

HI 2022 volume of office commissioning was represented by three projects with a total leasable area of **37.8 thousand sq m**

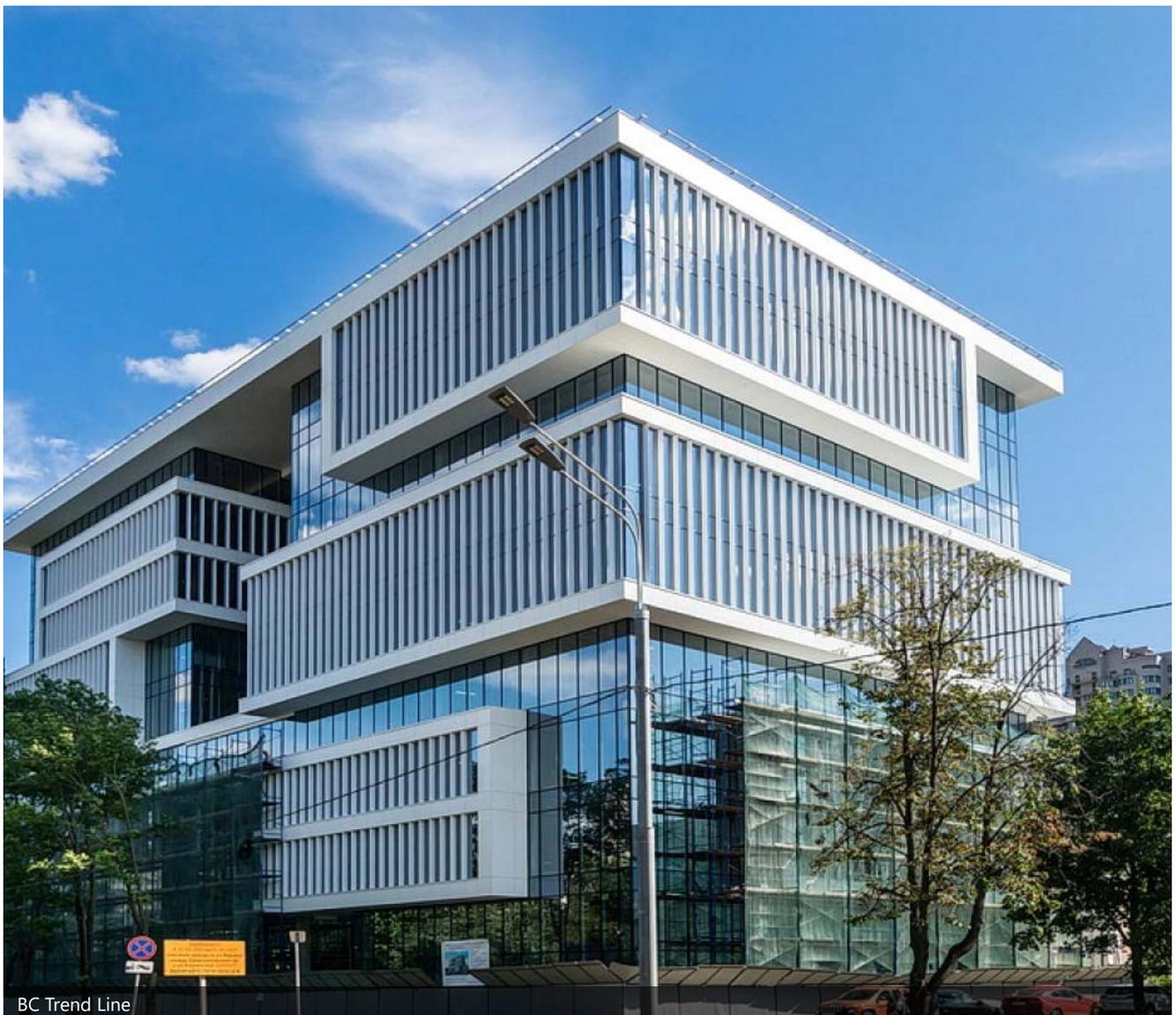
The vacancy rate at the end of HI 2022 increased to **11.5%** for Class A offices and **6.4%** for Class B offices



OFFICE MARKET REPORT. MOSCOW

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HI 2022





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«The Q2 2022 dynamics is quite expected: we forecast further growth of vacancy rate. Notably, the average weighted rental rate also grows, although the rental rates usually decrease in standard circumstances. Simultaneous growth of both indicators in the market will remain for a while, and we expect the growth of rental rate to stop and begin to decline faster than new vacant premises stop appearing in the market. The number of offices that can be vacated after suspended activity of foreign companies is limited, and the overall available space of such vacated premises will soon be clear – it is unlikely that the figure would exceed 5-10% of all Class A offices. Subsequently, such offices may be occupied by large Russian business, but it could hardly happen in the near future».

