BALTIC REAL ESTATE MARKET

OVERVIEW

2024

Latio UUS MAA in real

INTRODUCTION

In a major advancement for the Baltic real estate market, three leading property agencies — **Inreal Grupė from Lithuania, Uus Maa Real Estate from Estonia, and Latio Real Estate from Latvia** — have entered into a strategic partnership. This collaboration marks a significant step toward streamlining cross-border property evaluations and accelerating the purchasing process for clients throughout the region.

This initiative responds to the increasing demand for high-quality residential and commercial properties, with a special focus on modern office and industrial spaces that adhere to the latest technological standards and sustainability practices. This first report presents a comprehensive analysis of the current real estate market in the Baltics, offering insights from Lithuania, Estonia, and Latvia. Future reports will track the market's ongoing development, providing valuable data to support informed decision-making for investors, developers, and property buyers across the region.

This partnership enhances service efficiency in Lithuania, Estonia, and Latvia, supported by the combined expertise of the region's top real estate professionals.

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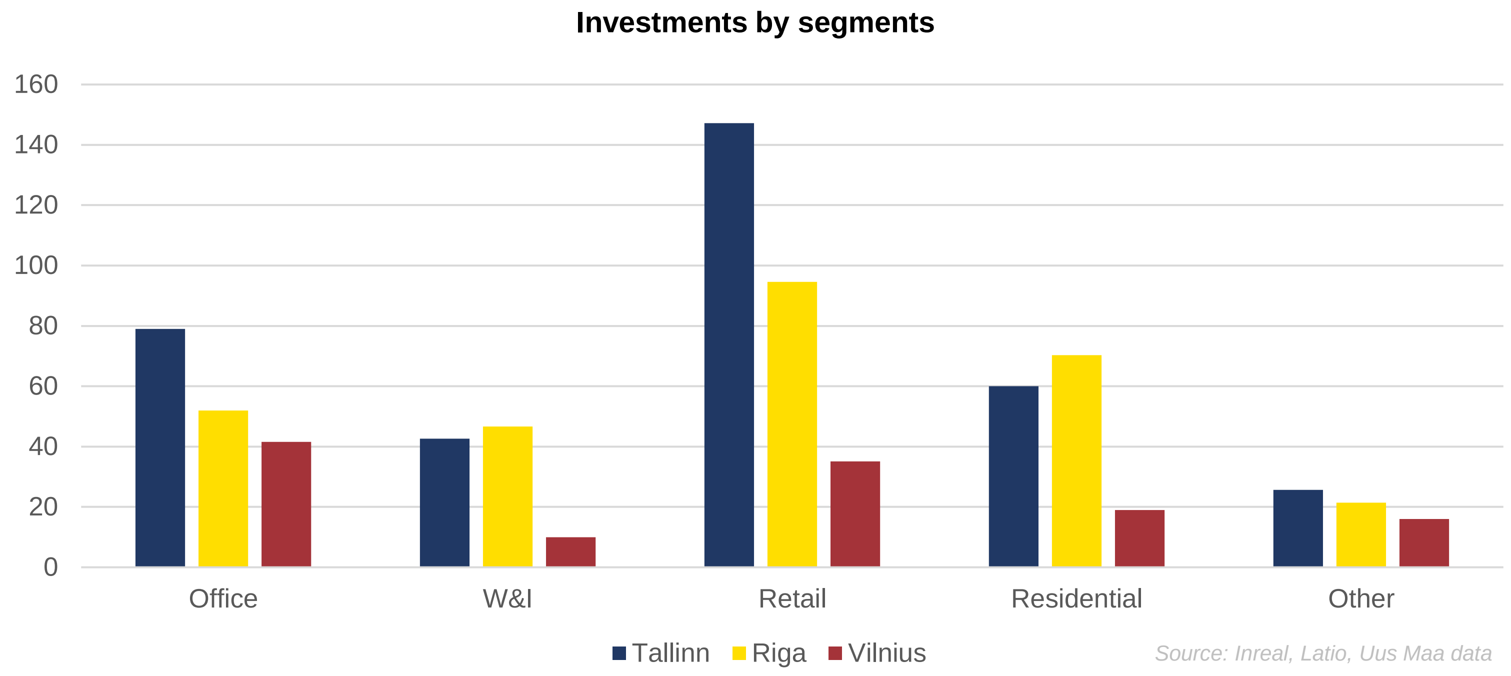
INVESTMENT MARKET

Thanks to the completion of four large-scale transactions, the Estonian real estate investment market achieved a very strong result in 2024, with total investment volume in Greater Tallinn area alone exceeding the half-billion-euro mark. More than 350 million of that was made in the second half of the year.



The turbulent year ended with a remarkable deal when EfTEN Kristiine OÜ, which brings together several well-known Estonian investors, signed an agreement to acquire Kristiine Keskus from Citycon for 130 million euros. This was one of the largest real estate investments in Estonia's history, making the retail sector the largest segment in commercial real estate investments.

A total of seven transactions were signed with a deal value of at least 10 million euros. Publicly known transactions include the sale of Porto Franco I and III buildings, where previous co-owners Lembit Lump and Heldur Meerits bought out the company associated with Hillar Teder, as well as the sale of a warehouse-production facility in Tänassilma village, which was acquired by East Capital for 42 million euros.

Another significant transaction was the sale of Technopolis Ülemiste to Mainor, making the latter the sole owner of Ülemiste City. The value of this transaction was in the same range as the Tänassilma deal.

The share of the four largest transactions accounted for over 50% of the total transaction volume, while more than 90% of deals were concluded at a price of up to 5 million euros, with the median price being only 1.2 million euros. The volume of transactions involving undeveloped land or purchases for development purposes amounted to nearly 115 million euros, of which 70 million euros consisted of residential development. Thanks to the Kristiine Centre transaction, the largest commercial real estate segment was retail (a total of 158 million euros, with the second-largest deal amounting to 5 million euros).

