

H1 2022

Office Market Overview

Russia | Moscow

Table 1
Key market indicators
Source: Nikoliers

	H1 2020	H1 2021	H1 2022
Total supply, million sq m	18.8	19.4	19.5
Class A	4.4	4.9	5.0
Class B+/-	14.4	14.5	14.5
Completions, thousand sq m	60.9	446.3	37.8
Class A	15.3	344.5	0
Class B+/-	45.6	101.8	37.8
Total take-up, thousand sq m	514.4	681.4	556.0
Vacancy rate, %	6.0	8.1	7.9
Class A	9.6	11.5	10.4
Class B+/-	4.9	7.0	7.0
Average rental rate, RUB/sq m/year*	18,727	20,823	22,242
Class A	25,388	28,040	28,145
Класс B+/-	14,751	16,795	18,939

* Excluding VAT (20%) and OPEX

The events of the past half-year had a direct impact on the commercial real estate market, on the Moscow office market particularly. This effect is demonstrated by the key indicators for H1 2022. The total completions volume in H1 2022 was around 38,000 sq m, which is more than 10 times less than the comparable indicator in H1 2021.

In H1 2022 the vacancy rate is still at a low level, fixed at 7.9%. However, by the end of this year we expect this indicator to increase to the level of 8.5-9.0%. At the same time, the sublease volume has significantly increased in the Moscow office market. By the end of H1 2022 the sublease volume amounted to more than 90,000 sq m, which excludes flex office space.

Over the past six months, business activity has declined considerably, which shows a total take-up of 556,000 sq m, which is 18% lower than in H1 2021.

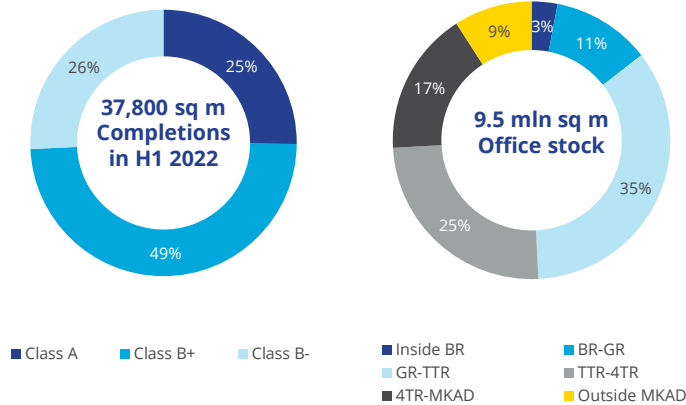
Chart 1
Key market indicators, Class A & B+/-
Source: Nikoliers