Key findings

- ♦ H1 2022 volume of office commissioning was represented by three projects with a total leasable area of 37.8 thousand sq m.
- ♦ The vacancy rate at the end of H1 2022 increased to 11.5% for Class A offices and 6.4% for Class B offices.
- ♦ The asked rental rates for H1 2022 were 28,078 roubles/sq m/year in Class A and 17,525 roubles/sq m/year in Class B.

Key indicators. Dynamics*

		2021	H1 2022
Total supply of high-quality space, '000 sq m		17,585	17,623
including:	Class A	5,050	5,050
	Class B	12,535	12,573
Commissioned since the beginning of the year, '000 sq m		587.4	37.8
including:	Class A	456.1	0
	Class B	131.3	37.8
Vacancy rate, %	Class A	9.5	11.5
	Class B	5.6	6.4
Average weighted asked rental rates*, roubles/ sq m/year**	Class A***	25,827	28,079
	Class B	17,556	17,525
Average weighted operating expense rates, roubles/sq m/year	Class A	7,100	7,700
	Class B	4,800	5,200

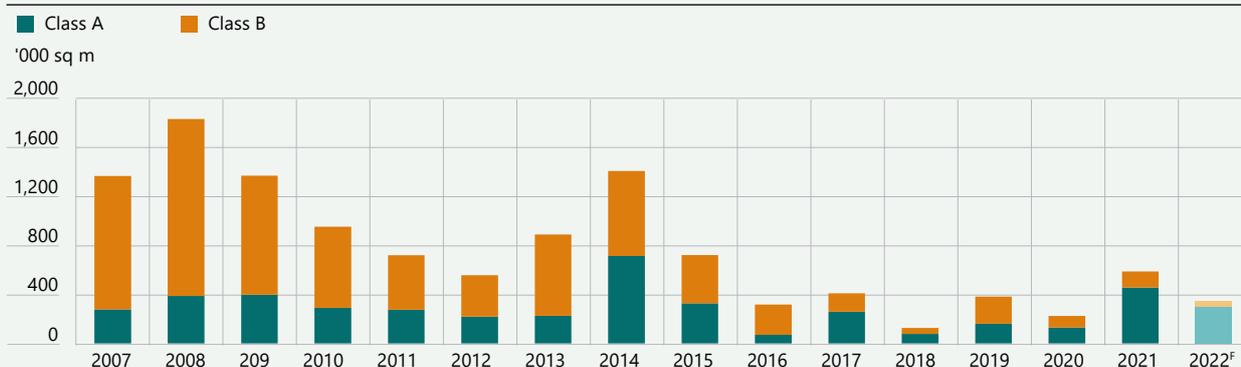
* Compared to Q4 2021

** 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 45 932 roubles/sq m/year

Source: Knight Frank Research, 2022

Class A and B new supply dynamics



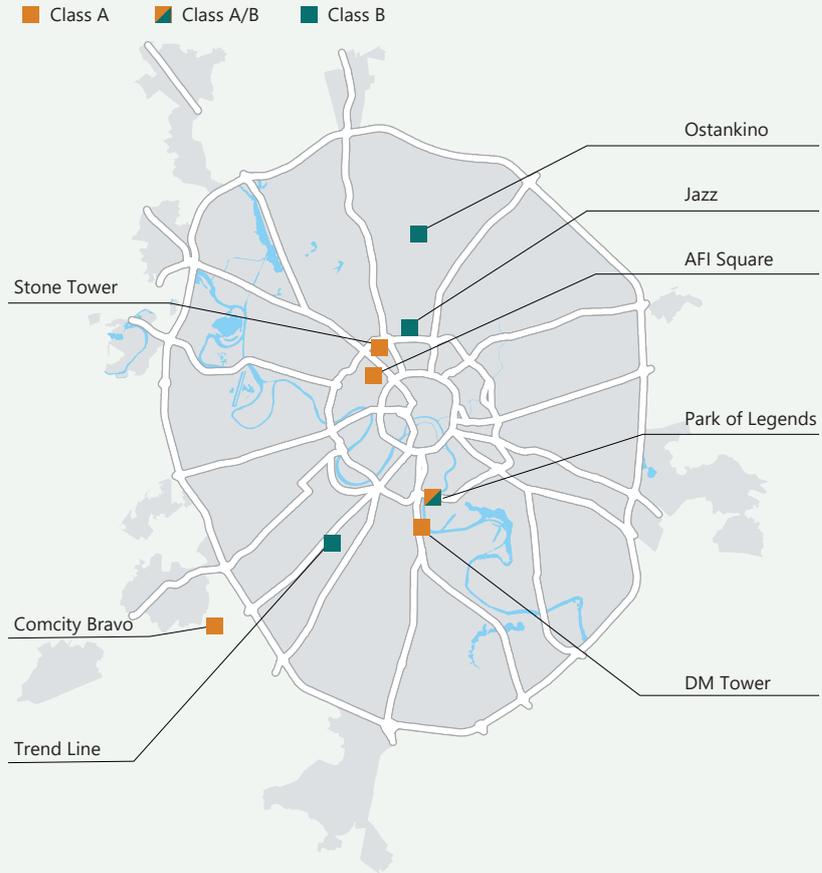
Source: Knight Frank Research, 2022

Supply

By the end of H1 2022, the total office space in the Moscow market amounted to 17.6 m sq m, of which 5.05 m sq m fall on Class A, and 12.6 m sq m to Class B.

