

Q1 2024

Office Market

Russia | Moscow

Key market indicators

Source: Nikoliers

	2022	2023	Q1 2024	2024F
Total office stock, million sq m	19.8	20.0	20.1	20.7
Class A	5.2	5.4	5.5	6.0
Class B+/-	14.6	14.6	14.6	14.7
Completions, thousand sq m	339.4	279.6	45.2	625
Class A	259.2	240.7	-	545
Class B+/-	80.2	38.9	45.2	80
Office take-up, thousand sq m	1,292	1,688	266	1,508
Vacancy rate, %	9.1	6.6	6.9	6.3
Class A	12.7	11.0	10.2	10.0
Class B+/-	7.8	5.0	6.0	5.5
Weighted average rental rate*, RUB/sq m/year	21,203	22,065	22,048	22,240
Class A	26,821	26,193	25,894	26,586
Class B+/-	17,881	18,263	18,983	18,279

*Excluding operational expenses, utility bills and VAT (20%).

Main results

After a wave of increased interest in the office sector last year due to the influence of pent-up demand, a new structure of demand is taking shape. There is still interest in buying buildings and office units, and quality office premises ready for move-in are in high demand.

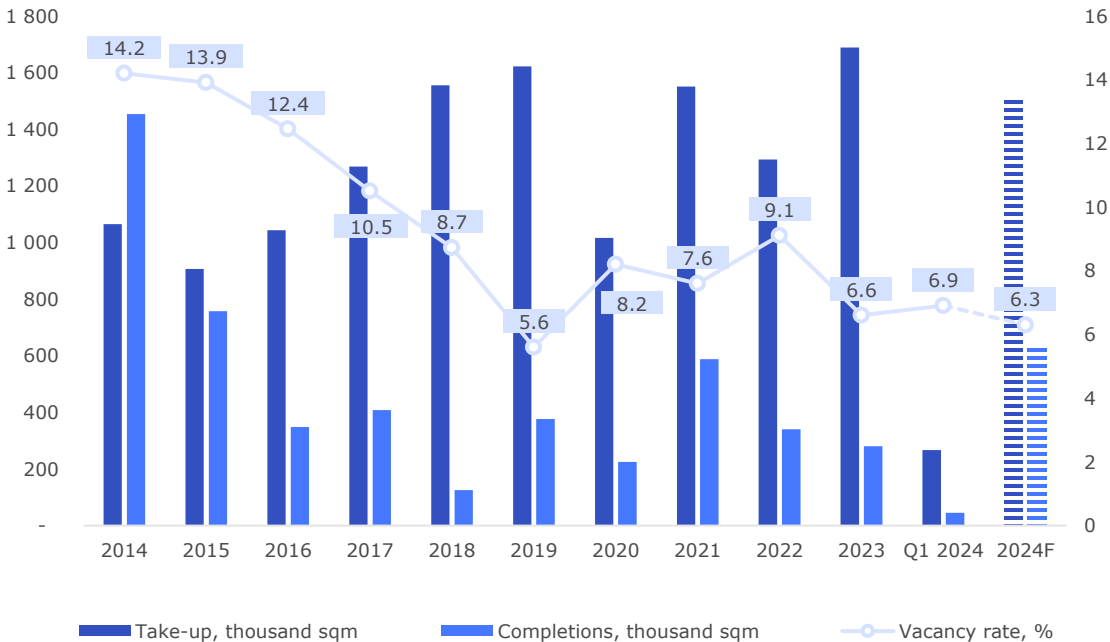
The total purchased and leased space in the initial

three months is noticeably lower than for the same period of the previous year.

Meanwhile, we do not expect a serious correction in the volume of transactions at the end of the year, and in the second half of 2024 we anticipate business activity to brisk up and a number of key transactions to be concluded.