Supply

Chart 2
Office stock distribution and completions
by Class and submarket, %

Source: Nikoliers

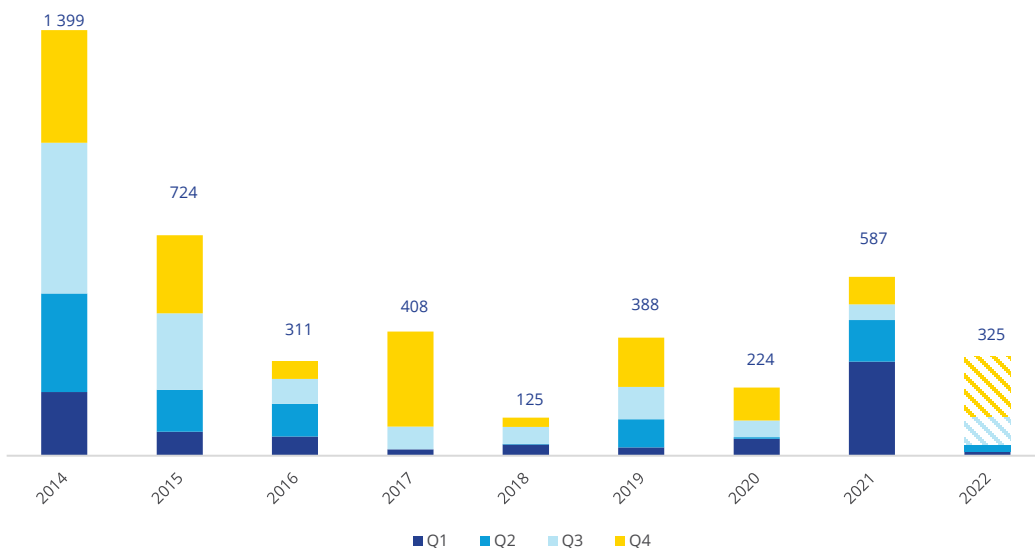


In H1 2022 the total volume of completions amounted to 38,000 sq m. There are only three office buildings of Class B+ were commissioned during last six months: an office building within a residential complex Jazz (13,400 sq m), business centre Prime Time (12,900 sq m) and office centre Trend Line located on Nakhimovsky Ave. (11,500 sq m).

Due to the current situation developers may revise the cost of current pipeline and prolong the construction period of projects. Thus, while at the end of the last year we expected more than 800,000 sq m office space to be completed in 2022, then at the end of spring that volume dropped to the level of about 400,000 sq m. The latest office pipeline adjustments suggest that the total volume of commissioning in 2022 will be around 325,000 sq m. Vacancy will not increase significantly due to the postponement of the realization of the projects.

