

Russia | Moscow

Office Market Overview

H1 2023

Table 1
Key market indicators

Source: Nikoliers

	H1 2021	H1 2022	H1 2023
Total office stock, million sq m	19.4	19.5	19.9
Class A	4.9	5.0	5.3
Class B+/-	14.5	14.5	14.6
Completions, thousand sq m	446.3	37.8	104.7
Class A	344.5	0	99.7
Class B+/-	101.8	37.8	5.0
Office take-up, thousand sq m	681	556	875
Vacancy rate, %	8.1	7.9	8.0
Class A	11.5	10.4	12.2
Class B+/-	7.0	7.0	6.4
Weighted average rental rate*, RUB/sq m/year	20,823	22,242	21,503
Class A	28,040	28,145	26,460
Class B+/-	16,795	18,939	17,753

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

Main results

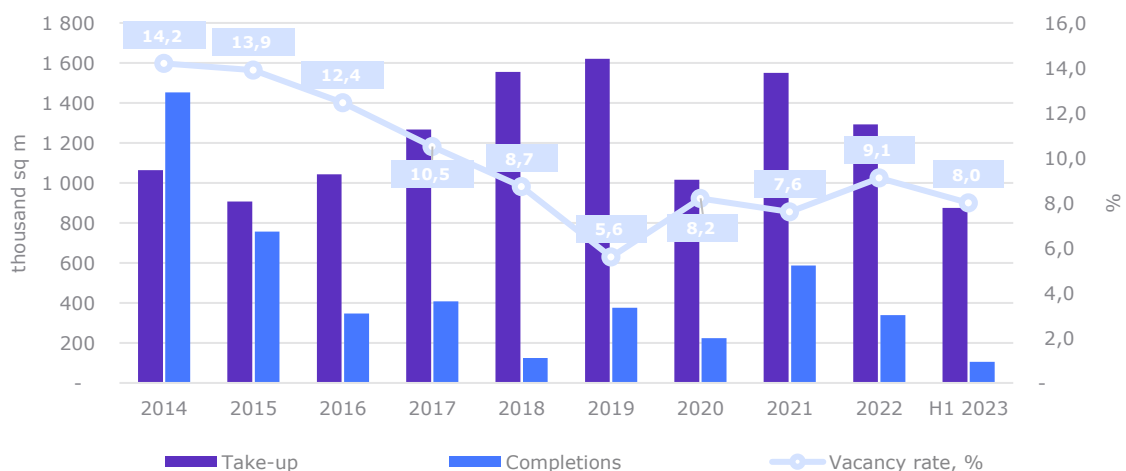
The changes in key indicators are the best evidence of revitalization of the Moscow office market participants. According to the first half-year results, the vacancy rate in Class A dropped by 1 p.p., in Class B+/- by 0.4 p.p. (relative to Q1 2023). The growth of rental activity, as well as the entry of new partly monetized properties (sold or leased) at the construction stage leads to higher occupancy rates.

In Q2 2023, three new A-grade projects were commissioned: DM Tower, Park Legend, Capital Towers. In total, 104,700 sq m of quality office space were commissioned in the first half of the year.

Moscow office property market continues the process of adaptation, adjusting to the market conditions. Corrections of the rental rates, caused by individual commercial terms of the owners, are also reflected in the level of rental rates: in Class A the decrease was 4.2%, in Class B+/- the rates are 1.1% up.

