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and reached **9.8%** for Class A
offices and **5.8%** for Class B offices



OFFICE MARKET REPORT. MOSCOW

Q1 2022

knightfrank.com/research



BC Trend Line

**Elena Akatova**

Director of Office Agency, Knight Frank

«The vacancy rate of classes A and B is expected to grow in the next quarters of 2022, including the sublease. With the economic uncertainty and rising prices for building materials, it looks like no transactions with shell&core premises be made. At the same time, many companies can now start reviewing the rental terms again and pay attention to flex offices due to more comfortable and faster terms of contracting without need to spend on finishing».

**Alyssa Bond**

Head of TR, Knight Frank

«The main trend is a contract termination, leaving and optimization of space by foreign tenants due to changed working conditions in Russia. A shortened planning horizon for tenants is observed as well».

Key findings

- ♦ Only one facility, Jazz BC with (GLA 13,400 sq m), was commissioned in Q1 2022.
- ♦ Q1 2022 vacancy rate increased and reached 9.8% for Class A offices and 5.8% for Class B offices.
- ♦ The asked rental rates for Q1 2022 were 26,158 roubles/sq m/year in Class A and 17,286 roubles/sq m/year in Class B.

Key indicators. Dynamics*

		2021	Q1 2022
Total supply of high-quality space, '000 sq m		17,585	17,599
including:	Class A	5,050	5,050
	Class B	12,535	12,548
Commissioned since the beginning of the year, '000 sq m		587.4	13.4
including:	Class A	456.1	0
	Class B	131.3	13.4
Vacancy rate, %	Class A	9.5	9.8
	Class B	5.6	5.8
Average weighted asked rental rates*, roubles/ sq m/year**	Class A***	25,827	26,158
	Class B	17,556	17,286
Average weighted operating expense rates, roubles/sq m/year	Class A	7,100	7,700
		4,800	5,200

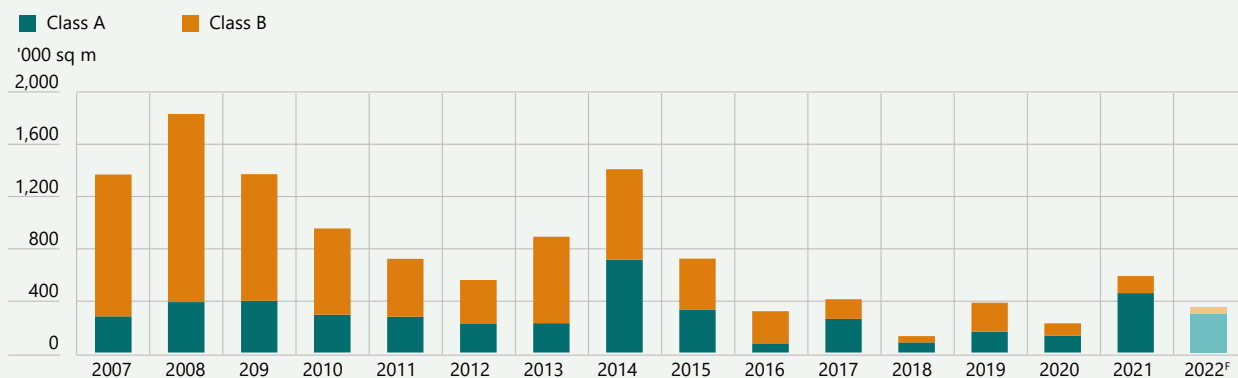
* Compared to Q4 2021

** Excluding operating expenses and VAT (20%)

*** In Class A, there is a category of Prime class facilities, which are the most high-quality, high-tech buildings with well-thought layout in the most developed and significant business clusters of Moscow (CBD, Belorussky Business District, Moscow City). Basic average weighted rental rate is 46 101 roubles/sq m/year