The office commissioning in H1 2022 amounted to only 37,800 sq m: there were only three projects – Trend Line Business Center of Class A (11,500 sq m), Jazz Business Center (13,400 sq m), Prime Time Business Center (12,900 sq m). Thus, the volume of commissioning reached only about 38,000 sq m vs 446,000 sq m in H1 2021. It is worth noting the large volume of previous year was composed of large BTS projects - Rostekh City (174,000 sq m) and Sber City (128,000 sq m). In 2022, many projects were suspended, and only 220,000-340,000 sq m of office real estate may be launched to the market by the end of 2022. Among the projects scheduled for commissioning in 2022 there are Park of Legends Business Center of Class A and B (43,000 sq m /48,000 sq m), DM Tower (35,000 sq m), Tower A (14,000 sq m) as a part of STONE Towers block of offices, and others. At the same time, the Class A share will further prevail and reach 60-70% of the total volume.

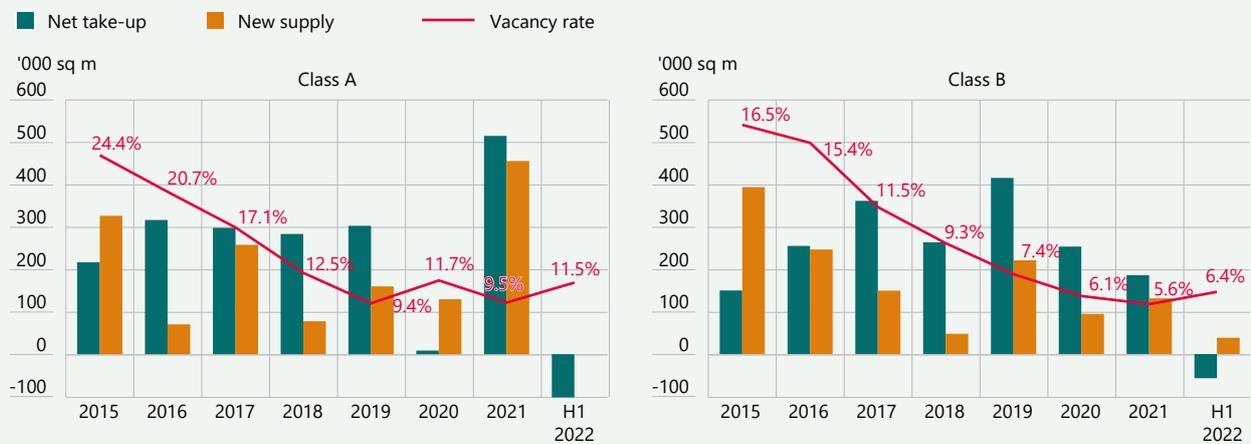
Map of Facilities Scheduled for Commissioning in 2022*



* Office facilities where the commissioning certificate is scheduled to be received in 2022 or has already been received. Class of buildings is specified according to the classification of the Moscow Research Forum 2013.

