

Russia | Moscow

Office Market Overview

Q1 2023

Table 1
Key market indicators

Source: Nikoliers

	Q1 2021	Q1 2022	Q1 2023
Total office stock, million sq m	19.3	19.5	19.8
Class A	4.7	5.0	5.2
Class B+/-	14.5	14.5	14.6
Completions, thousand sq m	310	13.4	26.9
Class A	207.6	0	21.9
Class B+/-	101.8	13.4	5
Office take-up, thousand sq m	300	331	391
Vacancy rate, %	8.5	7.5	8.5
Class A	13.0	10.0	13.2
Class B+/-	7.0	6.7	6.8
Weighted average rental rate*, RUB/sq m/year	21,532	21,204	21,904
Class A	27,365	27,938	27,624
Class B+/-	16,240	17,737	17,562

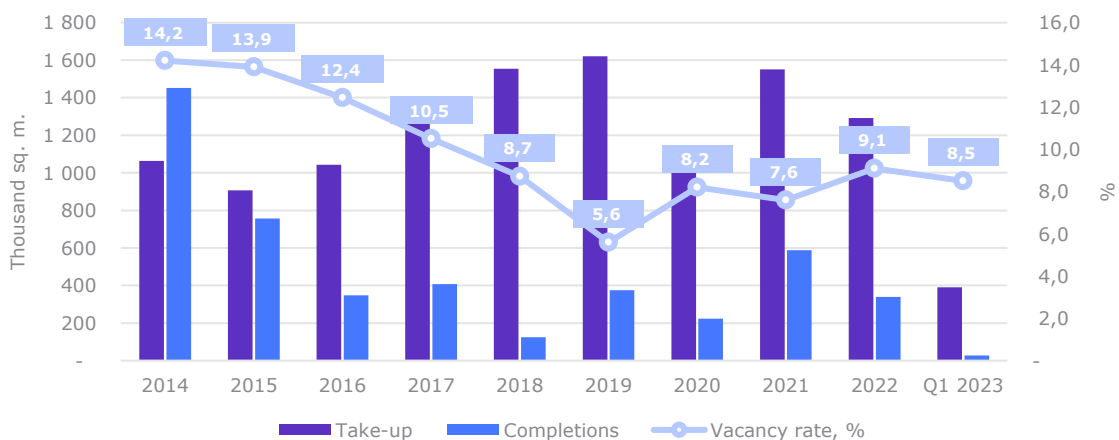
*Excluding operational expenses, utility bills and VAT (20%).

Main outcome

The Moscow office market is gradually getting back to normal after it has been negatively affected by the economic and geopolitical situation that could be obvious throughout the previous year. Total quality office stock has increased courtesy of three new facilities with the aggregate space of roughly 27,000 sq m, thus reaching the 19.8 mln sq m mark. At the present moment we see growing business activity so that demand amounted to 391,000 sq m of office space after the initial three months of 2023, up 18% year-on-year. The average vacancy rate across the market showed a 0.6% slump, which in turn had an insignificant influence on the base rent that rose 3.3% in comparison with the year 2022. That said, the Central Business District is still undergoing a gradual vacation of the office space previously occupied by foreign companies, demonstrating burgeoning vacancies and the reduction of rental rates in premium locations.

Chart 1
Key market indicators, Class A and B+/-

Source: Nikoliers

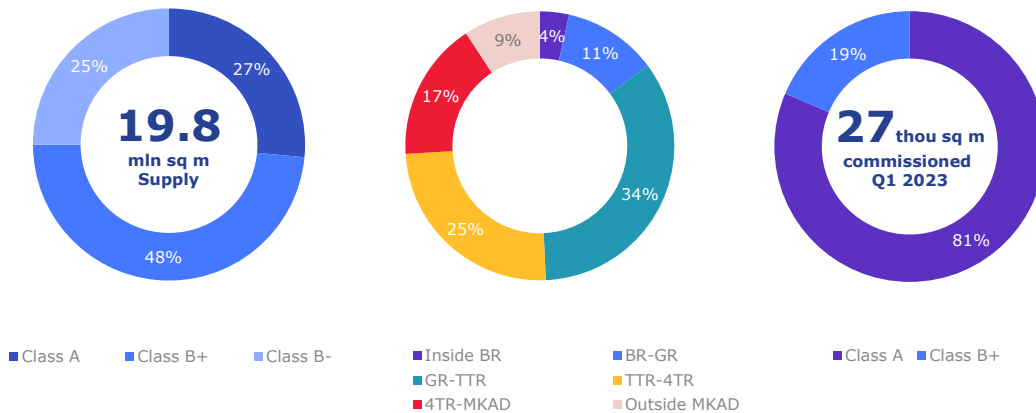


Supply

Chart 2

Breakdown of the current and new office space supply by classes and submarkets, %