Chart 3
Office completions

Source: Nikoliers



Vacancy rate

Over the past few months, the Class A market has had a stable vacancy rate of 10.0%. Long-term contracts and cautious pause in decision-making by some tenants prevented the releasing the large amount of vacant space. Although the sublease market has been growing exponentially. By the summer we began to observe a correction of indicators.

According to the results of H1 2022 the vacancy rate in Class A reached 10,4%, which is 0,4 p.p. higher than the result of Q1 2022. The vacancy rate of Class B+/- fixed at 7,0%, which is 0,3 p.p. greater than comparable indicator of the precious quarter. Thus, the average market vacancy rate increased by 0,3 p.p. for three months and amounted to 7,9%.

Chart 4
Vacancy rate by Class

Source: Nikoliers

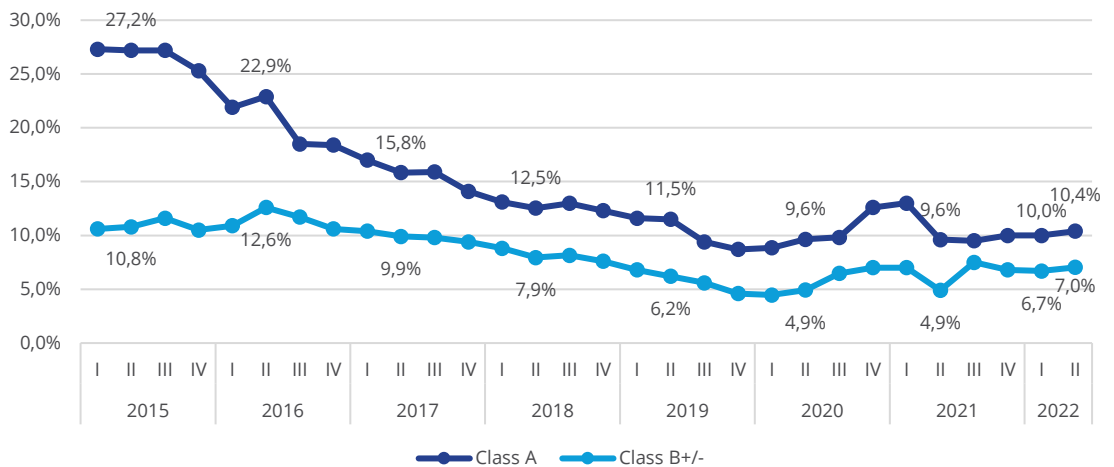
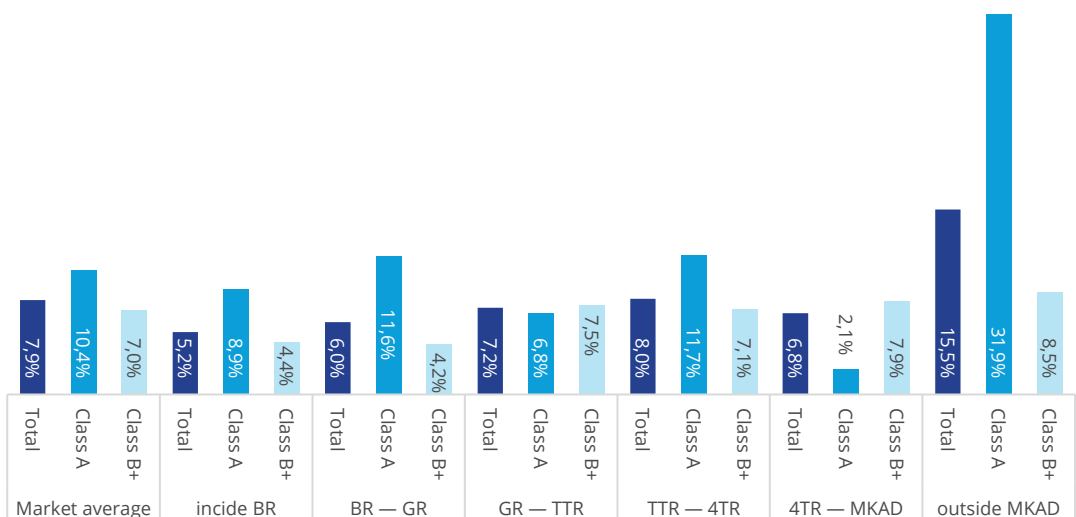


