

Russia | Moscow

# Office Market Overview



Year-end 2022 results

**Table 1**  
Key market indicators

Source: Nikoliers

	2020	2021	2022
<b>Total office stock, mln sq m</b>	<b>18.90</b>	<b>19.49</b>	<b>19.82</b>
Class A	4.52	4.98	5.24
Class B+/-	14.38	14.52	14.59
<b>Completions, thousand sq m</b>	<b>224.4</b>	<b>587.4</b>	<b>339.4</b>
Class A	129.7	456.1	259.2
Class B+/-	94.7	131.3	80.2
<b>Office take-up, thousand sq m</b>	<b>1,016</b>	<b>1,550</b>	<b>1,292</b>
<b>Vacancy rate, %</b>	<b>8.2</b>	<b>7.6</b>	<b>9.1</b>
Class A	12.6	10.0	12.8
Class B+/-	7.0	6.8	7.8
<b>Weighted average rental rate*, RUB/sq m/year</b>	<b>19,121</b>	<b>20,548</b>	<b>21,203</b>
Class A	26,199	28,352	26,821
Class B+/-	15,045	17,049	17,881

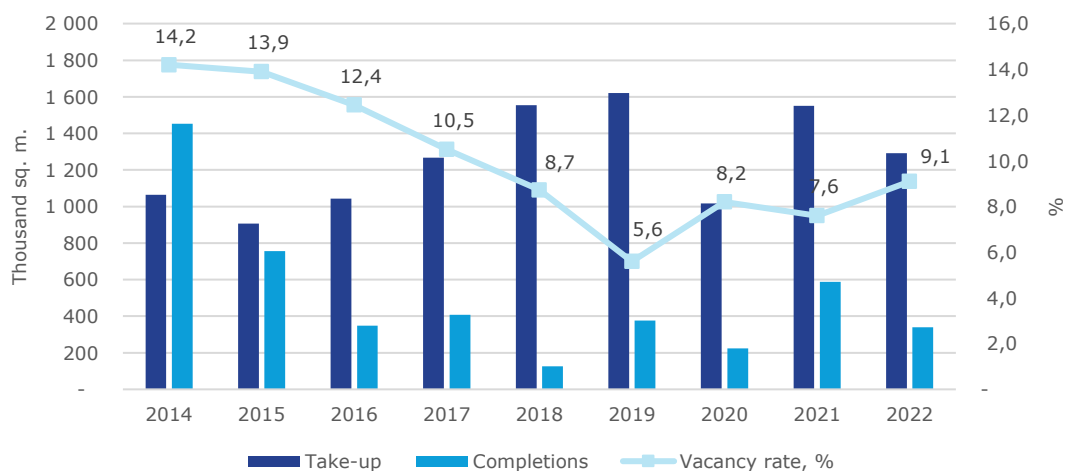
\*Excluding operational expenses, utility bills and VAT (20%)

Last year was a period of turbulence for the Moscow office market and other sectors. Business activity in general and sold/let office space sagged by 17% year-on-year, with total demand standing at 1,292 thousand sq m. Nevertheless, it is worth noting that changes of key indicators are not dramatic, thus demonstrating maturity of the market and its resilience even in times of turmoil.

As a result, the vacancy rate was not as dismal as had been predicted in spring 2022. With some office projects postponed until next years (only 340 thousand sq m were commissioned during the period under review), and the demand generally at the average level of the previous 10 years, the vacancy rate remained acceptable. Moderate growth in vacancies did not lead to plummeting rental rates which stabilized at RUB21,203/sq m/year.