Source: Nikoliers



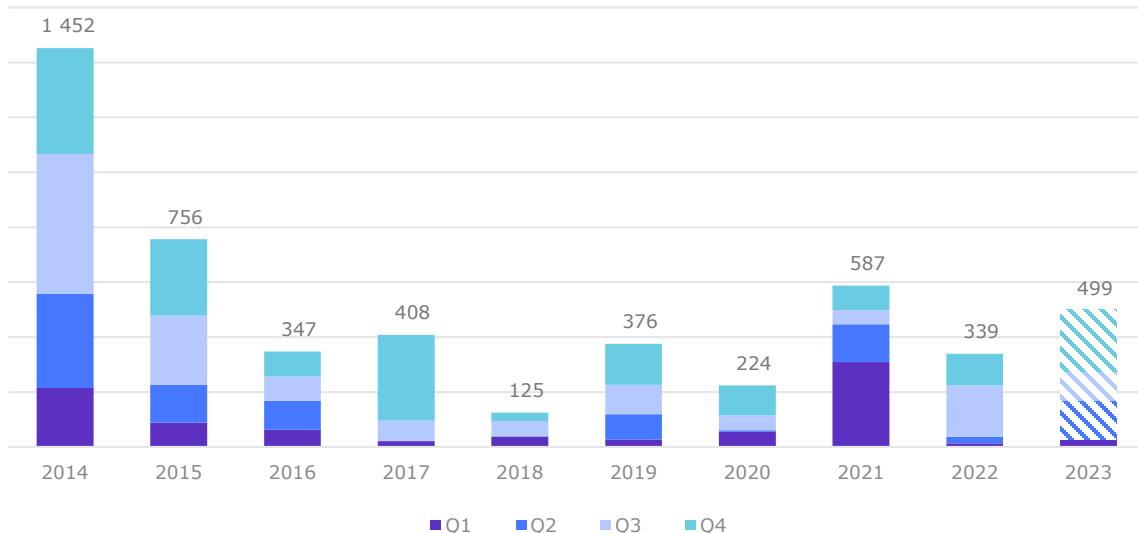
As of the end of Q1 2023 the quality supply in the Moscow office market totaled to more than 19.8 mln sq m., with 26,900 sq m being added due to the commissioning of Lomonosov innovation cluster (18,400 sq m), Lucky BC, bld. 2 (3,500 sq m) rented in its entirety by the IT firm Cloud as well as Astoria 2 BC (5,000 sq m).

About 499,000 sq m of office space is slated for commissioning by the end of 2023, the key contributors of newly built offices being Western and Leningradsky districts. That said, we cannot totally rule out the last year’s scenario, when a number of developers decided to push back the commissioning deadlines for their projects, which was caused by their response to new market conditions.