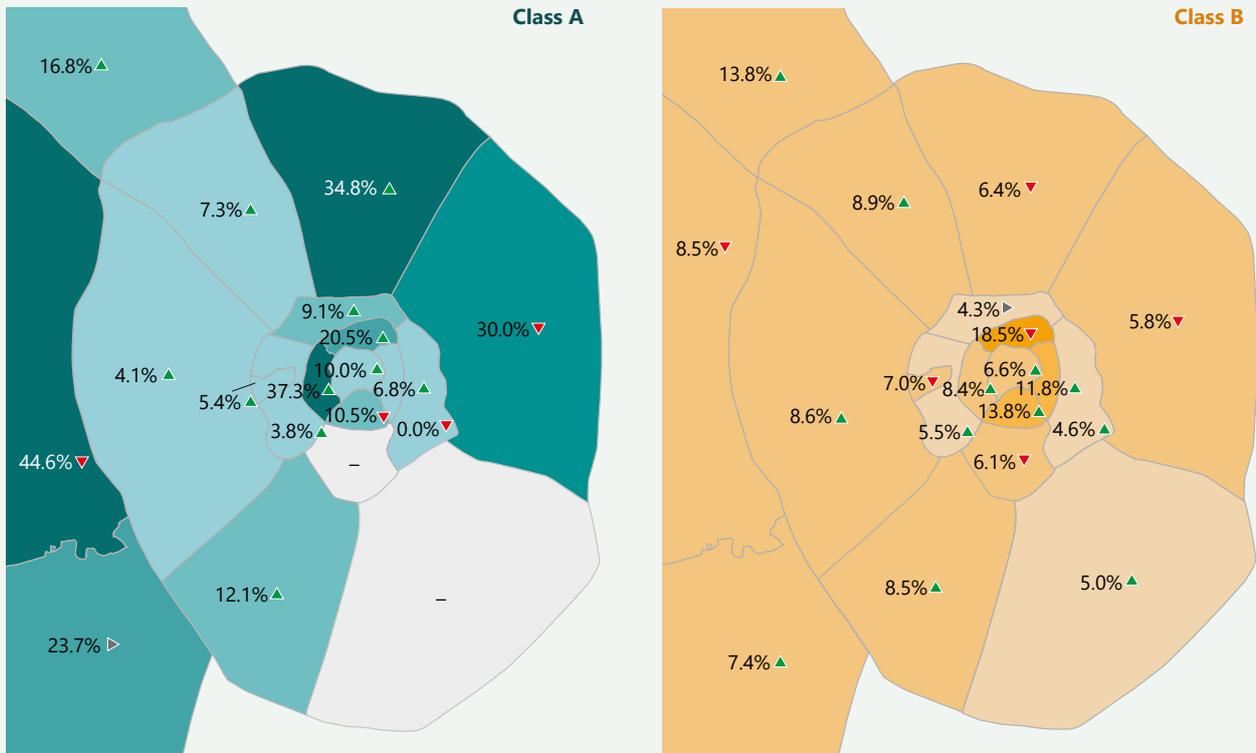
Source: Knight Frank Research, 2022

Net absorption, commissioning and vacancy rate dynamics



Source: Knight Frank Research, 2022

Moscow submarket data. Vacancy rate



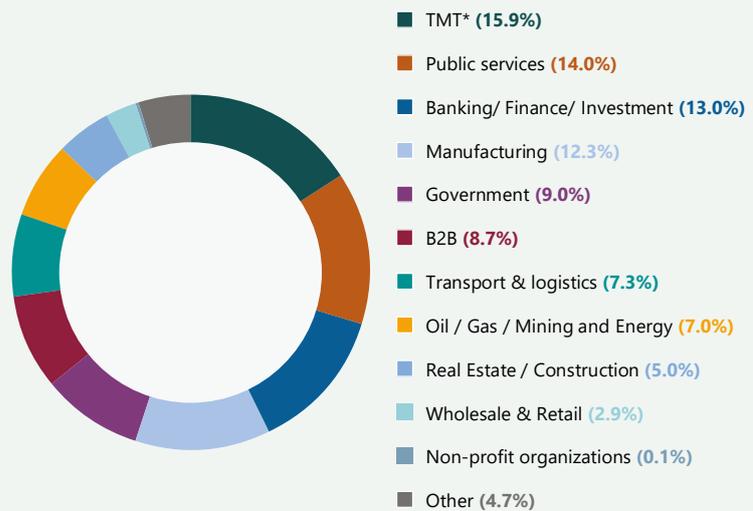
Source: Knight Frank Research, 2022

About 11.5% of Class A offices (582,000 sq m) are vacant in the market, which is almost by 100,000 sq m more than in the previous quarter, and 6.4% of Class B space (799,000 sq m).