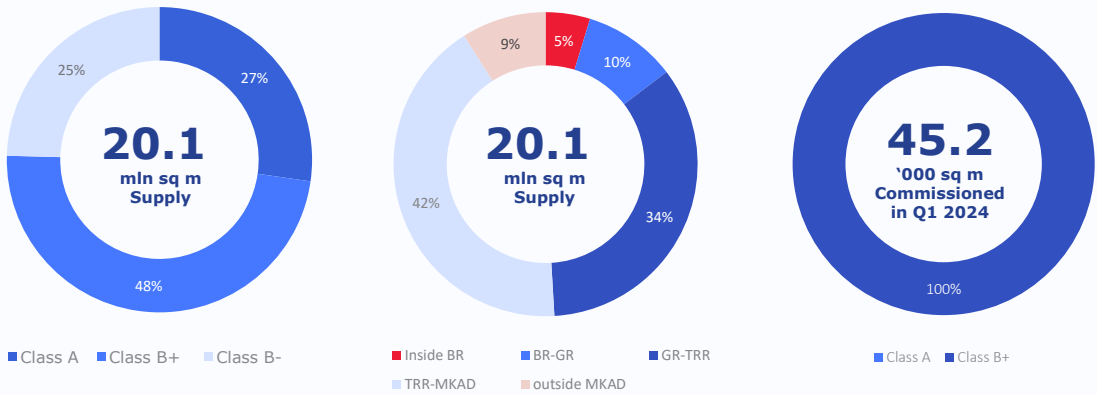
Key market indicators, Class A and B+/-

Source: Nikoliers



Supply

Breakdown of existing and new office space supply by classes and submarkets, %
Source: Nikoliers



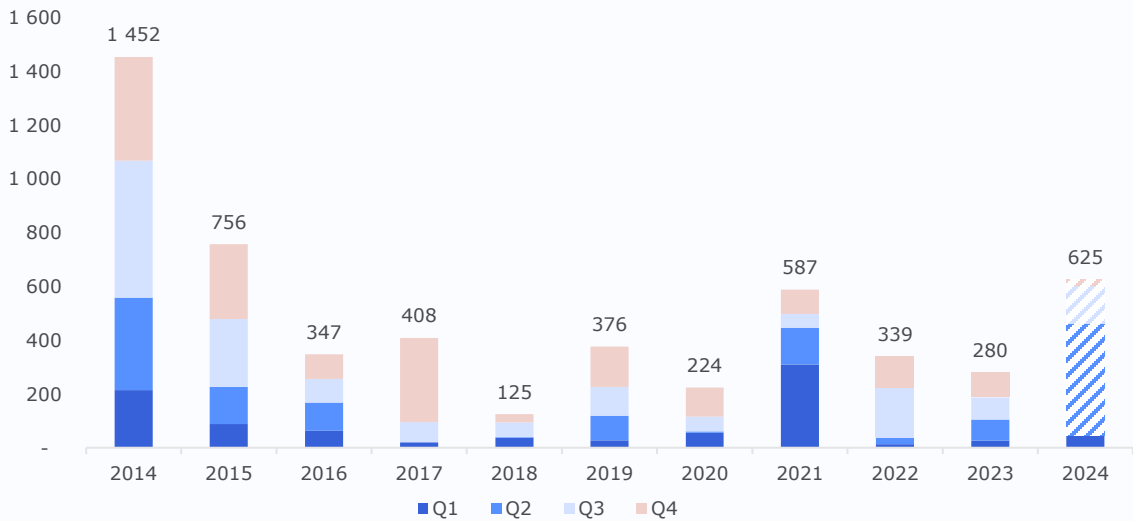
In Q1 2024, Park of Legends MUC with an office space of 45,200 sq m was commissioned after renovation.

Due to the low construction volume in the previous two years, the area of commissioned offices during the initial three months of this year is 68% higher than during the same period last year and more than twice as high as in the first quarter of 2022.

After the commissioning plans have been adjusted, we expect another 580,000 sq m of new office space or close to this amount to hit the market till the end of the year. This will be the highest figure of completed construction volumes in the Moscow office market for nine years. This is due to the completion of large projects launched several years ago with 36% of this amount falling to the share of the office component in Moscow Towers MUC.

It is not the first year that office development has been supported by residential developers, their main incentive still being the programme of benefits for creating new places of employment. This year 29% of office construction is represented by the projects built within this programme. Last year about 18% of new construction volume was represented by such projects.