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

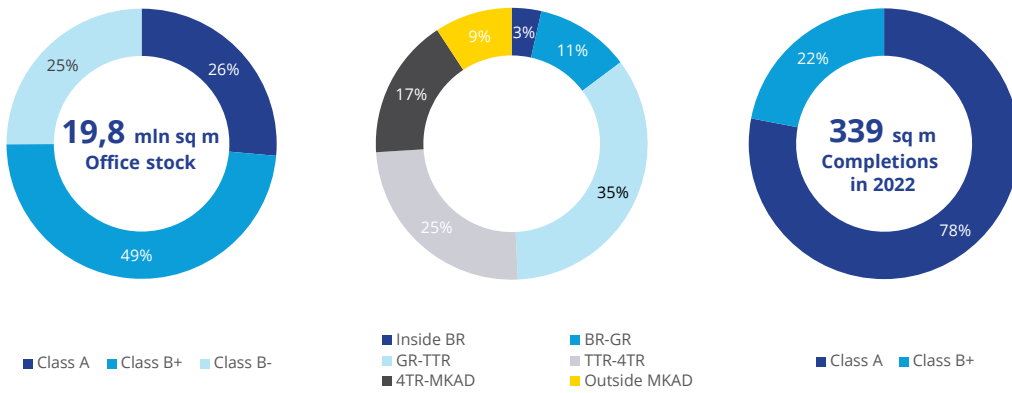
Source: Nikoliers



## Office stock

**Chart 2**  
Office stock distribution and completions  
by class and submarket, %

Source: Nikoliers



Quality office space supply in Moscow totaled to 19.8 million sq m in 2022. Completions totaled 339,000 sq m which is way below the initial forecast of 800,000 sq m. More than a half of new office premises were commissioned in Q3 2022. This was due to the delivery of projects such as AFI Square (gross leasable area - 78 thousand sq m), which was fully pre-leased by Tinkoff Group, and the second phase of Comcity-Bravo office park (62 thousand sq m).

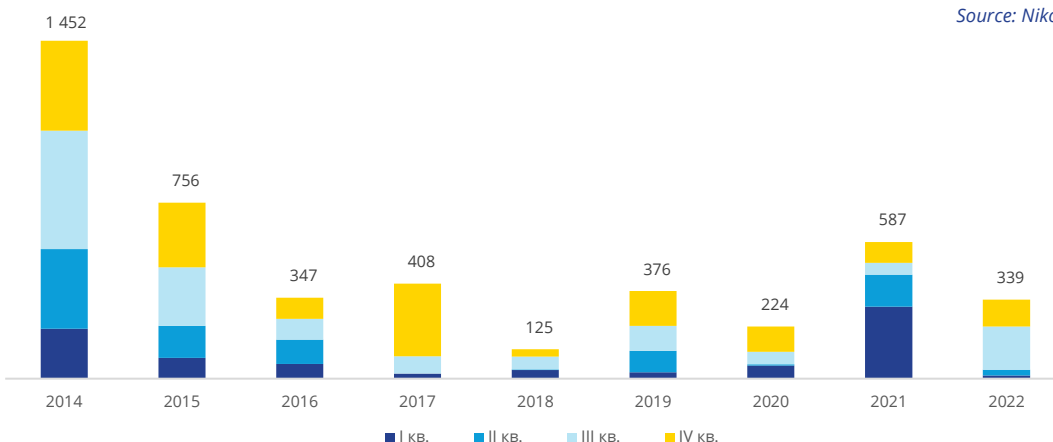
More than 75% of completed construction falls to the share of Class A facilities. In addition to the above-mentioned office developments, we can also mention Leninsky Prospekt 90/2 Mixed-Use Center, where the office space totally occupied by Novatek amounts to 70 thousand sq m as well as 2nd and 3d buildings of the first phase of Ostankino business park (38 thousand sq m).

It should be noted that the number of commissioned Class A office buildings is one of the highest for the last 5 years. Only in 2021 slightly more high-end office space was commissioned -- over 456 thousand sq m -- mainly in BTS projects.

In 2023, completions are expected to total 452 thousand sq m. of office space, which will add more quality office space to the market. As a result, total supply on the Moscow office market will hit 20 million sq m. One of the largest projects to be developed in 2023 is Skolkovo Park (86 thousand sq m.) and Skolkovo Loft-Quarter (67 thousand sq m).

