

## Azerbaijan



# Baku Commercial Real Estate Market Overview

## Quarterly Report | Office, Retail & Industrial | Q1 2026

### Executive Summary

Baku's commercial real estate market continues to show stable performance in early 2026, maintaining its position as a high-yield emerging market with gradual institutional development.

As of Q1 2026, key market characteristics include:

- Sustained demand for prime office space, particularly from corporates and international tenants
  - Resilient retail sector, supported by stable consumption and footfall recovery
  - Structural undersupply in industrial & logistics real estate
  - Continued high single-digit yields, with early signs of compression in prime assets
- Baku remains attractively priced relative to global markets, offering a ~300-600 bps yield premium over core European assets, while gradually improving transparency and investor confidence.

### Macroeconomic Context

In early 2026, Azerbaijan's economy continues to expand at a moderate but stable pace, supported by:

- Ongoing revenues from the energy sector
  - Continued growth in non-oil industries
  - Strengthening regional trade routes, including the Middle Corridor
- Domestic consumption remains stable, supporting retail performance, while industrial output and logistics demand continue to grow.
- The macroeconomic environment supports steady, income-driven real estate performance, rather than rapid cyclical expansion.

### Office Market

#### Market Overview

The office sector remains the most mature and liquid segment of the market.

Demand continues to be driven by:

- Energy and quasi-government entities
  - Financial and professional services firms
  - International companies entering or expanding in Baku
- Supply of Grade A office space remains constrained, particularly in central locations.

#### Rents & Occupancy

- Prime (Class A): ~\$25-30 per sqm/month (stable)
  - Secondary (Class B): ~\$10-18 per sqm/month
  - Occupancy: up to 95-100% in prime assets
- Prime assets continue to operate near full occupancy, with limited immediate new supply.

#### Yields & Investment Metrics

- Prime yields: 7.0% - 8.25% (slight compression trend)
  - Core assets: ~6.5% - 7%
  - Secondary assets: 8.5% - 10%
- Implications:
- Income multiples: ~12x - 15x
  - Yield premium vs developed markets remains elevated

### Outlook

The prime office segment is expected to experience gradual yield compression, supported by:

- Limited new supply
  - Stable occupier demand
- Secondary assets will remain yield-driven, with higher leasing and repositioning risk.

### Retail Market

#### Market Overview

Retail continues to demonstrate stable performance in Q1 2026, supported by:

- Consistent consumer spending
  - Urban population concentration
  - Gradual normalization of tourism and leisure activity
- The market continues shifting toward experience-driven retail formats.

## Key Trends

- Expansion of F&B, entertainment, and lifestyle tenants
- Increasing role of omnichannel retail
- Clear performance gap between prime and secondary assets

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## Yields & Investment Metrics

- Prime retail: 7.5% - 9.25%
  - Secondary retail: 9% - 11%
- Returns remain attractive due to:
- Shorter lease terms
  - Higher tenant turnover risk

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## Outlook

- Prime retail: stable income performance
  - Secondary retail: value-add opportunities through repositioning
- The sector remains bifurcated, with quality and location driving performance.

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## Industrial & Logistics Market

### Market Overview

The industrial and logistics sector remains the least developed but fastest-growing segment.

Growth is driven by:

- Expansion of trade corridors
  - Increasing logistics demand
  - Industrial diversification
- Supply of modern logistics space remains significantly constrained.

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## Market Characteristics

- Dominated by owner-occupied assets
- Limited availability of Grade A warehouses
- Growing interest in build-to-suit developments

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## Yields & Investment Metrics

- Prime logistics: 7% - 8.75%
  - Industrial: 8% - 10%
  - Secondary assets: 9% - 11%+
- Higher yields reflect:
- Market immaturity
  - Liquidity constraints
  - Infrastructure-related risks

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## Outlook

Industrial & logistics remains the strongest growth opportunity in the market.

Medium-term expectations include:

- Yield compression
- Entry of institutional investors
- Development of modern logistics stock

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## Investment Market & Pricing

### Capital Values & Multiples

Assets in Baku continue to trade at:

- ~10x - 14x income multiples
- Global comparison:
- London: 20-30x
  - Dubai: 12-18x
  - Istanbul: 10-14x

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## Market Positioning

Baku remains positioned between:

- Core markets (low yield, high liquidity)
  - Frontier markets (high yield, higher risk)
- This positioning supports:

- Income-focused strategies
- Value-add and opportunistic investments

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#### Risk & Return Profile

##### Key Risks

- Dependence on energy sector dynamics
- Currency exposure
- Limited market liquidity
- Tenant concentration risks

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#### Investment Case

Despite risks, the market offers:

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

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#### Strategic Outlook (2026-2028)

Sector	Outlook
Office	Gradual yield compression
Retail	Stable, bifurcated performance
Industrial	Strongest growth potential

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#### Key Catalysts

- Infrastructure and transport investment
- Expansion of regional trade corridors
- Continued urban development
- Increasing institutional investor interest

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#### Conclusion

As of Q1 2026, Baku's commercial real estate market continues its transition toward a more institutional and quality-driven structure.

- Office remains the most stable and liquid sector
- Retail is evolving with consumer behavior
- Industrial/logistics offers the strongest long-term upside

Overall, Baku remains an attractive market for investors seeking high yields combined with medium-term capital growth potential, particularly in prime, well-located assets.

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