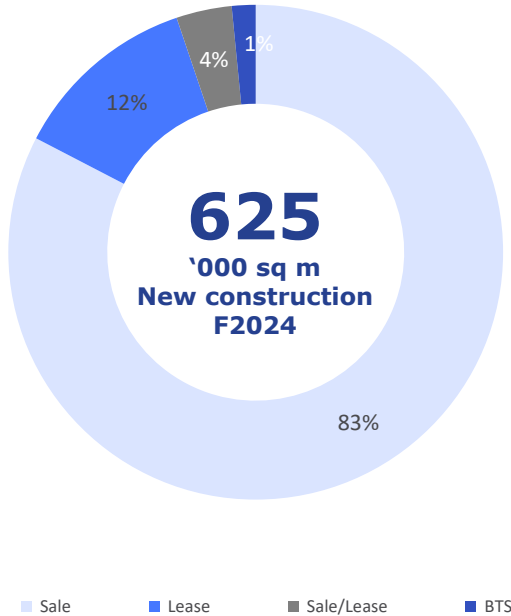
Office completions
Source: Nikoliers



New construction of offices in 2024

New construction: ways of project monetization

Source: Nikoliers

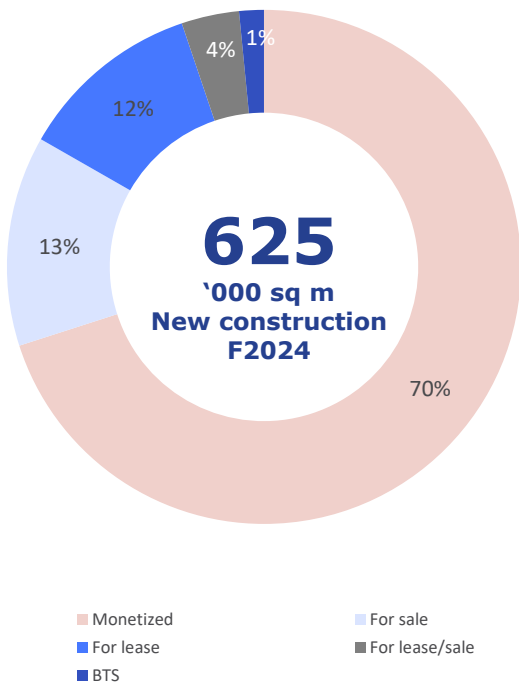


A slump in the share of space offered for lease is due, on the one hand, to the slowdown in long-term speculative development and a shift to short-term business planning, but on the other hand – to the growing activity of residential developers in the office segment. The sale of spaces, unlike their letting, allows the developer to raise funds at the construction stage and to shorten the period of expensive project financing, as well as to quickly exit non-core assets thus minimizing the risks.

Last year 92,000 sq m of new office space was built (33% of the total construction volume for the previous year). In 2024, built-to-let office space amounts to 99,000 sq m (including units available both for rent and for sale), which is only 16% of the total construction amount.

New construction: breakdown of vacant space

Source: Nikoliers



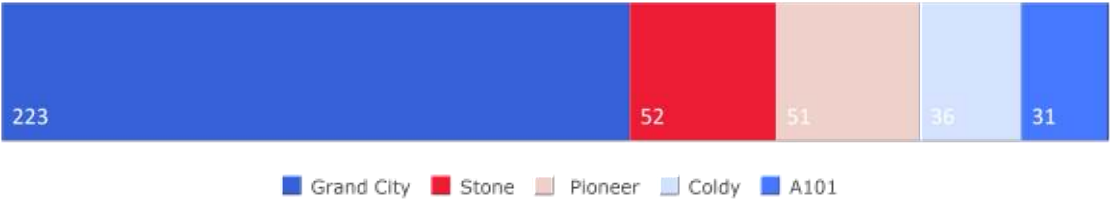
Of the total built-to-let space for 2024 (99,000 sq m), available now are 95,000 sq m (including units put up both for lease and sale).

Sales in buildings under construction are still in high demand, with 434,000 sq m already sold. About 105,000 sq m (including units available both for rent and for sale) are up for sale now.