Retail was followed by logistics and industrial, which in recent years has sustained the small-scale investment market. The transaction volume for logistics and industrial properties was 117 million euros. Although the volume for office property transactions reached 114 million euros, this was largely due to co-ownership deals in Ülemiste City and Porto Franco, with no classic free-market cash-flow transactions taking place.

While some commercial property segments show positive trends, investor sentiment remains cautious.

Investment activity is focused primarily on income-generating assets, with a growing interest in residential properties in central Riga and suburban areas.

The average return on investment is around 10% for commercial transactions, 8% for suburban apartments, and up to 5% for housing in the Silent Centre, where value appreciation and liquidity are strong.

Developers and investors face multiple challenges, including high EURIBOR rates, expensive construction, regulatory uncertainties and urban development changes. The Rail Baltica project is a significant concern, complicating long-term planning for investors.

Given the changing global geopolitical environment and the expected reduction in interbank interest rates, closer integration of Latvia's capital market with the European Union could attract additional investments. Legislative and procedural improvements in the construction sector - or at least including thereof in the policymakers' priorities - could also encourage market activity.

In 2024, in Riga, over 50 real estate transactions exceeding 1 million euros were recorded, excluding apartment sales. The total investment volume in the second half of 2024 amounted to €284.9 million. The distribution of investments by sector is as follows: retail properties 33%, residential properties 25%, offices 18%, warehouse and industrial real estate 16%, and other 7%. The largest investments have a credit-based nature.

The highest registered commercial pledges are as follows:
1) Rietumu Banka provided financing for the building housing the Stockmann shopping center and Forum Cinemas, amount €48.75 million;
2) A loan was issued, and a commercial pledge was registered for an office building with a dormitory in Mārupe parish, near the airport ("Kapteiņi"), amount: €25 million;
3) A loan was issued, and a commercial pledge was registered for the Iterum processing plant in Olaine, amount: €20.736 million.

Prime-yield range	Tallinn	Riga	Vilnius
Office	6,50-7,00%	6,75-7,25%	6,50-7,00%
Shopping centres	7,50-8,00%	7,75-8,25%	7,25-7,75%
Grocery	6,75-7,25%	7,00-7,50%	6,75-7,25%
Warehouse & Industrial	7,00-7,50%	7,00-7,50%	7,00-7,50%

Source: : Inreal, Latio, Uus Maa data

In the second half of 2024, 62 property transactions exceeding 1 million euros were recorded in Vilnius and its surrounding region for a total of almost 136 million Euros.

This included 18 residential transactions, presumably for personal use. Of the 44 commercial transactions, 12 involved properties intended for residential rental or development, with a total value of approximately 29 million euros.

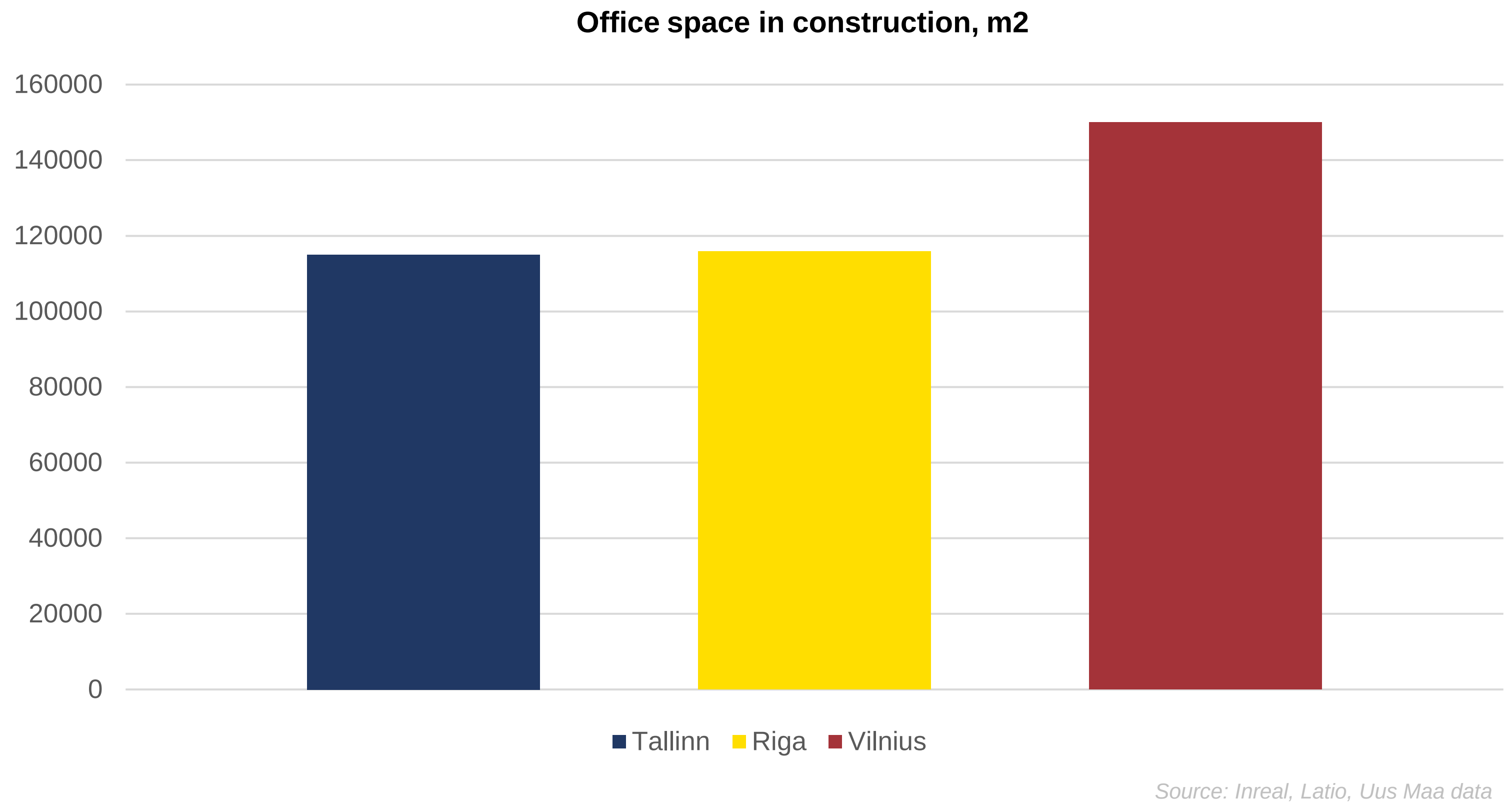
An additional 29 million euros were spent on 9 office and similar spaces, including the prominent BC Žalgirio88, whose new owner plans to modernize the existing office building. Retail and catering properties accounted for 7 transactions, totaling 14.5 million euros. The Industrial & Logistics sector saw 5 transactions valued at 10 million euros, while land designated for development—including small buildings with larger plots—comprised 11 transactions, totaling 20 million euros.