**Chart 3**  
Office completions, sq m

Source: Nikoliers



## Vacancy rate

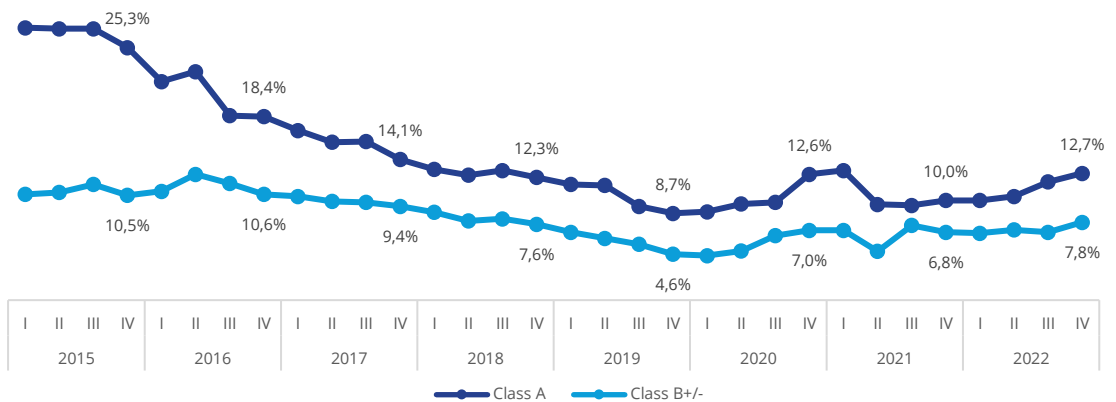
At the end of 2022 the vacancy rate in the Moscow office market stood at 9.1%, or 1.5 p.p. above the final figure for 2021. The largest growth of supply by 2.8 p.p. was recorded in the segment of Class A facilities. This was caused by the fact that some foreign companies vacated quality office premises, some local players relocated to other markets, and new speculative business centers hit the market. The year's results revealed, however, that the negative trend of net absorption in Class A reversed (with 84 thousand sq m absorbed), due to the commissioning of fully occupied business centers, such as AFI Square, Leninsky Prospekt 90/2 mixed-use development, and Stone Towers, Tower A. In Class B this indicator was negative and stood at -101 thousand sq m. Thus, the

total net absorption was negative (-16 thousand sq m).

The highest share of vacant space was recorded outside the Moscow Ring Road – 18.8%. Meanwhile more than a third of the vacant office space supply in the submarket under review is found in Class A office buildings. In turn, the lowest vacancy rate is observed in the Boulevard Ring-Garden Ring area – 5.9%, which is 3.2 p.p. lower than the market average.

