

OFFICE MARKET REPORT. MOSCOW

H1 2023



Taller

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«In H1 2023, market activity increased after the previous year uncertainty. There is a high interest of office users and investors in renting and buying space by blocks/buildings. An interesting trend is a sale share growth, when it amounted to 23% of NF Group total transactions in H1 2023, compared to 11% in H1 2022. We expect that in H2 2023, the demand for both sales and lease will remain high with a stable external background and no additional geopolitical shocks».

Key findings

- > In H1 2023, 107.4 thousand sq m of offices were commissioned.
- > The vacancy rate at the end of H1 2023 reached the level of 13.2% in Class A offices and 7.8% in Class B offices, with a decrease recorded during the quarter.
- > The asked rental rates for 1H 2023 was 28,850 RUB/sq m/year in Class A and 17,405 RUB/sq m/year in Class B.

Key indicators. Dynamics*

		2022	H1 2023
Total supply of high-quality space, '000 sq m		17,926	18,031
including:	Class A	5,310	5,409
	Class B	12,616	12,622
Commissioned since the beginning of the year, '000 sq m		340.8	104.7
including:	Class A	259.2	99.7
	Class B	81.6	5.0
Vacancy rate, %	Class A	13.0	13.2
	Class B	7.4	7.8
Average weighted asking rental rates, roubles/ sq m/year**	Class A***	26,044	25,850
	Class B	17,581	17,405
Average weighted OPEX, roubles/sq m/year	Class A	7,700	7,700
		5,600	5,600

* Compared to Q4 2022

** 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 41,704 RUB/sq m/year

Source: NF Group Research, 2023



Supply

In H1 2023, the total office space in the Moscow market exceeded 18 m sq m, of which 5.4 m sq m fall on Class A, and 12.6 m sq m on Class B.

In H1 2023, facilities with a total leased area of 104.7 sq m received the permission for commissioning. The largest facilities among those commissioned were Park Legend (41,900 sq m), DM Tower (27,100 sq m) and Lomonosov cluster (18,400 sq m).

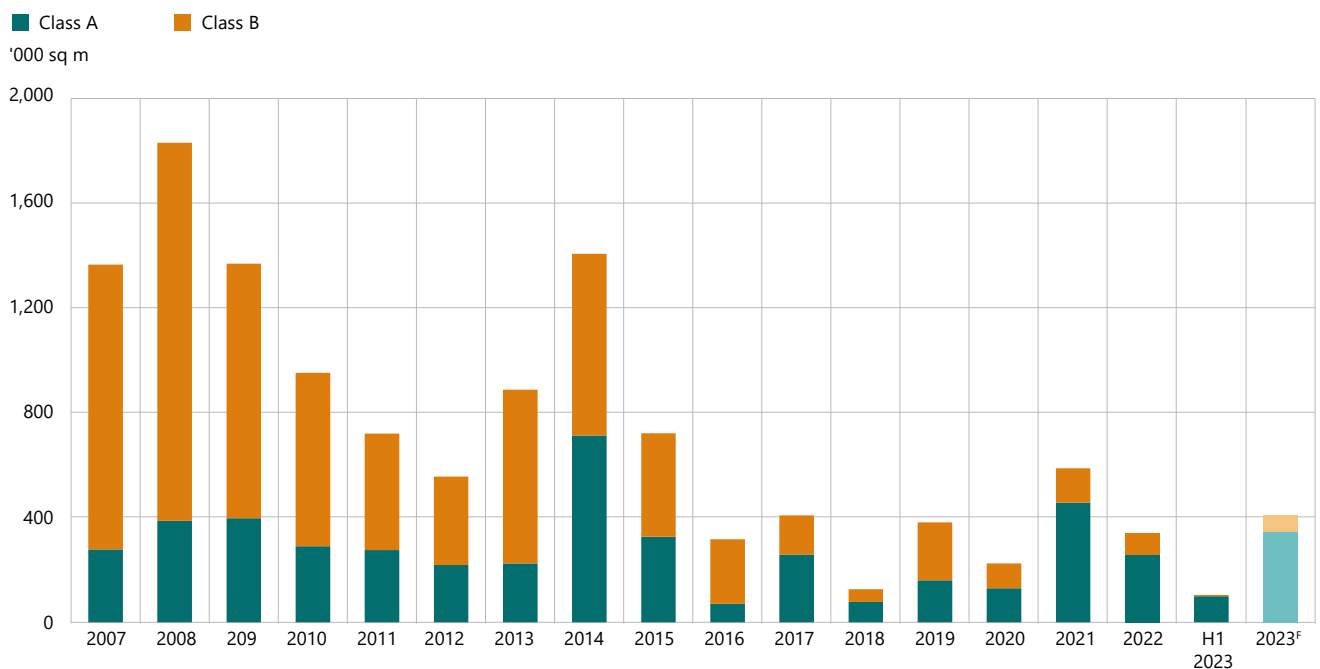
In 2023, it is planned to commission more than 410,000 sq m of offices, of which 85% belong to Class A. Most of the new construction will be within the Third Ring Road – Moscow Ring Road (71%) and outside the Moscow Ring Road (19%).

