 EUR/sqm/month.
- The prime office yield remained at 6.25%.

**ECONOMIC OUTLOOK**

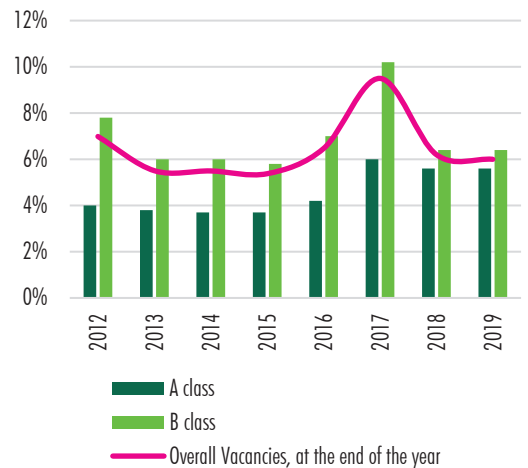
Currently, the Estonian economy is in good shape and is forecast to continue with healthy growth in 2019 and 2020. In Q3 2019, the economy grew by 3.6%, which is one of the most robust rates of growth in the EU and well above the EU average. However, some growth moderation is expected because the economies of major export partners are slowing down, export growth remains modest, and investments are staying at a low level due to a decline in business investments by the non-financial sector. At the same time, private consumption, driven by rapid wage growth, continued to grow as it did in the previous year, reaching 2.8% in 2019. The average salary for Q3 2019 increased by 8.2% compared to Q3 in 2018. The labour force participation rate for 2018 was 71.7%, the highest it has been in the last 20 years. The unemployment rate dropped to 3.9% in Q3 2019, compared to 5.2% in Q3 2018.

Figure 2: Main supply and demand indicators 2012 – 2019 and forecast 2020-2021



Source: CBRE Baltics; 2020

Figure 3: Vacancies at the end of the year 2012-2019



Source: CBRE Baltics; 2020

MARKET OVERVIEW

The commercial real estate sector remains in good shape due to strong economic growth and future forecasts. However, there were some evident signs of slowing during the first half of 2019. Slightly less activity and a willingness to rent or buy, along with increased sale periods for new buildings. Prices remain unaffected, yet developers are more cautious when it comes to new project development without having agreements with anchor tenants.

SUPPLY

In 2019, Tallinn market observed a modest increase in the office space supply. The total modern office stock in Tallinn has reached ca. 833,000 sqm. or 2.2% more compared to the same period a year ago. The vacancy level of A-class office buildings was 5.6% in H1 of 2019. Availability of A-class office spaces increased because of several completions, like Kadrioru Plaza and Ellipsi House. In B-class offices, the vacancy rate is 6%. Availability has stayed roughly the same. Currently, there are several office buildings under construction, measuring around 108,500 sqm in total.

DEMAND

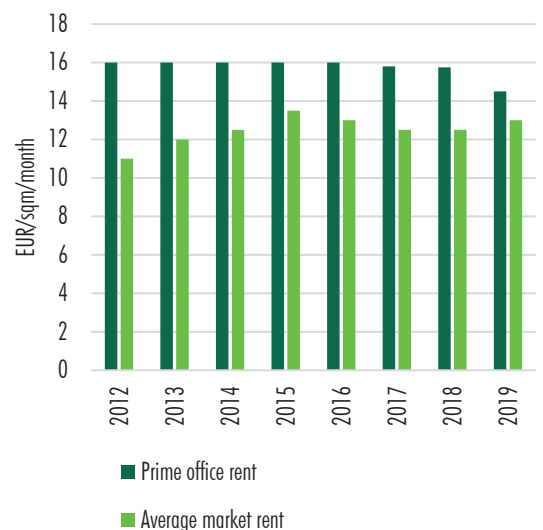
Compared to 2018 less of new office buildings were completed in 2019, which even caused a temporary shortage of new offices, so despite gradually decreasing demand there is still a lot of office searcher on the market. Record volume of new office space will be completed in 2020, but more than 60% of it is already

filled with tenants by the end of 2019.