Key projects to be commissioned in 2024



Top-5 developers by the total space announced for commissioning in 2024, thousand sq m
Source: Nikoliers



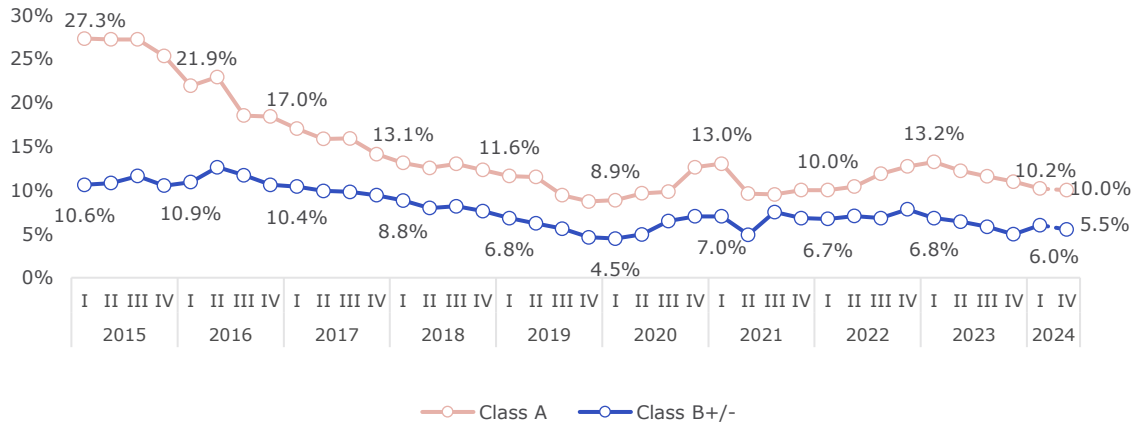
Vacancy rate

In Q1 2024 the vacancy rate in Class A decreased by 0.8 p.p. Such dynamics was ensured by high demand for quality offices and the lack of newly built class A facilities during the period under review. The trend towards vacancy reduction in class A will be supported by a high share of prelease and sale agreements – as of the beginning of the year only 29% of all space in the projects built in 2024 is available for purchase or rent.

In Class B+/- there is a 1 p.p. increase in vacancy, which was provided by several large office units that entered the market after being vacated by occupants.

Vacant space shares by classes

Source: Nikoliers



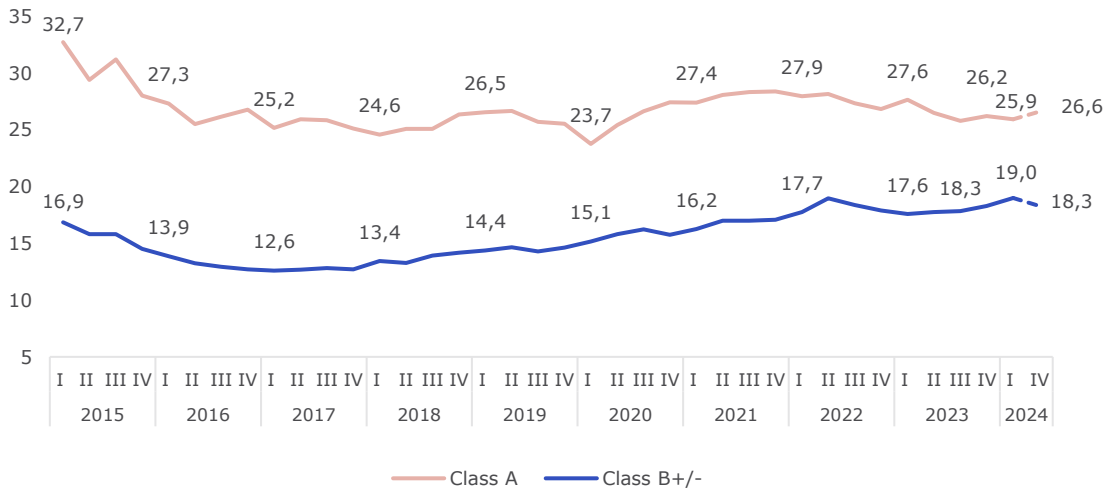
Rental rates

An insignificant decrease of rental rates in Class A by areas in exposure is due to the absorption of quality supply at higher rates and predominance of low-cost shell and core lots or those in less popular locations outside Moscow Ring Road (MKAD) in the current vacancy structure.