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

Source: Nikoliers

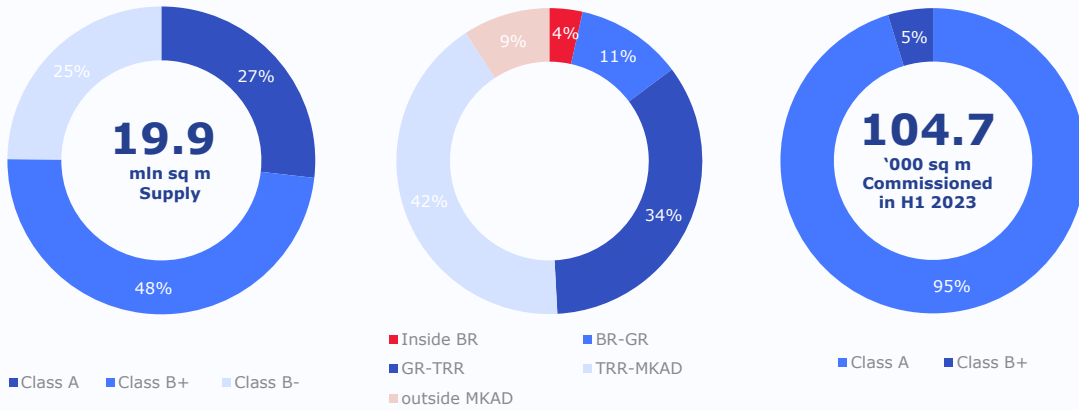


Supply

Chart 2

Breakdown of existing and new office supply, by classes and submarkets, %

Source: Nikoliers



In the first half of 2023, we saw 104,700 sq m of quality office space commissioned, while in Q2 2023 three new Class A office projects, such as DM Tower (GLA – 27,100 sq m), Legend Park (GLA – 41,900 sq m), and Capital Towers (GLA – 8,800 sq m) were delivered to the market. Two office buildings are being sold by lots, and by the time of their commissioning about 64% of office space had already been sold there.

Given the dynamics of project sale at the construction stage, we can speak about the current demand for such a product on the office property market.

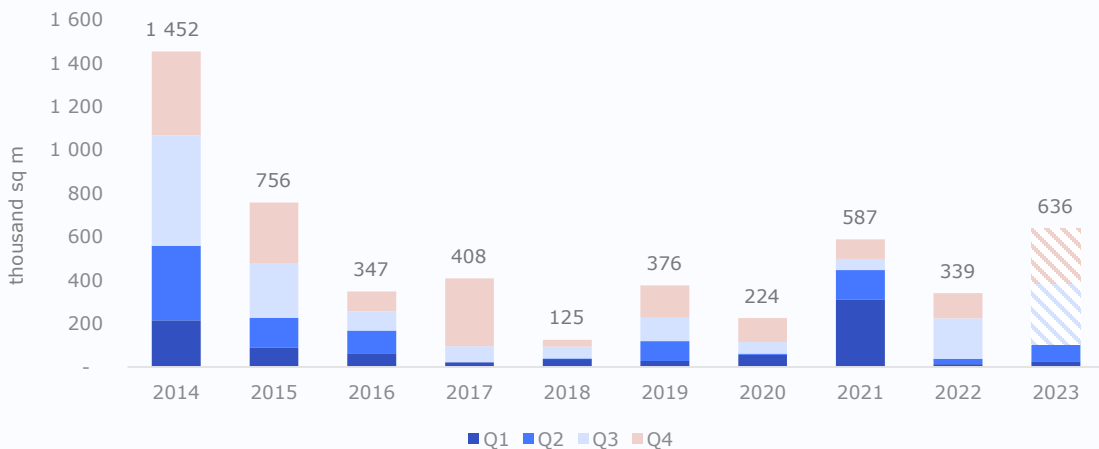
New supply in H1 2023 is mainly located outside the Third Ring Road. Thus, the TRR-MKAD zone accounts for 83% of the new office space supply, 5% of office space was supply beyond the MKAD, while office space inside the TRR accounted for 12% of the new supply in H1 2023.

In the second half of 2023, about 531,000 sq m of office space is expected to be commissioned, of which 67% are Class A facilities. Developers have accelerated the pace of project delivery compared to last year, but we still observe restrained dynamics of new supply growth compared to the new space announced at the beginning of the year. Meanwhile, the smooth commissioning of construction ensures that new supply is built into the market without causing vacancy growth or stoking consumer interest.

