

# **OFFICE MARKET REPORT. MOSCOW**

Q1 2023



Klever Park

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"The beginning of 2023 has passed in line with the expectations of the end of 2022: the growth of the vacancy rate continued at a low pace, while the market was quite active, and large transactions were implemented. To date, there are signs of uncertainty, and in the event of an increase in negative external factors, the indicator of vacant office space may increase during the year to 14% in class A and 9% in class B. However, regardless of the worsening situation, the increased activity in the market and the fact that the main peak of the exit of foreign tenants occurred in 2022, suggest a slowdown in the growth in the share of vacant offices".

## Key findings

- > Volume of new supply in Q1 2023 amounted to 26,900 sq m.
- > Vacancy rate at the end of Q1 2023 increased and reached the level of 13.3% in Class A offices and 8.1% in Class B offices.
- > Asking rental rates for Q1 2023 amounted to 26,203 roubles/sq m/year in Class A and 17,408 roubles/sq m/year in Class B.

### Key indicators. Dynamics\*

|   |            | 2022   | Q1 2023 |
|---|------------|--------|---------|
| Total supply of high-quality space, '000 sq m               |            | 17,926 | 17,953  |
| including:  | Class A    | 5,310  | 5,331   |
|   | Class B    | 12,616 | 12,622  |
| Commissioned since the beginning of the year, '000 sq m     |            | 340.8  | 26.9    |
| including:  | Class A    | 259.2  | 21.9    |
|   | Class B    | 81.6   | 5.0     |
| Vacancy rate, %   | Class A    | 13.0   | 13.3    |
|   | Class B    | 7.4    | 8.1     |
| Average weighted asking rental rates*, roubles/ sq m/year** | Class A*** | 26,044 | 26,203  |
|   | Class B    | 17,581 | 17,408  |
| Average weighted OPEX, roubles/sq m/year                    | Class A    | 7,700  | 7,700   |
|   |            | 5,600  | 5,600   |

\* Compared to Q4 2022

\*\* Excluding OPEX and VAT (20%)

\*\*\* In Class A, there is a category of objects of the "Prime" class, which are the highest quality, efficient in terms of planning, high-tech buildings located in the most developed and significant business clusters in Moscow (Central Business District, Belorussky Business District, Moscow City). The basic average weighted rental rate is 42,243 roubles/sq m/year

Source: NF Group Research, 2023



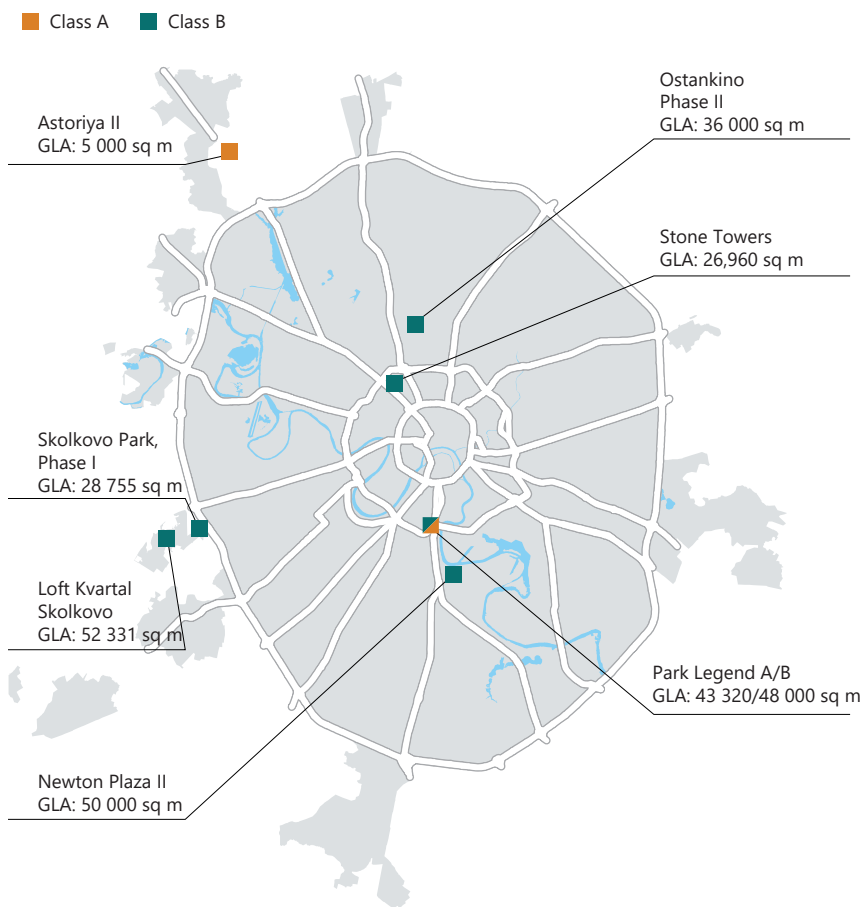
## Supply

At the end of 2022, the total supply of the Moscow office market amounted to more than 17.9 m sq m, of which 5.3 m sq m are Class A, and 12.6 m sq m are Class B.

