

H1 2024

# Office Market

Russia | Moscow

## Moscow market indicators, H1 2024

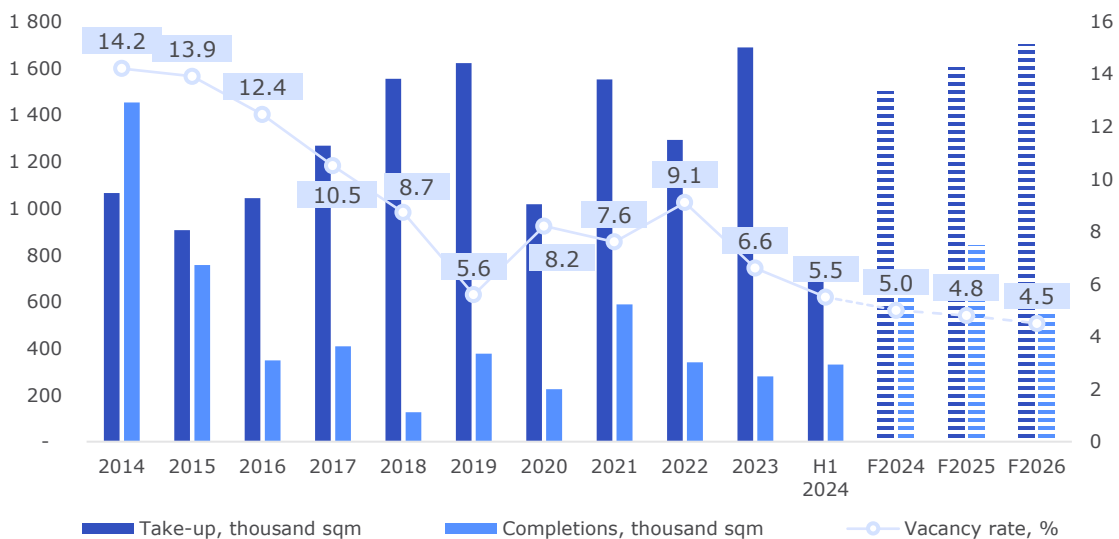


\*The weighted average rental rates do not include operating expenses, utility charges and VAT (20%). They are calculated with reference to vacant supply in existing facilities including the ones beyond the Moscow Ring Road (MKAD) – included but not limited to: Moscow districts Troitsk and Novomoskovsk, cities of the Moscow Region and suburban areas of the cities Skolkovo, Odintsovo, Krasnogorsk, Khimki).

### Key results



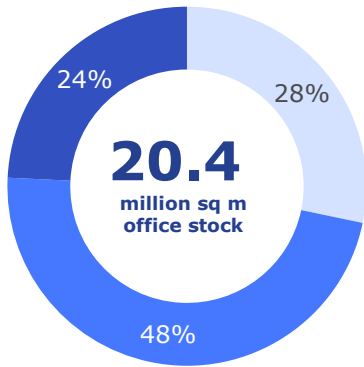
### Key market indicators, classes A, Prime and B+/-



\*Forecast – estimation of Nikoliers, based on the announced delivery deadlines and data on the current status of projects.

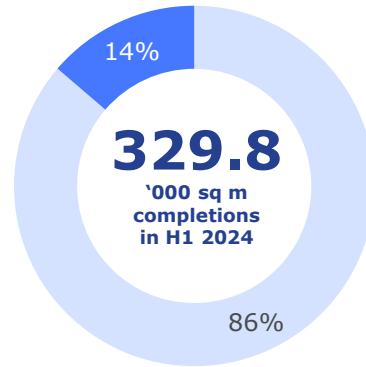
## Supply

### Breakdown of the current office stock



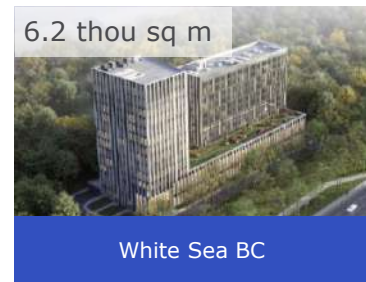
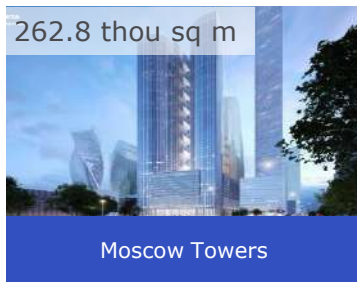
■ Class A and Prime ■ Class B+ ■ Class B-