Chart 3

Office completions

Source: Nikoliers



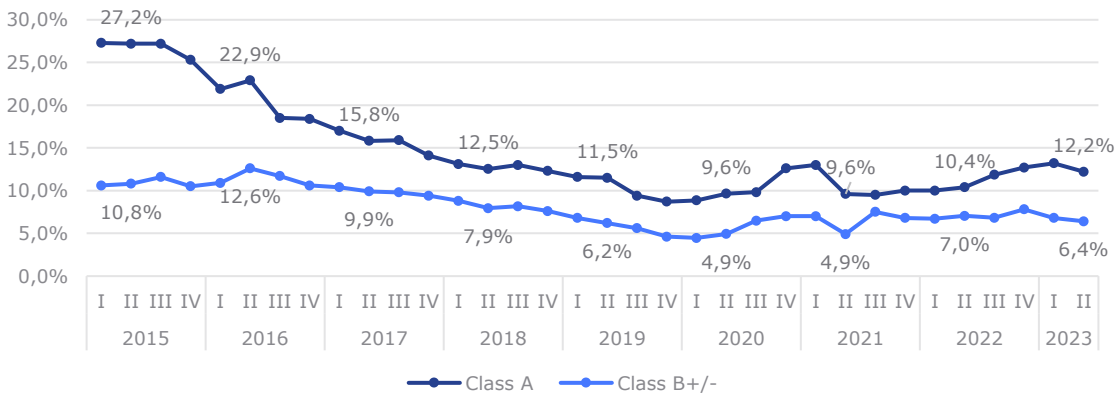
Vacancy rate

Reinvigoration of demand in the first half of 2023 led to shrinking vacancies, so that the overall vacancy rate was recorded at 8% (-0.5 p.p. vs. Q1 2023 and -1.1 p.p. vs. the final figure for 2022). That said, relative to Q1 2023 vacancy in Class A Premium submarket, which is the most expensive location, showed an increase of 1.4 p.p.; in Class B+/- vacancy growth by 2 p.p. was recorded in Tulsy and Leninsky submarkets.

During the previous year the majority of foreign businesses have reconsidered their options of presence in Russia, having restructured their business or left the country, so the influence of this factor on the office market will gradually diminish. The main driver of demand will be burgeoning Russian business and realization of demand accumulated during the previous periods of turbulence in 2020 and 2022.

Chart 4
Vacancy rate by Class

Source: Nikoliers



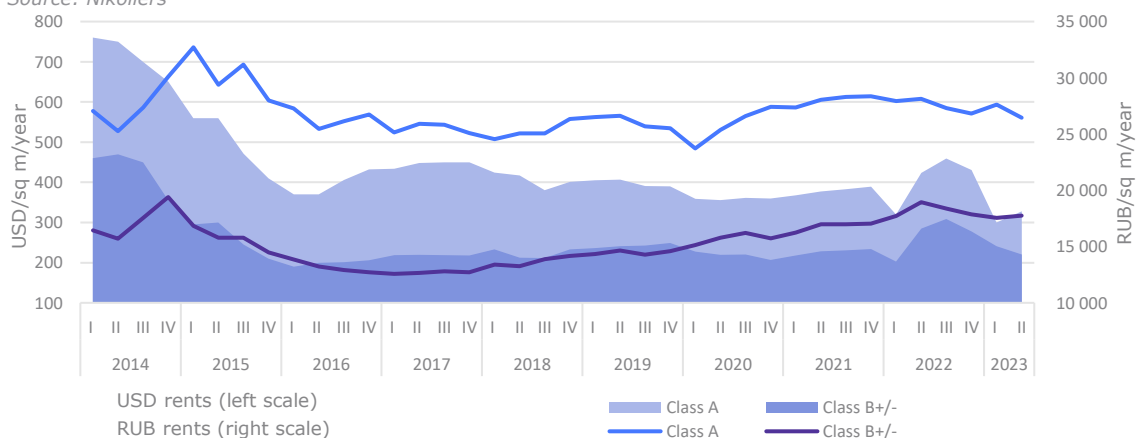
Rental rates

Weighted average rental rates showed multidirectional adjustment, having fixed at RUB26,460/sq m/year in Class A (-4.2% vs. Q1 2023) and RUB17,753/sq m/year in Class B+/- (+1.1% vs. Q1 2023). Inside the MKAD the rates grew by 2.5% in Class B+/-, while outside the MKAD the rates went down 5.5% (vs. Q1 2023). A similar picture can be observed in Class A outside the MKAD, where the weighted average rate sank by 8.8% during the quarter, which has a significant impact upon the average market rate in Moscow.