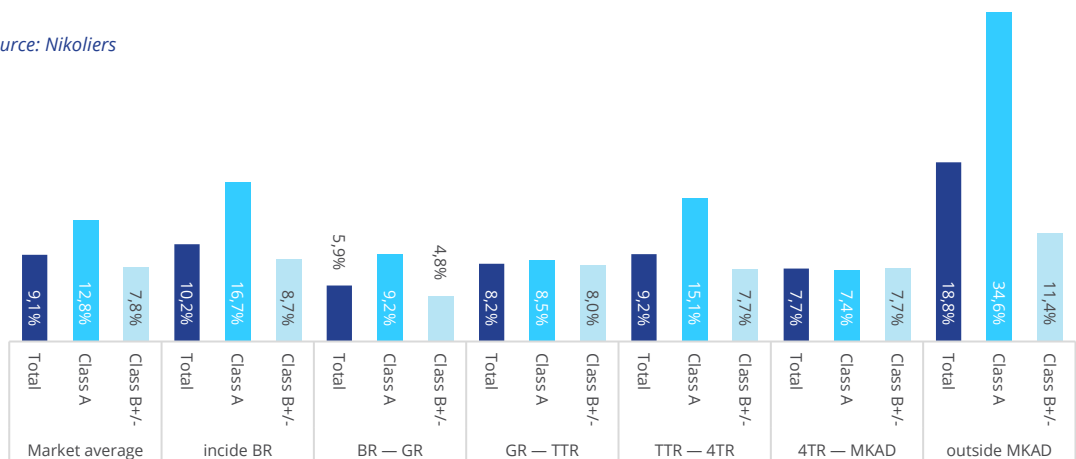
**Chart 4**  
Vacancy rate by class, %

Source: Nikoliers



**Chart 3**  
Vacancy rate distribution by submarket, %

Source: Nikoliers





## Take-up

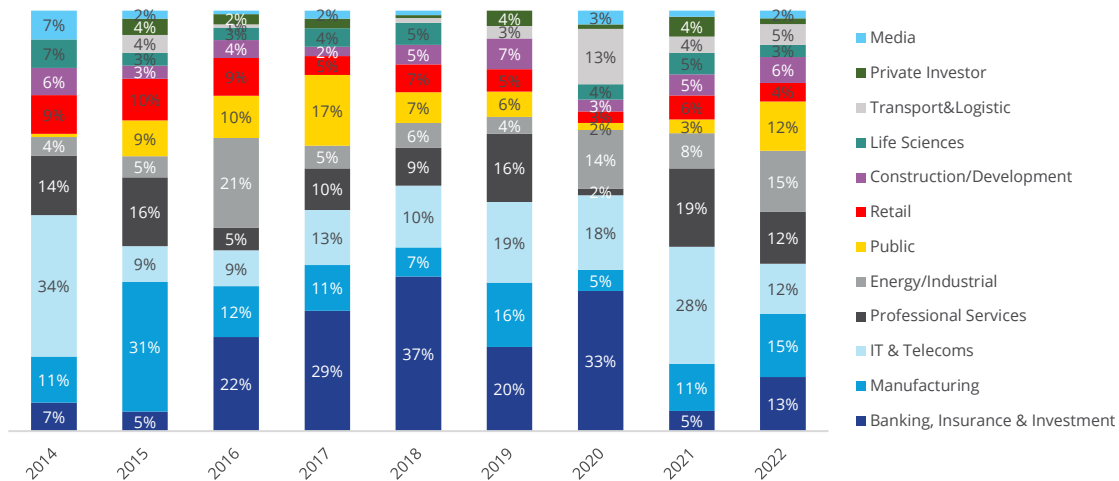
Despite the current geopolitical tension, the demand was 27% higher than the "pandemic" level of 2020, reaching 1 292 thousand sq m. Relatively high activity on the market amidst generally negative absorption of office space is caused by tenants' adaptation to new realities, which is already traditional for crisis periods - companies optimize occupied spaces, move to new more favorable locations, expand on quality premises, renting them at a discount to the market, etc.

The leaders in demand for office space in Moscow are companies from the Manufacturing and Energy/Industrial sectors (15%). In the meantime, due to the relocation of IT-companies from Russia, the share of this sector has shrunk 2 or 3 times. Also, state-owned companies demonstrated the most significant growth in take-up share (by 9 p.p.).

It is worth mentioning that while in previous years renegotiation and expansion deals featured large, in 2022 their number decreased, while the share of lease cancellation and revision transactions went up dramatically.

