

Results 2023

Office market

Russia | Moscow

Table 1
Key market indicators
Source: Nikoliers

	2021	2022	2023
Total office stock, million sq m	19.5	19.8	20.0
Class A	5.0	5.2	5.4
Class B+/-	14.5	14.6	14.6
Completions, thousand sq m	587.4	339.4	279.6
Class A	456.1	259.2	240.7
Class B+/-	131.3	80.2	38.9
Office take-up, thousand sq m	1,550	1,292	1,688
Vacancy rate, %	7.6	9.1	6.6
Class A	10.0	12.7	11.0
Class B+/-	6.8	7.8	5.0
Weighted average rental rate*, RUB/sq m/year	20,548	21,203	22,065
Class A	28,352	26,821	26,193
Class B+/-	17,049	17,881	18,263

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

Main results

Based on the results for 2023, the office market demonstrates resilience to crisis periods and sparks high interest on the part of office space users due to the following trends: demand for office space purchase from both end-users and small private investors, as well as the desire of potential occupants to pick up ready-made office solutions.

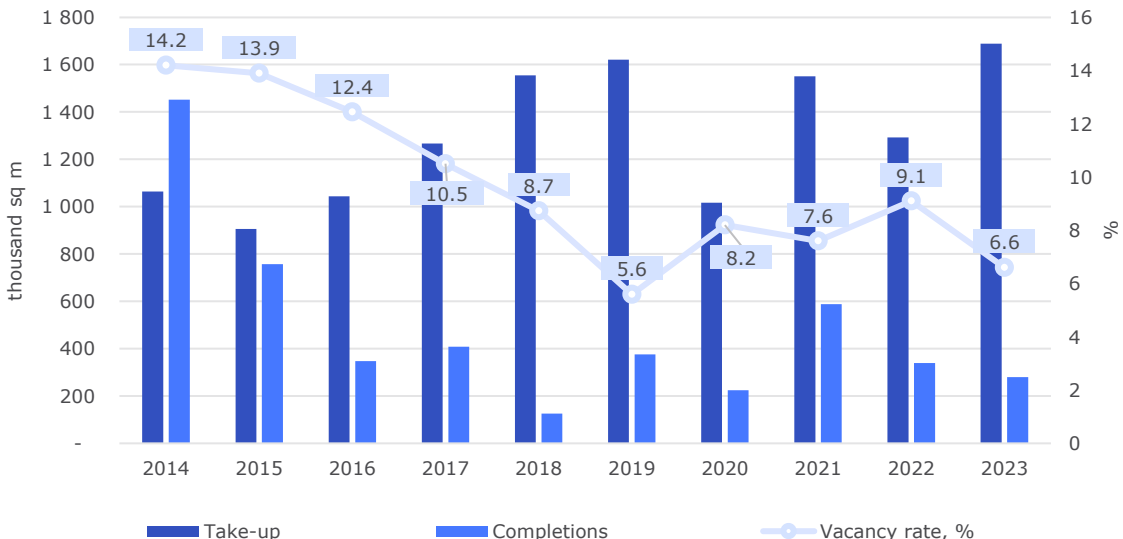
The average market vacancy rate is 6.6%. This is the record low figure for three recent years.

The weighted average rental rate showed an increase of 4% relative to the end of 2022. The rental rate is influenced both by the shift to

ready-to-rent options and changes in the supply structure as high-quality office space is being quickly absorbed, as well as by the consistently high demand amid very restrained office construction.

At the end of 2023, twenty new office projects with a total area of 279,600 sq m were commissioned, of which 86% were Class A facilities. In Q4 2023 alone 92,400 sq m of office space hit the market.

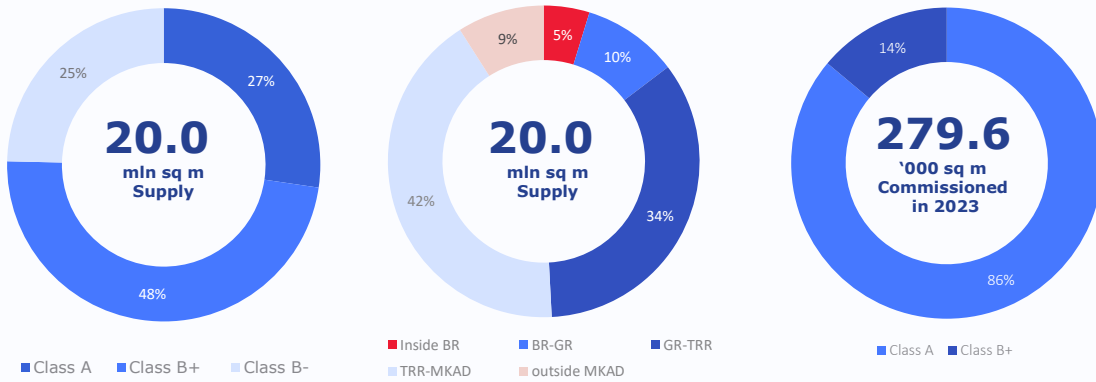
Chart 1
Key market indicators, Class A and B+/-
Source: Nikoliers



Supply

Chart 2

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



Commissioned in 2023 were 279,600 sq m of quality office space. New Class A office construction amounts to 240,700 sq m, Class B+ accounts for 14,600 sq m in new facilities, and roughly 24,300 sq m were commissioned in brownfield projects.