Key projects 2023-2025*



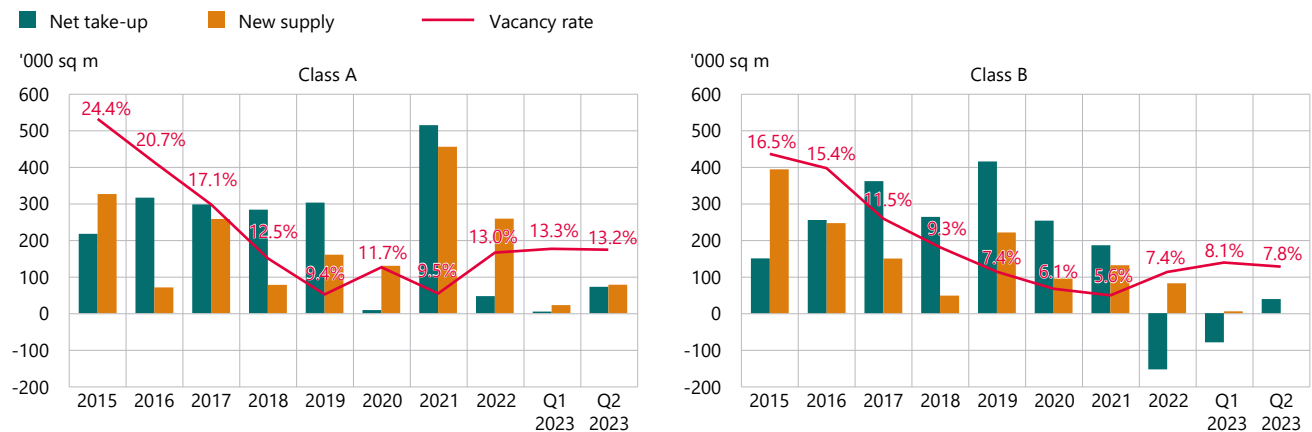
* Office facilities with the commissioning certificate received/to be received in 2023-2025.
Class of buildings is specified according to the classification of the Moscow Research Forum 2013.
Source: NF Group Research, 2023