A significant vacancy rate increase was noted in segment of premium facilities: the vacancy rate increased by 3.7 ppt to 13.0% in January-June 2022.

Within the Moscow Ring Road, the share of Class A vacant space also increased by 2 ppt up to 8.9% in April-June due to the actively vacated areas in high-quality business centers in key business districts, which have traditionally been occupied by foreign companies, major players in TMT* sector, which currently optimize the space occupied. It is expected that the vacancy rate growth will continue until the end of the year.

Take-up structure by business sector



*(Technology/Media/Telecommunications)
Source: Knight Frank Research, 2022

Demand

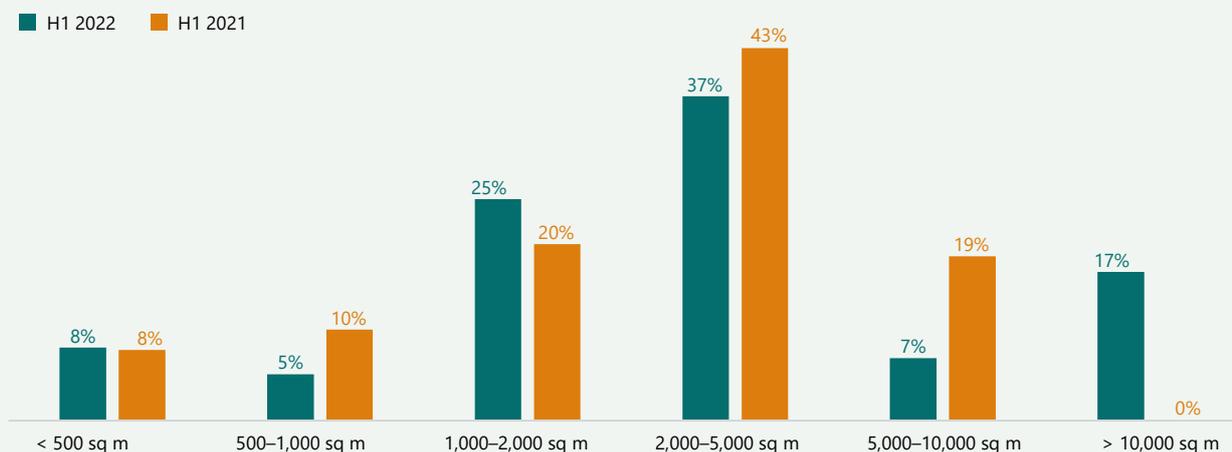
The office absorption, the key indicator of demand showing the difference between all leased areas and all vacant space entered the market for a certain period, had a negative value and amounted to – 159,300 sq m at the end of H1 2022 vs 481,100 sq m in H1 2021. The key reason of dynamics is empty areas from foreign companies entering the market, while few new lease transactions closed since the end of February.

The most active demand for office real estate in H1 2022 was recorded from

TMT* companies with a share of 15.9%. Public services companies (education, medical services, tourism, etc.) took the second place with a share of 14.0%, while banks and companies of financial sector take the third place with a share of 13.0%. Notably, in April-June premises became vacant faster than ever before, and new lease transactions were small, with the average size of rented premises of about 1,240 sq m in January-June (compared to 1,450 sq m in the same period of 2021).



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 H1 2022

Company	Transaction, sq m	Type of transaction	Office building
Avtoban	15,000	Sale	Skolkovo Loft-Kvartal
Synergy	10,398	Lease	RTS Nagatinskaya
The Key	10,688	Lease	Meshchaninovo podvorye
Fonbet	4,500	Lease	Nikoloyamskaya St., 24, bldg. 1
Institute of Professional Education Development	4,500	Lease	Bolshaya Gruzinskaya St., 12, bldg. 2
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 Ln., 8, bldg. 3