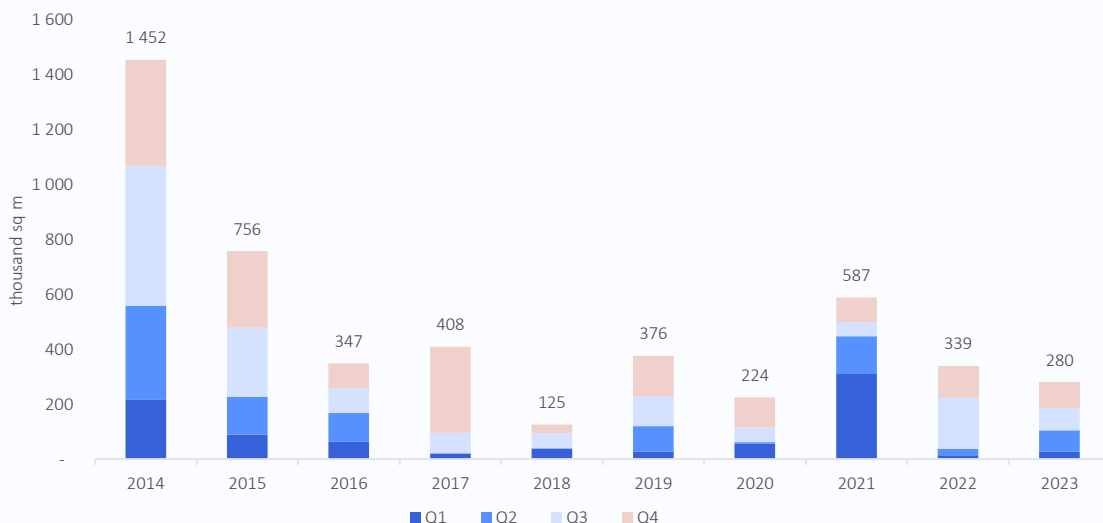
Six projects were commissioned in Q4 2023: Nagatino i-Land, Orbital, Geolog, Lucky, D-Stantsiya, Bolshaya Tuskaya 19 office facilities.

The commissioning of new premises in Q4 2023 mainly took place outside the Third Ring Road, where about 70,000 sq m (75.6%) were commissioned. The largest volume of annual commissioning is concentrated within the ZIL grounds (72,000 sq m), in Greater City (46,400 sq m), in submarkets Leninsky (45,200 sq m), Tulsky (38,100 sq m) and Sushchevsky (34,000 sq m).

New construction projects enter the market with a high degree of occupancy in them. In the buildings completed in Q4 2023 only about 11,000 sq m had been vacant by the moment of commissioning.

Chart 3

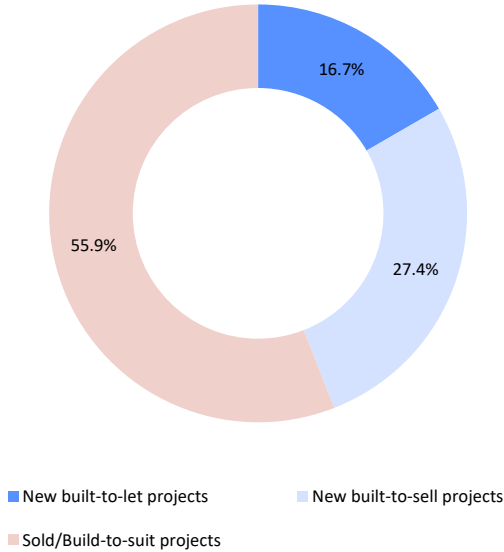
Office completions
Source: Nikoliers



New office construction in 2024

Chart 4

Forecasting the types of new office construction in 2024
Source: Nikoliers



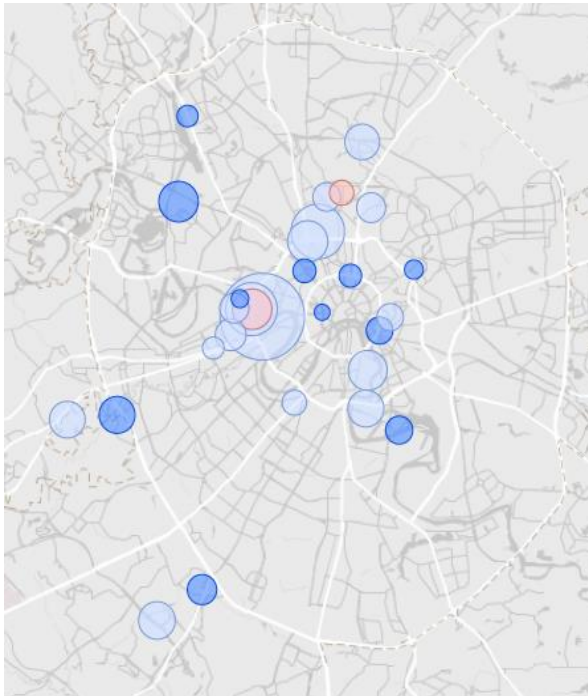
Based on the results for 2023, the office market proved its resistance to crises, demonstrating a high level of business activity even in the current situation. Office premises satisfy various needs: they are attractive as a means of investor portfolio diversification and as space needed for the expanding Russian business.

Demand for office space stabilizes the market, preventing recession in a time of uncertainty. And though developer activity is still restrained, realizing the possibility of economic gains amid high demand for new construction, some key players are developing new promising projects.