Class A and B new supply dynamics



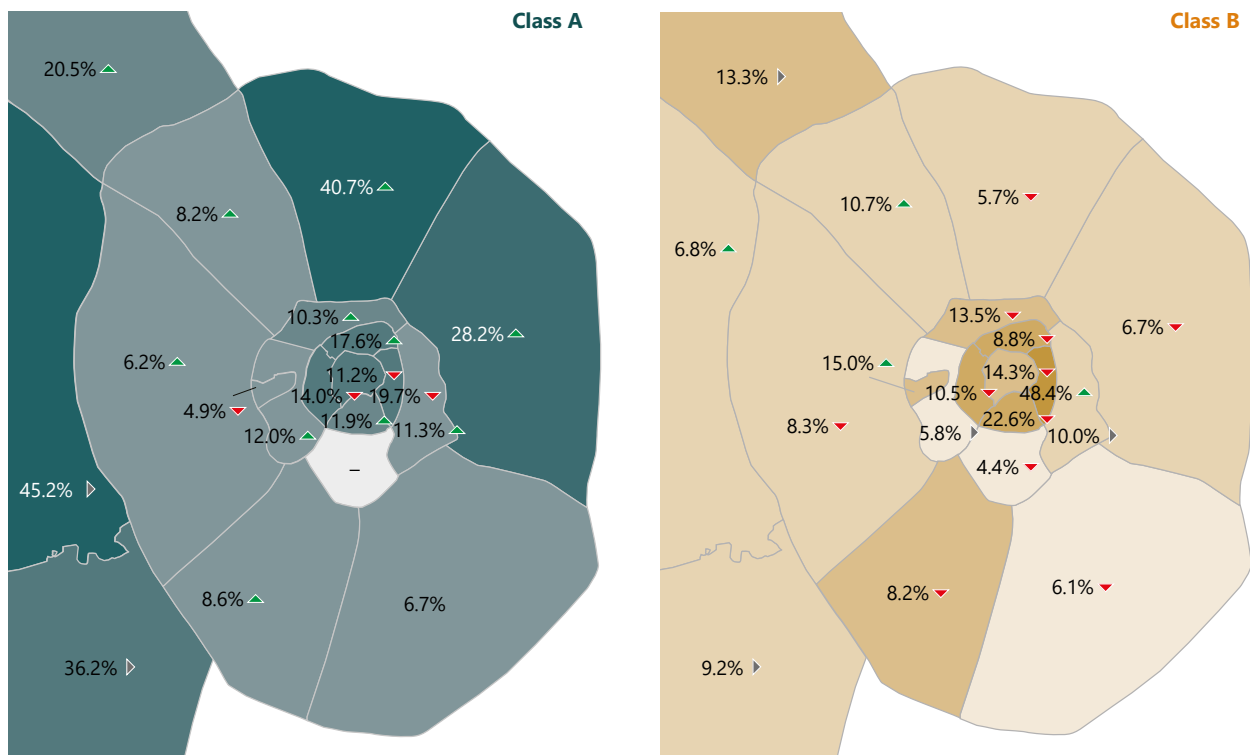
Source: NF Group Research, 2023

Net absorption, new supply and vacancy rate dynamics



Source: NF Group Research, 2023

Moscow submarket data. Vacancy rate



Source: NF Group Research, 2023

Vacancy

Within April – June, the vacancy rate decreased in all classes, by 0.1 ppt to 13.2% in class A and by 0.3 ppt to 7.8% in Class B. About 715,000 sq m of Class A office space and more than 986,000 m sq m of Class B offices were available on the market. In premium facilities of Moscow, vacancy

also decreased by 0.3 ppt for the quarter to 15.1%. At that, vacancy rates are still higher in all segments compared to 2023-year start: despite a fairly high demand in Q2 2023, space still continued to be released at the beginning of the year, albeit at a slower pace than in 2022.

The facilities launched the market in April – June did not add a speculative supply on the market: in each project commissioned in Q2 2023, the space was partially or fully occupied by the time of commissioning.

