



Baltics Office Market response to Covid-19

Toms Andersons

Director | Research & Advisory
Toms.Andersons@colliers.lv

Agija Verdina

Associate Director | Research & Advisory
Agija.Verdina@colliers.lv

Maksim Golovko

Partner | Head of Research
Maksim.Golovko@colliers.com

Diana Lebedenko

Senior Analyst | Research & Advisory
Diana.Lebedenko@colliers.com

The outbreak of COVID-19 has made an unprecedented impact on the economy and society on a global level. To better understand how the office market has been affected so far, at the beginning of April 2020, Colliers has surveyed top decisions makers in the Baltic real estate industry. Key players of both landlord and tenant sides together have a total of 1,492,000 sqm either under management or occupation across the Baltic countries.

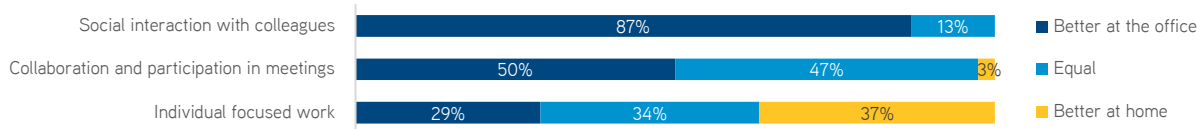


ONGOING OFFICE SECTOR TRANSFORMATION

The COVID-19 outbreak and the subsequent quarantine starting from March has resulted in the largest ever test of work from home in terms of its scope and length. Colliers Baltics survey showed that most tenants allowed employees to work remotely already before the pandemic and this opportunity was restricted to only 11% of respondents. Looking ahead, majority of occupiers, to a different extent, intend to allow employees to work from home once the situation stabilizes.

Overall results show that respondents prefer to collaborate and socialize in the office. Thus, it is expected that majority of professionals will be quite eager to return to the office environment after the end of quarantine. Notably, even 87% of those surveyed prefer the office for social interaction with colleagues. Regarding collaboration and participation in meetings, 50% of respondents prefer the office, while 47% gave equal rating to the office and home. This reveals tangible benefits of modern technologies, which strongly facilitate and guarantee business continuity in these challenging times. As to remote work, 37% of respondents preferred individual focused work at home.

Tenants Preference of Workplace

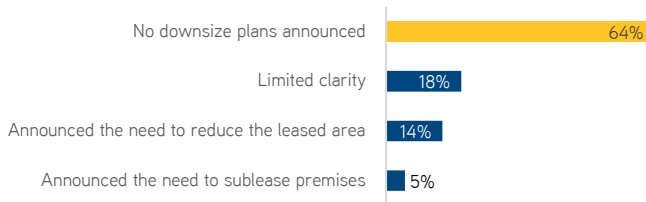


LANDLORDS' SENTIMENTS VS TENANTS' SENTIMENTS

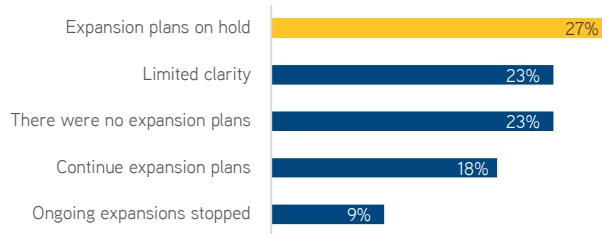
In face of the current situation, office occupiers seem to be quite robust. Currently, only the smallest, 26%, part of tenants surveyed reported a strong negative impact that quarantine made on the business. Among the companies' key concerns were a decrease in sales/revenue, a decrease in demand, as well as clients either cancelling or putting on hold processes. On the other hand, some of occupiers did not feel any negative impact or even experienced a positive influence in terms of new opportunities or rising number of enquiries. So far, 58% of tenants do not plan any changes in their workplace arrangement after quarantine and 26% of tenants plan to review office space for reduction to a smaller or larger extent.

As to landlords, most of them did not have downsize plans announced by tenants. Regarding expansion, 27% of landlords indicated that tenant expansion plans were put on hold, 18% - that expansion plans are continued, and only 9% - that ongoing expansion processes were stopped. Likewise, landlords plan to complete most projects currently under development. As to new projects, 23% of landlords stated that new projects will be put on hold or initiated once the situation stabilizes. To tackle the current situation and minimize internal costs for 2020, the most common measures are: preventive actions to eliminate the infection spread in the building, and review of building operational costs, finding alternative suppliers. Besides, landlords recognized retail tenants being hit the hardest, and on the contrary pharmacy and healthcare tenants being the strongest this year.