The demand of Russian business for less expensive properties inclines owners to reduce the rate to ensure the employment of empty space. For example, in Class A Premium submarket the weighted average rate slid by 1.9% versus Q1 2023. The market is developing an atypical picture in Class A: both vacancies and rental rates are declining. On the one hand, this is due to the withdrawal from the market of a part of the high-quality offer at a rate higher than the average market, at the same time, the owners of less sought-after objects in an attempt to attract a potential tenant began to reduce rates.

Chart 5
Rental rates by class

Source: Nikoliers

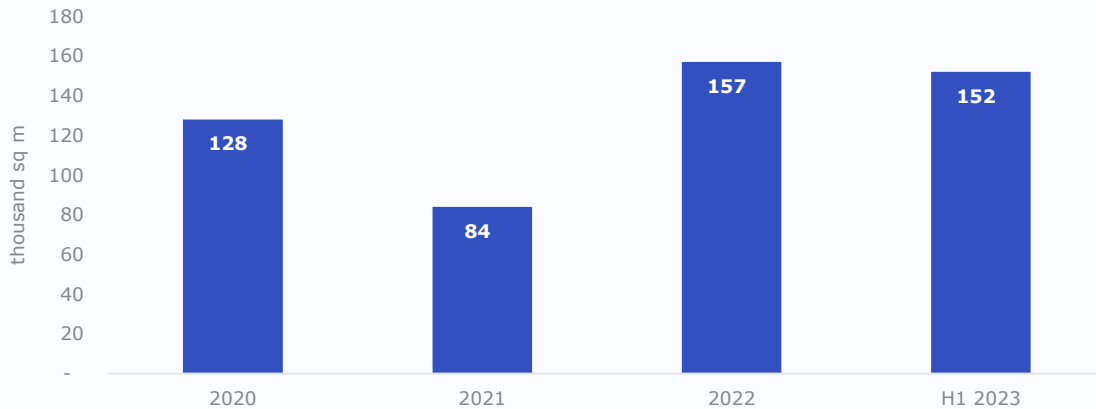


Office sales market

Chart 6

Breakdown of office purchase and sale transactions

Source: Nikoliers



In the first half of 2023, the amount of closed office space purchase and sale deals reached 152,000 sq m, which is 96% of the final figure for 2022 and is a record for the entire history of the market.

In terms of demand for office premises from end-users, companies also tend to buy office buildings in their entirety. The share of such transactions, according to the data for 2022, stood at 55% of the total purchased space, and as per the results of H1 2023 these accounted for 59% of the total transaction amount.

Attractive offers are monetized already at the construction stage, as the market is in need of quality space, while the low-paced commissioning of new builds keeps prices for attractive lots at a high level.

Meanwhile, the demand for large units (5,000 sq m and larger) whips up competition among buyers due to a limited number of such options on the market.

In the first half of 2023, significant to the market acquisitions were made, such as the purchase of one of the SkyLight towers by VK, the purchase of the 5th building within Ostankino Business Park by Astra Group, and the purchase of 13,400 sq m in BC Oko Phase II by Rosselkhozbank.

Table 2

Key sales transactions on the Moscow office market in H1 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 Group	22,250	Sale	Ostankino Business Park, phase II	16, Ogorodny drive	A
Insight IC	18,600	Sale	Legion II	11B, Tatarskaya str.	A
VARTON	16,250	Sale	Ostankino Business Park, phase II	16, Ogorodny drive	A
Rosselkhozbank	13,396	Sale	Oko Phase II	19, First Krasnogvardeisky drive	B+

