

OFFICE MARKET REPORT. MOSCOW

2022



Comcity Bravo

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«In early 2022 we expected higher vacancy growth and a different rental rates' dynamic, which eventually showed an increase within the margin of error. This is because a lot of expensive offices have launched the market during the year, so we do not see a direct price reduction, but certain terms and conditions are agreed during negotiations. A lot of interesting office space has predictably been released so the vacancy rate moderately increased to 13%. In 2023 we expect the rate to continue declining smoothly and the vacancy to be approximately at the same level, without further significant growth».

Key findings

- > In 2022, 340,800 sq m of offices were commissioned.
- > The vacancy rate at the end of 2022 increased and reached 13.0% for Class A offices and 7.4% for Class B offices.
- > The asking rental rates for 2022 was 26,044 roubles/sq m/year in Class A and 17,581 roubles/sq m/year in Class B.

Key indicators. Dynamics*

		2021	2022
Total supply of high-quality space, '000 sq m		17,585	17,926
including:	Class A	5,050	5,310
	Class B	12,535	12,616
Commissioned since the beginning of the year, '000 sq m		587.4	340.8
including:	Class A	456.1	259.2
	Class B	131.3	81.6
Vacancy rate, %	Class A	9.5	13.0
	Class B	5.6	7.4
Average weighted asking rental rates*, roubles/ sq m/year**	Class A***	25,827	26,044
	Class B	17,556	17,581
Average weighted OPEX, roubles/sq m/year	Class A	7,100	7,700
		4,800	5,600

* Compared to Q4 2021

** Excluding OPEX and VAT (20%)

*** The category of Prime facilities is distinguished in Class A. It includes the highest quality, efficient in terms of layout, high-tech buildings located in the most developed and significant business clusters of Moscow (Central Business District, Belorusskiy Business District and Moscow-City). The basic average weighted rental rate is 43,266 roubles/sq m/year

Source: NF Group Research, 2023



Supply

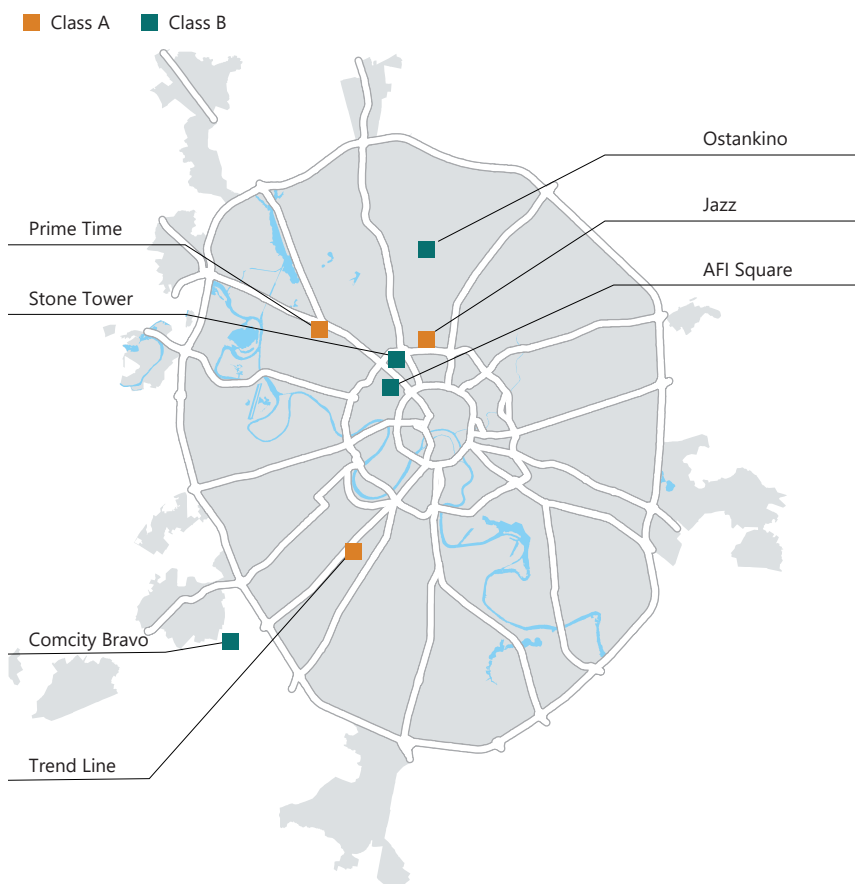
By the end of 2022, the total office space in the Moscow market amounted to 17.9 m sq m, of which 5.3 m sq m belong to Class A, and 12.6 m sq m on Class B.