Landlords' Information on Downsize Plans of Tenants



Landlords' Information on Expansion Plans of Tenants

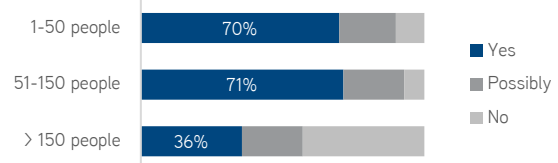


/Most tenants (42%) expect their business rebound until the end of 2020./

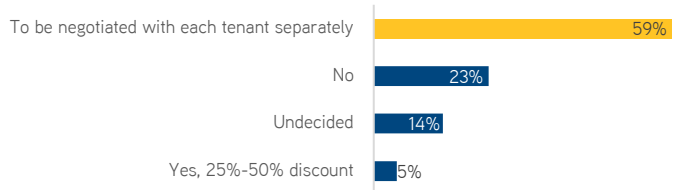
Regarding rent discounts, 59% of landlords intend to negotiate with each tenant separately, while 23% stated they do not plan to introduce any. From the tenants' perspective, 58% plan to ask for rent reduction due to quarantine. This response dominated among small and medium-sized companies. Sector-wise, among

media/PR/marketing, finance/banking/insurance companies, and the ICT sector. Meanwhile, 21% of tenants are not going to ask for rent reduction, predominantly – larger companies and the GBS sector.

Tenants Asking Rent Reduction by Number of Employees



Landlords' Plans on Rent Discounts



OUTLOOK

The office market activity is predominantly expected from larger corporate occupiers, which form their real estate strategies around

strategic business plans. It is likely that leasing potential will remain low among small and medium-sized enterprises in the frame of 2020. In the period of the next 12 months, most landlords expect an increase in vacancy rates in all classes of business centre, together with a small decrease in rent rates. At the same time, most tenants and landlords are

hoping for their business rebound and the office leasing market recovery till the end of 2020, indicating a quite optimistic sentiment of both sides, despite the uncertainty of the current situation.

EMEA/GLOBAL TRENDS

As Colliers has seen in APAC, the strategies implemented by landlords in EMEA are to safeguard their portfolio values in the form of leasing concessions. For those engaged in pre-leasing/development projects, many have acted pragmatically to delay completion dates and fit-out projects or defer start dates until normal activity and safer conditions resume.

Lease deals which were close to completion, or had completed most of the due diligence process, are still expected to go ahead this year, especially for larger companies. Deals that were in their earliest conceptions are now postponed, with many companies going back to the "drawing board" to reassess their future requirements.

an office can function with a 2metre distance perimeter placed between workers in order to get ready for a post-quarantine regime.

Furthermore, Colliers is seeing the first signs of how the pandemic has influenced office design. Colliers' Workplace Solutions teams are working on implementing office designs utilising "distance calculators" to ensure

With the emerging gig economy, flexibility will be a dominating aspect of future trends in office leases, layout and HR strategies.

Issues of organizing remote work experienced in locations like India may positively affect successfully performing GBS centres in the rest of the world, including CEE countries and the Baltic States.

SUMMARY

- Most occupiers, to a different extent, intend to allow employees to work remotely once the situation stabilizes. Nevertheless, the Colliers Baltics survey found that professionals prefer to collaborate and socialize in the office environment. Thus, it is expected that they will eagerly return to offices after the end of quarantine.
- Landlords intend to complete most projects currently under development. As to new projects, 23% of surveyed landlords tend to put them on hold or wait for the situation stabilization to move forward.

- Most occupiers intend to maintain the current size of their office premises, with no downsize plans announced to landlords. Regarding expansion, 27% of occupiers tend to adopt a wait-and-see approach, putting expansion plans on hold, 18% continue expansion plans, and only 9% had ongoing expansion processes stopped.
- Almost 60% of tenants plan to ask for rent reduction due to quarantine. This intent dominates among small and medium-sized enterprises, while among large enterprises - only 36% are going to ask for rent reduction.

- Most landlords and tenants have a quite optimistic outlook and hope for the office leasing market recovery and business rebound until the end of 2020.
- Over the period of the next 12 months, a small decrease in rent rates and an increase in vacancy rates is expected in the Baltic office market, as indicated by surveyed landlords.