### Breakdown of the new office completions



■ Class A ■ Class B+

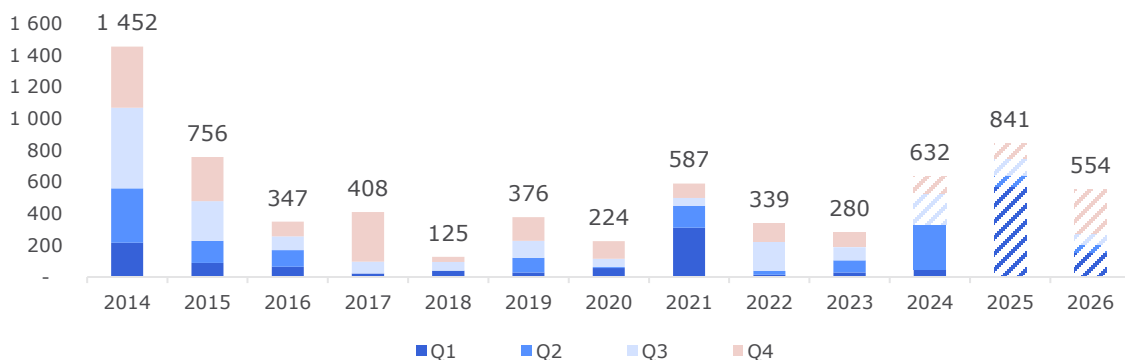
### Office completions, Q2 2024



In the first half of 2024, 329,800 sq m of office space was completed, which is 18% more than the annual amount of office completions in 2023. Such dynamics is due to the commissioning of the Moscow Towers skyscraper, which alone added 262,000 sq m of office space to the Moscow market.

Till the end of 2026, according to Nikoliers' forecast, another 1.7 million sq m is expected to be commissioned, of which build-to-suit accounts for 29% of the total space, with 38% of office space already sold (mostly wholesale). In this regard, a limited supply of large-size office units (from 5,000 sq m) will be rolled out in the next 3 years to come.

### Dynamics of office space commissioning, thou sq m



\*Forecast – estimation of Nikoliers, based on the announced delivery deadlines and data on the current status of projects.





## Office space for sale in the in projects under construction

### Weighted average cost of office units in buildings under construction

Garden Ring – Third Ring Road	Moscow City	Third Ring Road – MKAD	Outside MKAD
415,000 RUB/sq m	626,000 RUB/sq m	380,000 RUB/sq m	209,000 RUB/sq m

Amid persistently high demand for the purchase of off-plan offices under construction, 68% of space in projects for sale with a commissioning deadline till the end of 2026 has been purchased (including facilities where office space is available both for lease and purchase). Buildings with a low vacancy rate are currently being commissioned, with not so many new projects rolled out to the market – in Q2 2024, PIK started selling lots in Technopark Gustav with the commissioning deadline in 2026, and Stone projects with the commissioning deadline in 2028 have also been put on sale.

In addition to end users and commercial real estate investors, the office segment attracts investors from the residential segment, who are seeking attractive yields.

### Off-plan office space supply at the stage of construction

Ring zone/ Unit size, sq m	<150	150–500	500–1 000	1 000– 2 000	2 000– 5 000	>5000	Buildings
<b>Supply, sq m</b>							
GR-TRR	3 593	7 776	2 033	4 779	12 367	-	88 864
Moscow City	-	7 900	2 107	21 765	2 242	-	-
TRR-MKAD	20 822	34 409	10 220	13 137	8 356	6 562	153 031
Outside MKAD	4 216	3 168	7 015	2 160	-	-	15 600
<b>Average price, thousand RUB/sq m</b>							
GR-TRR	421	403	425	445	409	-	359
Moscow City	-	610	613	637	590	-	-
TRR-MKAD	389	365	385	399	413	340	359
Outside MKAD	225	214	202	192	-	-	256

The prices on the given page include VAT, except for shared-equity co-investment projects

Hereinafter: Moscow districts outside the Moscow Ring Road (MKAD), including but not limited to Troitsk and Novomoskovsk District, cities in the Moscow Region and suburban areas of Skolkovo, Odintsovo, Krasnogorsk and Khimki cities).