In Q1 2023, three objects with a total leased area of 26,900 sq m received permission for commissioning: Lomonosov Business Center (18,400 sq m) and Building 2 in the Lucky Residential Quarter (3,500 sq m) of Class A and Astoriya II (5,000 sq m) of Class B. This being said, both Class A objects have not increased the vacancy rate, since they do not offer space for direct classical lease.

In 2023, more than 530,000 sq m of office real estate are planned for commissioning, of which more than 80% belong to Class A.

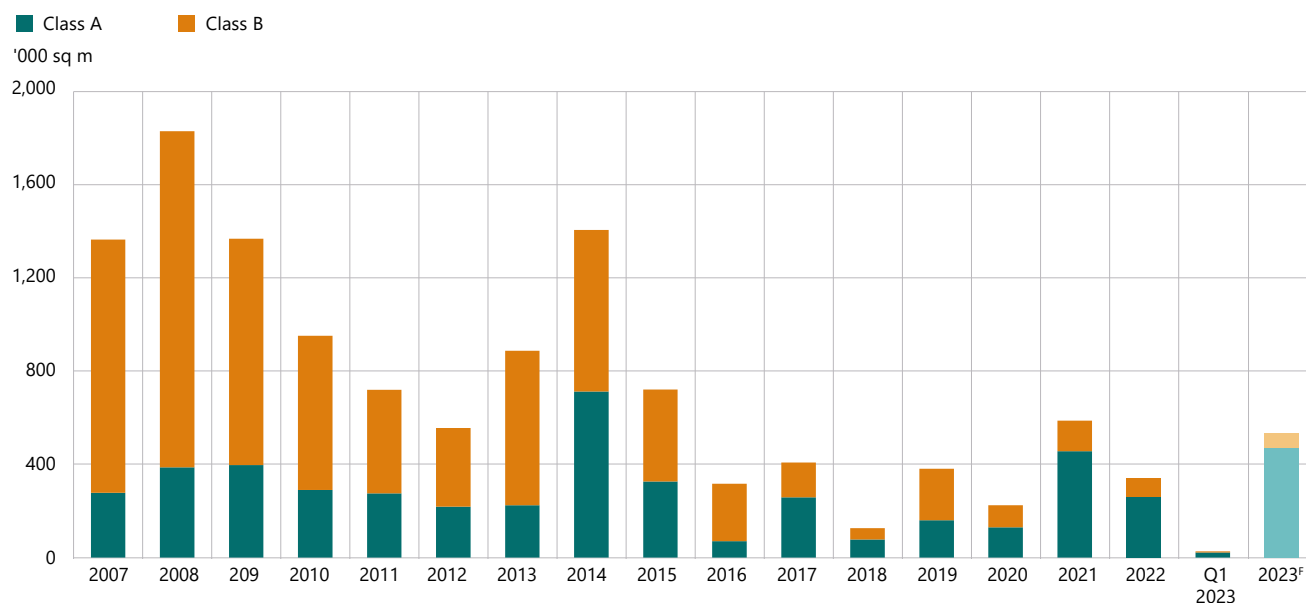
### Map of Commissioned Facilities in 2023



\* Office facilities where the Commissioning Certificate has been received/will be received in 2023. The class of buildings is indicated according to the classification of the Moscow Research Forum 2013.