OFFICE MARKET

While only about 27,000 m² of office space was completed in 2024, the volume is set to reach nearly 85,000 m² in 2025, marking a record for recent years. Despite economic uncertainty and reduced speculative demand, construction volume increased in the second half of 2024, reaching 115,000 m². These deals, however, have been signed by companies that have grown rapidly in recent years (especially in the financial sector), whereas demand in the IT sector remains below 2021–2022 levels.

The most active and sought-after area remains the central business district (CBD), where the final building of the Arter complex will be completed this year, with Swedbank occupying a large portion of it. The 28-story building has a floor area exceeding 33,000 m². Additionally, the Golden Gate development will be completed, providing tighter connection between the harbor district and the Rotermann Quarter. This building offers over 12,000 m² of commercial space, with a total net enclosed area of 17,400 m².

Outside the city center, the largest development is the Volta 1 Quarter, where two new office buildings totaling over 30,000 m² of commercial space will be added in 2025 to the office building constructed in 2022. Wise will be relocating to the larger of these new buildings.



Although the indexation of existing contracts increases rental prices, landlords must remain flexible to mitigate the increased vacancy rates, which will keep rental prices stable this year. Where possible, tenants have reduced their office space in line with the home office trend and general cost-saving goals.

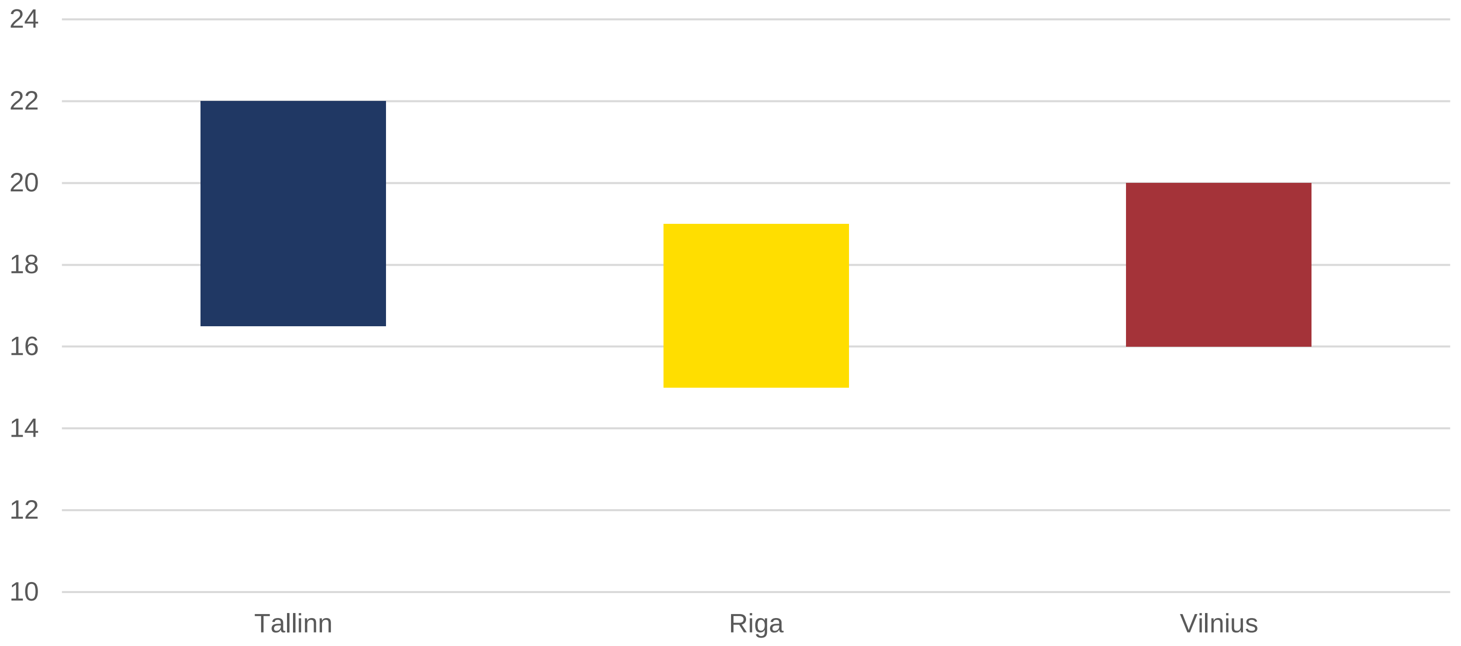
In the second half of 2024, the net rent in Tallinn's city centre A-class office buildings ranged predominantly between €16 and €22 per square meter. The vacancy rate increased further reaching 10% by the end of 2024. In suburban A-class buildings, the vacancy rate was like that in the city centre (~10%), while the average rent level was about €4 per square meter lower.