Source: Nikoliers

## Office vacancy structure

### Vacant in commissioned projects

1.1 million sq m



### Vacant in projects under construction (to be commissioned in 2024–2026)

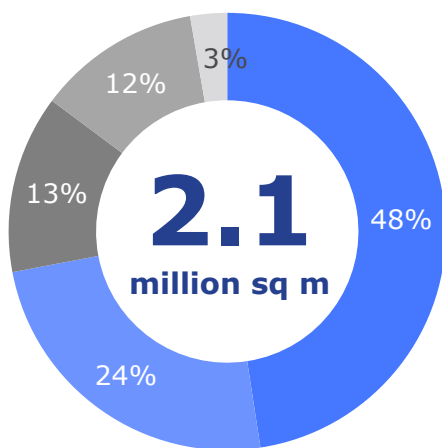
560,000 sq m



In the structure of current vacancy, as regards move-in ready buildings, almost half of Class A office space (44%) is concentrated outside the MKAD and only 26% – inside the Third Ring Road (TRR). The share of Class A in total vacant office space in existing office buildings is 28%, having dropped almost twofold over 1.5 years.

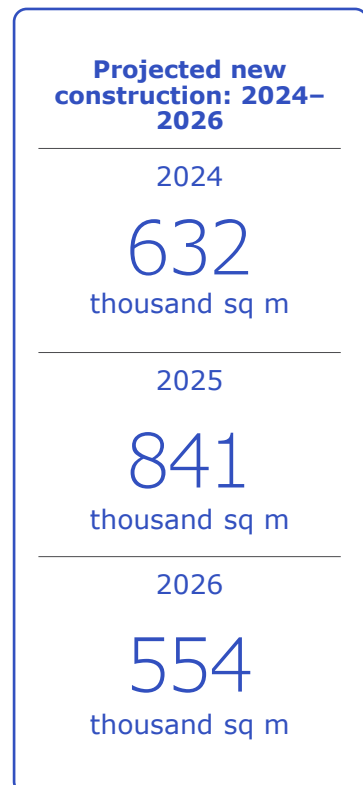
The low amount of vacant space on offer is connected with the rapid occupation of quality premises by customers and with persistently high demand. The amount of office space is decreasing both in completed office projects and in off-plan office buildings, which affects the weighted average rental rate.

### The share of pre-lease/pre-sale\*: 2024–2026



- Monetized
- BTS
- For lease
- For sale
- For lease/sale

\*New construction projects to be commissioned in 2024–2026 are taken into account, including those commissioned in H1 2024.