In Q4 2022, facilities with a total leased area of 131,400 sq m were commissioned. Among them, the largest were Novatek HQ (70,000 sq m) built for the company's needs and the second and third buildings of the first stage of Ostankino Business Park (38,200 sq m).

In total, 340,800 sq m were commissioned in 2022, which is 42% less than in 2021 (587,400 sq m). At the same time, 76% of the projects appeared belong to class A. In addition to Novatek headquarters and Ostankino Business Park, AFI Square (78,500 sq m) and Comcity Bravo (61,600 sq m) are among the largest business centers commissioned. It is worth noting that the total volume of commissioning for 2022 exceeded the indicator of the «pandemic» 2020 (224,400 sq m) and turned out to be slightly lower than 2019 (381,000 sq m). Despite the fact that the total commissioning of new offices exceeded 340,000 sq m, only 89,000 sq m (26% of new space) are available for tenants and users by the end of 2022. Most of the premises were built for the needs of a particular company or sold before the facility received the commissioning permission.

In 2023, 473,000 sq m of office real estate are planned to be commissioned. At that, more than 80% of the space belong to Class A.

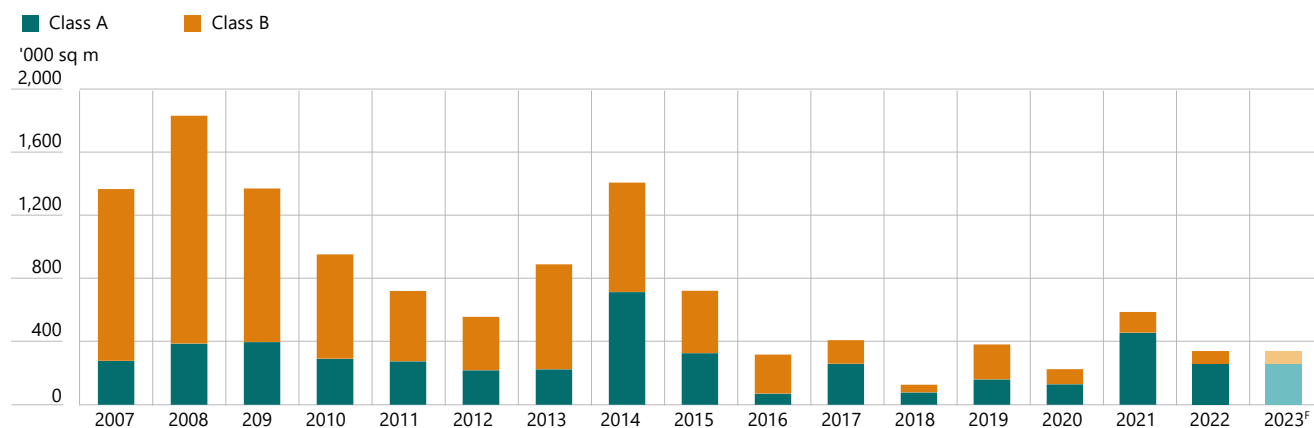
Map of Commissioned Facilities in 2022*



* Office facilities with the commissioning certificate received in 2022. Class of buildings is specified according to the classification of the Moscow Research Forum 2013.

Source: NF Group Research, 2023

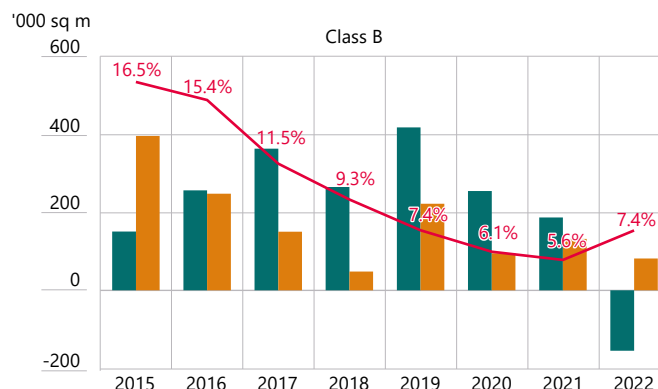
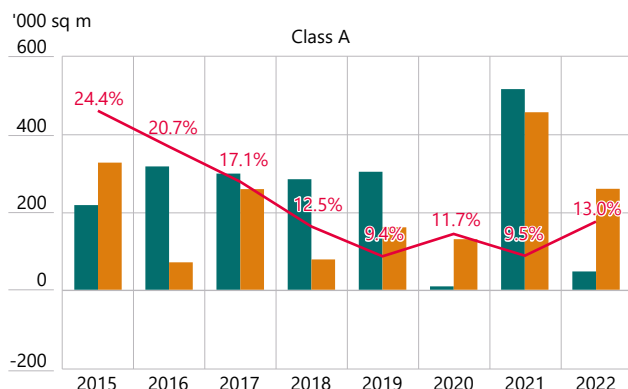
Class A and B new supply dynamics