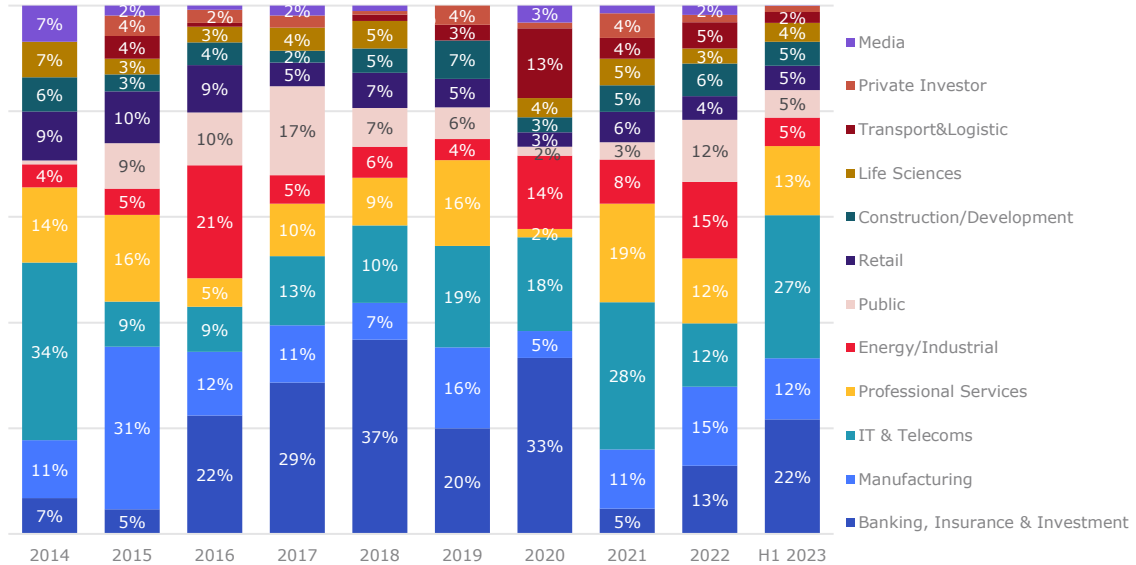
Take-up

The total office space bought and leased in H1 2023 stood at 875,000 sq m, exceeding the result for the same period of 2022 by 57%, while the result in relation to H1 2021 was trumped by 28%. The activity of the market participants is supported by the realization of pent-up demand generated over the turbulent period of 2020 and 2022. The net absorption in H1 2023 amounted to 292,000 sq m (in 2022 the net absorption was negative).

Chart 8

Take up distribution by business sector, %

Source: Nikoliers



The main market players in terms of transaction amount in H1 2023 are IT and telecom companies (27%), banks and financial companies (22%), professional services (13%) and manufacturing (12%).

In addition, the growing amount of office space sale and purchase transactions was a significant factor of burgeoning demand. The largest transactions in H1 2023 are represented by sale and purchase transactions.

Table 2

Key lease transactions on the Moscow office market in H1 2023

Source: Nikoliers

Occupier	Size, sq m	Deal type	Property name	Address	Class
Promsvyazbank	13,916	Lease	Balchug Plaza	7, Balchug str.	A
Takskom	5,085	Lease	Kaluzhsky	61a, Profsoyuznaya str.	B+
Invitro	5,000	Lease	Legion III	7, Kievskaya str.	B+
Chery	4,433	Lease	Metropolis	16A Bldg 2, Leningradskoe sh.	A
Rosseti Cifra	4,000	Lease	Diapazon"	10 bld 10, 1st Volokolamskiy Ln.	B+

Serviced offices

Lease transactions in serviced offices totaled to about 34,000 sq m, twice more than in the previous year. Market activity is backed by companies from the retail sector (42%), medicine and pharmaceuticals (16%), as well as IT and telecom sector (15%). The demand was to a large part generated by major transactions that were completed in Q2 2023 on Flexity and Manufactory venues.

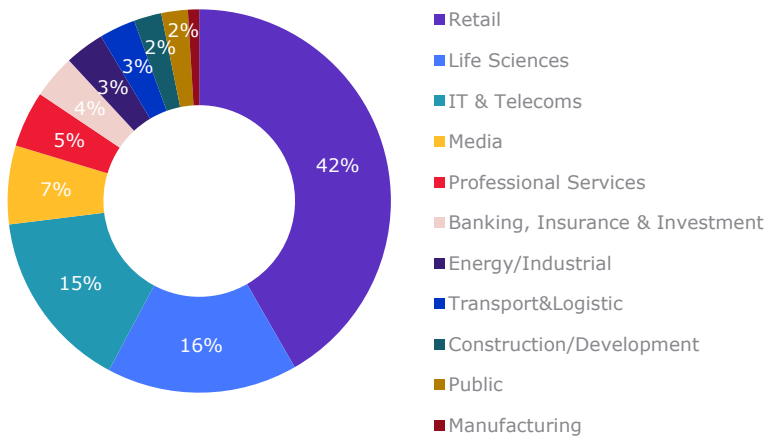
A serviced office is an attractive option to house the team, eliminating the involvement of staff in administrative processes. For fast-growing businesses and in a volatile environment, accelerated contracting and access to the workstation is an important advantage.