**Chart 6**  
Take-up distribution by business sector, %

Source: Nikoliers



**Table 2**  
Key Moscow office deals in 2022

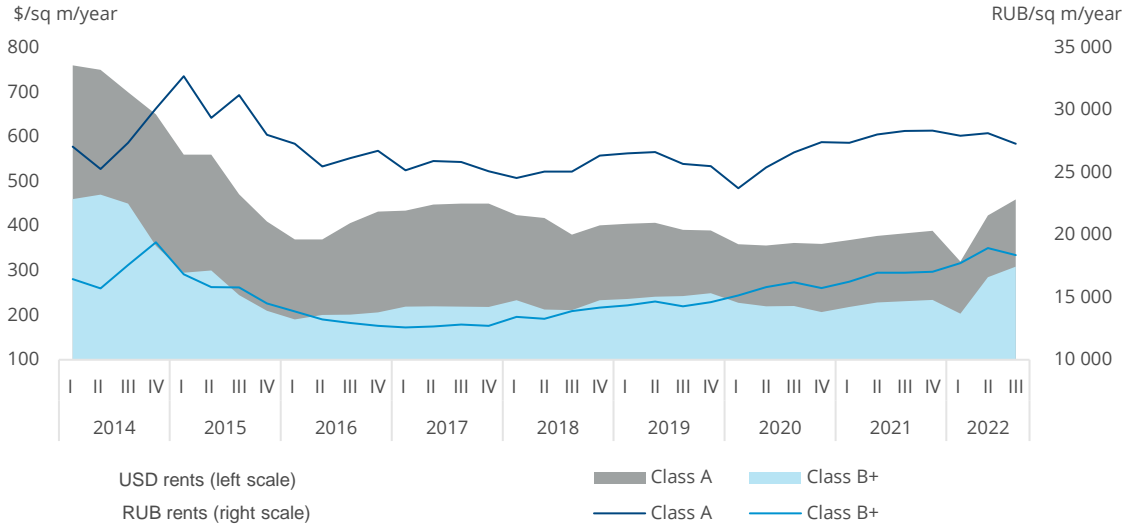
Source: Nikoliers

Occupier	Size, sq m	Deal type	Property name	Address	Class
Sibur	22,668	Sale	Negotiant	2, Bolshaya Yakimanka St.	B+
Confidential	15,014	Sale	Nevis	61, Bldg 2, Schepkina St	A
Autoban	15,000	Sale	Loft Quarter Skolkovo	1, Zvorykin St.	A
Novostal-M	14,000	Sale	Stone Towers, Tower A	Bumazhny Drive, 19	A
Smart Technologies	10,400	Sublease	Krylatsky Hills	Krylatskaya St, bldg. 15-17	A
Synergy University	10,398	New lease	RTS Nagatinskiy	Khlebozavodsky Passage, 7 bld 10	B+
Confidential	7,575	Sale	Skylight	Leningradsky Ave., 39	A
North Wind	6,981	Sale	Kokkinaki 4	Kokkinaki Ul., 4	B-
FEC Mosenergo	6,453	New lease	Dom Park Kultury	11a Zubovsky blvd	A
Confidential	6,426	New lease	Victory Park Plaza	Minskaya ul., 2, bldg G	A

## Rental rates

At the end of Q4 2022 average weighted rental rates in the Moscow office market stabilized at the level of RUB26,821/sq m/year in Class A, and RUB17,881/sq m/year in Class B+/- . The dynamics of ruble asking rental rates shows a downward trend, which is a consequence of increased vacancy rates and market exposure of office blocks previously occupied by foreigners.

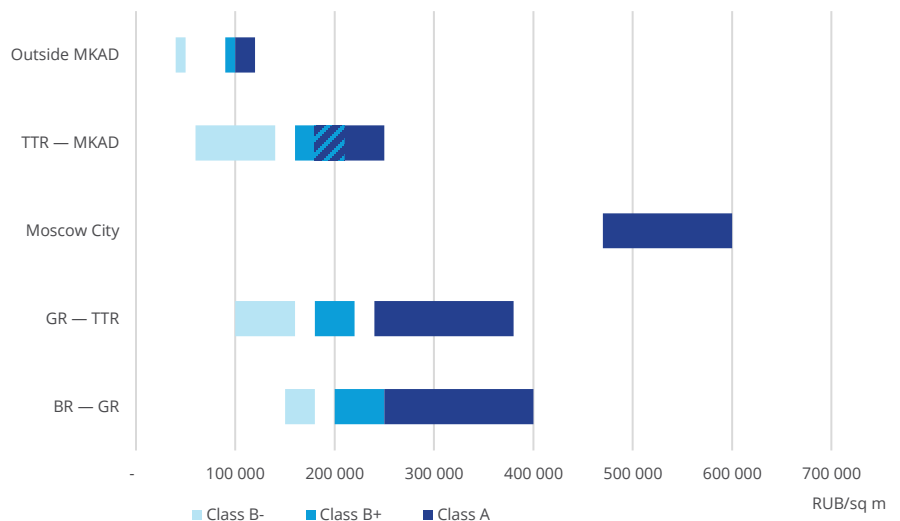
**Chart 7**  
Rental rates by class  
Source: Nikoliers



## Office sales

Sales in the Moscow office market amounted to more than 112 thousand sq m in 2022, which exceeds the 2021 figure by 2.5 times. We witnessed a comeback of clients buying office buildings in their entirety. Thus, among the largest lease and purchase deals closed in 2022 the top four are purchases of office buildings by end users (see Table 2). At the same time average weighted price per sq. m is growing at the moment, the main growth factors being limited quality office space supply as well as rising project costs.