Source: NF Group Research, 2023

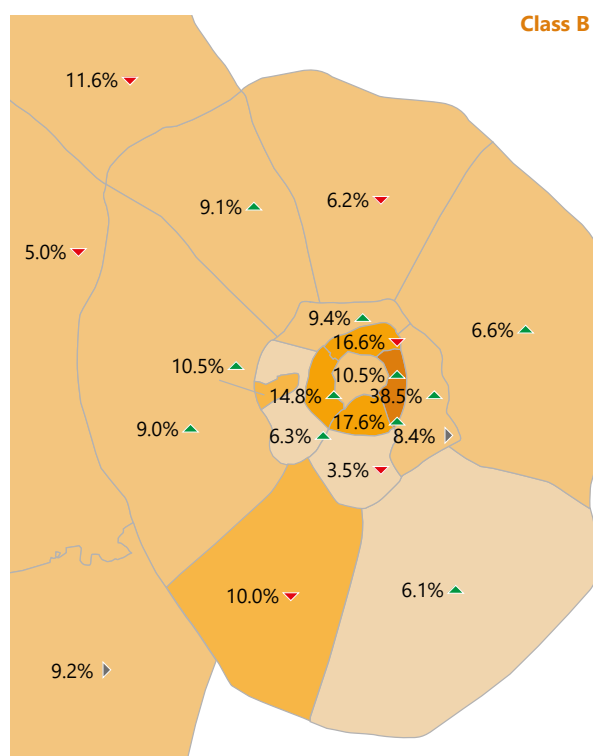
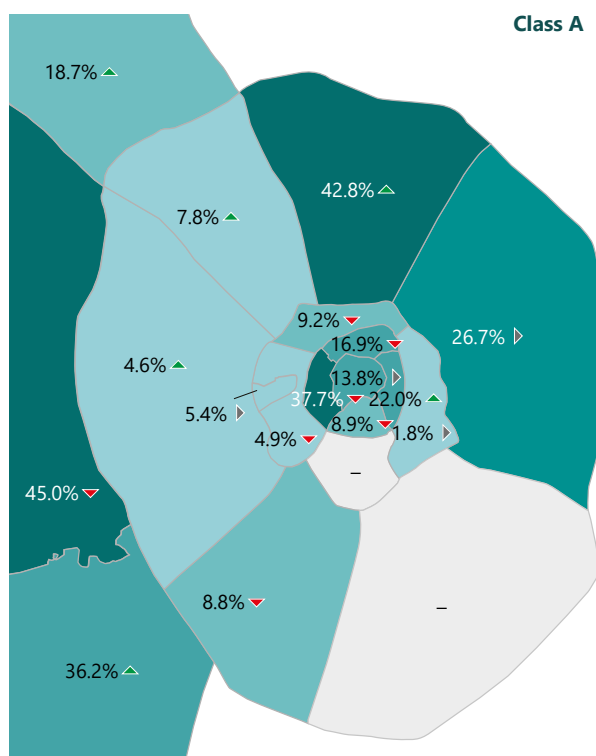
Net absorption, new supply and vacancy rate dynamics

■ Net take-up ■ New supply — Vacancy rate



Source: NF Group Research, 2023

Moscow submarket data. Vacancy rate



Source: NF Group Research, 2023

Vacancy

Since the beginning of the year, the vacancy rate has increased by 3.6 ppt and 1.8 ppt in Classes A and B, respectively, to 13% and 7.4%. About 690,000 sq m of Class A office space and more than 1.6 m sq m of Class B offices were available on the market.

A significant increase in vacancy falls on the premium facilities of Moscow: since the beginning of the year, the indicator has added 4.2 ppt (to 13.4%) and come up with the figure of the end of 2020.

In Class A, the vacancy rate grew heterogeneously: the indicator increased significantly in Q2 2022 amid the active reduction of foreign businesses and

optimization of their offices located mainly in key business districts of Moscow, and in Q3 2022 due to the large volume of completion, when Comcity's building, Bravo Phase, located beyond the Moscow Ring Road, was commissioned. At the same time, the rate of vacancy growth slowed down by the year-end, and the indicator increased by only 0.2 ppt in Q4 2022.