Source: NF Group Research, 2023

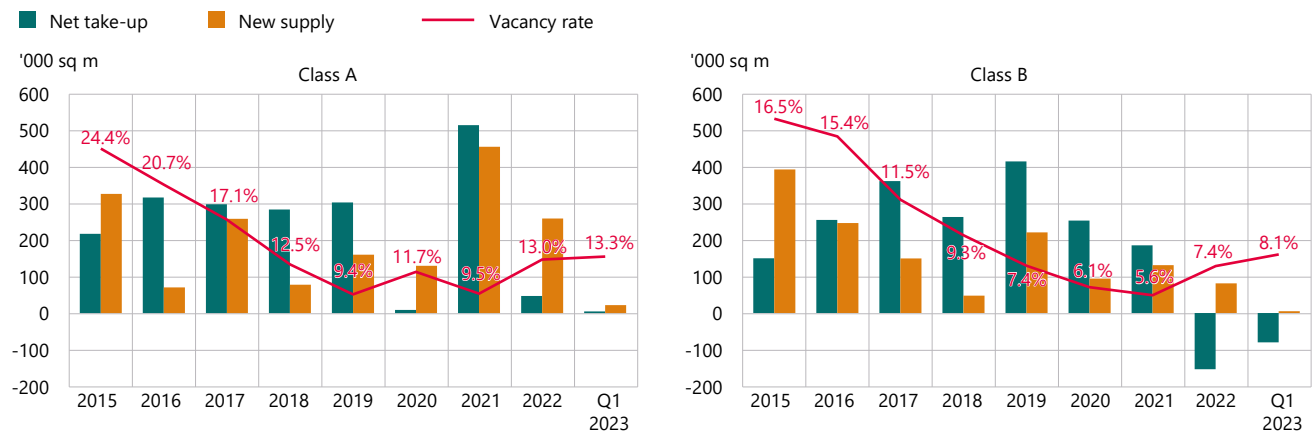
### Class A and B new supply dynamics



Source: NF Group Research, 2023

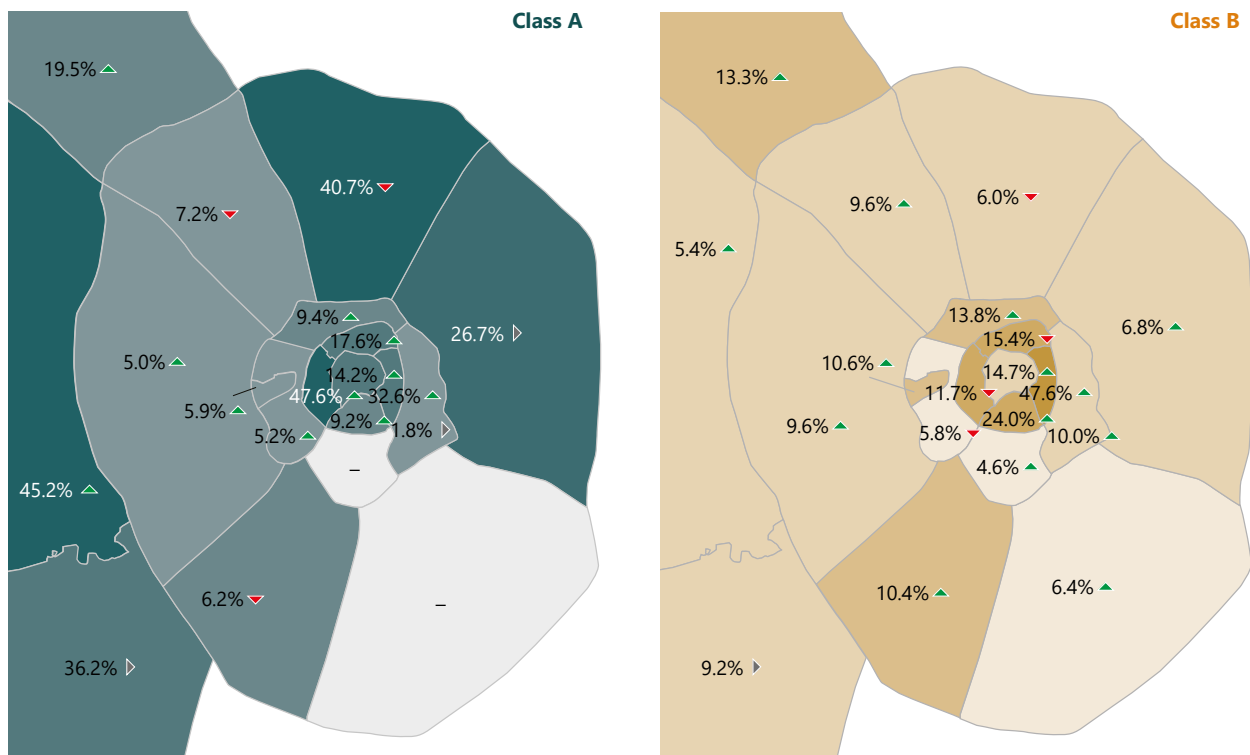


## Net absorption, new supply and vacancy rate dynamics



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 0.3 ppt and 0.7 ppt in classes A and B, respectively, to 13.3% and 8.1%. About 709,000 sq m of Class A office space, as well as more than 1 m sq m of Class B offices were available on the market.

A noticeable increase in vacancy continues to be observed in the capital's premium facilities: since the beginning of the year, the indicator has increased by 2 ppt (to 15.4%).