The announced commissioning for 2024 is about 848,000 sq m. According to our forecast, the actual commissioned space will be at the level of 636,000 sq m, taking into account the postponement of commissioning deadlines to later times.

Figure 1

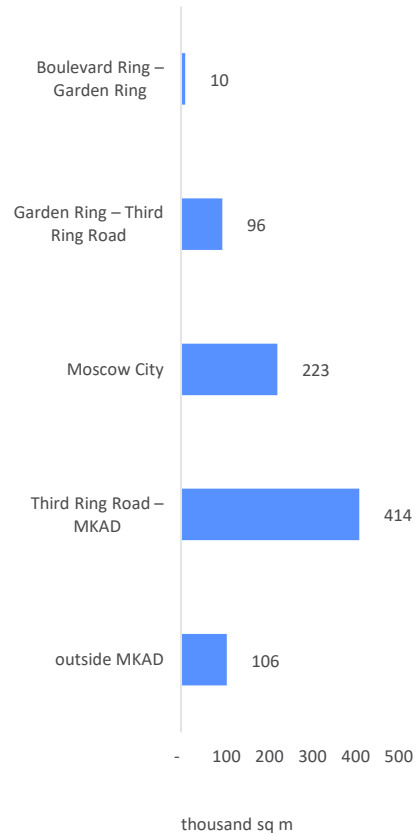
Breakdown of office construction in 2024 by the size of office space and types of monetization
Source: Nikoliers



Monetization method ● Build-to-suit ● Lease ● Sale

Chart 5

Distribution of office construction in 2024 between ring zones
Source: Nikoliers



thousand sq m

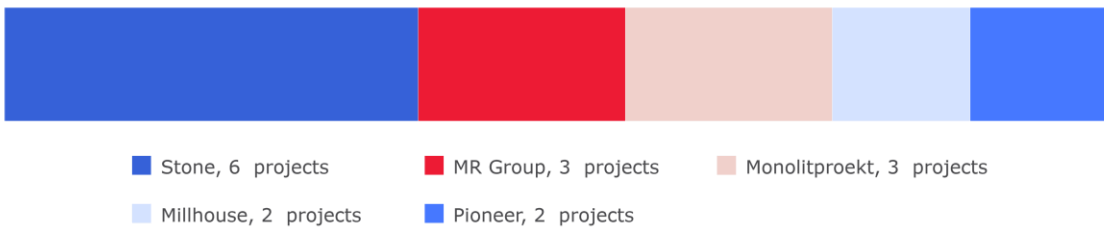
Key office projects to be commissioned in 2024



Chart 6

TOP-5 developers by the number of office construction projects to be commissioned in 2024.

Source: Nikoliers



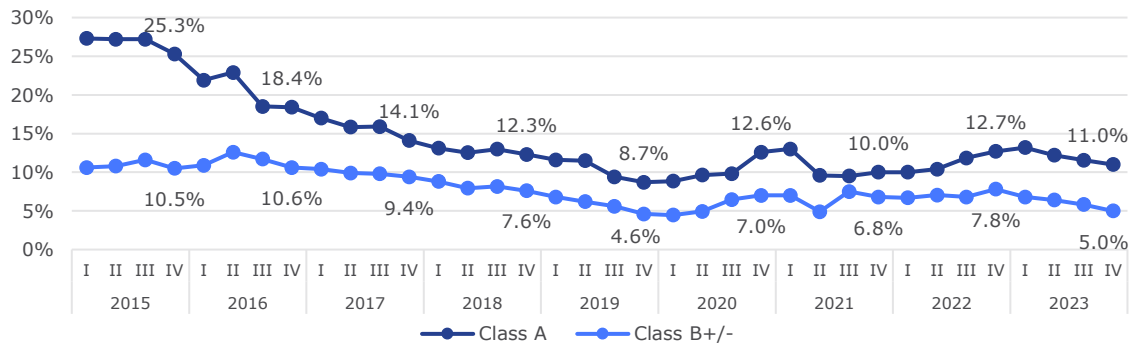
Vacancy rate

The average market vacancy rate at the end of 2023 was at the level of 6.6%. The vacant office space is rapidly shrinking – by 1.7 p.p. in Class A and by 2.8 p.p. in Class B +/- on the YoY basis.

The most conspicuous reduction in vacancies over the year could be observed in the most popular premium locations, where vacated space increased in 2022. Occupants got quickly adapted to the new conditions and found attractive opportunities to accommodate their staff. The wave of demand for office space in 2023 brought the market to the levels typical of the pre-pandemic period.