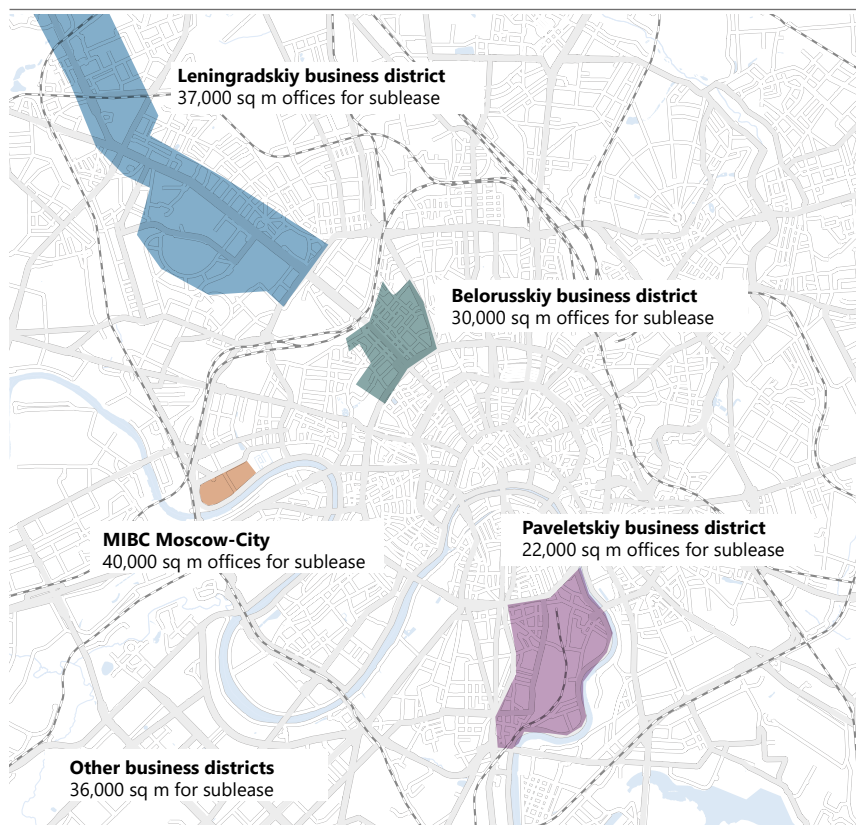
Sublease

In 2022 the volume of offices offered for sublease appeared on the Moscow market. They were primarily offices of foreign companies decided to leave the Russian market or reduce their activities in Russia, including the domestic players optimizing their space. During the year, the volume of offices for sublease varied between 150,000–200,000 sq m. By the end of the year, the figure reached 166,000 sq m. At the same time, this type of vacant premises accounts for 9% of all vacant premises on the market (taking into account offices offered for direct rent and vacant space in flex offices). The largest volume of sublease is in high-quality Class A business centers in developed business districts of Moscow.

Demand

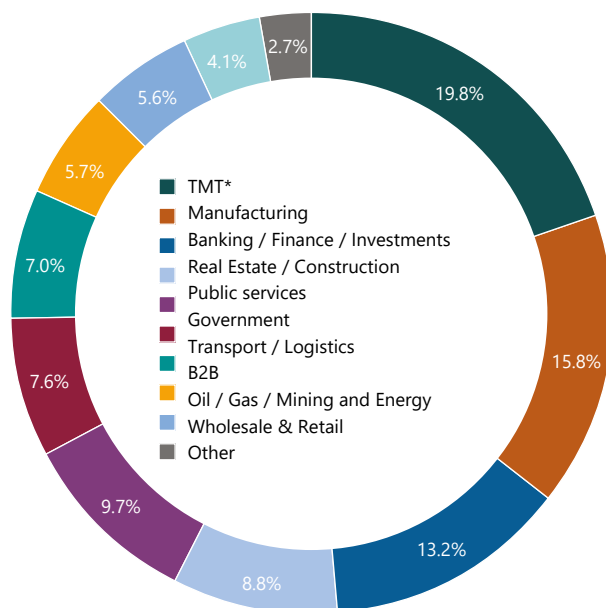
Office absorption, being the key indicator of demand showing the difference between all space leased and all that entered the market unleased for a certain period, had a negative value and amounted to – 107,400 sq m at the end of 2022 vs 701,500 sq m in 2021. At the same time, the volume of annual net absorption of Class A, despite the concerns in the beginning of the year, turned out to be positive and amounted to 46,800 sq m. This result is a combination of several factors: at the end of the year, vacancy in Class A was already growing at a slower pace; in addition to the release of offices, large transactions took place on the market, where buildings, in part or in whole, were sold. At the year-end, facilities without vacancies were put into operation – a fully occupied AFI Square and a project on the BTS principle for Novatek in Leninskiy Avenue. In Class B offices, net absorption reached – 154,000 sq m.