In H1 2023, around 9,200 sq m of new serviced office space have been added, which translated to a 2% market growth. The total supply amounted to 385,000 sq m. Four facilities were opened in H1 2023: Atmosphere Izvestia inside the Garden Ring, Praktik Proletarskaya, Workki FOC and Tovarischestvo Gonchar – within the TRR.

Chart 9

Breakdown of demand for serviced offices by business sectors of companies

Source: Nikoliers



385,000 sq m
Total serviced office space
in Moscow

4 facilities
Opened in H1 2023

2%
flexible workspaces in the total
office market share

Table 3

Key transactions in Moscow serviced offices, H1 2023

Source: Nikoliers

Occupier	Size, sq m	Operator	Property name
Sbermegamarket	10,000	Flexity	Ovchinnikovskaya
Delrus	4,827	Manufactory	Poklonka Place
OBI	1,600	BusinessClub	Iskra-Park
Confidential	1,542	Workki	Komsomolskaya
Rosman	1,500	SOK	Arena Park
Russian Railways	1,131	Workki	Komsomolskaya
GoMobile	1,128	KNOW WHERE	BALCHUG
Samsung R&D Institute RUS	1,014	Flexity	Ovchinnikovskaya
Baimskaya MC	1,000	Space 1	Mercury
BetBoom	1,000	BusinessClub	Iskra-Park