Chart 7

Vacant space shares by classes
Source: Nikoliers



Supply structure

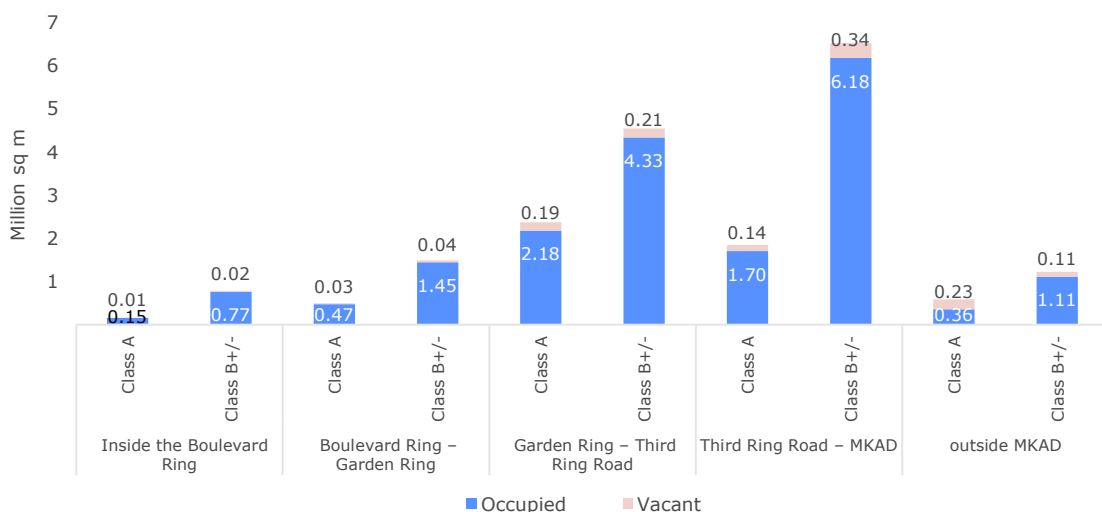
The Moscow office market climbed above the 20 million sq m mark in 2023. Notwithstanding, the supply in exposure amounts to only 1.3 million sq m, which is a relatively low figure for this massive market scale.

The largest amount of office space for lease is more or less evenly concentrated in the ring zone between the Third Ring Road and MKAD (488,000 sq m), between the Garden Ring and Third Ring Road (398,000 sq m) and outside MKAD (338,000 sq m). B+/- class prevails, amounting to 721,000 sq m.

In the structure of supply by the size of office units in exposure, units below 150 sq m clearly dominate, their share standing at about 35%. Units from 500 to 1 000 sq m account for 28% of the supply, whereas offices from 1 000 to 2 000 sq m account for 16% of the total offer.

Chart 8

Supply structure by classes and ring zones
Source: Nikoliers





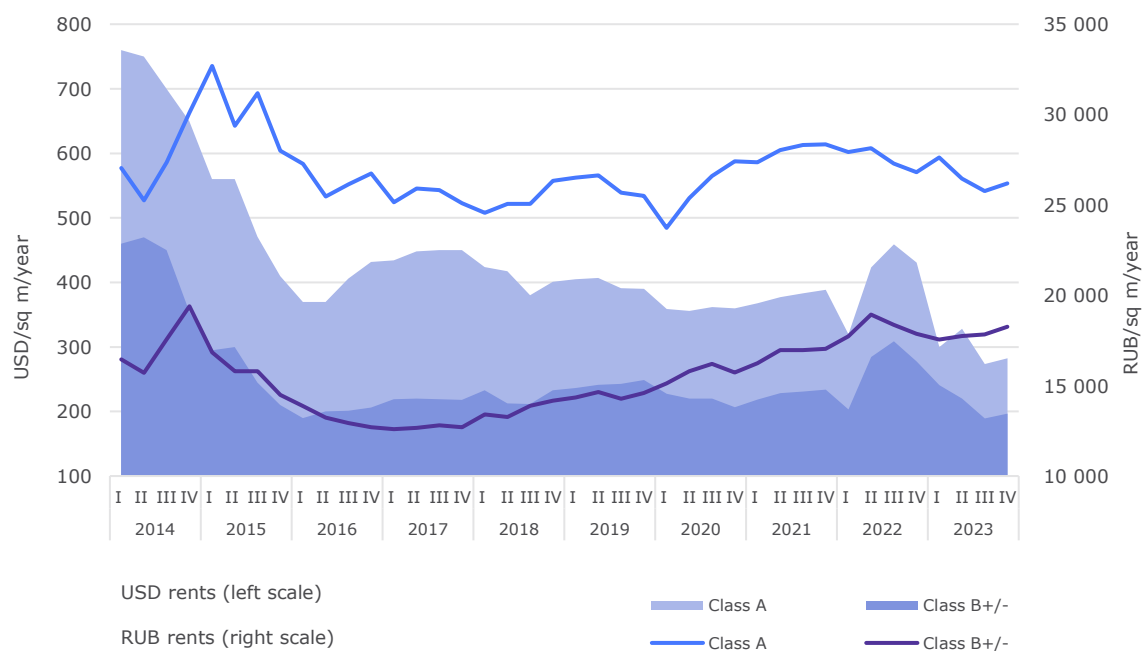
Rental rates

The average market rental rate at the end of 2023 showed a 4% growth versus the previous year, having stabilized at 22,065 RUB/sq m/year.

Persistent high demand created benign conditions for the growth of rent in the most popular areas. In the meantime, the rental rate is still below the market average in less popular locations outside the Moscow Ring Road (MKAD).