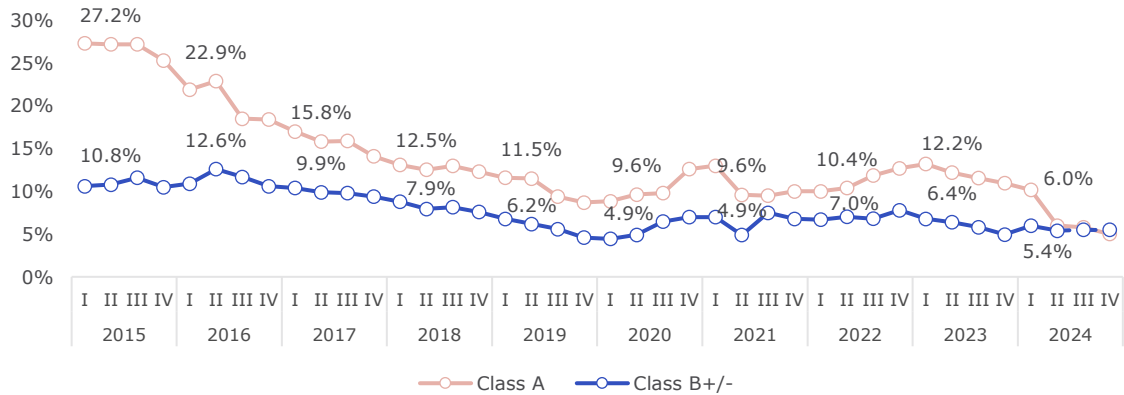


## Vacancy rate

**-1.1** p.p. Market average reduction of the vacancy rate for the first half-year.

The vacancy rate in move-in ready A-class facilities is at its lowest for the last 10 years; in class B+/- the vacancy rate is comparable with the end of 2019. Amid the low share of vacant space in off-plan projects and robust demand for quality office space, the vacancy rate in class A has almost aligned with the figures for class B+/-.

### Vacant space shares by classes



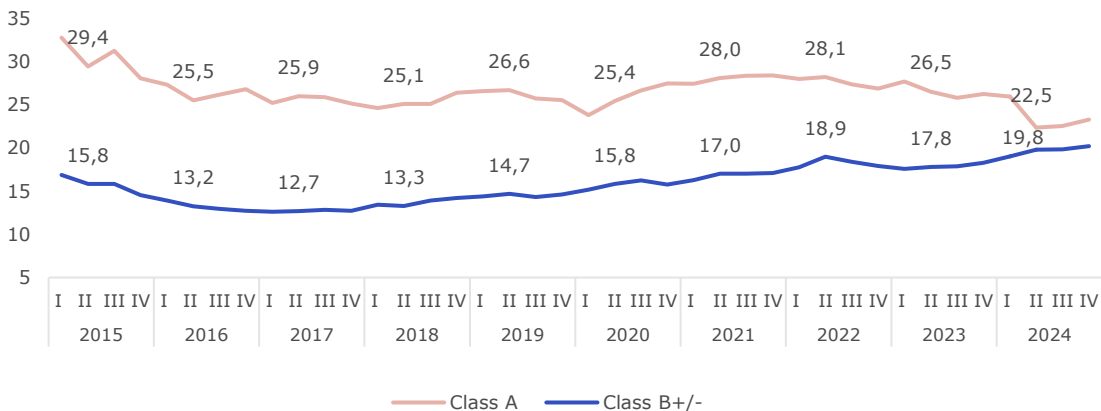
## Rental rates



The shortage of quality office space in most popular locations causes the narrowing of the gap in rental rates across different classes.

Amid the high rates of quality space absorption and the low level of new supply for lease, the vacancy structure has undergone significant changes as compared to the previous year: in class A the weight has shifted towards less expensive options, mainly in off-central locations, whereas the rental rate in class B shows a stable growth in certain cases representing a viable alternative to higher status facilities.

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



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

Source: Nikoliers

## The ranges of asked rental rates and vacancy structure

### Market factors of the rent growth



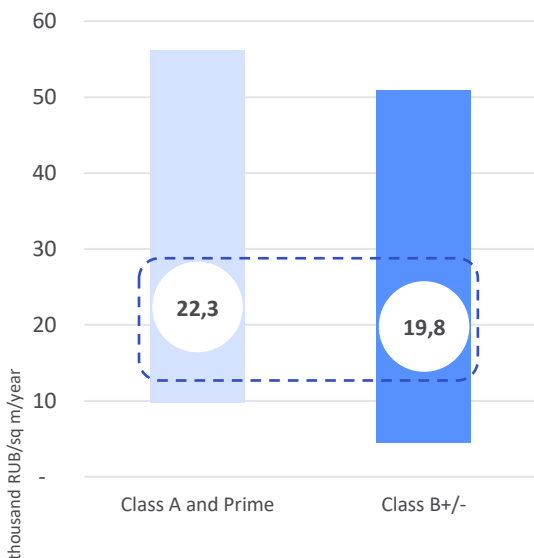
Changes in the vacancy structure have a significant impact on the weighted average rental rate. After large-size office units in high-quality facilities have been absorbed, office units in less liquid properties and major supply in off-central locations, which are offered at below market average rates, prevail on the market. And despite the fact that when comparing the dynamics on a project-by-project basis we see an average 8% rent appreciation in Class A as compared to Q1 2024, the calculated weighted average rate shows a decrease (-4% versus Q4 2023).