PRICES

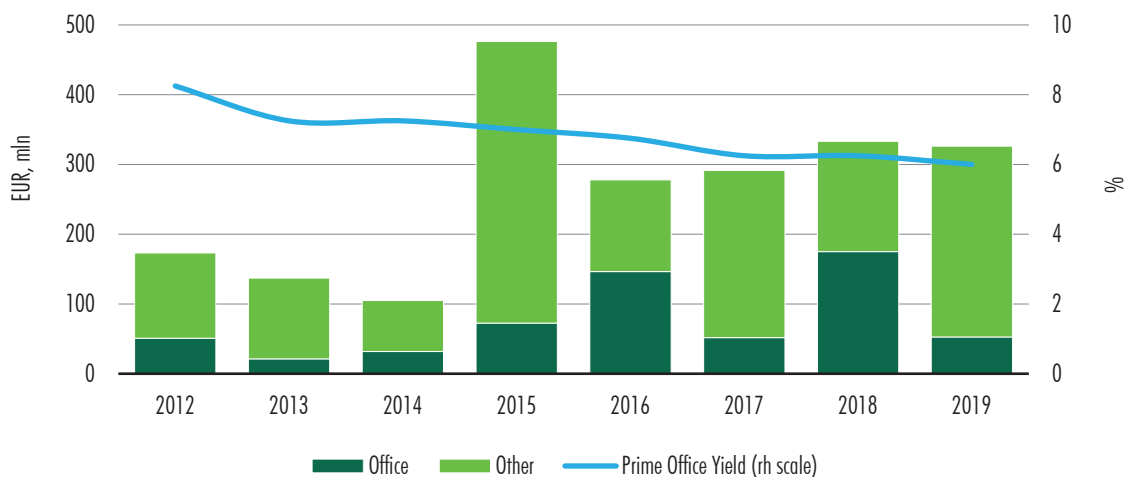
Rental levels have remained unchanged compared to the last period. A class rent rates are currently between 12 – 16 EUR/sqm/month, while the rent price range for B class offices is between 9 – 13 EUR/sqm/month. Occasionally, A-class office rents could reach even 20 EUR/sqm/month in better located new premises. While B class office rents are somewhat pressured downwards by potential tenants that are willing to move and upgrade their existing office buildings, notable discounts could be bargained accordingly, when agreeing up for office spaces in older premises.

Figure 4: Office rent prices in Tallinn



Source: CBRE Baltics; 2020

Figure 5: Investment volume in Estonia 2012-2019



Source: CBRE Baltics; 2020

Figure 6: Office project pipeline

Project	Size, sq m	Developer	Expected
Fahle Park (stage I)	15 000	Fausto Grupp	2020
Porto Franco (stage I)	25 000	Porto Franco	2020
Viktor Palmi house	11 000	Technopolis Ülemiste	2020
Mauruse maja	7 700	Fund	2020
Grüne maja	3 400	Hepsor	2020
Madara 25	3 400	Capital Mill	2020-2021
Tehnopol	11 000	Tehnopol	2021
Büroo 113	3 900	Hepsor	2021
Skyon	8 200	Capital Mill	2021
Juhkentali 1	49 000	Kapitel	2022-2024
<b>Total</b>	<b>146 600</b>		

Source: CBRE Baltics; 2020

#### RESEARCH DEFINITIONS

**Total Modern Stock** – represents the total completed class A and B space (occupied or vacant) in the private and public sector at the survey date. Includes owner occupied (OO) space.

**Vacant Space** – represents the total net rentable floor space in existing properties, which is physically vacant and being actively marketed as at the survey date.

**Vacancy Rate** - represents the percentage ratio of total Vacant Space to Modern Total Stock.

**Take-Up** – represents the total floor space, including renewals, known to have been pre-let, sold or pre-sold to tenants or owner-occupiers during the survey period.

**Prime Rent** – represents the top open-market tier of rent that could be expected for a unit of standard size (commensurate with demand in each location) of the highest quality and specification and the best location in a market at the survey date. The Prime Rent should reflect the level at which relevant transactions are being completed in the market at the time. If there are no relevant transactions during the survey period, the quoted figure will be more hypothetical, based on an expert opinion of market conditions.

**Absorption** – represents the change in occupied stock within a market during the survey period.

**Net Effective Rent** – represents a rent that would be achieved, less the incentives paid by the owner. The average net effective rent for a market is the market net base rent, less incentives, which are amortised over the term of the lease.

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