Chart 9

Rental rate by class
Source: Nikoliers

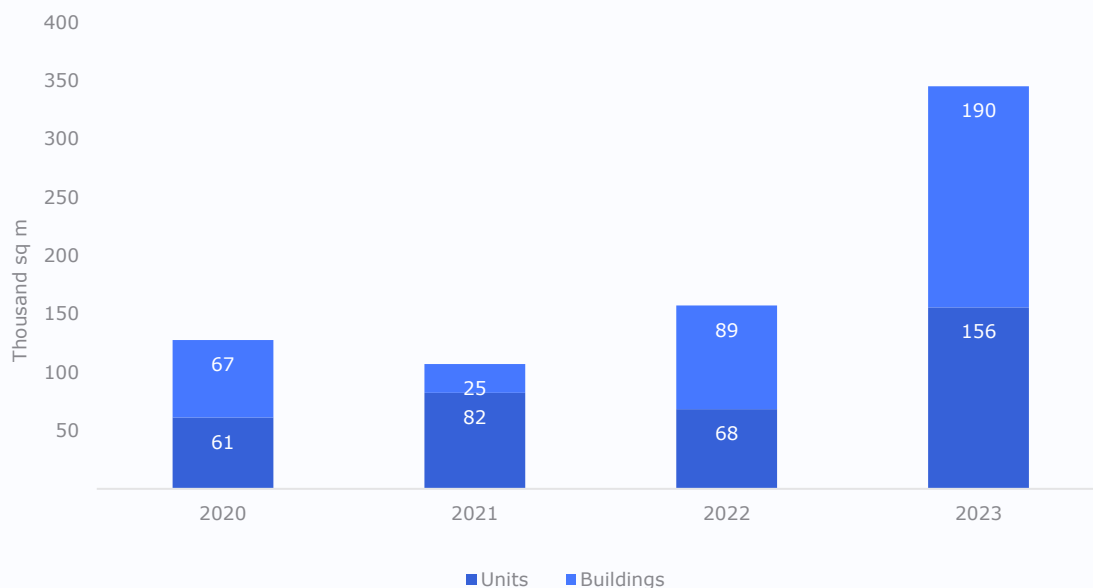


*Excluding operational expenses, utility bills and VAT (20%).

Office sales market

Chart 10

Breakdown of office purchase and sale transactions
Source: Nikoliers



The office space purchased by end users in 2023 set a record for the entire history of the market. Office purchase in 2023 accounted for 20% of the total office transactions.

As business develops domestically, the main demand is generated by large companies acquiring buildings for their own needs as well as by corporations partly owned by the state. The share of such transactions amounts to 55% of the acquired space. The activity of private investors is also high. Small-cut lots were popular throughout

the year, acting as a protective asset for fund saving.

The general economic situation determines the need to save available resources, so in 2024 the trend of office purchase will continue.

Table 2

Key sale transactions on the office market of Moscow in 2023
Source: Nikoliers

Occupier	Size, sq m	Deal type	Property name	Address	Class
Moscow Mayor's	47,000	Sale	iCity Time Tower	37, Shmitovsky drive	A
VK	30,487	Sale	SkyLight, bld. A	39, bld. A Leningradsky Ave.	A
Natsproektstroy	27,271	Sale	Orbital	10, Third Magistralnaya str.	A
Astra Group	22,250	Sale	Ostankino Business Park, phase II	16, Ogorodny drive	A
Rosselkhozbank	13,396	Sale	OKo, phase II	19, First Krasnogvardeisky drive	B+



Office space for sale in off-plan projects

Figure 2

Weighted average quoted price for office units on sale

Source: Nikoliers

Garden Ring – Third Transport Ring	Moscow City	Third Transport Ring - MKAD
410,000 RUB/sq m	630,000 RUB/sq m	389,000 RUB/sq m

The supply of offices in off-plan facilities prevails in the ring zone between the Third Ring Road (TTR) and MKAD, with 356 lots available here, of which 61% are units with the floor area below 150 sq m. In general, offices of this size make up the largest number of offers, with 270 of these in exposure.

The number of large units is limited, with only seven 2,000-sqm-plus lots available. Average market sale prices of office units increased in relation to the previous quarter due to changes in

the structure of supply and new quality projects coming on sale. Thus, there was a 2% increase in the Garden Ring – Third Transport Ring or Third Ring Road ring zone, an 8% growth in the Third Transport Ring – MKAD zone, while in the Moscow City area the price change amounted to about 1% as compared to the previous quarter.

Table 3

Primary supply

Source: Nikoliers

Ring zone/unit size	<150	150-500	500-1 000	1 000-2 000	2 000-5 000	>5000	Buildings
Supply, sq m							
GR-TTR	4,165	5,407	1,878	18,103	8,282	15,600	55,784
Moscow City	-	9,281	2,055	13,148	2,242	-	-
TTR-MKAD	19,587	22,923	12,059	47,556	-	6,960	34,012
Average price, thousand RUB/sq m							
GR-TTR	423	442	495	459	390	340	278
Moscow City	-	631	629	633	609	-	-
TTR-MKAD	379	420	387	374	-	428	311