Chart 5
Vacancy rate distribution by submarket

Source: Nikoliers



Demand

According to the results of H1 2022 the total take-up volume accounted for 556,000 sq m, which is almost 20% lower than the indicator of H1 2021. Such decrease in demand is related to the recession in business activity at the market, where the key market members are expecting the stabilization of economic performance.

By the end of H1 2022 the main drivers of demand have changed in the Moscow office market. Year earlier the most demand in the office market used to come from IT-companies: in 2021 their share in the total take-up volume was 30%. In H1 2022 the main demand came from the domestic organizations represented by professional services (18%), energy companies (17%) and new subdivisions within government institutions (14%). The fundamental change in take-up distribution is caused by the reduction in operating activity and the corresponding release of quality office space.

Chart 6
Take-up distribution by business sector
Source: Nikoliers

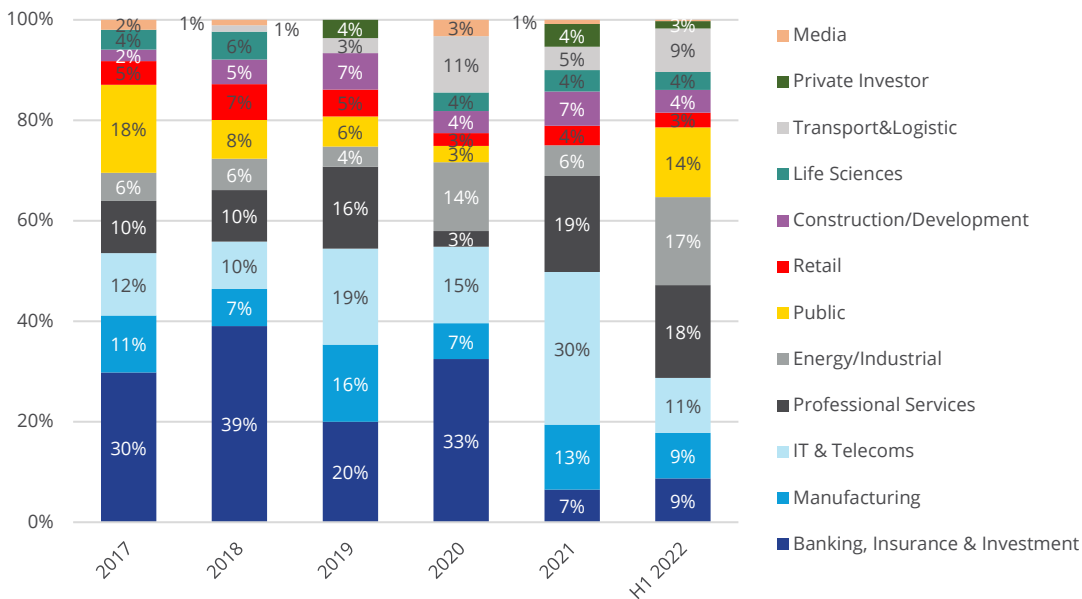


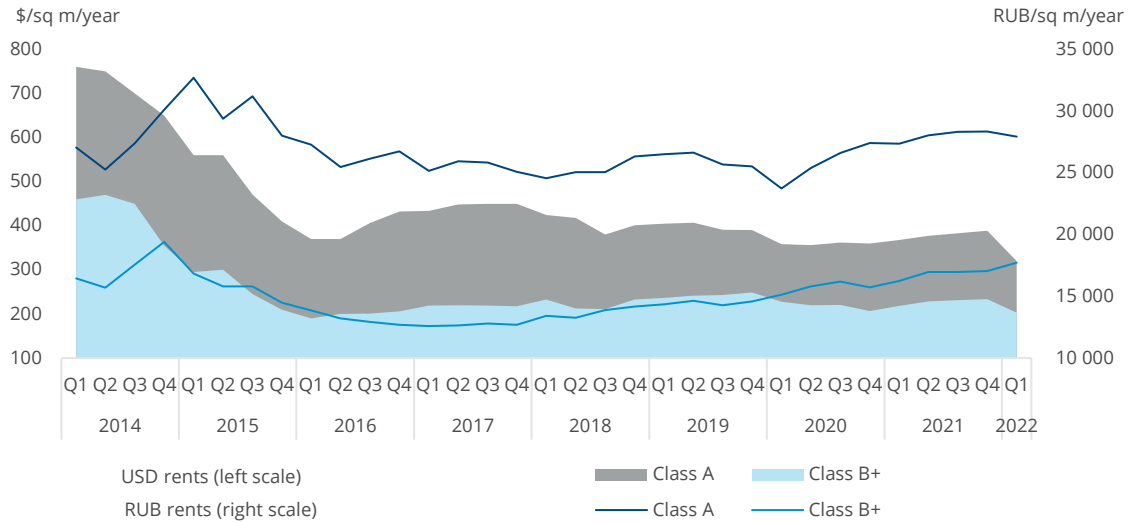
Table 2
Key Moscow office deals in H1 2022
Source: Nikoliers

Occupier	Size, sq m	Deal type	Property name	Address	Class
Sibur	22,668	Sale	Negociant	2, Bolshaya Yakimanka St.	B+
Synergy University	10,398	New lease	RTS Nagatinskiy	7, bldg. 10, Khlebozavodskiy Ave.	B+
FEC Mosenergo	6,453	New lease	Dom Park Kultury	11A, Zubovskiy Blvd.	A
Novaport Holding	6,334	New lease	40, bldg. 2, Bolshaya Ordynka St.	40, bldg. 2, Bolshaya Ordynka St.	A
Confidential	6,217	New lease	Atlantic	8, Mozhayskiy Val St.	A
Confidential	6,106	New lease	Chistoprudniy 8	8, bldg. 1, Chistoprudniy Blvd.	B+
Fonbet	4,500	New lease	24, bldg. 1, Nikoloyamskaya St.	24, bldg. 1, Nikoloyamskaya St.	B+
Sberlogistika	4,393	New lease	Gasoil Plaza	12A, Nametkina St.	B+
Tinkoff	4,092	Sublease	SOK Arena Park	36, bldg. 10, Leningradskiy Ave.	A

Commercial terms

Some developers are trying to keep rental rates at the current level despite the growth of the vacancy rate. At the same time rents in some business centres have already increased. By the end of H1 2022 the weighted average rental rates in the Moscow office market were RUB28,145/sq m/year in Class A and RUB18,939/sq m/year in Class B+/-.