Source: Knight Frank Research, 2022

Class A and B new supply dynamics



Source: Knight Frank Research, 2022

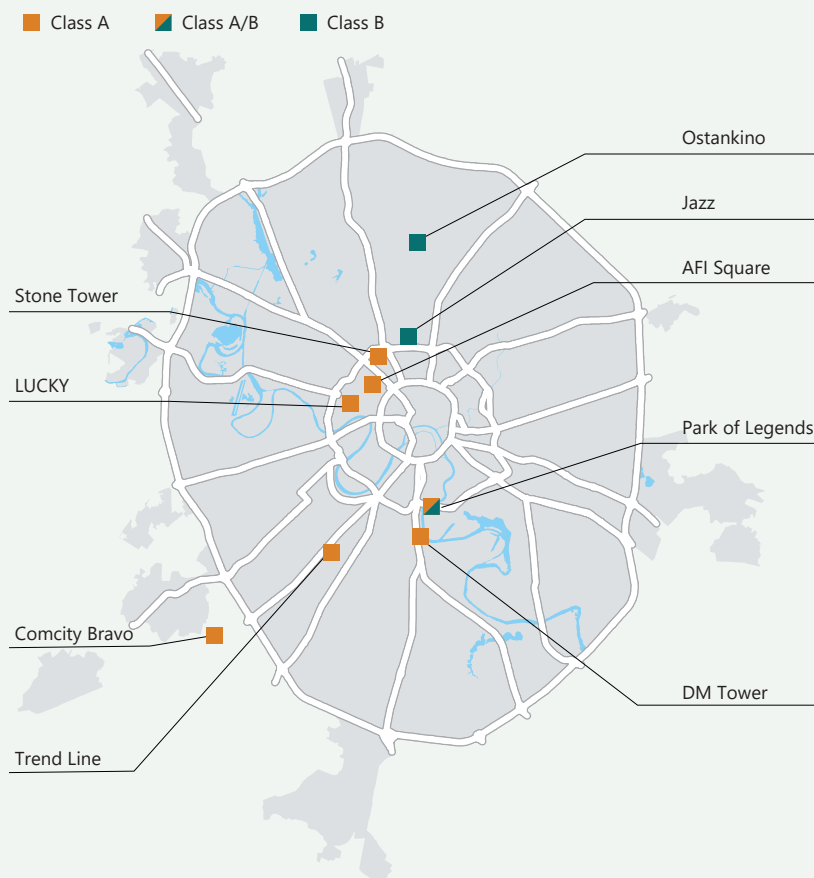
Supply

By the end of Q1 2022, the total office space in the Moscow market amounted to 17.6 mln sq m, of which 5.1 mln sq m fall on Class A, and 12.5 mln sq m to Class B.

In Q1 2022, only 13.4 thousand sq m of offices were commissioned: Jazz Business Center of Class B+. With the geopolitical and economic uncertainty, the commissioning of many projects planned for 2022 will be suspended or postponed. So, the 2021-end forecast for commissioning was 620,000-660,000 sq m, while the current forecast is adjusted to 240,000-340,000 sq m, which is almost 2 times lower than in 2021 (587.4 thousand sq m). It is worth noting that most of the new facilities to be commissioned will still be of Class A (75–80% of the total volume).

In Q1 2022, despite the pause on the market since the end of February in terms of development activity and tenant demand, there was no significant increase in vacant space. Since the beginning of the year, the share of Class A vacant space increased by 0.3 ppt up to 9.8%, and about 491,000 sq m remain vacant now. In Class B, the indicator is at 5.8%, which is 0.2 ppt higher than that for 2021, with the total vacant space reaching 725,000 sq m.