Sublease

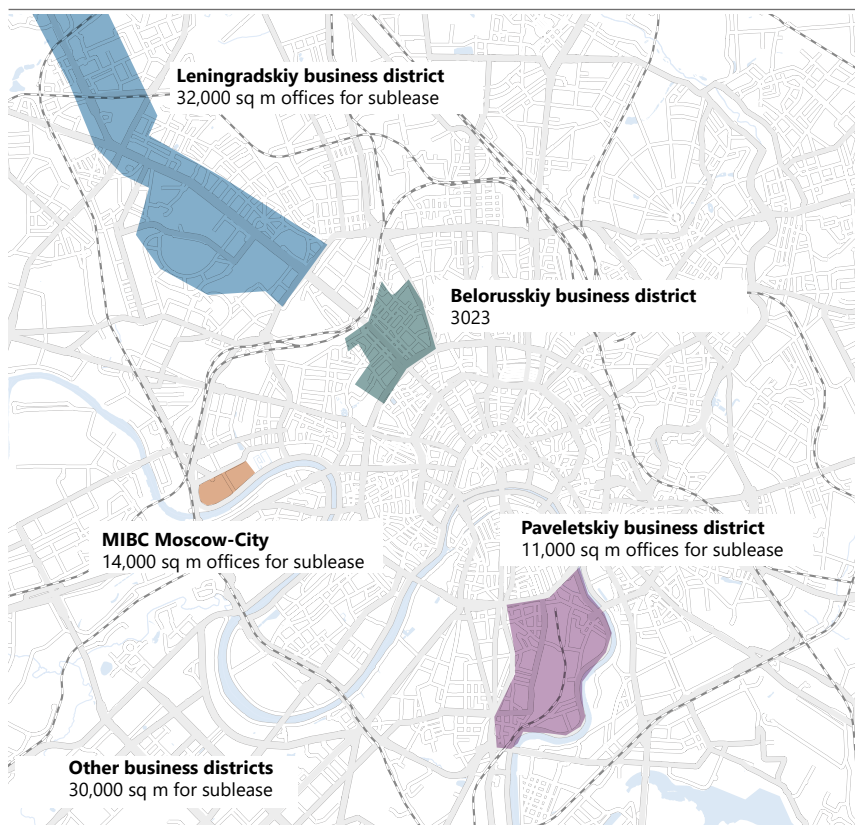
In 2022, the Moscow market supplied the volume of offices offered for sublease. They were primarily offices of foreign companies decided to leave the Russian market or reduce their activities in Russia, including the domestic players optimizing their space. During the year, the volume of offices for sublease varied between 150,000-200,000 sq m. By the end of the year, the figure reached 166,000 sq m. In Q2 2023, the volume of such offices decreased and amounted to 110,000 sq m. This type of vacant premises accounts for 6% of all vacant premises on the market (taking into account classical offices offered for lease 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

The volume of net absorption (an indicator of difference between the volume of space occupied during a certain period of time and the space entered the market unoccupied; the net absorption takes into account both new transactions and the space released by tenants, so it may be close to zero or even negative) turned out to be positive and amounted to 35,000 sq m at the end of the half-year. Large transactions involved large buildings/blocks, and a limited volume of commissioning with occupied areas did not reduce net absorption to negative values.

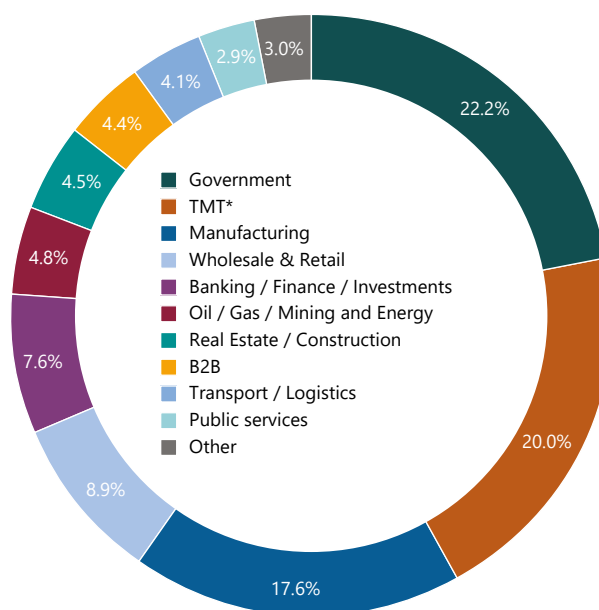
In H1 2023, the most active demand for offices was demonstrated by Government (22%), TMT* sector (20%), and manufacturing companies (18%). The share of Government is mainly justified by the purchase of iCity Tower (47,000 sq m) by Moscow Government. The average size of the lease transaction was 1,462 sq m in H1 2023.