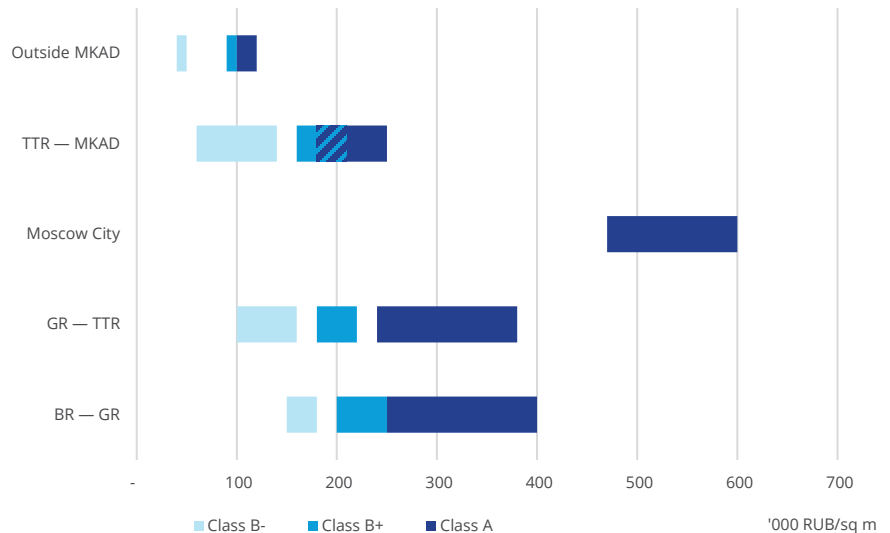
Chart 7
Rental rates by Class
Source: Nikoliers



Sales market for office space

In H1 2022 the cumulative sale volume in the primary office market amounted to 54,500 sq m. During the first half year there was an increase in demanded prices for office space, particularly in the business district "Moscow-City", where the price range was fixed at RUB470,000 – 600,000/sq m.

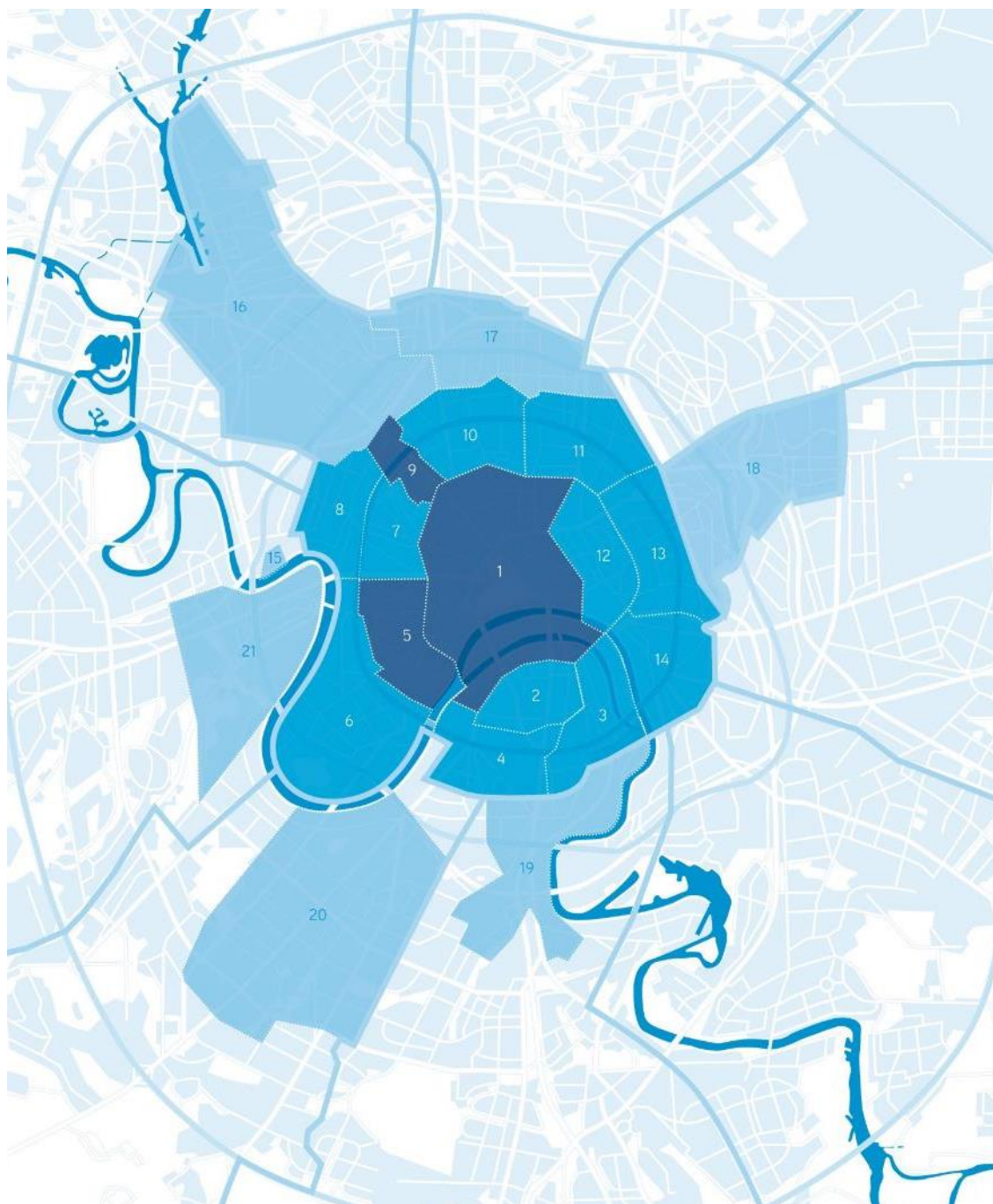
Chart 8
Sales price ranges by Class in Moscow submarkets
Source: Nikoliers