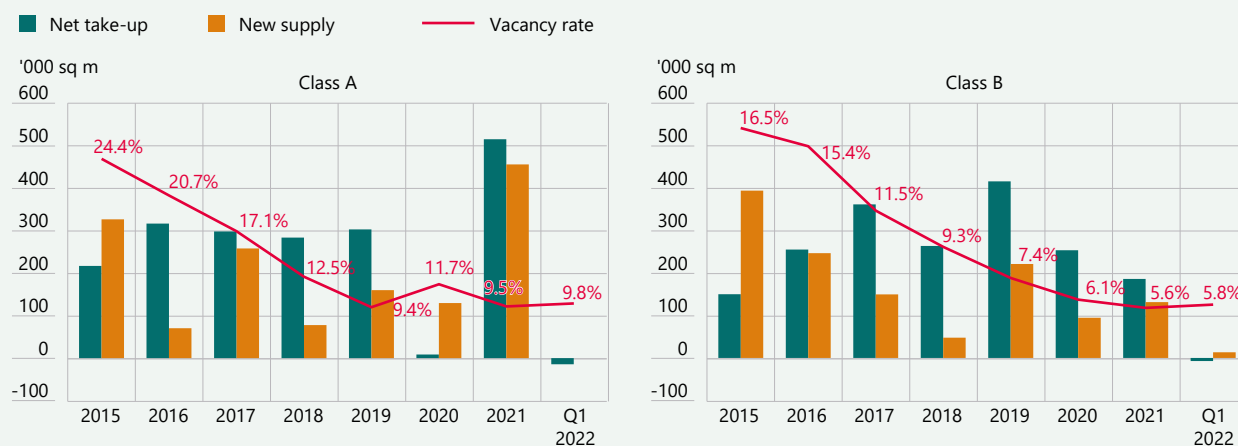
Map of Facilities Scheduled for Commissioning in 2022*



* Office facilities with scheduled receipt of Commissioning Certificates in Q1-Q4 2022. Class of buildings is specified according to the classification of the Moscow Research Forum 2013.