A slowdown in the growth of the vacancy rate in Class A and the main activity on

the release of space by foreign players was noted in the first three months of 2023. The optimization of Russian business took place in the second half of 2022. At the same time, the facilities commissioned in January-March 2023 did not add a marketed speculative offer to the market.

## Sublease

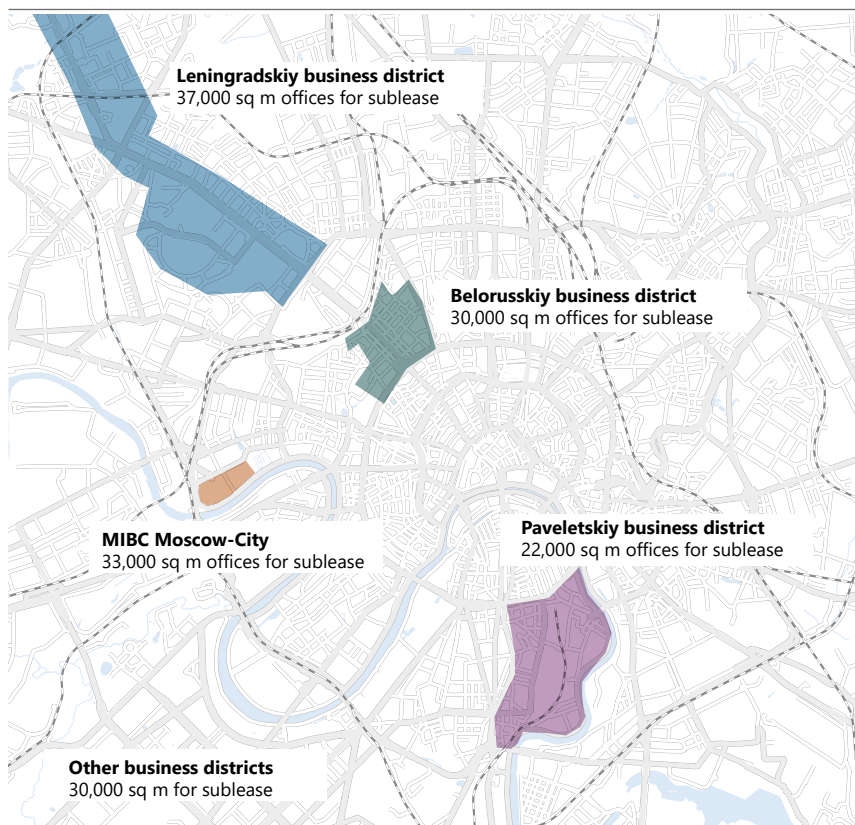
In 2022, offices offered for sublease appeared on the capital's market, which mainly were offices of foreign companies that decided to leave the Russian market or reduce their activities in Russia, as well as domestic players optimizing the space. During the year, offices offered for sublease varied between 150,000-200,000 sq m, by the end of the year, the indicator reached the level of 166,000 sq m. According to the results of the first three months of 2023, the volume of such offices amounted to 152,000 sq m. This type of vacant space accounts for 8% of all vacant premises on the market (taking into account offices offered for direct rent and vacant spaces in flexible offices). The largest volume of sublease is concentrated in high-quality Class A business centers in developed business districts of Moscow.

## Demand

The volume of annual net absorption (an indicator of the difference between the volume of Class A areas that were filled during a certain period and the areas that entered the market empty) turned out to be positive, as in the previous two quarters, and amounted to 4,400 sq m. Major transactions where large buildings/blocks were sold, as well as limited supply volume did not reduce the net absorption to negative values. However, the number of unfilled Class B offices increased, as lower-quality premises were more affected by the crisis of 2022, and the cumulative result of net absorption amounted to -75,700 sq m of Class A and B office space.

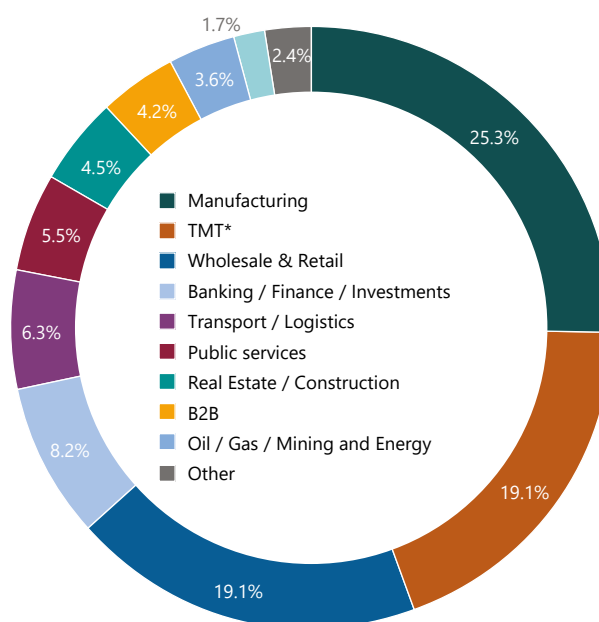
The most active users of offices in Q1 2023 were companies in the manufacturing sector (25.3%), the TMT\* sector with a rate of 19.1%, in third place – companies in the Wholesale&Retail sector with a rate of 19.1%, The average size of the lease transaction was 1,030 sq m in Q1 2023.