Office market trends and forecasts

- Due to the current geopolitical and economic situation and reduction of operating activity companies felt compelled to offer part of their office space for sublease. At the same time there is a tendency of growing number of partial or full surrender of already occupied premises. Most of this space may enter the direct lease market in H2 2022. The total volume of release space is estimated at 185,000 sq m.
- Despite this, most landlords are not ready yet to make concessions and revise commercial terms due to rising costs and possible risks. Thus, there is a moderate growth of the vacancy rate at the office market at the same time with a progressive increase in the rental rates.
- The pool of options has expanded for companies who are willing to improve the quality of their occupied space or want to move to more convenient locations. Over the past few months, the volume of sublease have increased three-fold. Such premises are offered on favorable terms.
- Shell&core office space has become less attractive to potential tenants due to the limited range of choices for finishing and furniture, as well as rising prices of construction materials. At the same time, owners are not ready to invest in finishing because of the risks involved.
- In turn, flexible workspaces remain in demand due to their advantages in terms of rent and flexibility of contract terms. This type of space has increasingly attracted the attention of the public sector and mining companies.



Submarket	Vacancy rate			Base Rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
1, 5, 9 Premium	17.5%	4.3%	4.3%	43,198	32,116	27,552
1-14 CBD (excl. Premium)	5.8%	6.5%	5.4%	36,260	24,756	22,993
15 Moscow-City	3.6%	4.3%	-	40,783	37,371	-
16 Leningradskiy	11.1%	5.7%	3.4%	34,002	26,007	15,091
17 Sushevskiy	14.0%	4.7%	4.9%	22,551	20,150	22,726
18 Elektrozavodskiy	30.8%	14.1%	7.1%	15,181	12,502	13,580
19 Tulskiy	4.9%	8.8%	4.0%	33,167	17,769	14,446
20 Leninskiy	5.5%	3.4%	7.1%	20,585	20,000	15,251
21 Kutuzovskiy	1.5%	4.9%	0.6%	32,910	27,030	16,091

Submarket	Vacancy rate			Base Rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
North	94.0%	7.8%	6.7%	19,285	13,540	10,812
North-East	-	11.2%	1.9%	-	18,358	10,812
North-West	9.0%	9.9%	3.2%	11,850	9,711	10,015
West	3.4%	8.0%	3.4%	36,484	15,250	12,274
East	-	5.5%	6.2%	-	13,279	9,935
South	-	8.6%	8.9%	-	13,856	18,779
South-East	-	7.5%	7.5%	-	11,637	11,023
South-West	30.8%	14.1%	7.1%	17,470	14,042	7,289

*The base rental rate excludes VAT (20%), operational expenses and utility bills

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