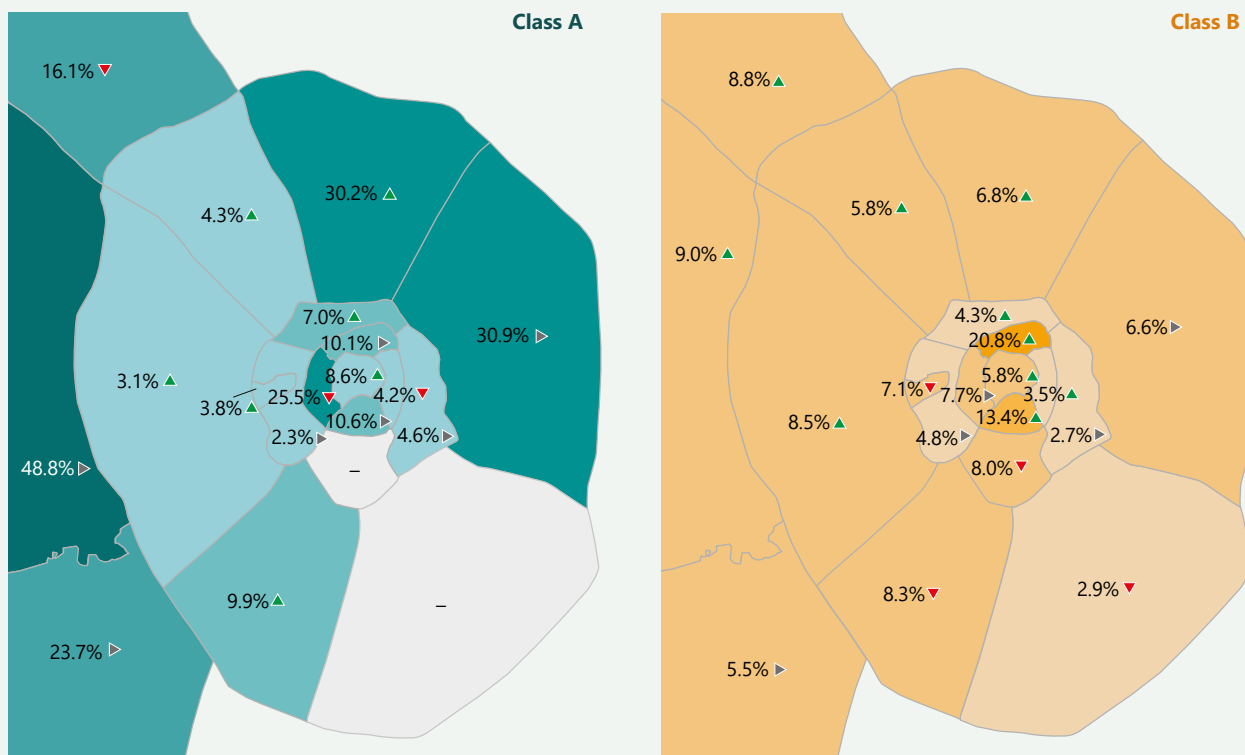
Source: Knight Frank Research, 2022

Net absorption, commissioning and vacancy rate dynamics



Source: Knight Frank Research, 2022

Moscow submarket data. Vacancy rate



Source: Knight Frank Research, 2022

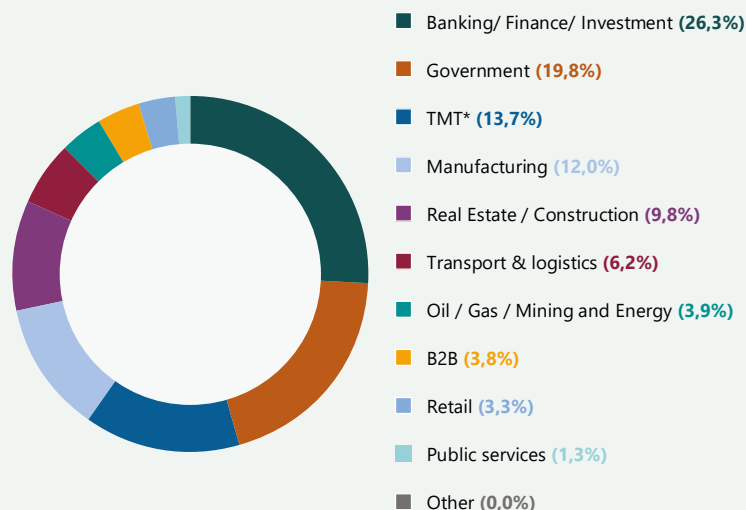
Vacancy rates did not rise significantly, as there were still many transactions until the end of February, and foreign tenants hasn't taken decisions and measures since the crisis onset.

At the same time, vacancy rate for Class A within the Moscow Ring Road also added 0.3 ppt and reached 6.8%.

Demand

The office absorption, being the key indicator of demand showing the difference between all space leased and all that entered the market unleased for a certain period, had a negative value and amounted to -21,900 sq m at the end of Q1 2022 against 273,000 sq m in Q1 2021. It is due to the fact that the vacant space, including that previously leased by foreign companies, has entered the market, while the new lease transactions has actually been suspended since the end of February.

Take-up structure by business sector



*(Technology/Media/Telecommunications)

Source: Knight Frank Research, 2022

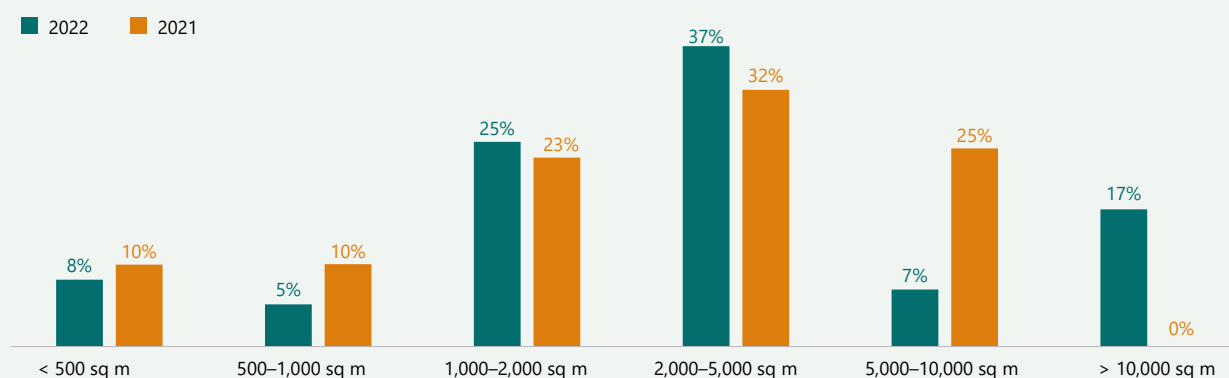
Along with this, Banking/Finance/Investment companies took the lead by demand (with a share exceeding 26% of the total volume) among the closed transactions, public companies went second (about 20%), and Technology/Media/Communications companies came third (13.7%), despite being leaders in 2021. In view of the situation, companies with public ownership may further express significant interest in the offices. Depending on the political factor

and economic development, the Asian companies may replace the Western companies that have left Moscow offices. Average lease transaction in Q1 2022 was 1 338 sq m, i.e. at the level of 2021.