Chart 3

Office completions

Source: Nikoliers



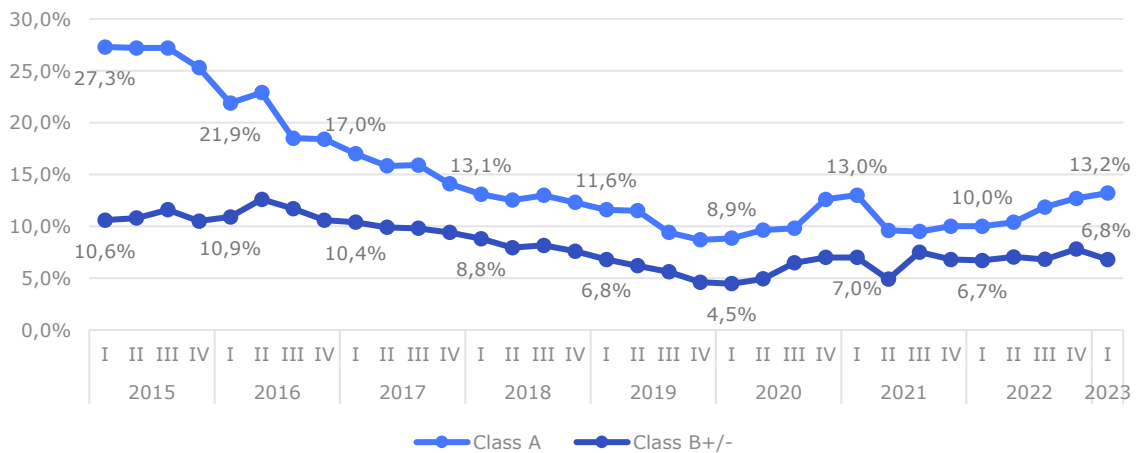
Vacancy rate

At the end of Q1 2023 the vacancy rate stabilized at the level of 8.5%, showing the 0.6% reduction against Q4 2022. Year-on-year the share of vacant premises has grown by 1%, which signals that the market has not completed its adaptation to the difficulties that emerged. We see further growth of vacancies by 0.5% in A-grade office facilities to 13.2%, which can partly be explained by foreign players vacating their offices. We expect the vacant office space growth dynamics to persist till the fall of 2023. Some of the office space is still under leases whose term expires closer to late summer – early fall of this year. In the meantime, in Class B+/-, on the contrary, vacancies tend to shrink, having stabilized at the level of 6.8%.

Chart 4

Vacancy rate by class, %

Source: Nikoliers



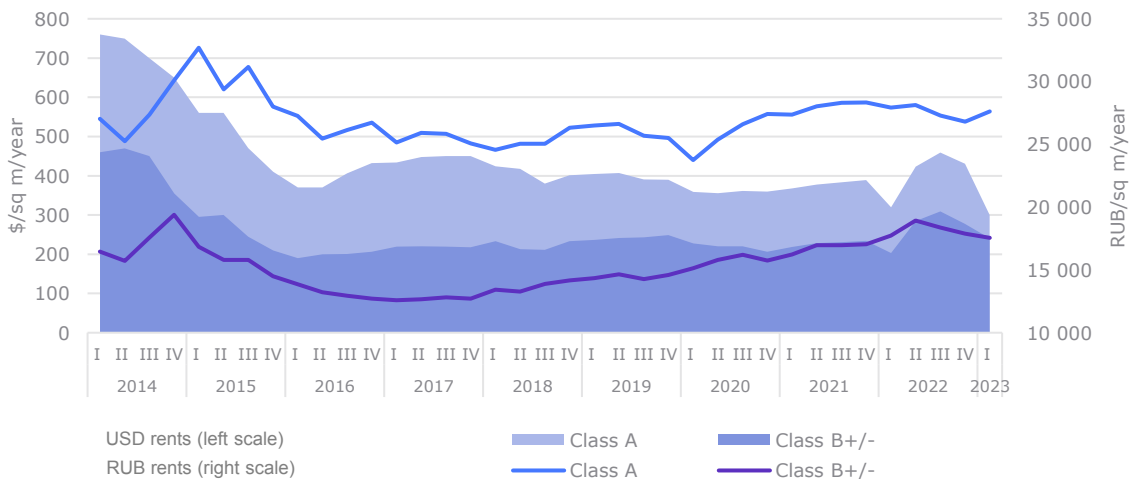
Rental rates

The weighted average rental rate in the Moscow office market stood at 27,624 rub/sq m/year in Class A and 17,562 rub/sq m/year in Class B+/- . Depending on the submarket, we saw multidirectional dynamics of growth rates. On one hand, the vacation of quality supply in premium locations resulted in the growth of average vacancies in Class A due to high-quality and relatively costly offer hitting the market. On the other hand, the rental rate tended to go down in prime locations in the midst of discounts from the owners of those office buildings where vacancies skyrocketed.

Chart 5

Rental rates by class

Source: Nikoliers



Take-up

The purchased and rented office space reached 391,000 sq m in Q1 2023, having thus exceeded the results for the similar period of the previous year by 18%. One of the key factors behind that remarkable growth has been the closing of major buy-and-sell deals which accounted for 16% of total purchased and rented office space if we look at the demand.

The greatest amount of leases was recorded in the Central Business District (33%) and Leningradsky submarket (13%). Moscow City showed a rather modest result (3.6%), which can be explained by the low level of vacancies and by high rental rates for office space in the given location.

IT and telecom companies took the lead in the demand for Moscow office space (47%); yet financial and manufacturing companies were most active in lease transactions, each sector accounting for 22% of the market.

