

Azerbaijan



Baku Real Estate Market Q3 2025 Report

The Baku office real estate market in Q3 2025 continued to demonstrate robust demand, particularly for Grade A and B+ modern spaces in central and strategically developing areas. Market activity was underpinned by strong macroeconomic drivers, including sustained non-oil sector growth, foreign direct investment, and ongoing large-scale infrastructure and urban development projects like the "White City" (Ağ Şəhər) initiative. Supply remains a key factor, with a persistent flight-to-quality trend tightening vacancy rates for premium assets while older stock faces increasing pressure. Rental rates for prime office space showed moderate to strong upward pressure.

1. Market Dynamics and Economic Context

A. Macroeconomic Influence

Baku's office market is highly sensitive to the nation's economic health. In the first half of 2025, Azerbaijan's economic performance, driven by growth in the non-oil sector and government investment (especially in liberated territories), contributed to increased business confidence. This translates directly into demand for high-quality corporate real estate.

- * **Business Confidence:** The non-oil sector's expansion, particularly in ICT, finance, and professional services, fueled the need for modern office accommodations that meet international standards.

- * **Urbanization and Development:** Ongoing modernization and urbanization efforts in Baku, including infrastructure upgrades and new commercial districts, continued to shape tenant preferences, driving them toward well-connected, high-specification locations. Projects like Port Baku and White City remained key centers for new office development and investment focus.

B. Supply and New Development

New supply in the central business district (CBD) remained relatively constrained, which has helped to support rental growth for existing Grade A stock. While some older buildings underwent renovation to capture rising demand, the overall trend is a preference for new, energy-efficient, and technologically advanced spaces.

- * **Flight-to-Quality:** The prevailing trend saw corporate tenants relocating from older, less efficient buildings (often Grade C) to modern, higher-specification spaces (Grade A and B+). This is primarily driven by companies seeking to enhance their corporate image, improve employee well-being, and reduce operational costs associated with outdated infrastructure.

- * **Sub-Market Focus:** Areas associated with major development projects, such as Baku White City, continued to be the main source of new, purpose-built, high-quality office space, attracting significant pre-leasing activity from international and large domestic firms.

2. Occupancy and Rental Rate Analysis

A. Vacancy Rates

Vacancy rates for prime Grade A office space in the CBD and new commercial hubs remained low and stable through Q3 2025, likely remaining in the single digits (e.g., 5-10%). This tightness reflects the strong demand for the best-in-class product and the limited immediate supply pipeline in these preferred areas.

- * In contrast, vacancy in Grade B and C buildings, particularly those outside of prime locations or lacking modern amenities, was expected to be higher, creating a growing segmentation in the market.

B. Rental Rates

The robust competition for limited prime space continued to exert upward pressure on rental rates in Q3 2025.

Office Grade	Typical Q3 2025 Rental Range (USD/sqm/month)	Trend (vs. Q2 2025)
Grade A (Prime)	\$25 - \$35+	Moderate Increase
Grade B+	\$18 - \$25	Stable to Moderate Increase
Grade B/C	\$10 - \$18	Stable

* Prime Rental Growth: Prime rents are driven by demand from multinational corporations (MNCs), major financial institutions, and the expanding energy sector. Properties in key locations like the Baku White City Business Centre saw rents at the upper end of the spectrum, with prices for specific units advertised around \$28/sqm/month or higher, often including operational costs.

* Flexible Office Space: The demand for flexible workspace (serviced offices and coworking) continued to grow, offering tenants speed, scalability, and lower upfront capital expenditure. Providers like Regus reported pricing for private offices starting around AZN 445 (approx. \$260) per person per month, indicating a healthy niche market.

3. Key Market Trends

A. Sustainability and ESG Focus

As Azerbaijan integrates further into the global economy, Environmental, Social, and Governance (ESG) considerations have become more prominent. Q3 2025 saw increased attention to "green" buildings. Tenants, particularly MNCs, favored offices with international certifications for sustainability and energy efficiency, pushing developers to adopt higher construction standards.

B. Hybrid Work Impact

While the adoption of hybrid work models in Baku is not as widespread as in Western markets, it is influencing space utilization. Companies are seeking more collaborative spaces within their offices and higher-quality amenities to encourage employees to return to the workplace. This includes better air quality, wellness facilities, and flexible internal layouts, driving the demand for custom-fitted, modern offices.

C. Investment Activity

The commercial real estate sector, including offices, continued to attract investment interest, both domestically and internationally. Investors focused on income-producing, premium assets in prime locations, viewing them as a stable, long-term hedge against inflation. General fixed capital investments in Azerbaijan's non-oil and gas sector showed growth, indicating a positive outlook for future commercial development, which will eventually include the office segment.

Conclusion and Outlook

The Baku office market in Q3 2025 was characterized by bifurcation, with strong performance and tightening conditions for modern, high-grade stock, while older assets struggled to compete. The market remains fundamentally healthy, supported by economic growth and a clear preference among tenants for quality and location. Looking ahead, the market is poised for continued stability with a modest upward trajectory in prime rents, contingent on a steady economic environment and the successful delivery of new, high-quality commercial projects.

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