Moscow Business Districts



Source: NF Group Research, 2023

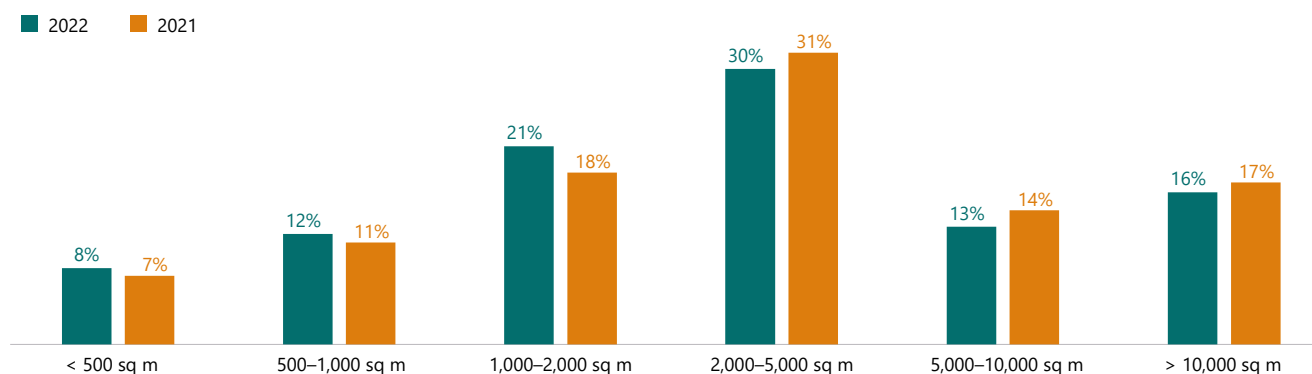
Take-up structure by business sector



* (Technology/Media/Telecommunications)




Source: NF Group Research, 2023

Distribution of leased office units by size



Source: NF Group Research, 2023

Key lease and sale deals in Moscow office market in 2022

Company	Transaction, sq m	Type of transaction	Office building
Autoban	15,000	Sale	Skolkovo Loft-Kvartal
Smart Technology 	10,400	Lease	Krylatsky Hills, bldg. 5
Synergy	10,398	Lease	RTS Nagatinskaya
PJSC Bank Dom.RF 	6,426	Serviced office	BusinessClub, Iskra Park
Fonbet	4,500	Lease	Nikoloyamskaya St., 24, bldg. 1
Institute of Professional Education Development	4,500	Lease	B. Gruzinskaya St., 12, bldg. 2
SberLogistics	4,393	Lease	Gazoil Plaza
Tinkoff Bank	4,092	Serviced office	SOK Arena Park
Rostec Structure 	3,956	Lease	Preo 8

 NF Group transactions

Source: NF Group Research, 2023

Flex offices

The most active users of offices in 2022 were TMT* companies with a share of 19.8%, the second place is taken by manufacturing companies with a share of 15.8%, while banking and financial sector comes third with its 13.2%. In 2022, the average lease transaction value was 1,107 sq m.

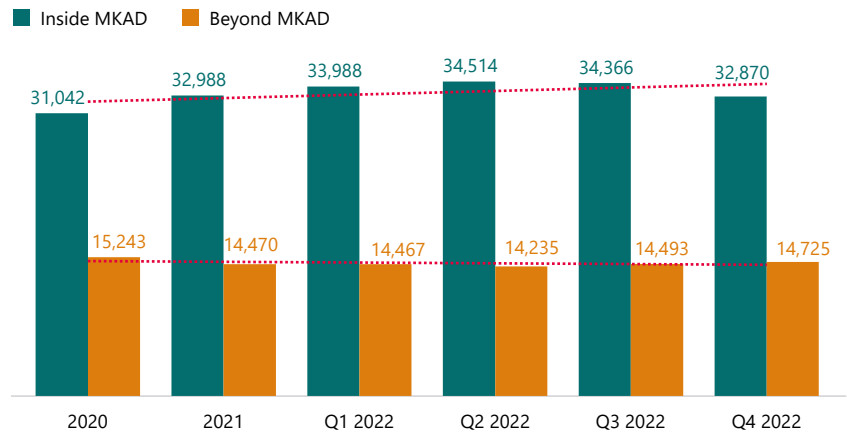
At the end of 2022, the volume of open flexible space in Moscow amounted to 354,600 sq m. In total, the projects provide 50,600 workstations. In 2022, seventeen new flex offices with a total area of about 92,000 sq m were opened in Moscow, offering about 13,000

workstations for rent. The rate of new supply in 2022 was 12% higher than the final figure of 2021. Most of the open flexible spaces in 2022 are the sites of network operators (97% by volume of commissioned sites).