Meanwhile, in class B+/-, on the contrary, the rate demonstrates a 3.9% growth. Amid the scarcity of large consolidated units, vacated areas from 1 000 sq m in Class B are offered at higher rates. Whether this will become a trend or a temporary factor of volatility will be clear over a longer term – in the second half of the year.

Dynamics of rental rates by classes, thousand RUB/sq m/year

Source: Nikoliers



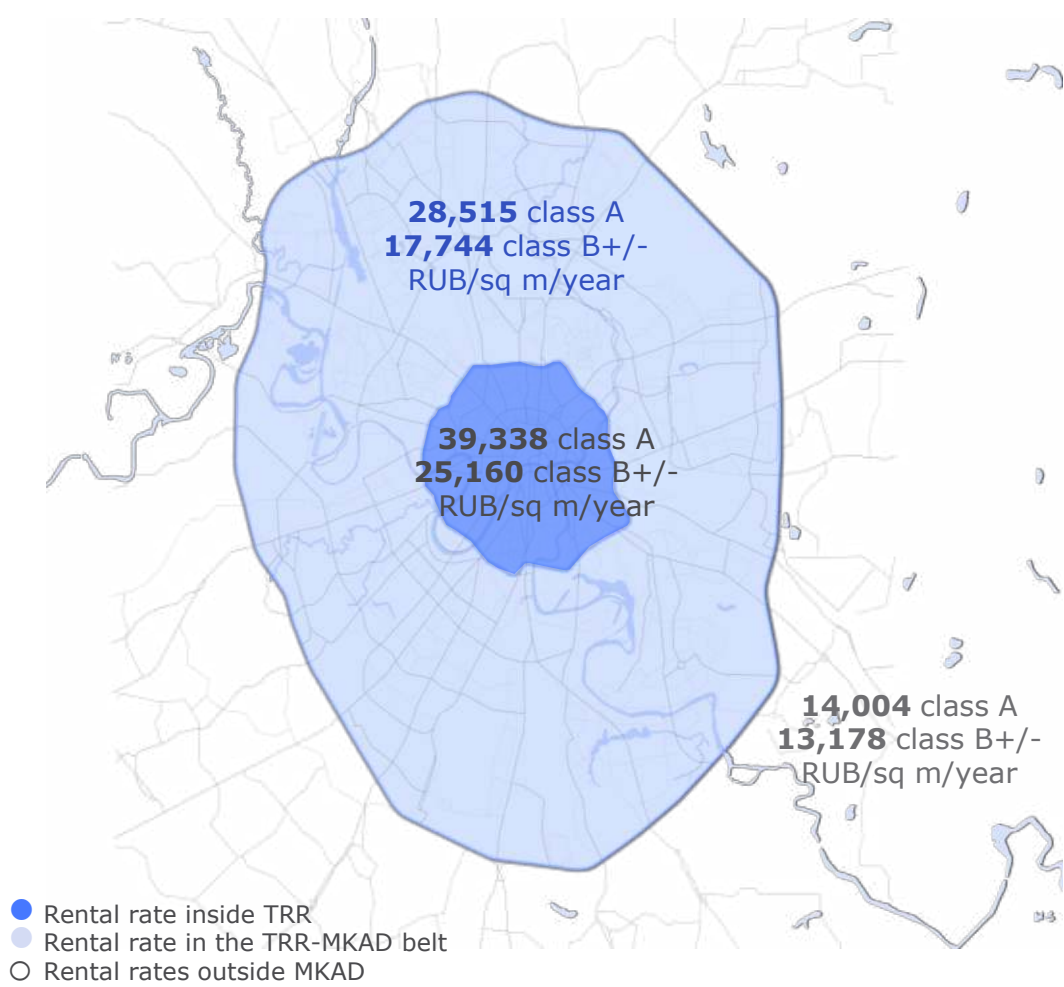
*Excluding operational expenses, utility bills and VAT (20%).

Rental rates depending on the location

The average market rental rate differs significantly depending on the location. In the most sought-after areas of the city with developed infrastructure rental rates are significantly higher. Thus, the weighted average rate in Class A inside the Third Ring Road (TRR) is almost thrice higher than in Class A outside the MKAD.

We can expect rental rates to increase by the end of the year: at the level of inflation outside MKAD, and within 7-10% in the key business districts inside the TRR.