Trends in the office market and forecasts

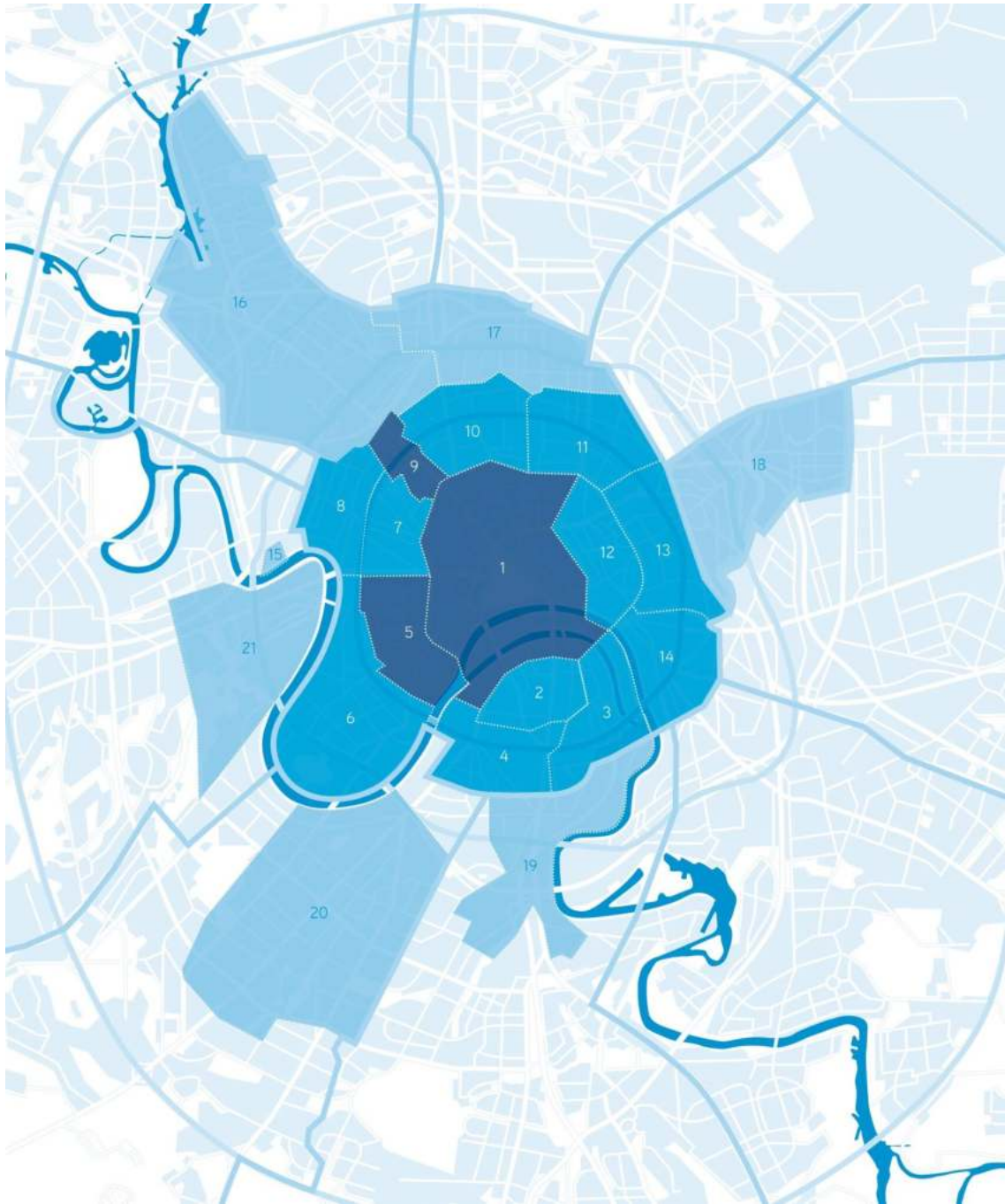


For more than a year now, Russian business has continued to develop in a transforming external environment. After a lull in 2022, high business activity of both office tenants and buyers contributed to the growth of transactions in the first half of 2023. This surge of interest in offices is related both to the need to improve and expand the office space and to the search for a more optimal and cost-effective solution amid the emergence of attractive offers on the market.

Exiting foreign companies have vacated office space with top-class fit-out in convenient locations, and in the current environment Russian business can not only optimize but also improve the existing offices. With that in mind, we can state that rental rates stay at a rather high level despite their partial correction. For example, in the Class A Premium submarket the weighted average rate keeps sliding and as of the end of Q2 2023 it stands at RUB41,920/sq m/year. We expect absorption in the premium submarkets to grow as rates approach fair market values.

Serviced offices also remain in demand, and in addition to the still vibrant marketplaces, which have been using flexible office space for several years to accommodate additional groups of employees, there is a shift in the occupant profile from fintech companies towards pharmaceutical businesses.

Amid the apparent weakening of the ruble, buying office space is becoming an even more attractive option for saving money and/or investing in one's own business. In the meantime, the burgeoning demand for the purchase of offices, as well as an increased amount of transactions concluded in the first half of 2023 suggest the realization of pent-up demand generated during the previous unstable periods of 2020 and 2022. In addition, there is still an acute need for large office units of 5,000-10,000 sq m, which are currently in limited supply. This is why we expect that the units to be commissioned both in H2 2023 and H1 2024 will be partially sold or leased by the time of their commissioning.



Submarket	Vacancy rate			Base rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
1, 5, 9 Premium	18.1%	7.5%	2.7%	41,920	30,594	26,856
1–14 CBD (excl. Premium)	6.1%	7.0%	4.9%	31,694	23,255	22,824
15 Moscow City	4.3%	9.6%	-	37,553	27,724	-
16 Leningradsky	13.7%	10.9%	4.3%	35,234	21,497	15,066
17 Suschevsky	8.1%	3.1%	5.0%	23,501	16,973	15,506
18 Elektrozavodsky	29.4%	6.9%	7.1%	14,941	12,683	10,942
19 Tulsky	8.0%	8.1%	4.8%	-	18,559	16,110
20 Leninsky	9.9%	4.2%	10.0%	18,521	16,708	23,434
21 Kutuzovsky	1.3%	5.9%	0.2%	51,666	18,034	17,024

Moscow rings range	Vacancy rate			Base rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
Inside the Boulevard Ring	4.6%	8.1%	1.3%	47,105	33,812	26,332
Boulevard-Garden Ring	8.9%	4.8%	3.1%	39,585	28,135	24,428
Garden Ring-Third Ring Road (TRR)	8.2%	6.9%	6.0%	36,861	21,907	18,600
TRR-MKAD	10.0%	7.4%	5.3%	28,020	16,309	14,265
Outside MKAD	39.3%	11.6%	1.6%	14,167	8,642	6,448

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

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