In the first three months of 2022, there were not many flex office lease transactions recorded. The major co-working transactions were Tinkoff expansion in SOK Arena Park (738 w/s), and the lease of Flexity Paveletskaya Plaza by Brown-Forman (239 w/s).



Distribution of the number of transactions with office property by office space size



Source: Knight Frank Research, 2022

Key lease and sale deals in Moscow office market in Q1 2022

Company	Transaction, sq m	Type of transaction	Office building
Avtoban	15 000	Sale	Skolkovo Loft-Kvartal
Tinkoff Bank	4 092	Lease	SOK Arena Park
Moscow Stock Exchange 🇷🇺	3 057	Lease	Comcity Bravo
ESN	3 005	Lease	Sadovaya-Kudrinskaya st., 1
Engeocom	2 410	Sale	B. Afanasyevsky lane, 8, bldg. 3
Aromatny Mir	2 375	Lease	Kutuzoff Tower
Moscow Innovation Cluster	2 139	Lease	Mokhovaya I
Sberbank Insurance	2 044	Lease	Diamond Hall

🇷🇺 Knight Frank Transactions

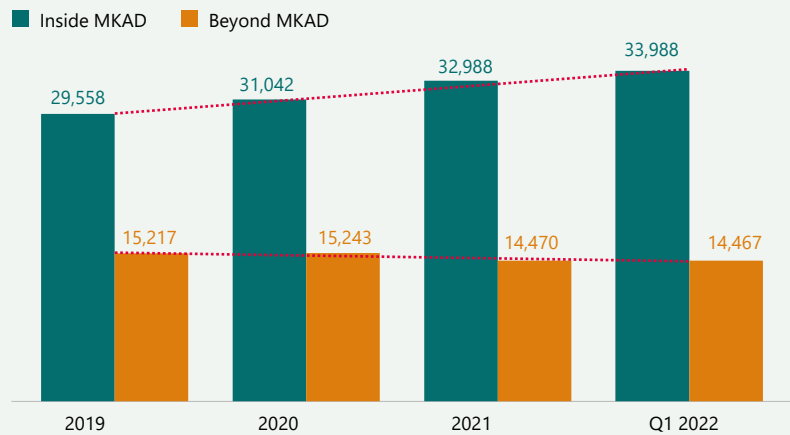
Source: Knight Frank Research, 2022

Commercial terms

For Q1 2022, the average weighted asked rental rate in Class A added 1.3% by reaching 26,158 rubles/sq m/year (excl. operating expenses and VAT). The growth is mainly due to the supply of high-quality space previously occupied by large companies, including foreign ones. Given the dynamics of the situation, the Class A rental rate may be adjusted downwards during the year.