Class A	Class B+/-
<ul style="list-style-type: none">38% higher inside TRR than in the TRR-MKAD belt2 times higher in the TRR-MKAD belt than outside MKAD	<ul style="list-style-type: none">42% higher inside TRR than in the TRR-MKAD belt35% higher in the TRR-MKAD belt than outside MKAD



*The rental rates do not include operating expenditures, utility charges and VAT (20%).

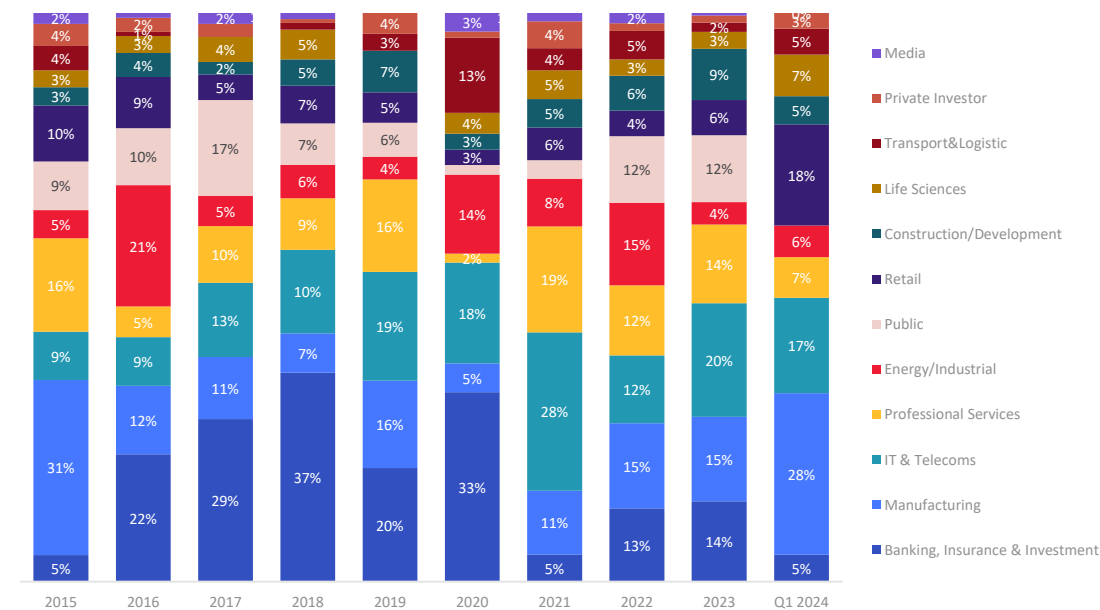
Take-up

Based on the results for Q1 2024, the demand for office acquisition continues to grow in the structure of transactions: the share of sale and purchase deals accounts for 32% (84,000 sq m) of the total amount. Over the last eight years this is the highest figure mainly due to the persistent demand for purchase of office space in new builds and major transactions in the secondary market.

Total office lease and purchase transactions for the initial three months amounted to 266,000 sq m.

Take up distribution by business sector ,%

Source: Nikoliers



The sources of demand generated by business sector in Q1 2024 are mainly driven by manufacturing (28%), trade (18%) and IT/telecom (17%) firms. A notable growth in the share of manufacturing companies could be due to the delayed effect on the office sector of the growth of local manufacturing companies in the midst of filling the niches vacated after the exodus of international business.