Riga's office market offers a wide selection of spaces, particularly in new Class A office buildings, which are highly favoured by IT, financial, and creative industries. In 2023, the office vacancy rate reached 19.5% - the highest in the Baltics - highlighting a decline in demand for large office spaces. However, interest in small, energy-efficient offices with good infrastructure remains stable.

The most popular locations among tenants are the city centre and the Silent Centre, where demand is strongest in office spaces up to 100 m² with high energy efficiency (Class A or B) and parking. However, the availability of such properties is relatively limited. Skanste and Āgenskalns are also sought-after office locations. Despite intense competition for prime office spaces, tenant decision-making has slowed, with businesses more carefully evaluating costs and infrastructure availability.

Modern office buildings are particularly attractive to tenants prioritizing employee well-being, offering amenities such as natural daylight, spacious conference rooms, terraces where staff members can relax in the fresh air during the working day, green spaces, and proximity to parks. Parking remains a crucial factor. Additionally, flexible rental conditions are becoming more common, with co-working spaces gaining popularity due to the rise of hybrid work models.

A-class office space rent, €/m2/month



Source: Inreal, Latio, Uus Maa data

"Landlords are increasingly accommodating small tenants by adapting spaces to smaller areas. Well-developed infrastructure and strong public transport connections are key factors. Forecasts for the current year are optimistic, with commercial sector activity expected to rise. Demand for high-quality premises is likely to increase, supported by development plans of Baltic companies in Latvia – new businesses are opened and commercial activity fields are being expanded. Entrepreneurs from Ukraine and Italy are also bravely entering the market.

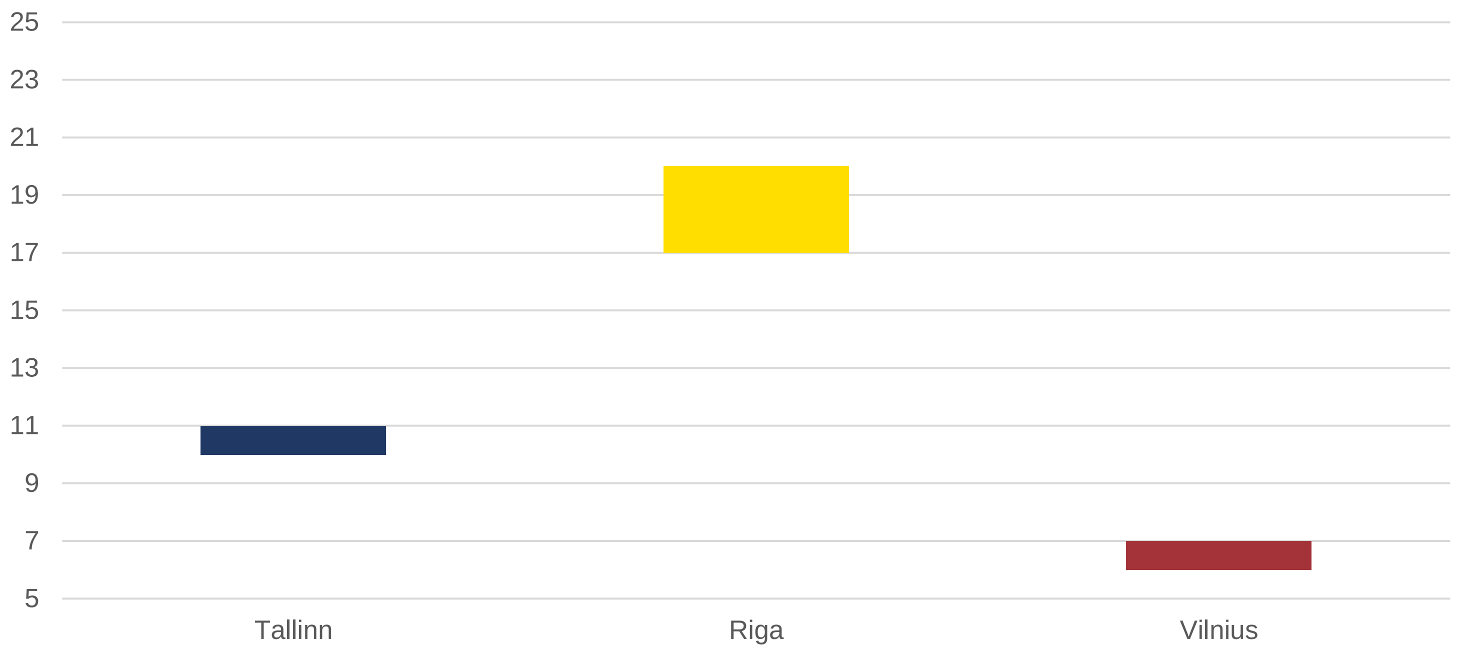
Over the next two years, new properties in Sporta 2 Quarter and Magdelēnas Quarter could be fully occupied before completion. Tenants are gradually filling up the recently opened Novira Plaza business centre, while the Satekle office centre and the Gustavs office centre are under construction as well," **says Solvita Gulbe, real estate agent at Latio.**

During the second half of 2024, three additional business centers — Yellowstone, Sand Offices, and PB Office—were completed, adding approximately 20,000 sqm to the market. The total increase in supply for 2024 amounted to around 40,000 sqm across six business centers in Vilnius.

In the second half of the year, construction began on five relatively small business centers: L34, Summos, the expansion of Eika BC, Paribio 34, and Sėlių 3A. These projects add a total of 13,500 sqm, bringing the total amount of space currently under construction to approximately 140,000 sqm. All these projects are expected to be completed between late 2025 and early 2026.

The limited influx of new supply has contributed to relatively stable vacancy rates, which currently stand at approximately 6.5% for Class A business centers and 9% and 11% for Class B1 and B2 centers, respectively. Current vacancy levels, coupled with the anticipated increase in supply from ongoing projects, are limiting significant price hikes. Class A rent remains steady at €16-20/m^2, while Class B1 rents are €12-16/m^2, and Class B2 rents are €8-11/m^2.