### Moscow Business Districts



Source: NF Group Research, 2023

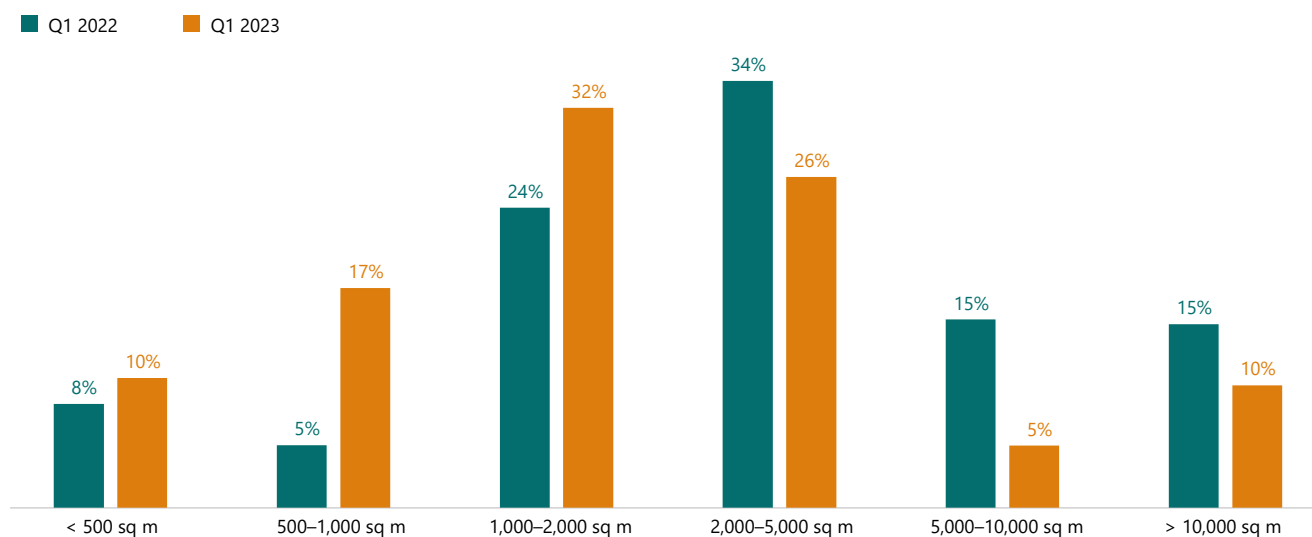
### Take-up structure by business sector



\* (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 Q1 2023

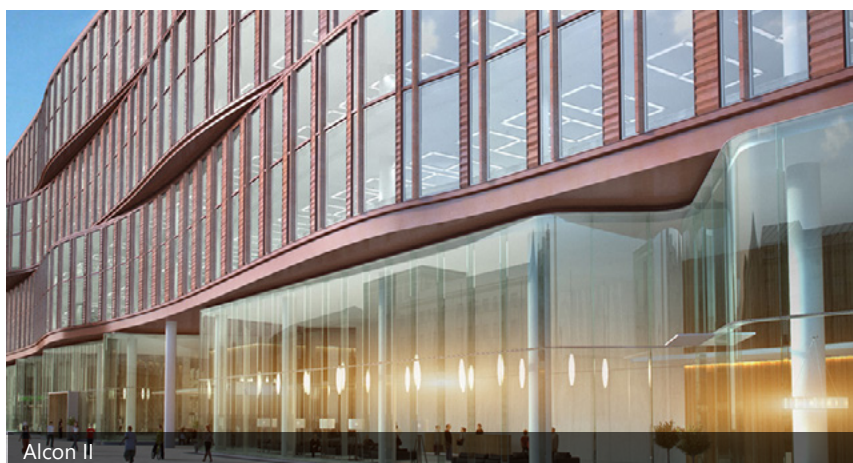
| Company   | Transaction, sq m | Type of transaction | Office building           |
|---|-------------------|---------------------|---------------------------|
| Demetra-Holding   | 10,000            | Lease               | Hermitage Plaza           |
| Taxcom  | 5,085             | Lease               | Kaluzhsky                 |
| Chery  | 4,433             | Lease               | Metropolis                |
| Gazpromneft - SM  | 3,832             | Lease               | Arcus III                 |
| Red Wings   | 3,500             | Lease               | Zhukovsky Business Center |