Key lease transactions in the Moscow office market, Q1 2024

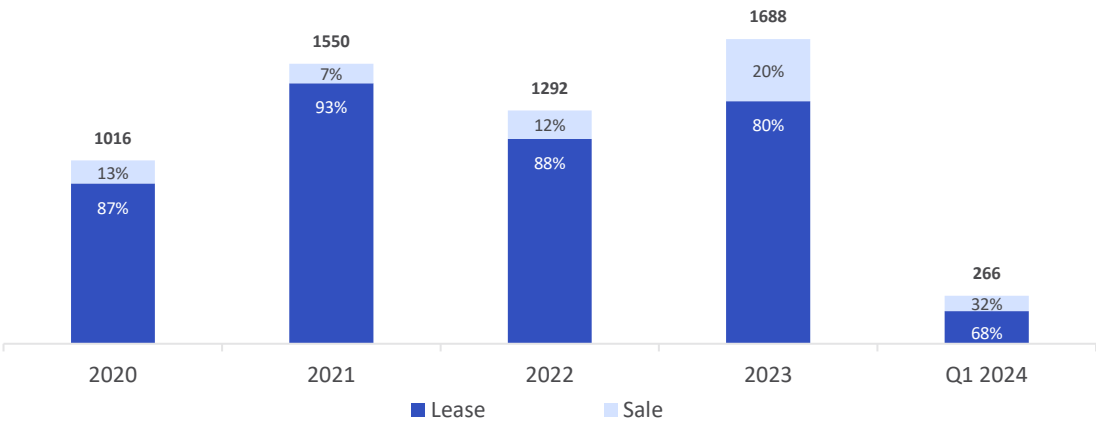
Source: Nikoliers

Company	Area, sq m	Type of transaction	Business Centre	Class
Luding	5,911	Lease	Kutuzov Tower	B+
Confidential	4,550	Lease	30 bld 2, Sofiyskaya nab.	A
Confidential	3,871	Lease	Avignon	B+
<div><div></div><div>Nikollers</div></div> Business Club	3,583	Lease	Porta Workplace	A
Vega-GAZ	2,925	Lease	ART Gallery	B-



Demand breakdown

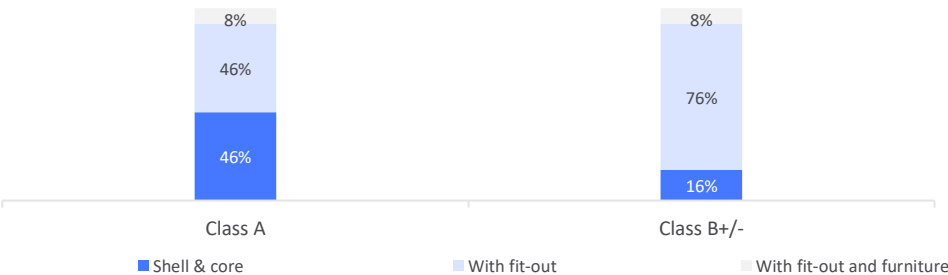
Total office space sale and lease transactions amount, thousand sq m
Source: Nikoliers



The structure of demand has changed significantly in five recent years. The share of purchase transactions had been at the level of 7-13% before 2023, but last year it amounted to 20% and in Q1 2024 – to 32% of the total office space purchase and lease transactions. A similar trend has already taken hold in the office segment.

The focus of demand has shifted to premises with fit-out. New construction is mainly represented by shell & core premises. However, taking into account the predilections of future occupants, office premises with a fine finish are getting more widespread. Developers are ready to offer a basic fit-out package in different price categories. In ready-to-use buildings the fit-out format varies considerably depending on the facility: from premium finishes to premises requiring minor redecoration.

Office units supply breakdown
Source: Nikoliers





Office space for sale in projects under construction

Weighted average price asked for office units in buildings under construction

Source: Nikoliers

Garden Ring – Third Ring Road	Moscow City	Third Ring Road – MKAD	Outside MKAD
414,000 RUB/sq m	630,000 RUB/sq m	380,000 RUB/sq m	220,000 RUB/sq m

Demand for offices in new buildings remains high. Of the projected built-for-sale office space this year, 70% has already been sold out. At the same time, as office units are absorbed, new facilities go on sale. For example, in Q1 2024 sales started in projects such as Upside Kuntsevo, Nevsky Plaza, their commissioning announced for the end of 2025, and Stone Khodynka 2 with commissioning deadlines before 2028.

Off-plan supply at the stage of construction

Source: Nikoliers

Ring belt/Unit size, sq m	<150	150–500	500–1 000	1 000–2 000	2 000–5 000	>5000	Buildings
Supply, sq m							
GR-TRR	3 821	6 629	-	3 676	6 184	-	50 350
Moscow City	-	9 281	2 055	11 361	2 258	-	
TRR-MKAD	31 017	35 853	12 196	24 646	-	17 397	40 177
Outside MKAD	2 926	2 243	5 924	1 080	-	-	14 419
Average prices, thousand RUB/sq m							
GR-TRR	425	413	-	443	390	-	428
Moscow City	-	631	629	636	605	-	
TRR-MKAD	403	383	404	377	-	318	327
Outside MKAD	278	204	203	190	-	-	175

*The cost indicated on this page includes VAT with the exception of co-investment projects.