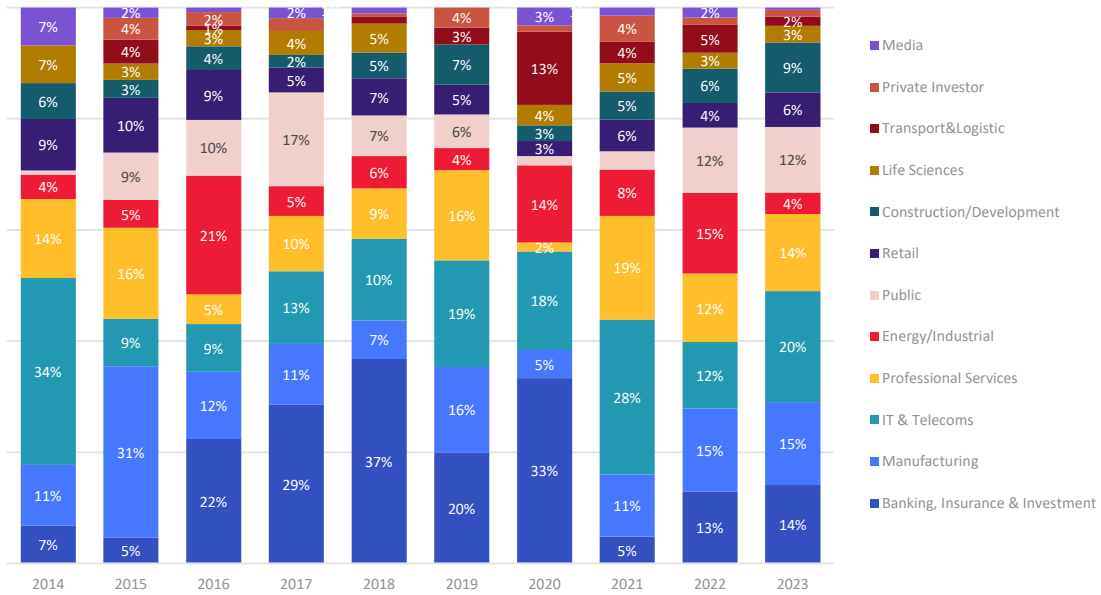
The prices include VAT except for co-investment projects.

Take-up

The demand in 2023 amounted to about 1.7 million sq m, which is commensurate with transaction volumes in 2018, 2019 and 2021, when the demand was at its peak. Meanwhile the net absorption* stood at 679,000 sq m amid consistently high demand and, as a result, the vacancy rate contracted.

Chart 11

Take up distribution by business sector, %
Source: Nikoliers



*Calculated as a difference in occupied office space at the end and the beginning of the period under review (calendar year).

In crisis periods, state-owned companies have a significant impact on demand. A similar trend was observed in 2023, when structures with state participation acquired a significant amount of office space.

The main generators of demand by business sector are IT and telecommunications (20%), manufacturing (15%), banks and financial companies (14%), as well as professional services (14%).

Table 4

Key lease transactions on the Moscow office market in 2023
Source: Nikoliers

Occupier	Size, sq m	Deal type	Property name	Address	Class
Central university (Tinkoff)	14,249	Lease	Ducat Place II	7 bld. 1, Gasheka str.	B+
Promsvyazbank	13,916	Lease	Balchug Plaza	7, Balchug str.	A
B1 Group	9,930	Lease	Aurora Business Park, bld. F	75 bld. F2, Sadovnicheskaya Emb.	A
Confidential	9,583	Lease	Legion II, phase I	9, Bol. Tatarskaya str.	A
Confidential	9,519	Lease	Mokhovaya, phase II	4-7 bld. 1, Vozdvizhenka str.	A

Demand for serviced offices

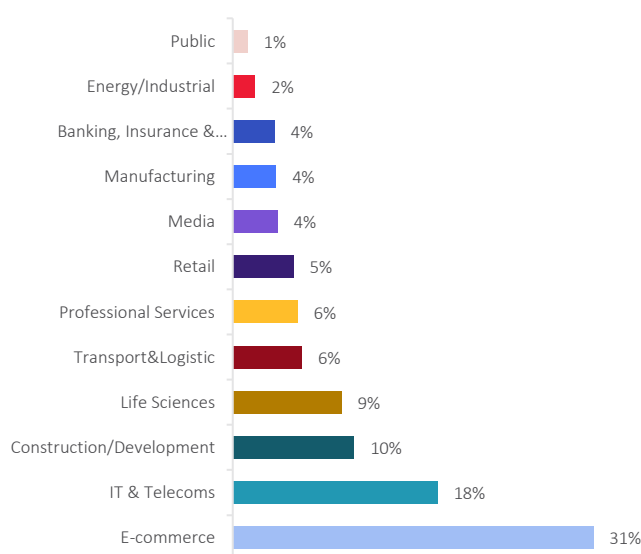
The demand for serviced offices in 2023 exceeded the final figure for 2022 by 73%. Thus, lease transactions in serviced offices amounted to about 54,000 sq m, including sublease from Ozon on the Business Club site in Iskra-Park BC.

The interest in serviced offices keeps growing in the current situation in the midst of quality office supply contraction in exposure and the occupants' stable demand for ready-made office options.

Vibrant activity on the market is supported by e-commerce companies (31%), IT and telecommunications sector (18%), as well as construction and development firms (10%).

Chart 12

Breakdown of demand for serviced offices by business sectors, %
Source: Nikoliers



1.9%
the share of flexible workspace in
the total office space supply

88%
the share of chain operators in
the total supply

54,000 sq m
demand for serviced offices in
2023

Table 5

Key transactions with serviced offices on the Moscow market in 2023
Source: Nikoliers

Occupier	Size, sq m	Operator	Facility
Sbermegamarket	10,000	Flexity	Ovchinnikovskaya
Wildberries	6,000	Businessclub	Iskra-Park
Delrus	4,827	Manufaqtury	Poklonka Place
FSK Group	3,144	Officeless	Officeless Polyanka
OBI	1,600	Businessclub	Iskra-Park
Etalon Group	1,547	Workki	Novoryazansky
Confidential	1,542	Workki	Komsomolskaya
Vostochny veter	1,500	Multispace	Arena Park
Rosman	1,500	SOK	Arena Park
NSIS	1,133	Flexity	Paveletskaya Plaza

*The rental rates for flex office space include OPEX, utility charges and VAT (if applicable)

Office market trends and forecast

Demand for offices with modern fit-out

Throughout the year, office space with high-quality finishes and modern, efficient space layouts were in demand among occupants. In 2024, such options will retain their advantage.