Newly built office space for lease, although offered at rental rates above the market average, will be entering the market in small batches, whereas the local appreciation of small vacant lots will not have a significant impact on the estimated rate. Thus, we expect the current market dynamics to be maintained, i.e. growing rates for office facilities in high demand and below market average rates versus last year's figures due to the vacancy structure transformation.



Scarce vacancy in the high-end pricing segment of classes A and Prime lowers the market average indicator

### The range of rental rates by classes



#### Why have the market average rental rates almost aligned across different classes?

The reason is in the structure of vacant office space.

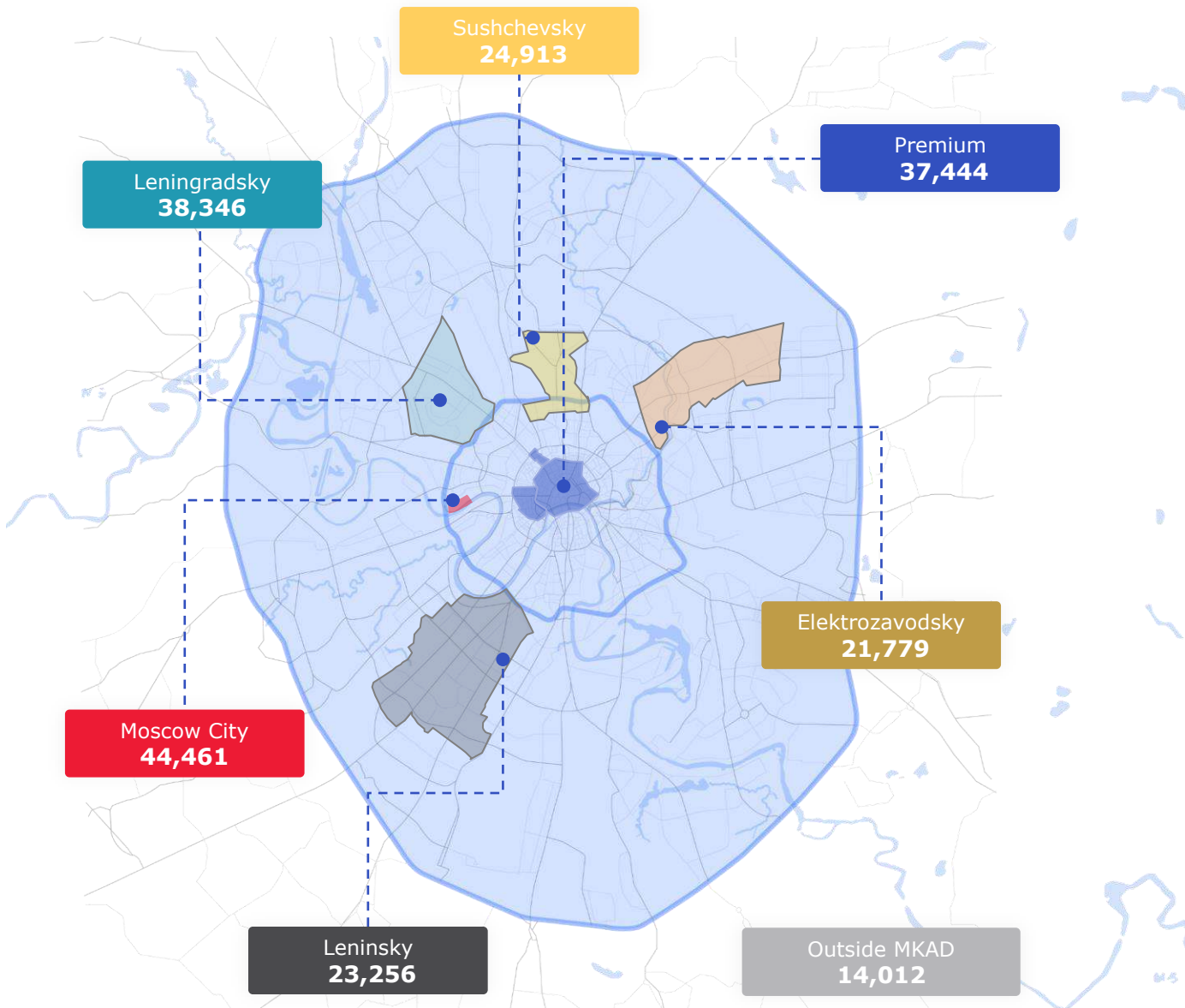
**54%** of vacant office space in class A is offered at below market average rates (locations remote from the historical centre, less liquid assets).