Office space sale market

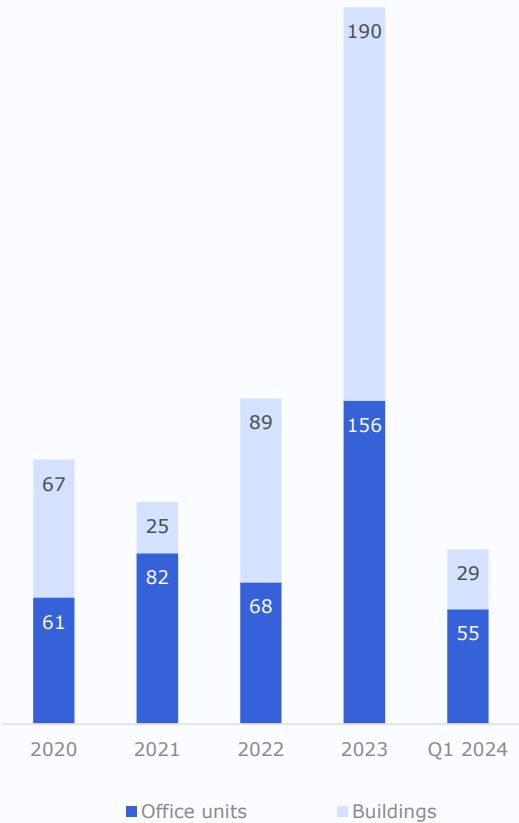
Breakdown of closed deals with project stage taken into account
Source: Nikoliers

2023	Q1 2024
Under construction:	
48%	19%
Commissioned:	
52%	81%

In the structure of office sale transactions in Q1 2024, transactions in commissioned buildings prevail, accounting for 81% of the purchased space. This structure of demand is connected with the closing of several major deals in the existing class B+/- buildings by trade, manufacturing and IT companies.

In view of the small size of lots for purchase in under-construction projects, the share of office acquisition at the stage of construction is only 19% of the total demand. In the initial three months buyers have purchased 16,000 sq m mainly by small lots of up to 150 sq m. The main interest in such facilities is generated by private investors, as well as companies from professional services, trade and medicine segments.

Breakdown of office space purchase and sale transactions by type, thousand sq m
Source: Nikoliers



Key sale transactions in the Moscow office market, Q1 2024
Source: Nikoliers

Company	Area, sq m	Transaction type	Business Centre	Class
Fix Price	12,000	Sale	Etmia	B+
Polyplast Group	9,200	Sale	28, Sadovo-Spasskaya str.	B+
Lesta Games	6,000	Sale	Na Taganskoi	B
Neopharm	5,000	Sale	Porta Workplace	A
Lukoil	1,700	Sale	Blue Pearl	B+



Office market trends and forecasts

Limited demand for shell & core

Amid the rising fit-out costs and, consequently, low demand for such facilities, landlords offering basic shell & core premises are providing additional options in the form of tenant-specific finishes. Such options will become increasingly common among shell & core office owners.

Demand for large spaces

Consolidation of offices and rapid growth of big companies will still support the demand for office units in excess of 5,000 sq m under a limited number of such options.

Insignificant volatility of the vacancy

In the midst of more subdued demand at the turn of 2024, a slight increase in vacancy can be expected, which will be adjusted by the end of the year. In late 2024, the vacancy rate will be lower than the final figure for 2023.

Rental rate: moderate growth amid inflation

Amid the scarcity of quality supply and insignificant downward correction of demand, the average market rental rate will keep growing at the level of inflation.

In the meantime, the dynamics of rent change will differ depending on the segment. Thus, in class A in the key business locations of Moscow the annual growth of 7-10% is expected, whereas in less popular facilities and locations the growth will not exceed the expected inflation rate.

Services



Offices



Industrial



Retail



Residential



Hotels



Land plots



Property management



Managing construction projects



Strategic consulting



Property and business valuation



Investment



Lease & sale (agency)



Representation of tenants



Research and analytics



Marketing

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