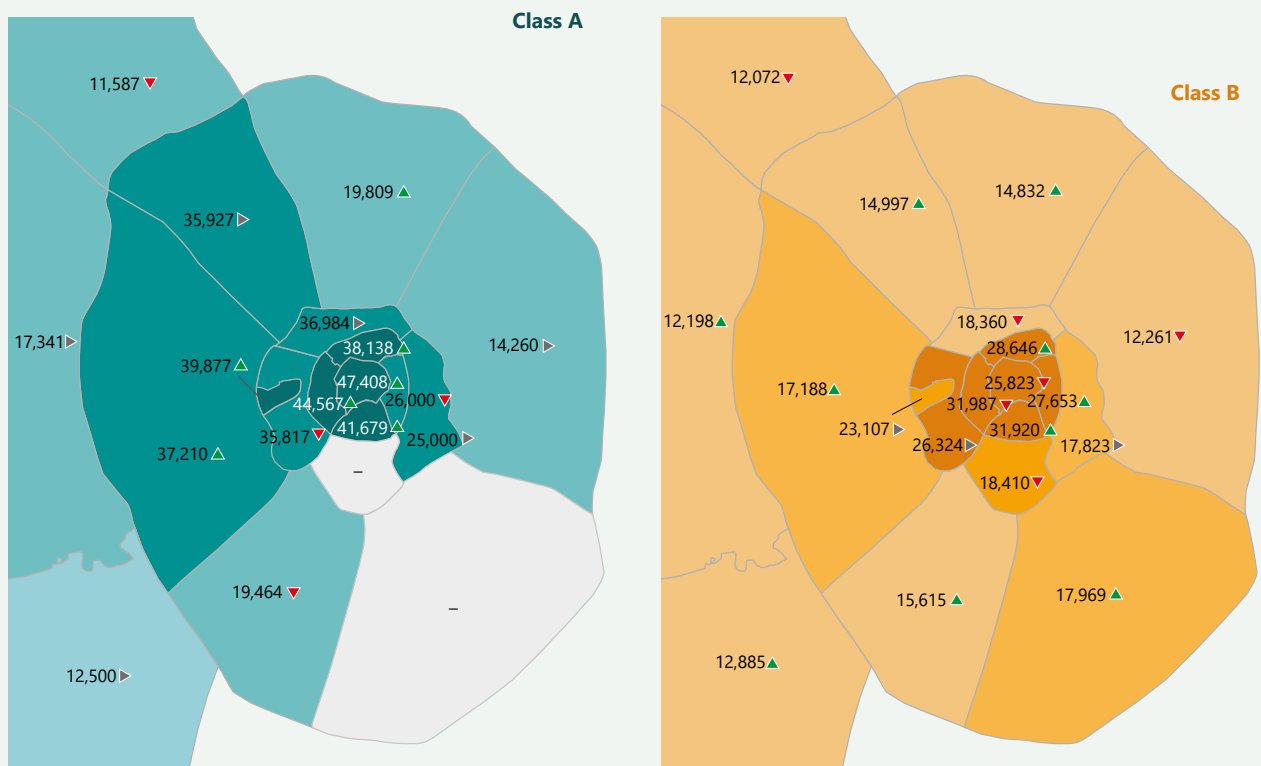
At the same time, the average weighted rate continued its further growth primarily for Class A facilities within the Moscow Ring Road: the average weighted rate gained 3.0% up to 33 988 rubles/sq m/year (excl. operating expenses and VAT) due to availability of higher-quality and more expensive space, including in prime segment.