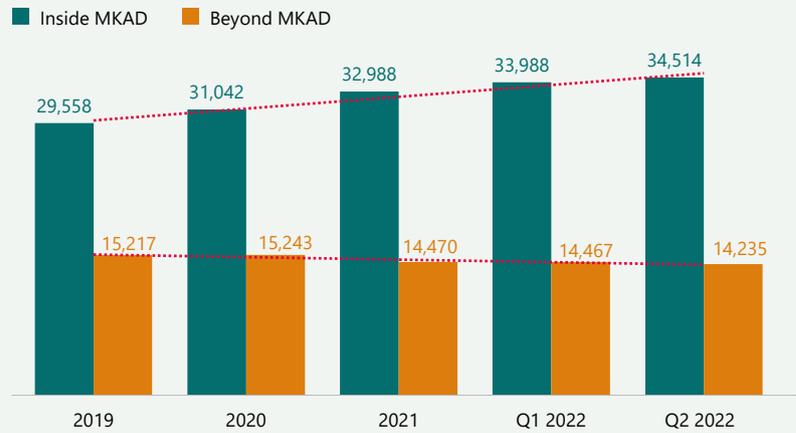
❖ Knight Frank Transactions

Source: Knight Frank Research, 2022

Commercial terms

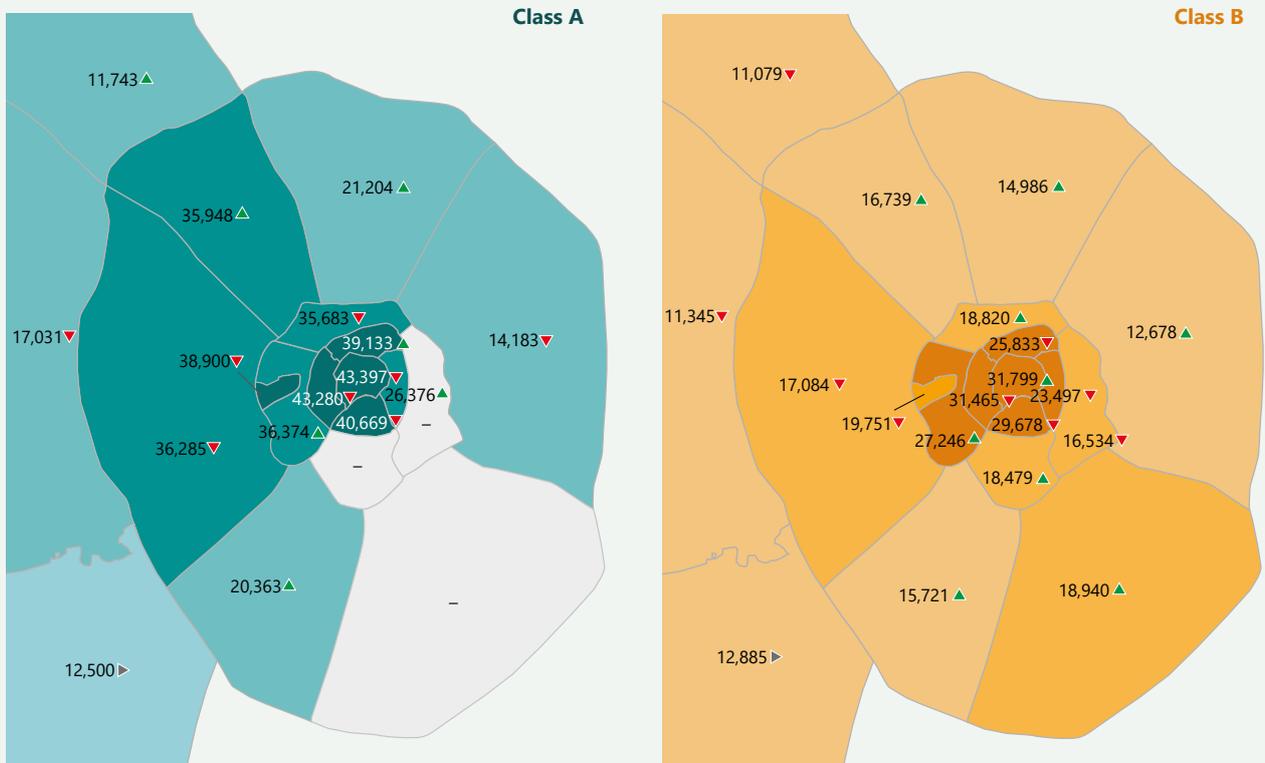
The average weighted asked rental rate in Class A increased by 8.7% to 28,079 roubles/sq m/year (exclude operating expenses and VAT) in H1 2022. Appearance of vacant space of high-quality and premium facilities in the market (in Moscow City, Belorussky Business District, Leningrad Business Corridor), previously occupied by foreign and e-commerce companies, has a significant impact on the average weighted rental rate growth. In Class B, the average weighted rental rate for six months decreased by 0.2 ppt to 17,525 roubles/sq m/year (excluding operating expenses and VAT).