 NF Group transactions

Source: NF Group Research, 2023

## Flex offices

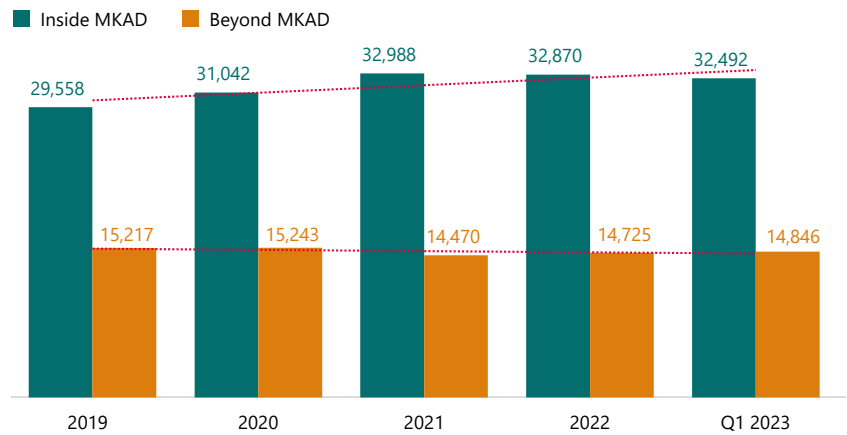
At the end of Q1 2023, the volume of open flexible offices in Moscow amounted to 381,800 sq m, the sites provide 55,600 jobs in total. In the first three months of 2023, five new locations with a total area of about 24,000 sq m were opened in Moscow, offering more than 3,300 jobs for lease. Most of the open flexible spaces at the end of March 2023 are the sites of network operators (93% by volume of launched sites).



## Commercial terms

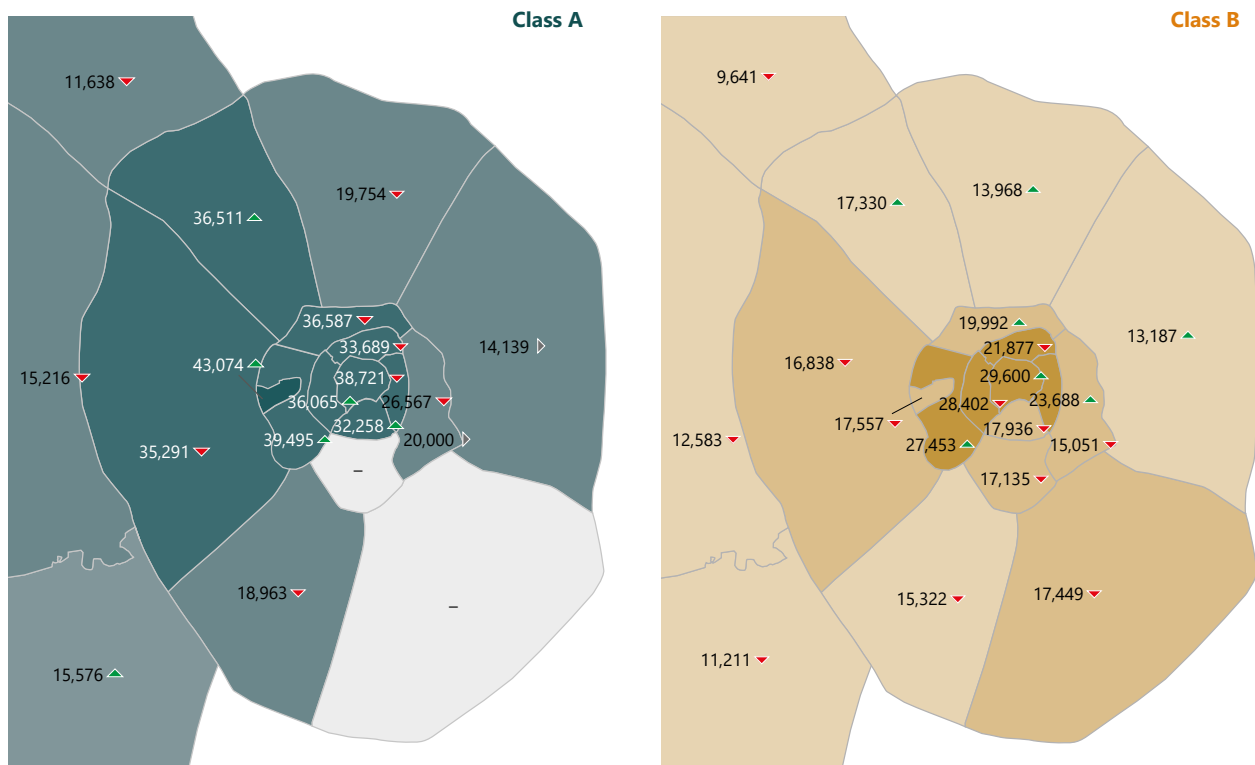
According to the results of Q1 2023, the average weighted asking rate in Class A increased by 0.6% and amounted to 26,203 roubles/sq m/year (excluding operating expenses and VAT), in Class B – decreased by 1% and amounted to 17,408 roubles/sq m/year (excluding operating expenses and VAT). The dynamics of the Class A rate is due to the fact that the supply continues to enter the market under conditions above average, in particular in premium segment buildings. The average weighted asking rental rate in premium offices continued to decline and at the end of March amounted to 42,243 roubles/sq m/year, which turned out to be 2.4% lower than the rate of the end of 2022.