Vacancy in A-class office buildings



Source: Inreal, Latio, Uus Maa data

The main challenges in the market remain largely unchanged. These include a slowdown in the growth of foreign service centers, the slower expansion of domestic companies, and the widespread adoption of hybrid work models.

Additionally, increasing sustainability requirements and the broader availability of office space are putting pressure on older business centers. As tenants prioritize better pricing and conditions, owners of older buildings are facing growing pressure to undertake major renovations or consider converting these aging properties, particularly as the residential market shows signs of recovery.

WAREHOUSE AND INDUSTRIAL MARKET

ESTONIA

The warehouse and industrial real estate market in Estonia is facing challenges mainly due to oversupply. Construction costs have stabilised, resulting in high demand for new buildings. Speculative developers are now hesitant to initiate new projects without securing tenants or buyers in advance. Approximately 175 000 m^2 of warehouse and industrial buildings was put into use, which was similar to 2023 but higher than in previous years.

In 2025, larger buildings will predominantly be constructed for self-use. For example, Maru is developing a new production facility for Elcogen along Peterburi Road. Reportedly, this will be the largest building completed this year. Additionally, Itella and the Lithuanian food producer Bidfood are also constructing new buildings for themselves. Among the largest projects are also Pakendikeskus and Karl Storz, both expanding their existing facilities. Among more speculative developments, the largest is Bohman's Sinikivi Park (11,530 m²), which continues their three previous park developments. Favorte and Restate are consistently developing speculative real estate. Favorte is expected to complete three buildings this year with a total net floor area of 13 600 m², while Restate is set to deliver four buildings with a total net floor area exceeding 28 000 m².

For modern warehouse spaces, rental prices have remained around 6–7 €/m^2, although cheaper spaces with rental levels as low as 5,5 €/m^2 can be found. Demand is higher for newer and more modern spaces on the outskirts of Tallinn and in its immediate vicinity, where heated spaces with various features (such as cranes, loading platforms, ramps, good ventilation, and easy manoeuvrability) are preferred. Higher rental rates are seen in the stock-office segment, where prices outside Tallinn typically start at 6,5 €/m^2 and can reach up to 8,5 €/m^2, while in Tallinn, prices range from 8 to 10 €/m^2, even reaching up to 12 €/m^2 in newer buildings. Demand for these spaces has slightly decreased due to the large supply, as evidenced by the high vacancy rates in new developments. New buildings continue to have low vacancy rates, typically below 5%. This low vacancy is also reflected in existing stock-office spaces, with most buildings completed in recent years being 95-100% leased. However, due to an oversupply of speculative developments, we continue to see increase of vacancy rates in this segment as well.

LATVIA

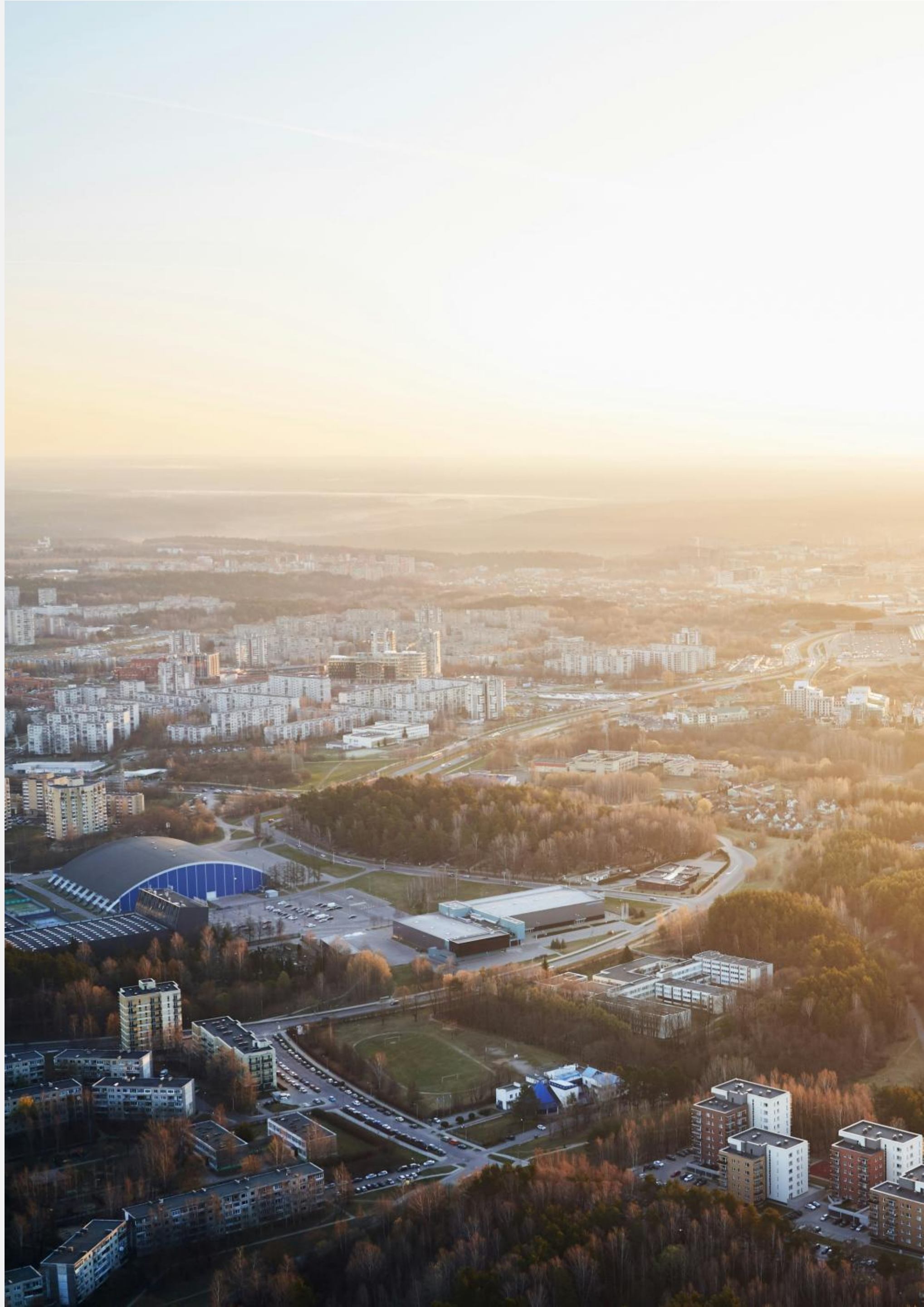
The industrial and manufacturing property sector faces a more complex landscape. Over the past year, demand has grown, especially for multifunctional facilities that combine warehouse, retail, and office spaces.