Class A average weighted asking rents dynamics by zone



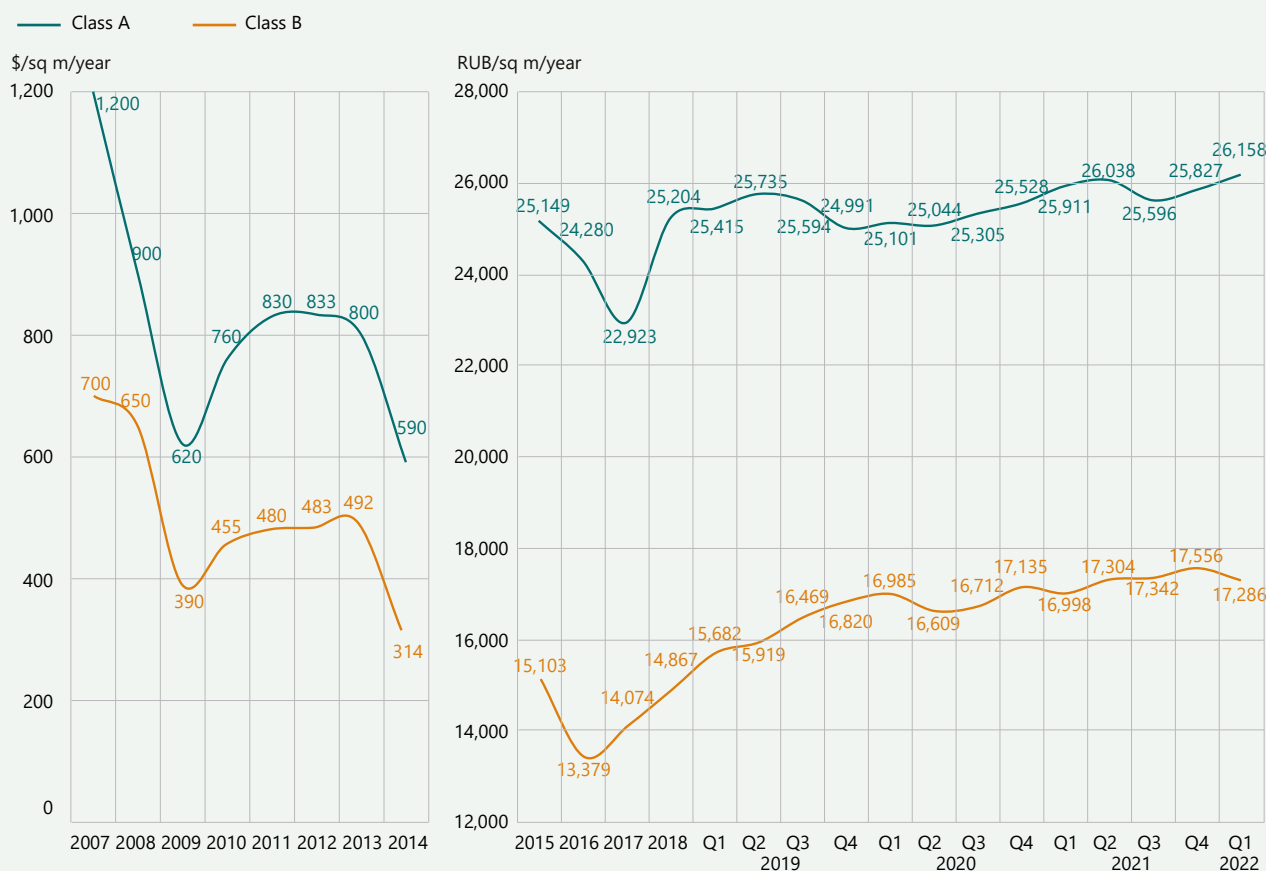
Source: Knight Frank Research, 2022

Moscow submarket data. Average weighed rent



Source: Knight Frank Research, 2022

Class A and B average weighted asking rents dynamics



Source: Knight Frank Research, 2022

In Class B, on the contrary, the average weighted rental rate lost 1.5% in three months to 17,286 rubles/sq m/year (excl. operating expenses and VAT).

Depending on the economic situation, tenant behavior and interest, the rental rates may remain unchanged this year or be adjusted down by 5-10%.

The existing market practice remain unchanged. The average term of an office lease agreement is still 5 years with possible early termination. The rental rates indexation in most agreements is linked to the consumer price index, but it remains a reason for negotiations, since business center tenants and owners understand that the rental rates and inflation may grow over the 5-year period concerned.

The rented office space is the key factor in the deviation of the achievable rental rate from the asked one: developers often prefer to lease a building to several large tenants instead of a single tenant or splitting the space into small blocks. For them, this creates a stable rental income, which is less dependent on rotation, on the one hand, and not so difficult to administer, on the other hand.

Offices are rented primarily «as is», with a minimum or no compensation for finishing works by office owners in most scenarios.

Forecast

In 2022, the new commissioning may reach 230,000-340,000 sq m, where

about 75-80% will fall on Class A projects (at the end of 2021, the forecast was 620,000-660,000 sq m).

As there is no clear vision on the number of foreign tenants planning to leave and behavior of Russian tenants, the net absorption rate for 2022 is expected to be at the level of 0-100, 000 sq m; more subleased areas may enter the market as well.

In the short term, no transactions with shell&core premises are expected.

During the year, the vacancy rate will increase to 12-13% in Class A and 5.8-6.2% in Class B despite the slowdown in new construction.

Rental rates are likely to be adjusted down by 5-10% after a short-term growth, depending on the market situation.