Class A average weighted asking rents dynamics by zone



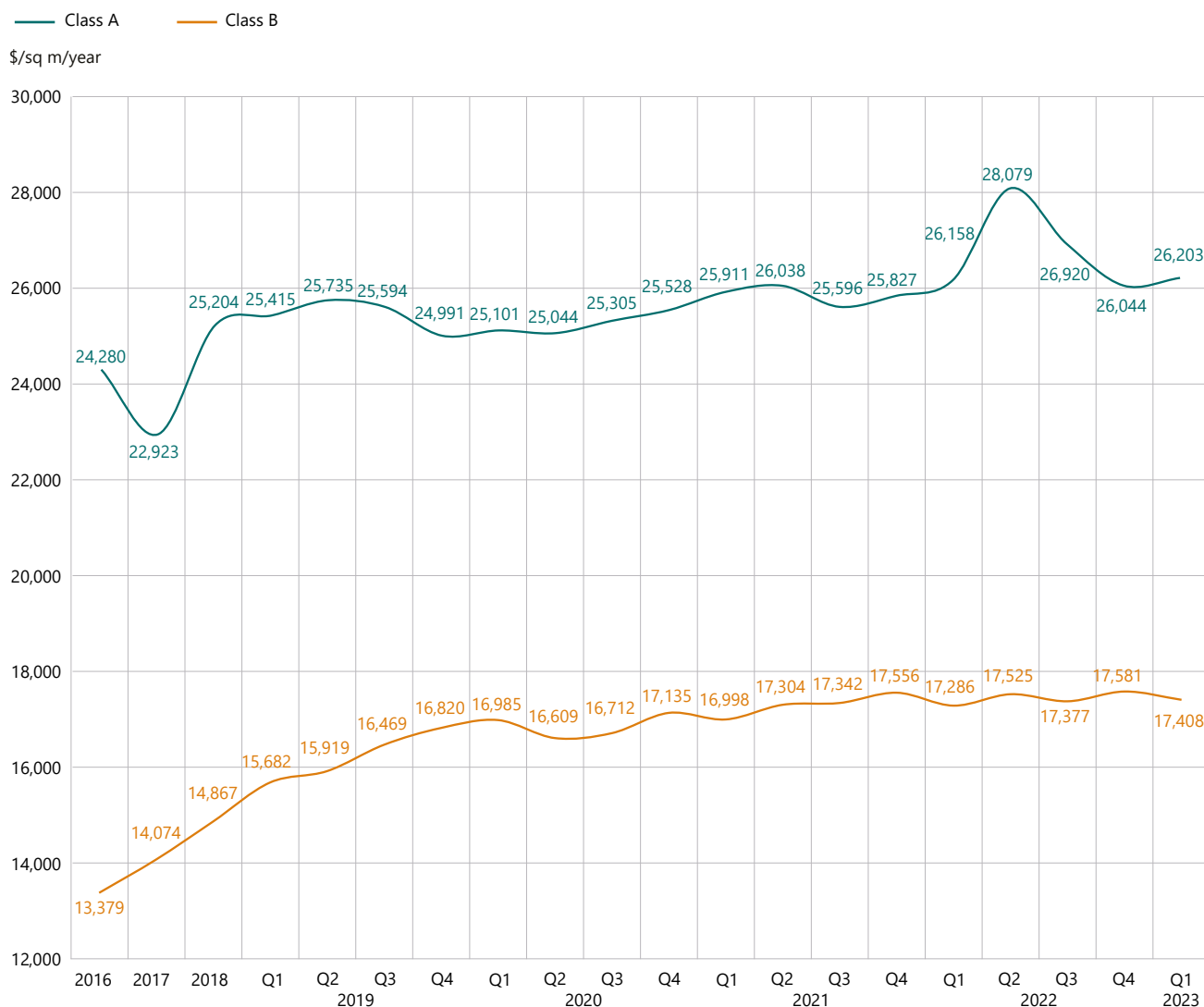
Source: NF Group Research, 2023

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

Existing market practices remain unchanged. The average term of the office lease agreement is still 5 years with the possibility of early termination. The indexation of rental rates in most agreements is linked to the consumer price index, at the level of 5-10%.

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

Offices are rented mostly in the «as is» state, and compensation for finishing works on the part of the owner is often minimal or absent at all.

## Forecast

In 2023, the commissioning of new facilities may amount to more than 530,000 sq m, where more than 80% will be Class A projects.

By the end of 2023, the vacancy rate may reach 11-12% in Class A and 7.5–8.0% in Class B. However, given the strengthening of negative external factors, the indicator of vacant office space may

grow within a year to 14% in Class A and 9% in Class B.

Depending on the scenario of the development of the external situation, the asking rental rates in Class A may increase to 26,000 – 27,000 roubles/sq m/year (excluding operating expenses and VAT) and remain at the level of 17,500 – 17,600 roubles/sq m/year (excluding operating expenses and VAT) in class B (with a stable external background) and decrease to 24,000 – 26,000 roubles/sq m/year (excluding operating expenses and VAT) in Class A and 17,000 – 17,500 roubles/sq m/year (excluding operating expenses and VAT) in Class B (with increased tension).



## 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                   | 38,721                       |        | 14.2%           |       | 29,600                       |        | 14.7%           |       |
| Garden Ring          | South                     | 1,017                 | 32,258                       | 32,684 | 9.2%            | 18.3% | 17,936                       | 22,019 | 24.0%           | 22.6% |
|                      | West                      | 577                   | 35,065                       |        | 47.6%           |       | 28,402                       |        | 11.7%           |       |
|                      | North                     | 673                   | 33,689                       |        | 17.6%           |       | 21,877                       |        | 15.4%           |       |
|                      | East                      | 410                   | 26,567                       |        | 32.6%           |       | 23,688                       |        | 47.6%           |       |
| Third Transport Ring | South                     | 1,295                 | -                            | 36,426 | -               | 7.8%  | 17,135                       | 19,689 | 4.6%            | 8.2%  |