Scarcity of quality supply

The high volume of transactions in the office segment increases the occupancy of quality facilities in high demand. Yet, the market is crippled by a shortage of large office units (from 5,000 sq m) for lease.

Interest in office purchase

We expect continued interest in office purchase from large companies (5,000 sqm+plus units) and small private investors (50 – 150 sq m).

As attractive options in the built facilities are waning, demand is rapidly drifting towards off-plan projects. Greenfield developments are commissioned with leases signed almost to the entire space. We expect this trend to continue in 2024.

Shrinking built-to-let space

In the structure of construction by monetization method, sales prevail, with about 55.9% of the space commissioned in 2024 already sold or occupied by users (including the active negotiation stage).

It is expected that 636,000 sq m of office space will be commissioned, of which only 16.7% will be offered for lease.

Market demand

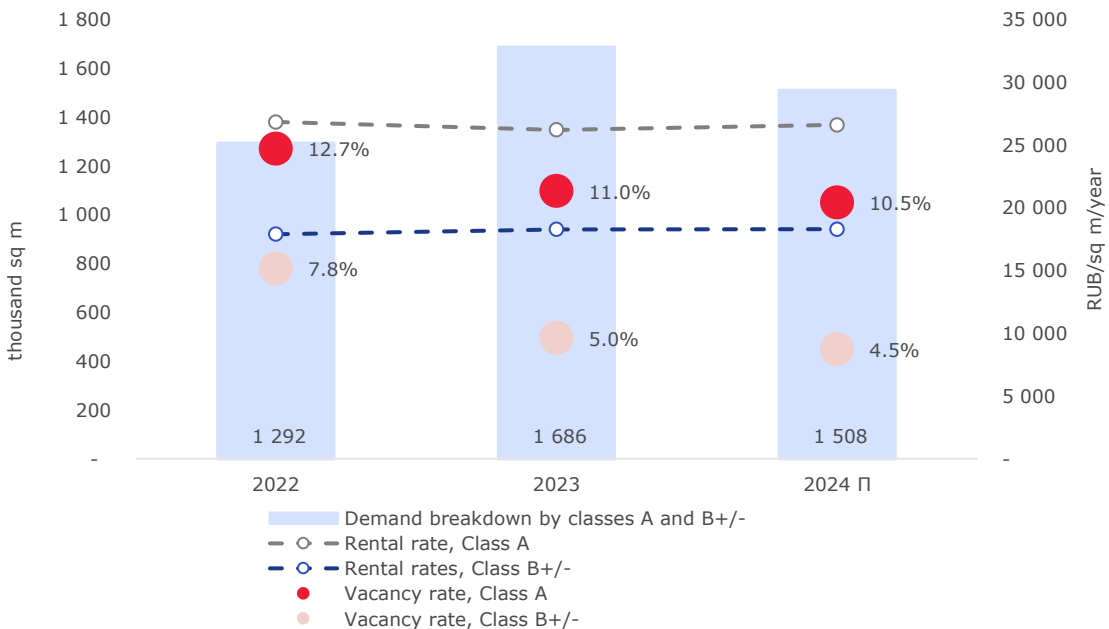
Sturdy demand will gradually stabilize and in 2024 the volume of transactions will be about 1.5 million sq m, in which case the net absorption will be in the range of 550-600 thousand sq m. The expansion of Russian business and new demand for spaces will continue to be the driver of office space occupancy.