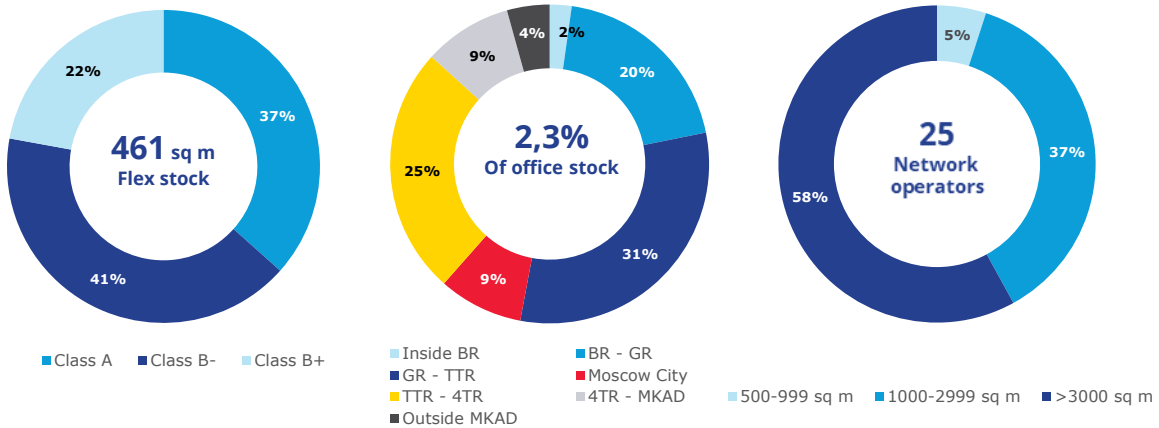
**Chart 8**  
Sales price ranges by class in Moscow submarkets, thousand RUB/sq m incl. VAT  
Source: Nikoliers



## Flex office market

**Chart 9**  
Flex spaces distribution by class and submarket, %

Source: Nikoliers



In 2022 the new supply of flexible office space reached 154 thousand sq m, which is a record figure in the history of the Moscow flexible workspace market. Its current supply is 461 thousand sq m or 2.3% of total quality office space supply in Moscow, with the Garden and Third Ring area responsible for 31.1% of all agile space in the capital.

Meanwhile the demand more than halved (from 77,000 sq m in 2021 to 31,000 sq m in 2022). IT and telecom companies remain the key demand drivers for flexible office space. Yet their share in demand distribution among business sectors dropped by 44 p.p. to 38% year-on-year.

The share of vacant space spiked to 33.9% as a result of the general reduction of business activity in the market and the influx of new premises which have not been let out yet.

**Table 3**  
Key Moscow flex office deals in 2022

Source: Nikoliers

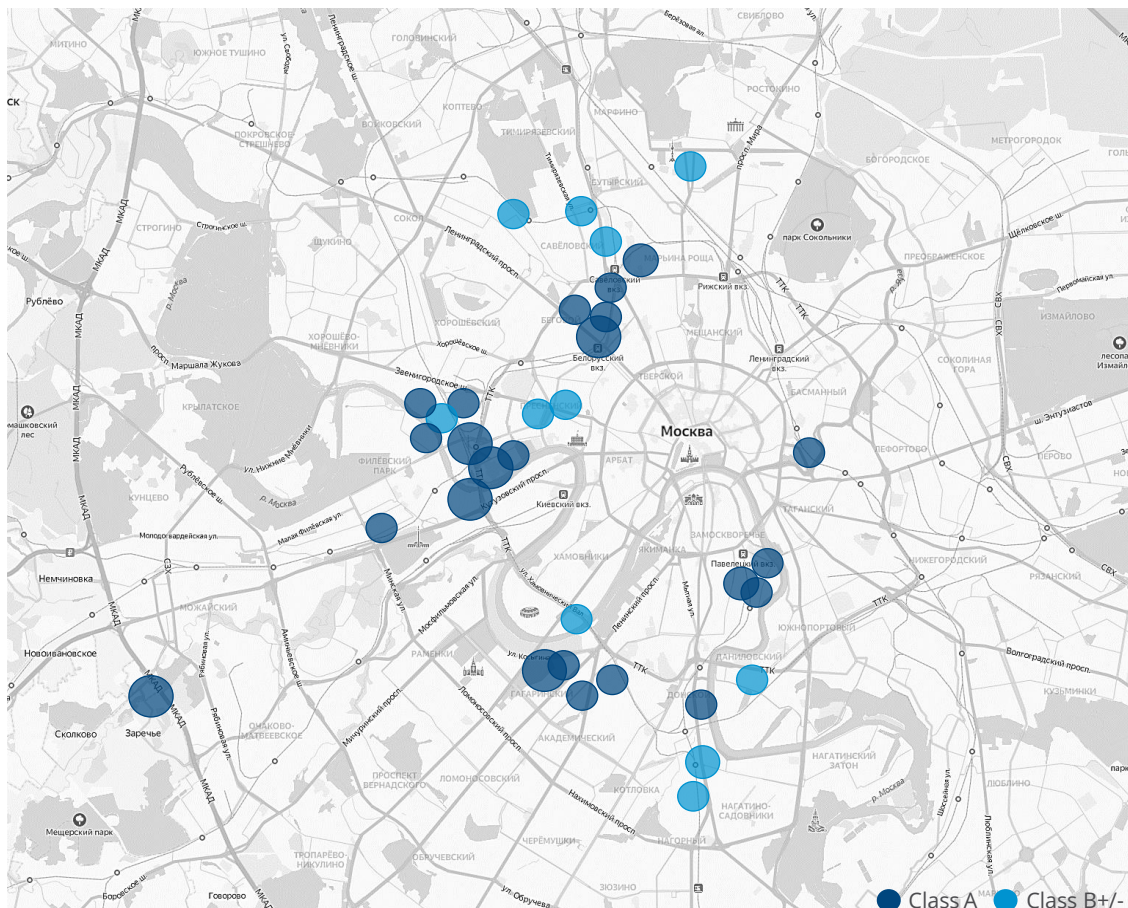
Company	Area, sq m	Operator	Property
DOM.RF	6 426	Business Club	"Iskra Park"
Sbermegamarket	4 000	Key	Sofiyskaya Emb., 30 bldg. 2
Institute of Internet Development	2 500	Codevelopment	Kadashevskaya Emb., 6
Management Company "First"	2 440	Apollax Space	Federation Tower
Ntechlab	1 858	Apollax Space	Brigantina
Life Pay	1 500	Multispace	1st Shchipkovsky lane, 5