**47%** of vacant office space in class B are offered at above market average rates (central locations, alternative to class A).

Rental rate dispersion in Class A. RUB/sq m/year\*



10-15% growth of rental rates in most popular locations and projects is expected at the end of 2024.

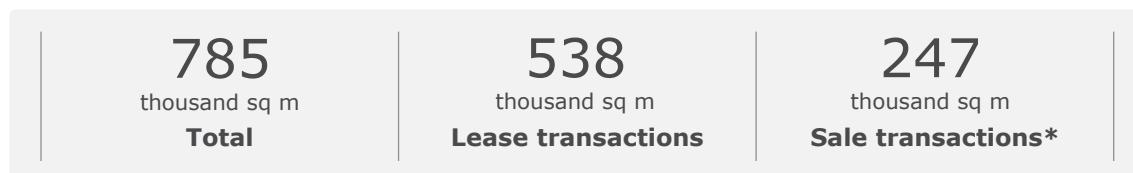


\*The weighted average rental rates do not include OPEX, utility charges and VAT (20%); they are calculated on the basis of vacant supply in existing facilities.



## Demand

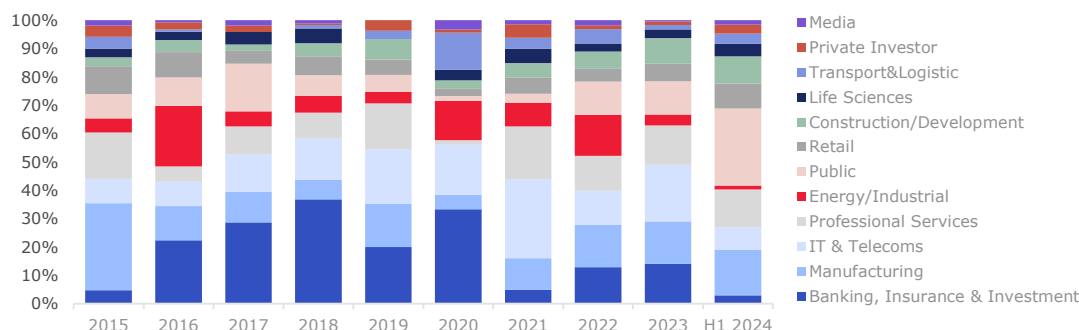
### The amount of transactions for H1 2024



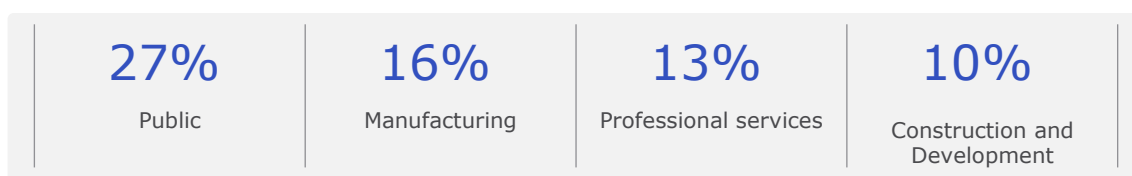
Interest in office lease is still high; however, given the shortage of large office units in quality office buildings, tenants cannot find alternatives, waiting for suitable solutions and generating a pent-up demand. Meanwhile the office space sold out to investors in off-plan office buildings is not transformed into vacancy, being rolled out to the market in small batches, mainly up to 1,000 sq m.