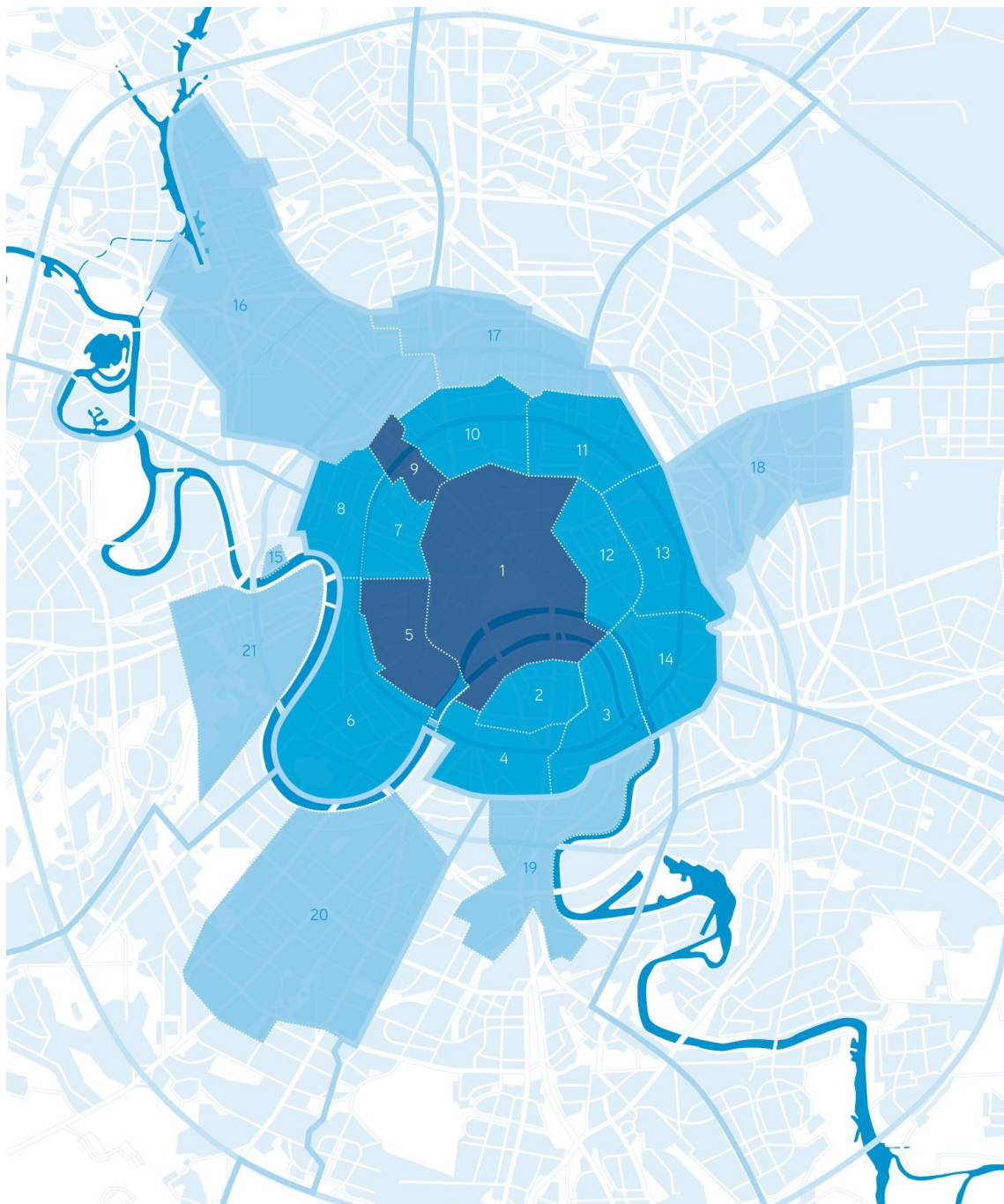
Rent appreciation

In 2024, we expect further growth of the rental rate, but a slowdown in the growth dynamics. As always, the rental rate within the Moscow Ring Road will traditionally grow much faster.

Chart 13

Forecast for 2024
Source: Nikoliers





Submarket	Vacancy rate			Base rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
1, 5, 9 Premium	19.0%	4.0%	2.9%	40,362	30,512	22,449
1-14 CBD (excl. Premium)	5.6%	4.9%	3.1%	34,034	24,418	25,845
15 Moscow City	3.1%	4.1%	-	45,068	25,685	-
16 Leningradsky	9.8%	8.7%	2.3%	33,741	21,946	19,380
17 Sushchevsky	6.4%	3.9%	3.2%	26,071	21,084	15,999
18 Elektroavodsky	32.1%	7.1%	6.3%	21,461	17,256	12,530
19 Tulsky	7.6%	5.1%	3.8%	21,047	20,492	16,549
20 Leninsky	5.6%	5.9%	14.6%	24,300	21,973	14,341
21 Kutuzovskiy	-	2.0%	-	-	18,195	-

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

The range of Moscow rings	Vacancy rate			Base rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
Inside the Boulevard Ring	6.2%	2.7%	2.0%	50,859	31,906	26,731
Boulevard – Garden rings	5.4%	2.3%	3.3%	36,476	27,045	21,814
Garden Ring – TTR	8.0%	5.0%	3.6%	38,848	23,703	19,241
TTR – MKAD	7.8%	5.5%	4.7%	26,899	18,944	15,230
Outside MKAD	38.8%	13.0%	2.7%	13,261	10,360	10,059

Services



Office



Industrial



Retail



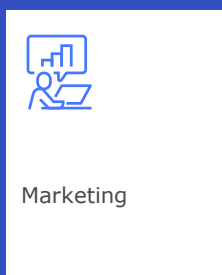
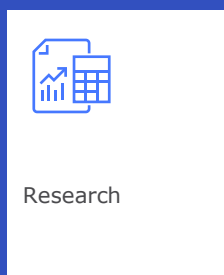
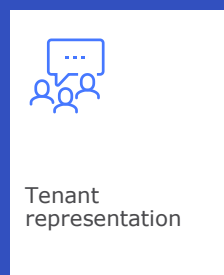
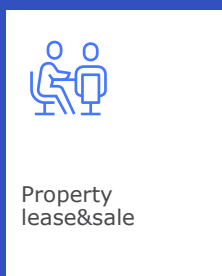
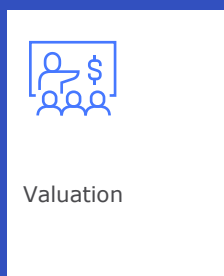
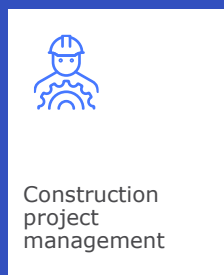
Residential



Hotel



Land plots



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