## Trends and forecasts

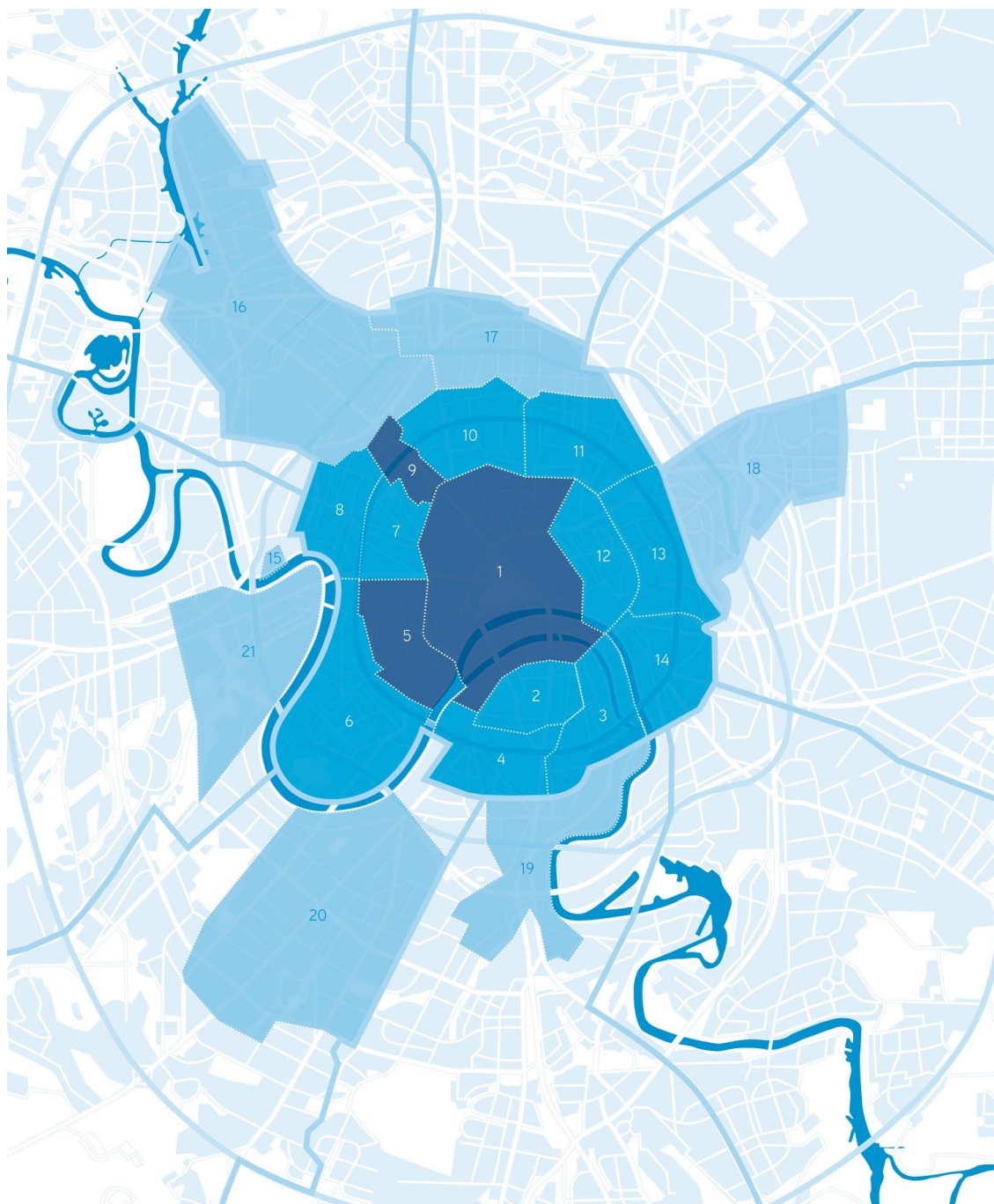
- Due to the exodus of foreign businesses , plenty of office space hit the market, boasting high quality finishes , which are in demand due to the rising costs of good fit-out . In an environment where the tenant is trying to minimize investments in construction and fit-out , shell&core space will be in demand mainly among customers with non-standard requirements.
- In 2023 announced new completions amount to 452 thousand sq m. Nevertheless, we might expect the same behavioral pattern from developers who actually delivered a lot less space to the market last year, than was originally announced. This strategy is conditioned on the level of vacancies and construction costs, as well as on the level of business activity in the market.
- The demand from state-owned companies and non-profit organizations is expected to rise . We can also see keener interest from organizations based in the countries developing economic and political relations with Russia, particularly from China.
- Under the general uncertainty long-term leases give way to short-term lease agreements with a possible revision of commercial terms after the first year. Tenants seek greater flexibility in the volatile market; in their turn, landlords will be able to replace the tenant after expiry of a short-term lease if they fail to renegotiate the terms.