High-quality, ready-to-use spaces in prime locations are particularly sought after. The popularity of stock-office spaces, especially near arterial roads and residential areas, continues to rise, but supply remains insufficient.

Rising rents in the industrial segment are influenced by increasing construction costs and high EURIBOR rates, which hinder new investment projects. Companies seeking larger industrial spaces with long-term stability face escalating costs, making financial accessibility a decisive factor for market growth. The space requirements of manufacturing enterprises often surpass available options, particularly outside Riga.

Regional disparities persist. While Riga and its surrounding areas have the most developed commercial property markets, supply is notably limited elsewhere, particularly in the industrial segment.

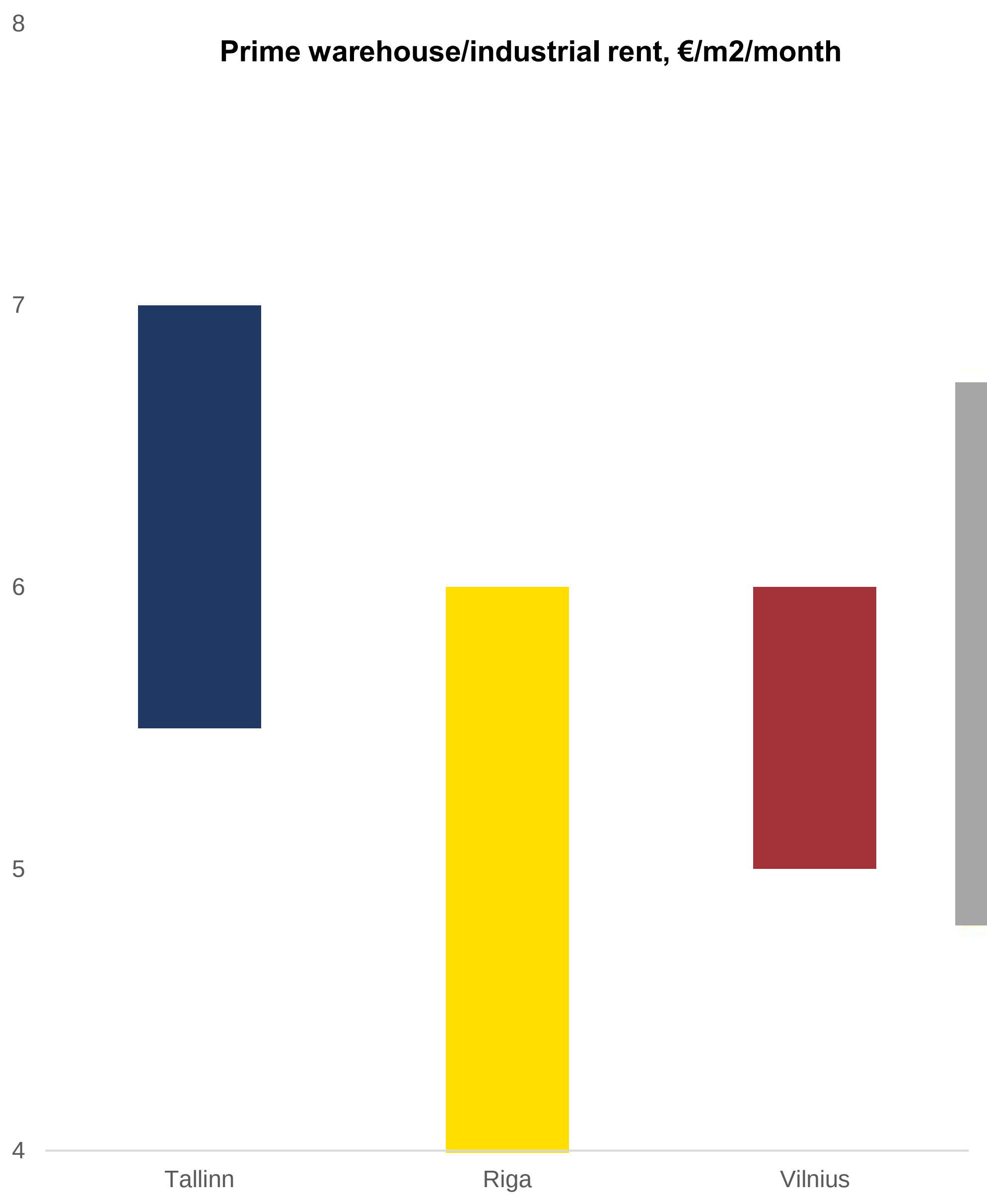
The most challenging conditions are in Latgale, where production facilities and warehouses often fail to meet modern business requirements. Reluctant bank lending further restricts investment in the region. Vidzeme and Kurzeme offer slightly better conditions, but market dynamics still lag significantly behind Riga.



LITHUANIA

The industrial segment is experiencing a slight increase in vacancy rates, rising to 4-5% by the end of 2024 compared to 0-2% during the period up to mid-2023. Rental prices remain relatively stable, with modern warehouses at 5-6 €/m², older warehouses at 3-4.5 €/m², and stock-offices at 8-12 €/m². The slightly higher vacancies have created some room for price negotiations.