Chart 6

Take up distribution by business sector, %

Source: Nikoliers

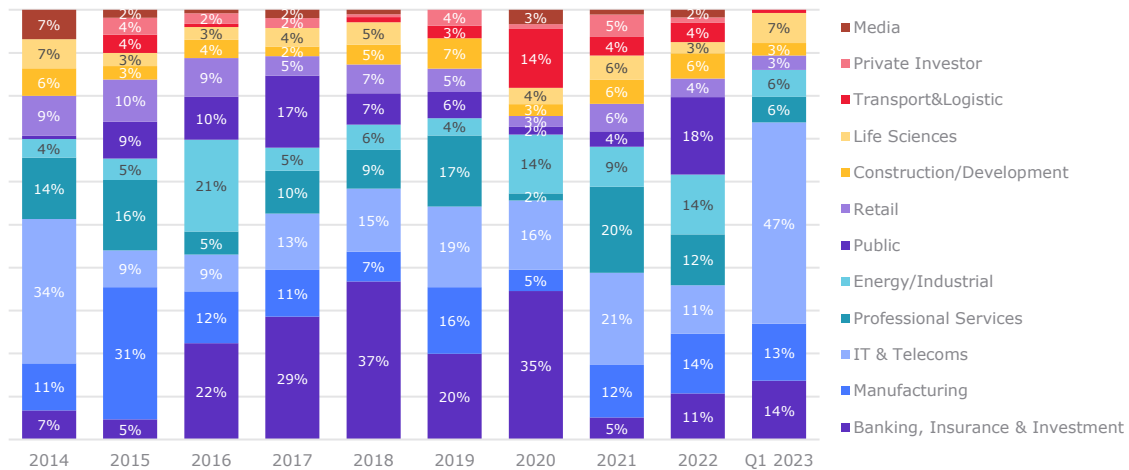


Table 2

Key Moscow office deals in Q1 2023

Source: Nikoliers

Occupier	Size, sq m	Deal type	Property name	Address	Class
VK	30 487	Sale	SkyLight, bld. A	39, bld. A Leningradsky Ave.	A
Astra	22 250	Sale	Ostankino Business Park, phase II	16, Ogorodny Drive	A
Promsvyazbank	13 916	Lease	Balchug Plaza	7, Balchug str.	A
Taxcom	5 085	Lease	Kaluzhsky TC	61a, Profsoyuznaya str.	B+
Invitro	5 000	Lease	Legion III	Kievskaya str.	B+
Chery	4 433	Lease	Metropolis	16A, bld. 2, Leningradskoye sh.	A
Gazpromneft-SM	3 832	Lease	Arqus III	37 bld. A block 14, Leningradsky Ave.	A
SSIV	2 781	Lease	Kapitoliy TC	6, Vernadsky Ave.	B+
Thomas Münz	1 816	Lease	Z-Plaza	Butyrskaya str.	B+
Ruasagro	1 336	Lease	Wall Street	35, Valovaya str.	A