Class A average weighted asking rents dynamics by zone



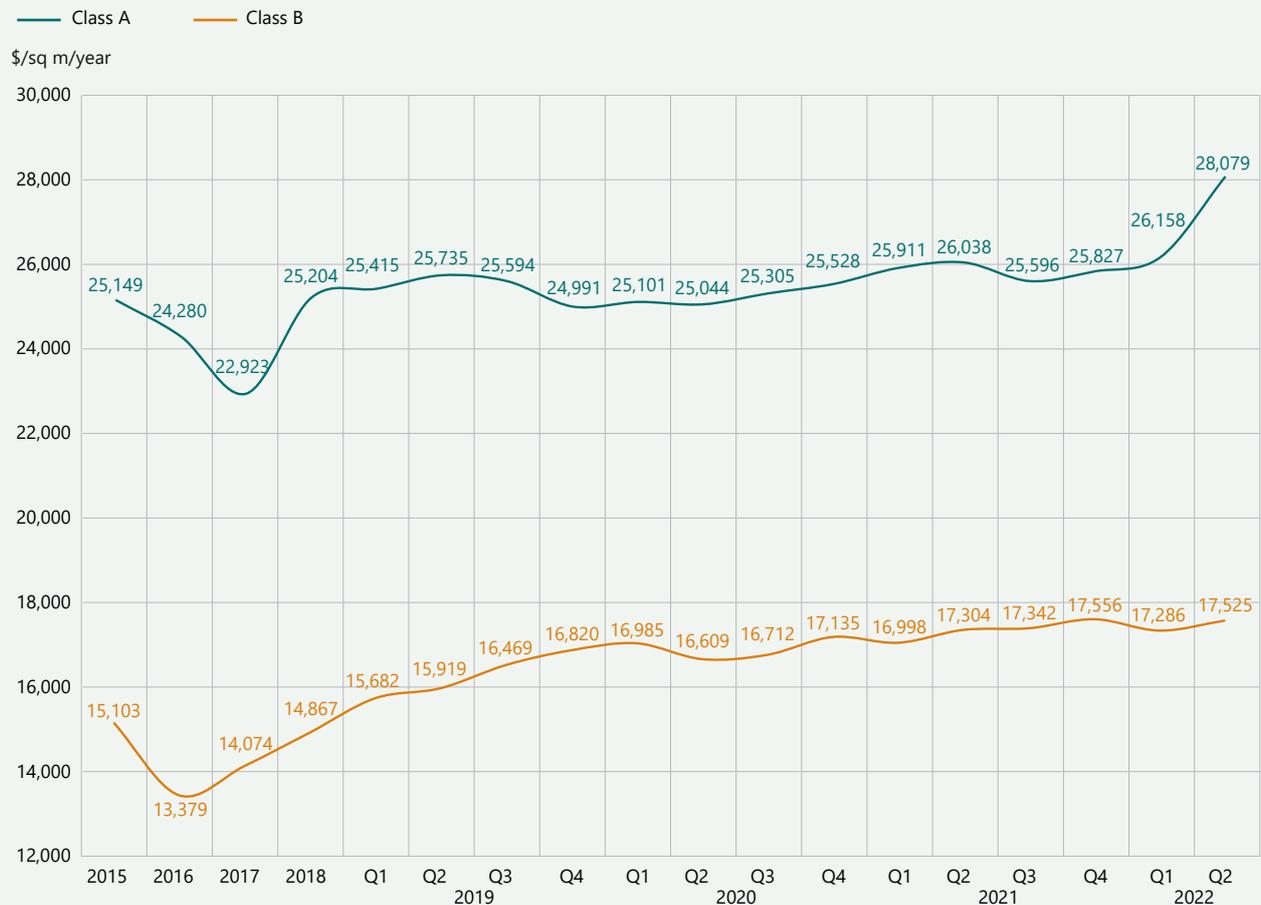
Source: Knight Frank Research, 2022

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

Depending on the economic situation, the behavior and interest of tenants, the average weighted rental rate of Class A may further grow for a while, but then adjust to the indicators of beginning of 2022.

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 at the level of 5-10%.

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 60-70% will be Class A projects (at the end of 2021, the forecast was 620,000-660,000 sq m).

The subleased areas will continue to enter the market after the change in plans of foreign tenants regarding their presence on the Russian market.

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

During the year, the vacancy rate will increase to 14-17% in Class A and 6.5-7.5% in Class B despite the slow-down in new construction.