|                      | West                      | 817                   | 39,495                       |        | 5.2%            |       | 27,453                       |        | 5.8%            |       |
|                      | North                     | 1,136                 | 36,587                       |        | 9.4%            |       | 19,992                       |        | 13.8%           |       |
|                      | East                      | 1,142                 | 20,000                       |        | 1.8%            |       | 15,051                       |        | 10.0%           |       |
|                      |                           | MIBC Moscow-City      | 1,233                        | 43,074 |                 | 5.9%  |                              | 17,557 |                 | 10.6% |
| TTR-MKAD             | North                     | 1,122                 | 19,754                       | 26,216 | 40.7%           | 10.0% | 13,968                       | 15,709 | 6.0%            | 8.0%  |
|                      | Northwest                 | 1,075                 | 36,511                       |        | 7.2%            |       | 17,330                       |        | 9.6%            |       |
|                      | West                      | 2,220                 | 35,291                       |        | 5.0%            |       | 16,838                       |        | 9.6%            |       |
|                      | South                     | 1,497                 | -                            |        | -               |       | 17,449                       |        | 6.4%            |       |
|                      | Southwest                 | 732                   | 18,963                       |        | 6.2%            |       | 15,322                       |        | 10.4%           |       |
|                      | East                      | 1,005                 | 14,139                       |        | 26.7%           |       | 13,187                       |        | 6.8%            |       |
| Beyond MKAD          | Khimki                    | 271                   | 11,638                       | 14,846 | 19.5%           | 33.7% | 9,641                        | 10,701 | 13.3%           | 9.2%  |
|                      | West                      | 612                   | 15,216                       |        | 45.2%           |       | 12,583                       |        | 5.4%            |       |
|                      | New Moscow                | 406                   | 15,576                       |        | 36.2%           |       | 11,211                       |        | 9.2%            |       |
| Total                |                           | 17,953                | 26,203                       |        | 13.3%           |       | 17,408                       |        | 8.1%            |       |

\* Excluding OPEX and VAT (20%)

Source: NF Group Research, 2023