While geopolitical risks have become somewhat more familiar, the slower growth of major trade partners and shifts in US politics present new challenges. Older premises face similar difficulties as those in the office sector, with tenants increasingly favoring modern warehouses. This trend adds additional pressure on rent rates, a factor that could become even more critical as current lease agreements expire. According to an annual survey by Verslo Žinios, expectations for both higher supply and demand increased by the end of 2024. However, market participants anticipate that vacancy rates will either remain stable or rise slightly. There was no clear consensus on how prices might shift moving forward.



Source: Inreal, Latio, Uus Maa data

PRIMARY RESIDENTIAL MARKET

Latio UUS MAA in real

TALLIN

Despite the economic downturn and declining consumer confidence, the number of new development sales grew by approximately 15% in 2024.

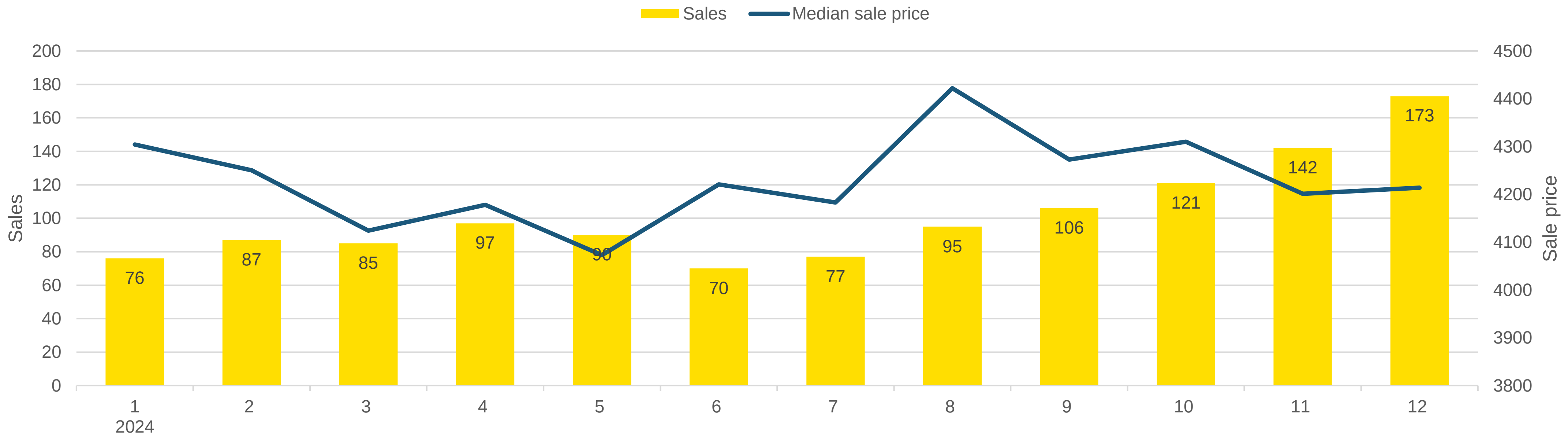
This was driven by the rapid decline in interest rates and the stability of real estate prices, which brought buyers back to the market. While more than 500 new development apartments were sold in the first half of 2024, sales exceeded 700 units in the second half, marking an increase of over 40%. The results of the last months of the year were the best since the first half of 2022, reaching as many as 173 apartments sold in December.

Despite the increase in activity, Tallinn's new development market remains a buyer's market.

Due to high supply, sales prices have not risen, and the average buyer remains price-sensitive, leading to slower sales in higher-end segments. Sales prices remain at late 2022 levels, hovering around €4,200/m². Inventory levels are still high but decreased by 100 units at the end of the year, reaching 2,650 available apartments. The absorption rate of inventory has improved, indicating better opportunities for sellers to raise prices in 2025.

Tallinn primary market

Source: Uus Maa data



RIGA

The highest number of transactions in Riga occurred in the second half of the year, particularly during the autumn months. This trend is driven by the end of the holiday season and the return to daily routines when transactions postponed over the summer are finalized. In August, the number of sales advertisements reached the second-highest level of the year, with 5,395 listings. This figure declined in the following months, reflecting the transaction momentum illustrated in the chart on the right.

Rental activity also fluctuated during this period. In August, approximately 2,500 apartments were available for rent, rising to around 3,000 in September, as the autumn season prompts residents to list their rental properties in response to the influx of people moving to the city for work or study.

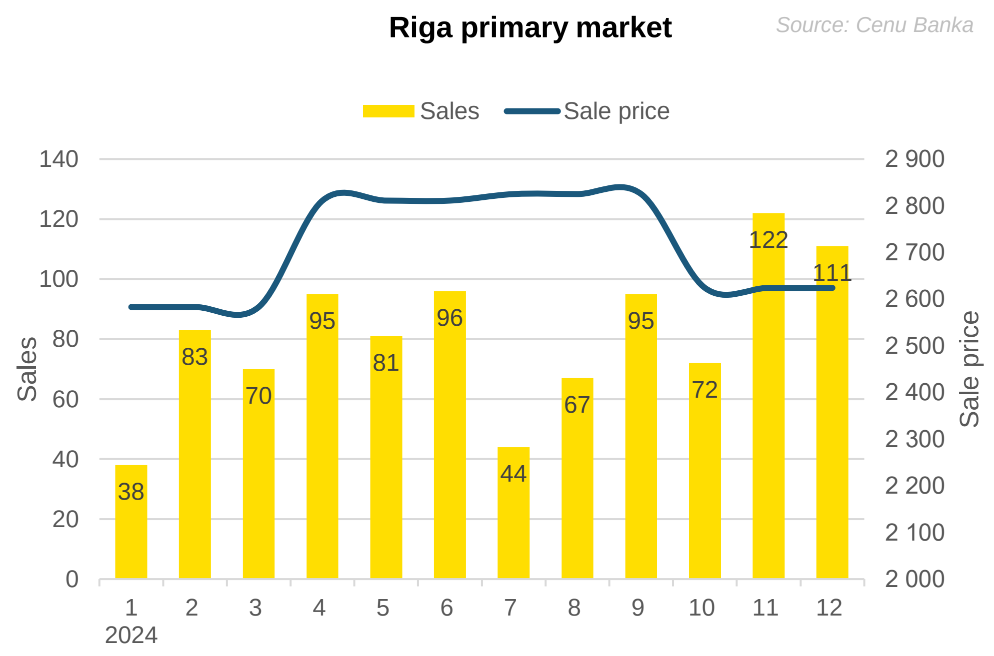
Overall, 2024 has been more active in terms of transactions compared to the previous year, particularly towards the end of the year. In 2023, transaction volumes declined across all neighbourhoods and apartment types compared to the corresponding periods of the previous year. However, in 2024, transaction numbers have improved, surpassing those of 2023. The only exceptions are a marginal decline in transactions for apartments in nonrenovated historical buildings and a slightly more pronounced decrease in transactions for new developments, attributed to limited supply and relatively high prices.