**Map 1**  
Geography of new office supply until 2025

Source: Nikoliers







Submarket	Vacancy rate			Base Rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
<b>1, 5, 9 Premium</b>	15,6%	10,0%	5,0%	42 200	33 100	29 300
<b>1-14 CBD (excl. Premium)</b>	8,3%	8,1%	5,6%	34 000	23 400	17 500
<b>15 Moscow-City</b>	3,8%	10,7%	-	40 000	36 000	-
<b>16 Leningradskiy</b>	14,6%	9,4%	4,8%	33 600	21 900	17 400
<b>17 Sushevskiy</b>	38,4%	6,3%	4,0%	21 000	15 500	16 700
<b>18 Elektrozavodskiy</b>	32,8%	7,3%	10,7%	20 800	10 300	10 200
<b>19 Tulskiy</b>	-	12,6%	4,3%	-	18 000	14 700
<b>20 Leninskiy</b>	2,9%	7,1%	7,9%	18 800	17 200	16 700
<b>21 Kutuzovskiy</b>	0,9%	6,9%	1,1%	29 200	21 400	20 800

Submarket	Vacancy rate			Base Rent*, RUB/sq m/year		
	A	B+	B-	A	B+	B-
<b>North</b>	-	10,7%	3,6%	-	13 200	12 600
<b>North-East</b>	-	12,3%	-	-	14 100	-
<b>North-West</b>	10,0%	11,7%	1,9%	11 300	9 800	10 600
<b>West</b>	19,1%	14,9%	3,4%	33 900	12 300	10 000
<b>East</b>	-	5,4%	6,8%	-	14 200	10 700
<b>South</b>	-	7,3%	4,0%	-	16 400	15 450
<b>South-East</b>	-	4,8%	4,4%	-	13 800	9 600
<b>South-West</b>	29,1%	12,0%	7,1%	17 000	16 400	14 750

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

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