Commercial terms

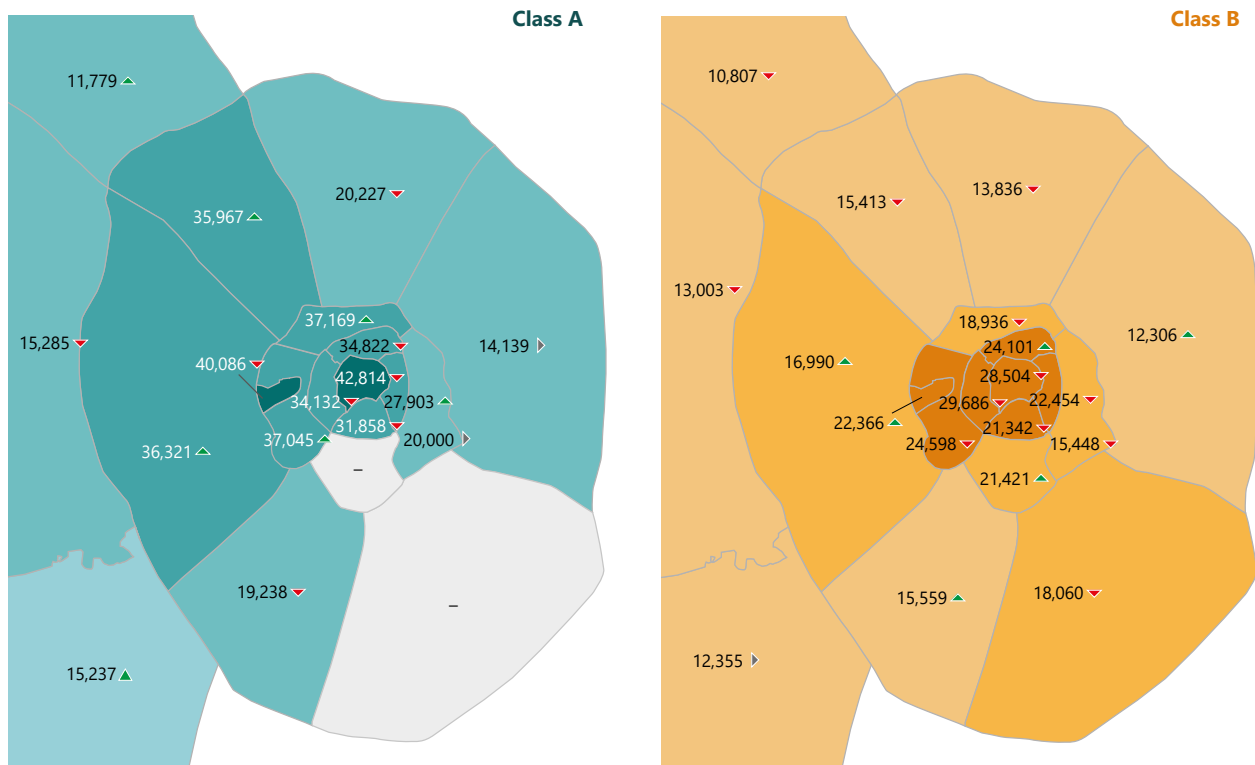
In 2022, the average weighted asking rental rate in Class A, contrary to forecasts for decrease, grew by 0.8% to 26,044 roubles/sq m/year (excluding OPEX and VAT) on the back of the indicator's heterogeneous dynamics during the year: due to a large volume of supply in high-quality business centers in H1 2022, the average weighted asking rental rate on the market increased; then the rate decreased on the back of the commissioning of certain facilities offered at a rate below the average market index of Class A. Within the Moscow Ring Road, the annual decrease in Class A was insignificant: for the year, the average weighted rate lost 0.4% and amounted to 32,870 roubles/sq m/year (excluding OPEX and VAT) compared to 32,988 in Q4 2021.