Moscow submarket data. Key indicators*

Submarket		Lease Area, thousand sq m	Class A				Class B			
			Average rent, RUB/sq m/year*		Vacancy rate, %		Average rent, RUB/sq m/year*		Vacancy rate, %	
Boulevard Ring	Central business district	712	47,408		8.6%		25,823		5.8%	
Garden Ring	South	999	41,679	41,402	10.6%	11.9%	31,920	29,866	13.4%	10.9%
	West	577	44,567		25.5%		31,987		7.7%	
	North	672	38,138		10.1%		28,646		20.8%	
	East	407	26,000		4.2%		27,653		3.5%	
Third Transport Ring	South	1,282	-	36,012	-	5.8%	18,410	19,816	8.0%	5.0%
	West	813	35,817		2.3%		26,324		4.8%	
	North	1,034	36,984		7.0%		18,360		4.3%	
	East	1,142	25,000		4.6%		17,864		2.7%	
		MIBC Moscow-City	1,233	39,877		3.8%		23,107		7.1%
TTR-MKAD	North	1,083	19,809	24,227	30.2%	7.7%	14,832	15,445	6.8%	6.4%
	Northwest	1,062	35,927		4.3%		14,997		5.8%	
	West	2,200	37,210		3.1%		17,188		8.5%	
	South	1,478	-		-		17,622		3.3%	
	Southwest	662	19,464		9.9%		15,615		8.3%	
	East	1,005	14,260		30.9%		12,261		6.6%	
Beyond MKAD	Khimki	266	11,587	14,467	16.1%	27.7%	12,072	12,234	8.8%	8.3%
	West	612	17,341		48.8%		12,198		9.0%	
	New Moscow	345	12,500		23.7%		12,885		5.5%	
Total		17,584	26,158		9.8%		17,286		5.8%	

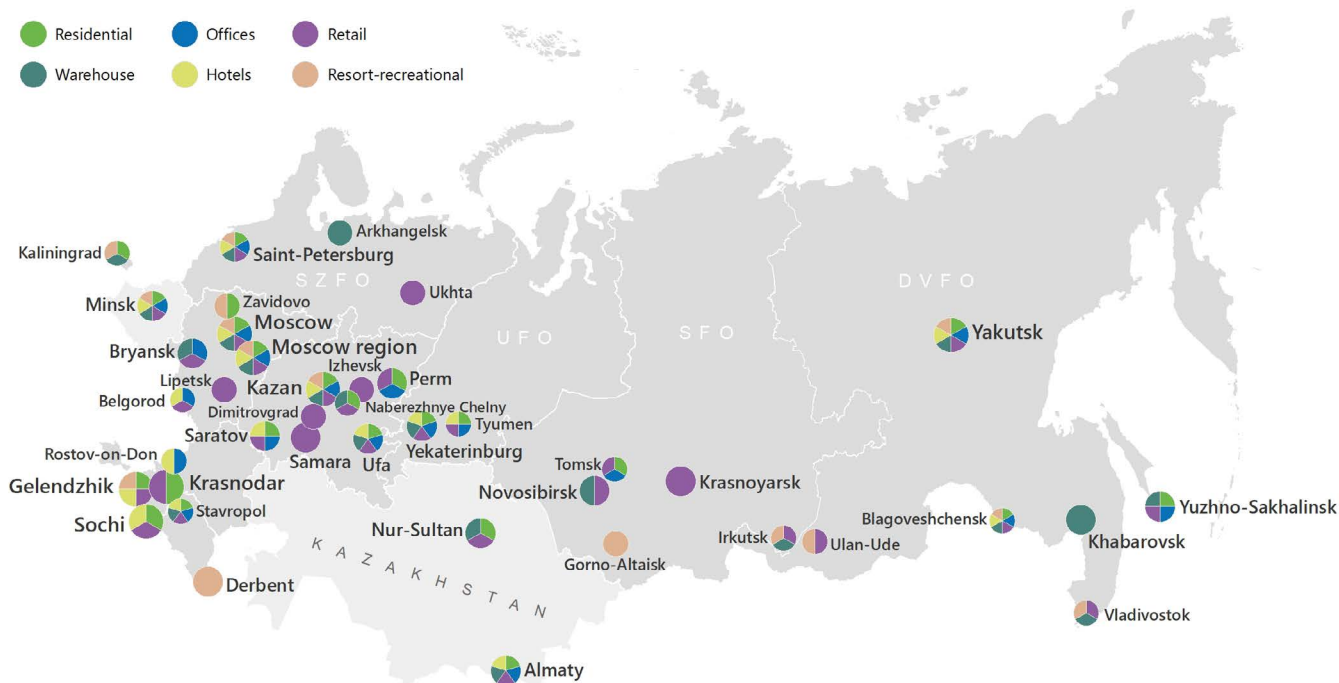
* Excluding OPEX and VAT (20%)

Source: Knight Frank Research, 2022

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