Supply in the new projects segment was almost constant throughout the year, fluctuating between 1,350 and 1,600 available apartments each month. Accordingly, apartments in new projects accounted for around a third of all apartment listings on a constant monthly basis.

At the beginning of the year, the selling price of new project listings on the first market was around €2,770/m^2, while in actual transactions it was around €2,510/m^2. Secondary market prices for new projects in the neighbourhoods were around the €2,000/m^2 mark, but higher in the centre – around €2,580/m^2. Overall, average prices in listings have not changed much over the year, staying around €2800/m^2 all the time, but in transactions they have risen to around €2,700/m^2, narrowing the gap between asked and actual prices.

In November, the average price per square metre was €2,775 in the listings and €2,750 in the transactions, with the gap really narrowing to a minimum. In October, for example, transaction prices were even higher than advertised prices. At the end of the year, the price per square metre in the secondary market for new projects in the neighbourhoods was €2,060, while in the centre it rose to €3,010.

It is paradoxical that the gap between prices in advertisements and actual transactions has narrowed, as there is a very large gap between real and transaction prices, with around 50% of homes being sold for less than €35,000 and some for as little as €1, which are most likely donations.



VILNIUS

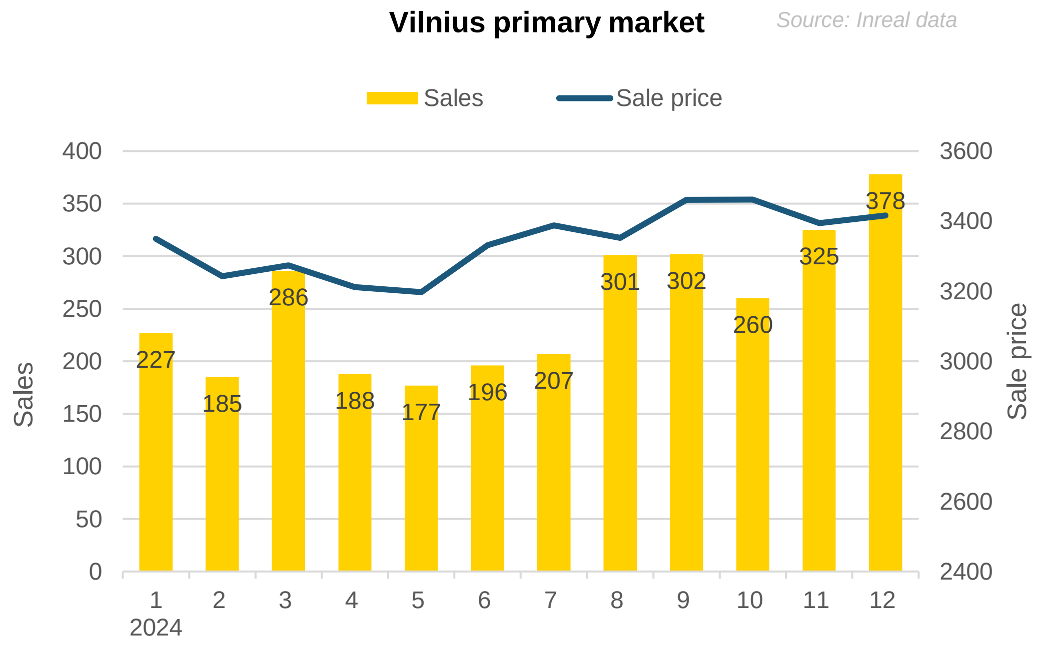
A total of 1,773 apartment sales were recorded in Vilnius' primary residential market, marking a 41% increase compared to the first half of the year (1,259 sales) and a 68% increase compared to the same period in 2023 (1,052 sales). While signs of recovery in the primary market had been noticeable since mid-2022, it was late 2024 that provided significant momentum.

Despite 1,901 newly added apartments to the market, the total supply level decreased by approximately 3%. This decline can be attributed to the removal of several hundred apartments from monitoring, which may have been indirectly reflected in the sales figures.

Buyers showed the most interest in two-room apartments, which accounted for slightly more than half of all sales. Three-room apartments followed with 29% of sales, while one-room apartments represented 14%, and four-room units accounted for just over 6%.

Approximately 54% of the transactions occurred in the economy class segment, with 43% in the middle-class segment. A small percentage of sales took place in the luxury class, and non-residential units (such as lofts and studios) contributed to a modest number of transactions. The average listing prices for apartments sold over the past six months ranged between €3,350 and €3,450 per square meter.

The surge in market activity was primarily driven by declining interest rates, stable housing prices, and rising incomes. Sustained demand growth is expected, particularly among buyers who were previously unable to afford new apartments. However, ongoing economic uncertainties could pose a risk to the current upward trend. Another issue might be a potential lack of supply. While current inventory levels appear sufficient, the slow rate of new building permits could deplete available stock, leading to price increases for the remaining supply. Both factors could ultimately result in a new period of market stagnation.



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