Class A average weighted asking rents dynamics by zone



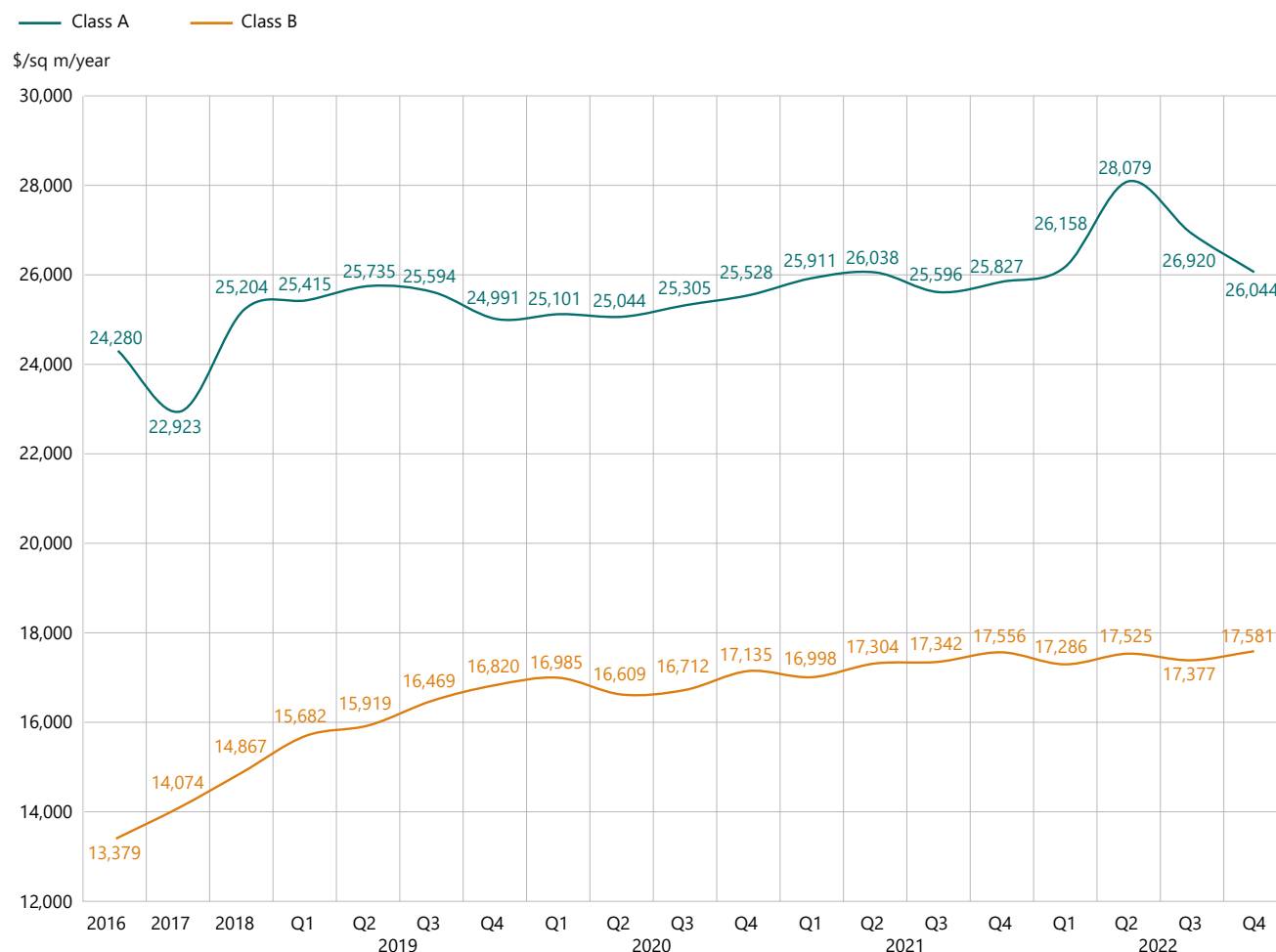
Source: NF Group Research, 2023

Moscow submarket data. Average weighed rent



Source: NF Group Research, 2023

Class A and B average weighted asking rents dynamics



Source: NF Group Research, 2023

At the same time, in the middle of the year, the Moscow Ring Road indicator reached 34,514 roubles/sq m/year (excluding OPEX and VAT). In Class B, the average weighted rental rate for the year added 0.1 ppt to 17,581 roubles/sq m/year (excluding OPEX and VAT).

The existing market practice remain unchanged. The average term of an office lease agreement is still 5 years with possible early termination. The indexation of rental rates in many contracts is linked to the consumer price index at the level of 5-10%.

The size of the rented office space is the key factor in the deviation of the achievable rental rate from the asking 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 2023, the new commissioning may amount to about 473,000 sq m, where about 80% will be Class A projects.

A significant increase in the vacancy rate in both classes is not expected: by the end of 2023, the indicator will reach 14-15% in Class A and 7.5–8.0% in Class B.

The asking rental rates will slightly adjust downwards in Class A up to 25,500–25,600 roubles/sq m/year (excluding OPEX and VAT) and remain approximately at the current level of 17,500–17,600 roubles/sq m/year for Class B (excluding OPEX and VAT).

