

Azerbaijan



Baku Commercial Real Estate Market Overview

Quarterly Report | Office, Retail & Industrial | Q4 2025 - Q1 2026

Executive Summary

Baku's commercial real estate market continues to demonstrate resilience and gradual maturation, supported by stable macroeconomic conditions, urban population growth, and ongoing infrastructure investment.

As of the latest quarter, the market is characterized by:

- Strong demand for high-quality office space
- Stable retail performance driven by consumption growth
- Undersupplied but high-potential industrial and logistics sector
- Attractive high single-digit yields across all asset classes

Compared to global benchmarks, Baku remains a high-yield market, offering investors a 300-600 basis point premium over core European assets, while showing early signs of institutionalization.

Macroeconomic Context

Azerbaijan's economy expanded modestly in 2025, supported by:

- Continued energy sector revenues
- Growth in non-oil sectors
- Expanding trade and transport corridors

Retail turnover and industrial output both increased, reinforcing demand across commercial real estate sectors. While growth remains moderate, the macro backdrop supports steady—not cyclical—real estate expansion.

Office Market

Market Overview

The office sector remains the most developed and liquid segment of Baku's commercial property market. Demand is driven by:

- Energy and government-related entities
- Financial services and professional firms
- International occupiers

Modern Grade A supply remains limited, particularly in central business districts, resulting in high occupancy levels in prime buildings and sustained tenant demand.

Rents & Occupancy

- Prime (Class A): approx. \$25-30 per sqm/month
- Secondary (Class B): approx. \$10-18 per sqm/month
- Occupancy: up to 95-100% in top-tier assets

Yields & Investment Metrics

- Prime yields: 7.0% - 8.5%
- Core trophy assets: as low as ~6.5%-7%
- Secondary assets: 8.5% - 10%

This implies:

- Income multiples: ~12x - 15x
- Cap rate premium vs developed markets: ~300-500 bps

Outlook

The prime office segment is expected to experience mild yield compression, driven by limited supply and continued occupier demand. Secondary stock will remain income-driven with higher leasing risk.

Retail Market

Market Overview

Retail real estate in Baku is supported by:

- Growing consumer spending
- Urban population concentration
- Recovery in tourism and leisure activity

The market is evolving toward modern, experience-driven retail formats, particularly within mixed-use developments.

Key Trends

- Increasing share of F&B, entertainment, and lifestyle tenants
- Gradual impact of e-commerce on tenant demand
- Strong performance in prime malls vs weaker secondary locations

Yields & Investment Metrics

- Prime retail (malls/high street): 7.5% - 9.5%
- Secondary retail: 9% - 11%

Retail assets may reach:

- Up to 8-12% yields depending on tenant quality and location

Lease structures tend to be shorter than in mature markets, contributing to:

- Higher re-leasing risk
- Higher yield expectations

Outlook

Prime retail assets are expected to deliver stable income performance, while secondary retail presents value-add and repositioning opportunities.

Industrial & Logistics Market

Market Overview

The industrial and logistics sector in Baku remains underdeveloped but strategically important, supported by:

- Growth in industrial output
- Expansion of regional trade corridors (Middle Corridor)
- Increasing demand for logistics and distribution infrastructure

Modern warehouse and logistics facilities remain limited, creating supply-demand imbalance in favor of landlords.

Market Characteristics

- Dominated by owner-occupied and legacy assets
- Limited availability of Grade A logistics space
- Growing interest in build-to-suit developments

Yields & Investment Metrics

- Prime logistics: 7% - 9%
- Industrial assets: 8% - 10%
- Secondary / older stock: 9% - 11%+

Special economic zones and logistics hubs may offer yields above 10%, reflecting:

- Illiquidity premium
- Infrastructure risk
- Early-stage market conditions

Outlook

The industrial sector presents the strongest medium-term upside, with potential for yield compression as institutional capital enters the market.

Investment Market & Pricing

Capital Values & Income Multiples

Commercial real estate in Baku typically trades at:

- 10x - 14x income multiples, depending on asset quality

Comparison:

- London: 20-30x
- Dubai: 12-18x
- Istanbul: 10-14x

Market Positioning

Baku sits between:

- Core markets (low yield, high liquidity)
- Frontier markets (high yield, higher risk)

This positioning makes it attractive for:

- Income-focused investors
- Opportunistic and value-add strategies

Risk & Return Profile

Key Risks

- Economic sensitivity to energy markets
- Currency exposure
- Limited liquidity and exit depth
- Tenant concentration in certain sectors

Investment Case

Despite these risks, investors benefit from:

- High income returns (7-10%+)
- Yield premium vs global markets
- Potential for capital appreciation and yield compression

Strategic Outlook (2026-2028)

Sector Outlook

Office Gradual yield compression

Retail Stable, bifurcated performance

Industrial Strongest growth potential

Key Catalysts

- Infrastructure and transport investments
- Expansion of trade corridors
- Continued urban development (Baku Master Plan)
- Entry of institutional investors

Conclusion

Baku's commercial real estate market is transitioning toward a more institutional, quality-driven environment, while still offering frontier-market returns.

- The office sector remains the most stable and liquid
- Retail continues to evolve with consumer trends
- Industrial/logistics offers the most compelling long-term upside

Overall, Baku presents a compelling opportunity for investors seeking high income yields with medium-term capital growth potential, particularly in prime and well-located assets.

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