Rental rates are likely to be decreased 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	43,397		10.0%		31,799		5.8%	
Garden Ring	South	999	40,669	40,680	10.5%	15.9%	29,678	27,408	13.4%	12.6%
	West	577	43,280		37.3%		31,465		7.7%	
	North	672	39,133		20.5%		25,833		20.8%	
	East	407	26,376		6.8%		23,497		3.5%	
Third Transport Ring	South	1,282	-	35,771	-	7.0%	18,479	20,100	8.0%	5.1%
	West	813	36,374		3.8%		27,246		4.8%	
	North	1,047	35,683		9.1%		18,820		4.3%	
	East	1,142	-		-		16,534		2.7%	
	MIBC Moscow-City	1,233	38,900		5.4%		19,751		7.0%	
TTR-MKAD	North	1,083	21,204	26,555	34.8%	7.7%	14,986	16,044	6.8%	7.0%
	Northwest	1,075	35,948		7.3%		16,739		5.8%	
	West	2,200	36,285		4.1%		17,084		8.5%	
	South	1,489	-		-		18,940		3.3%	
	Southwest	662	20,363		12.1%		15,721		8.3%	
	East	1,005	14,183		30.0%		12,678		6.6%	
Beyond MKAD	Khimki	266	11,743	14,235	16.8%	26.9%	11,079	11,424	8.8%	10.4%
	West	612	17,031		44.6%		11,345		9.0%	
	New Moscow	345	12,500		23.7%		12,885		5.5%	
Total		17,622	28,079		11.5%		17,525		6.4%	

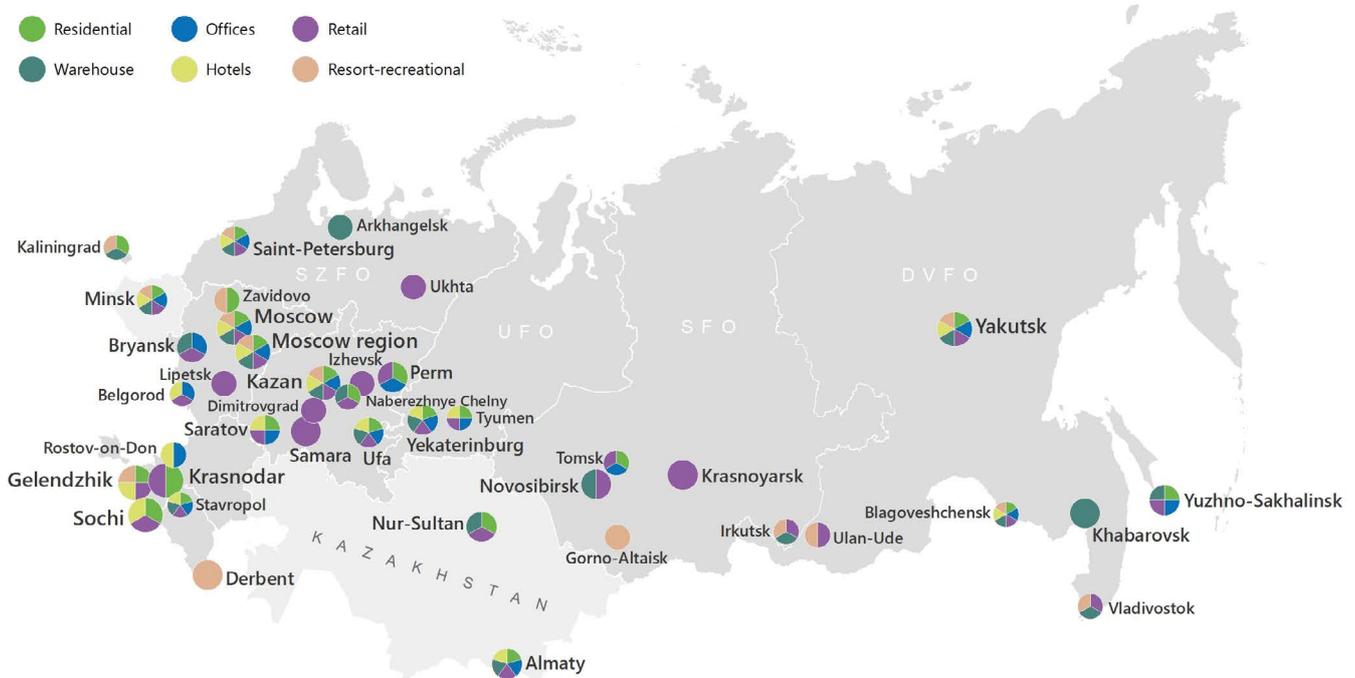
* Excluding OPEX and VAT (20%)

Source: Knight Frank Research, 2022

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