Trends and forecasts

- **Slowdown in vacant space growth**

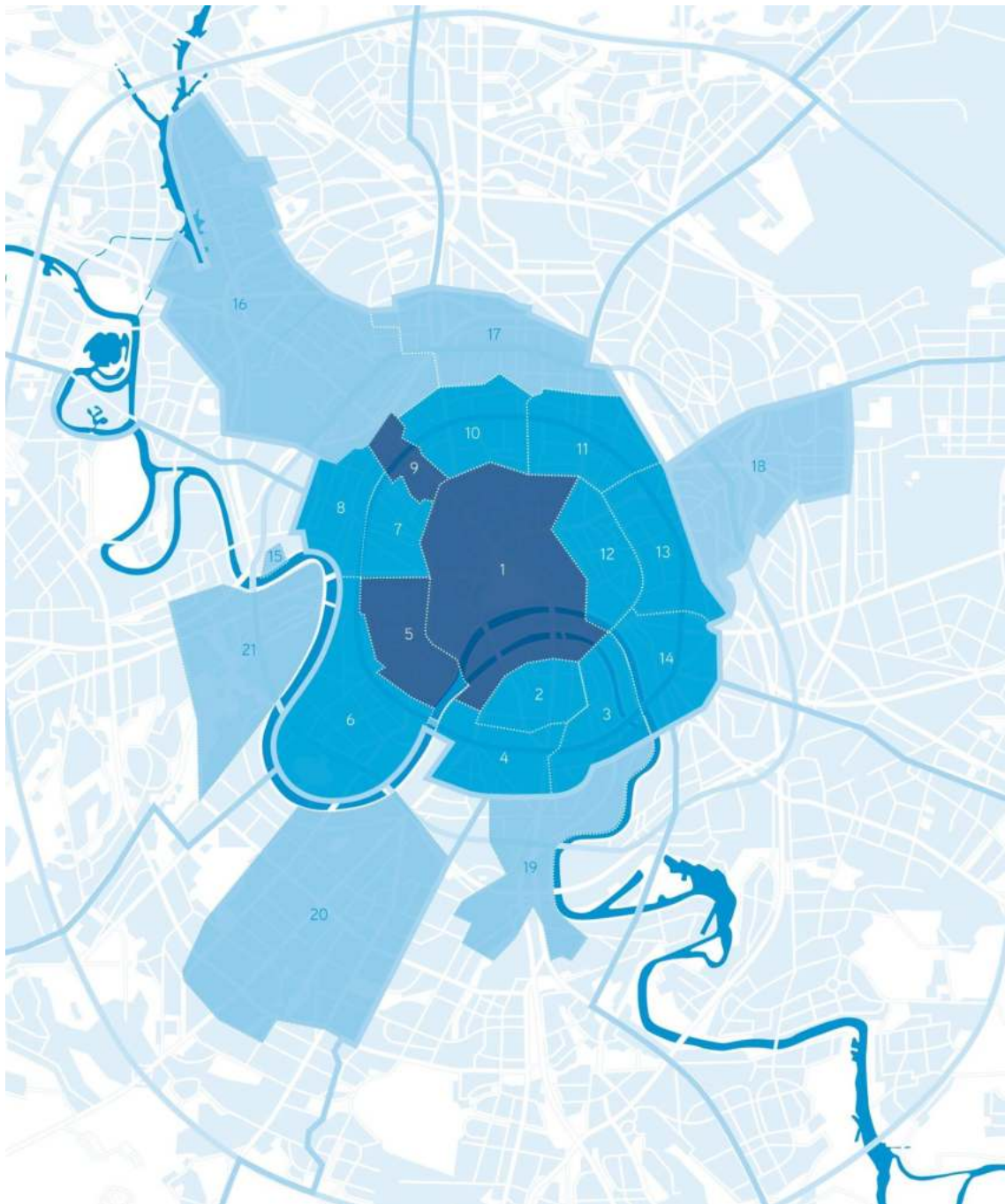
We foresee the vacant office space growth rates to slow down, which can be explained by market players stirring to greater business activity as well as by the fact that foreign business exodus has passed the critical point.

- **Slump in sublet space**

We see the 27% supply drop in the sublease market to 72,000 sq m, as compared to peak values of Q3 2022. As foreign business reduces its presence in the Russian market, “hidden vacancies” keep shrinking gradually – an increasing share of such offer goes directly from office owners. The given offices stand out due to their top-quality fit-out and office furniture available.

- **Flexible terms are still in need**

During the crisis period of 2022 there were no preferences available for occupiers who tried to sign short-term leases with flexible terms and include a clause about the possibility of preterm rescinding of their lease agreements.



Submarket	Vacancy rate			Base rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
1, 5, 9 Premium	16.7%	9.5%	3.0%	42 720	33 020	31 290
1–14 CBD (excl. Premium)	7.7%	7.5%	4.9%	32 790	22 540	21 200
15 Moscow City	5.3%	9.1%	-	43 370	27 610	-
16 Leningradsky	16.8%	11.3%	3.8%	34 820	22 260	11 900
17 Sushevsky	8.6%	3.1%	4.9%	28 210	15 210	15 260
18 Elektrozavodsky	29.4%	9.1%	8.7%	14 490	12 430	10 580
19 Tulskiy	0.0%	9.2%	2.8%	-	15 760	15 000
20 Leninsky	15.9%	4.1%	8.0%	19 260	17 520	18 060
21 Kutuzovsky	1.0%	6.1%	2.2%	37 935	19 170	11 680

Submarket	Vacancy rate			Base rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
North	100%	6.3%	3.7%	19 210	14 340	7 450
North-East	-	8.9%	1.9%	-	13 605	4 520
North-West	10.2%	8.6%	3.0%	11 730	8 140	8 270
West	10.6%	12.2%	3.0%	32 790	14 310	-
East	-	5.5%	6.1%	-	13 540	8 530
South	-	7.6%	3.5%	-	13 960	18 840
South-East	0.0%	1.6%	4.0%	-	15 300	8 990
South-West	37.0%	14.4%	6.5%	16 270	11 420	15 610

*Less operating expenses, VAT (20%) and the cost of utilities.

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