Due to the above-described reasons, it will not be possible to satisfy the existing demand for quality office space, especially with large 5,000-sqm-plus office units during the next three years, whereas the absorption rates will remain at a high level due to the commissioning of facilities with minimum vacancy.

### Breakdown of demand by business sectors



### Key business sectors by the level of demand for H1 2024



### Key lease transactions in the Moscow office market, H1 2024

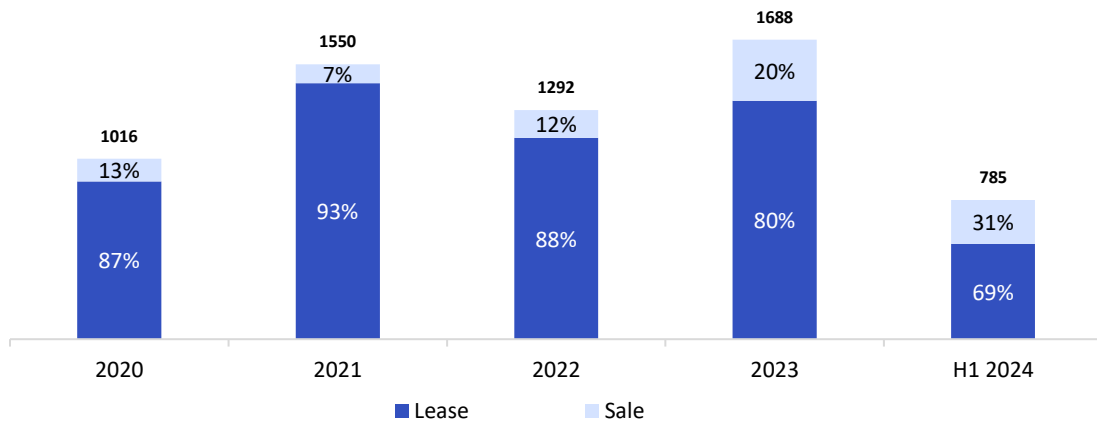
Company	Floor area, sq m	Type of transaction	Business centre	Class
Kept	10 500	Lease	Alcon III	A
Confidential	9 165	Lease	AFI2B	Prime
Luding	5 911	Lease	Kutuzov Tower	B+
Business Club	5 388	Lease	17, Gazetny	B+
VseInstrumenty	4 660	Lease	White Gardens	Prime

\*The demand takes account of transactions completed by end users, but does not take account of investment purchase and sale deals.  
Source: Nikoliers



## Demand breakdown

### Office space lease and sale transactions, thou sq m



High demand for office space purchase from end users remains, the share of such transactions at the end of H1 2024 amounting to 31% of leased and purchased office space.

In the structure of purchase and sale transactions, 79% falls to the share of commissioned buildings and 21% – to off-plan office projects.

This ratio was caused by the conclusion of a major transaction – the purchase of Stratos BC by the structures of Moscow Mayor’s Office, which accounted for 32% of the entire office space acquired during the half-year – as well as by robust demand for class B buildings in the first quarter of 2024.

### Key sale deals on the office market of Moscow in H1 2024

Company	Area, sq m	Type of transaction	Business Centre	Class
Technopolis Moscow	79 000	Sale	Stratos	A
Fix Price	12 000	Sale	Etmia	B+
Polyplast Group	9 200	Sale	28, Sadovaya-Spasskaya str.	B+
Lesta Games	6 000	Sale	Na Taganskoi	B
Neopharm	5 000	Sale	Porta Workplace	A

## The market of serviced offices

### Business activity by business sectors in H1 2024



With a shortage of classic office space supply and vacancy in existing office buildings at historic lows, and the amount of pre-purchase and pre-lease space significantly limiting choice in off-plan office buildings, the search for a suitable office is becoming a major challenge. Flexible spaces are a viable alternative for tenants in need of a new office on short notice.