Moscow submarket data. Key indicators

Submarket		Lease Area, '000 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	42,814		13.8%		28,504		10.5%	
Garden Ring	South	1,017	31,858	32,796	8.9%	15.7%	21,342	24,650	17.6%	20.5%
	West	577	34,132		37.7%		29,686		14.8%	
	North	673	34,822		16.9%		24,101		16.6%	
	East	410	27,903		22.0%		22,454		38.5%	
Third Transport Ring	South	1,295	-	36,803	-	7.6%	21,421	19,839	3.5%	6.7%
	West	813	37,045		4.9%		24,598		6.3%	
	North	1,136	37,169		9.2%		18,936		9.4%	
	East	1,142	20,000		1.8%		15,448		8.4%	
		MIBC Moscow-City	1,233	40,086		5.4%		22,366		10.5%
TTR-MKAD	North	1,122	20,227	26,907	42.8%	10.8%	13,836	15,477	6.2%	7.7%
	Northwest	1,075	35,967		7.8%		15,413		9.1%	
	West	2,202	36,321		4.6%		16,990		9.0%	
	South	1,497	-		-		18,060		6.1%	
	Southwest	732	19,238		8.8%		15,559		10.0%	
	East	1,005	14,139		26.7%		12,306		6.6%	
Beyond MKAD	Khimki	266	11,779	14,725	18.7%	33.4%	10,807	12,015	11.6%	8.3%
	West	612	15,285		45.0%		13,003		5.0%	
	New Moscow	406	15,237		36.2%		12,355		9.2%	
Total		17,926	26,044		13.0%		17,581		7.4%	

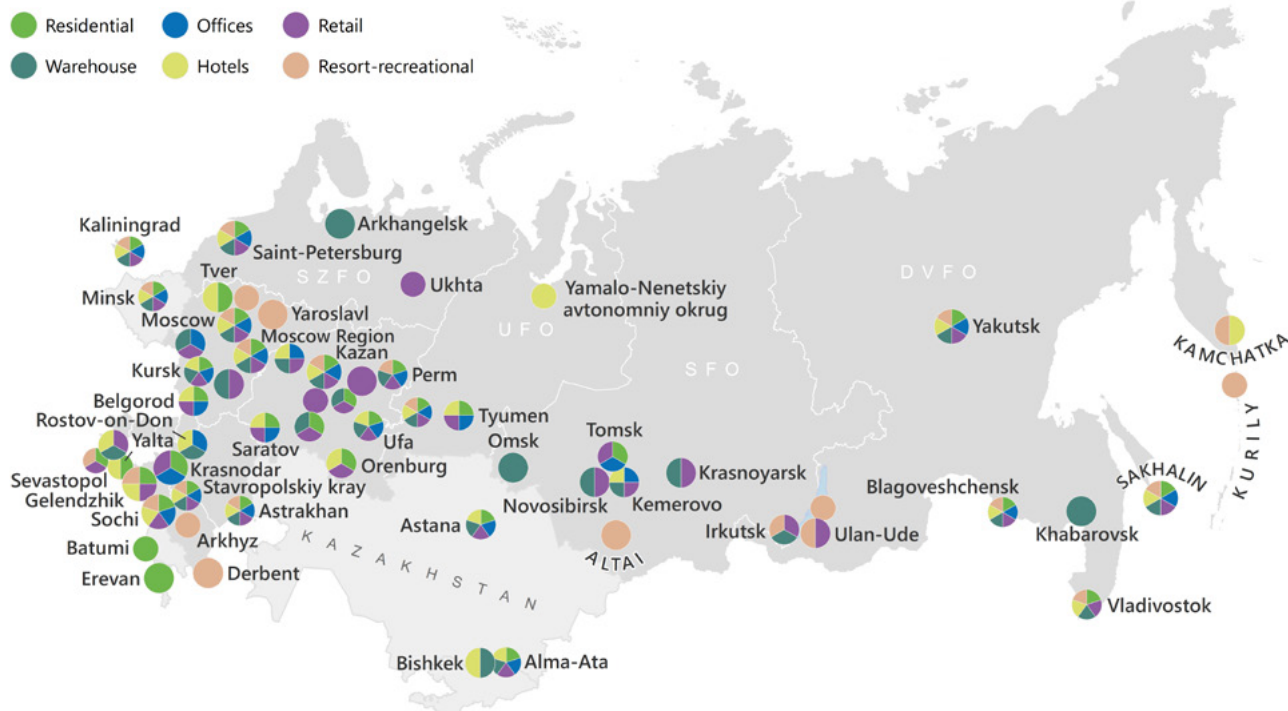
* Excluding OPEX and VAT (20%)

Source: NF Group Research, 2023

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