The vacancy rate in the market of serviced offices run by chain operators has dropped by 9 p.p. over the last six months to 10%. High demand and noticeable decrease in vacancy lead to a limited move-in ready supply of spaces with 100+ workstations for corporate clients and to an 10-15% rise in workplace prices as compared to the previous year. The range of rates for renting a workstation in serviced offices of chain operators was 18,000 to 57,700 rubles/month.

Despite the increase in overall supply, specific requirements including location, layouts and security systems significantly narrow the choice.

This leads to the need for customization of flexible workspace, which significantly affects the workplace prices. Thus, the serviced office market is now facing the same needs as the classic office market: limited supply, increased customization costs and rising rental rates.

When choosing premises, operators are now more interested in low-price projects. Due to the growing costs of finishes and engineering fit-out, it's more and more costly to roll out speculative projects to the market, and so the share of BTS options keeps growing.

### Market indicators

Number of operational facilities

159

Operational flexible office space

398  
thou sq m

Total supply of workstations

57,000

Share of chain operators by the number of functional facilities

65%

Vacancy rate in the flexible spaces of chain operators

10%

### Key transactions with Moscow's serviced offices, H1 2024

Company	Floor area, sq m	Operator	Facility
Confidential	3 000	SOK	SOK City
Rodina Group	2 000	Apollax Space	Apollax Space Novosushchevsky
Avtotor	1 600	Apollax Space	Apollax Space Novosushchevsky
PerfectCom IT Solutions	1 487	Workki	Workki Tuskaya
Marsh – Insurance Brokers	1 273	Space 1	Space 1 Legend

## Key market indicators and forecast

	2022	2023	H1 2024	2024F
Total office stock, million sq m	19.8	20.0	20.4	20.7
Class A and Prime	5.2	5.4	5.8	6.1
Class B+/-	14.6	14.6	14.6	14.6
Completions,, thousand sq m	339.4	279.6	329.8	632.0
Class A and Prime	259.2	240.7	284.6	557.9
Class B+/-	80.2	38.9	45.2	74.1
Office take-up, thousand sq m	1,292	1,688	785	1,508
Net absorption for the period under review, thousand sq m	-5	679	560	921
Vacancy rate, %	9.1	6.6	5.5	5.0
Class A and Prime	12.7	11.0	6.0	5.3
Class B+/-	7.8	5.0	5.4	4.8
Weighted average rental rate*, RUB/sq m/year	21,203	22,065	21,274	21,699
Class A and Prime	26,821	26,193	22,332	22,667
Class B+/-	17,881	18,263	19,765	19,963

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

## Office market trends and forecast



### Growth of real rental rates

Further reduction of vacant supply and low levels of built-to-let office construction in the near future will be pushing up rental rates in popular locations and office projects. During the year, the rent growth for the office space in high demand may reach 10-15%. Not only the market imbalance but also the increase in the cost of new construction are the factors of continued price growth.



### Landlord's market

The landlord's market will be here with us during the next three years, even given the "shadow" vacancy on sale in small-size office units entering the market at the moment. Limited quality supply leads to stiff competition among tenants for similar lots.



### Growing office space absorbed by government agencies

During the next couple of years government structures will continue the absorption of plenty of office space. The government staff that has swelled 1.5 times from 2019 to 2023 generated demand for office space that will be delivered and sold, including in the commercial real estate sector.

# Services



Offices



Industrial



Retail



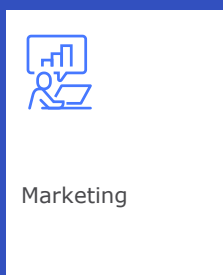
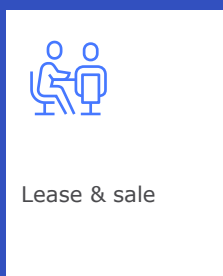
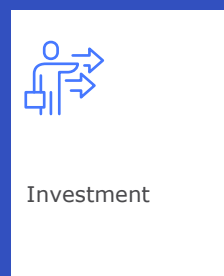
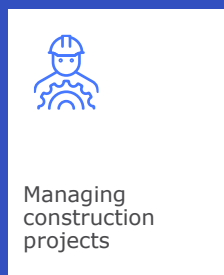
Residential



Hotels



Land plots



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