Moscow Business Districts



Source: NF Group Research, 2023

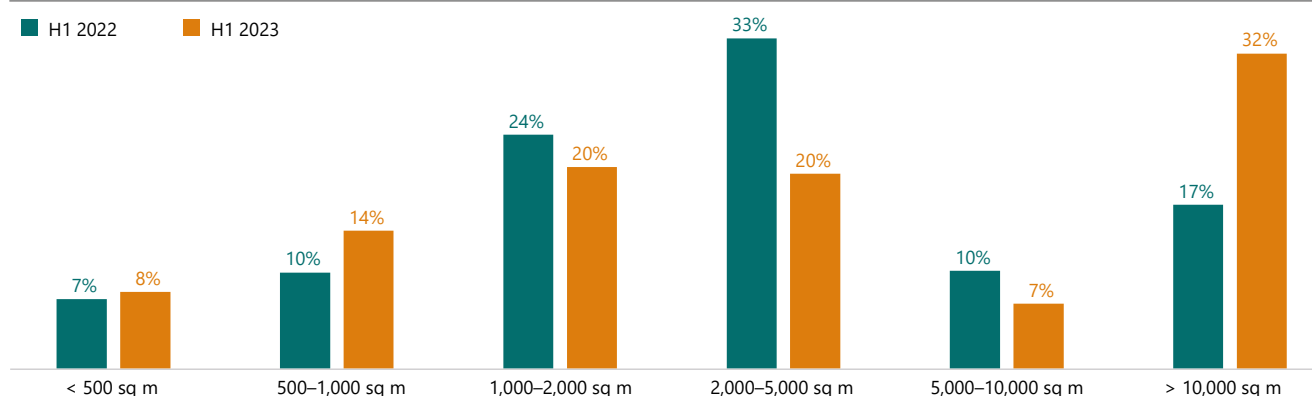
Take-up structure by business sector



* (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 Q2 2023

Company	Transaction, sq m	Type of transaction	Office building
Moscow Government	47,000	Sale	iCity
Private investor 	13,740	Sale	B. Sadovaya st., 8 bldg 1
Russian Agricultural Bank	13,396	Sale	OKO II
Lukoil Structure	11,071	Lease	Alcon III
SberMegaMarket	9,308	Flex office	Flexity Ovchinnikovskaya
Aquarius 	4,181	Lease	Krylatskye Hills
IT-company 	3,967	Sale	iCity

 NF Group transactions

Source: NF Group Research, 2023

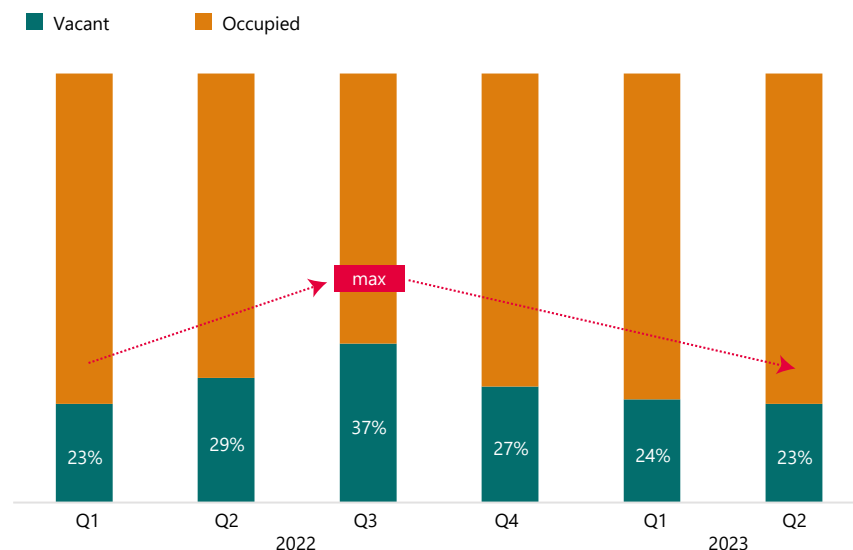


Flex offices

At the end of H1 2023, the volume of open flex offices in Moscow amounted to 372,000 sq m with 54,000 workstations in total. In the H1 2023, five new locations with a total area of about 25,000 sq m were opened in Moscow by offering more than 3.5 thousand workstations for rent. Most of the open flex spaces at the end of June 2023 are the sites of network operators (93% by the volume of commissioned sites).

According to the results of the half-year, the vacancy rate* of flexible offices was 23%. The average rental rate of a workplace is 35,620 RUB/workstations/month (including VAT). In H2 2022, the peak vacancy rate of flexible offices was recorded – 37%, while now the indicator has decreased and is at values comparable to the level before February 2022.

Dynamics of share of vacant working stations in Moscow flex office



*workstations offered by network operators for the current moment are taken into account, without BTS format (construction for the client) and spaces, which construction has not yet been completed, as well as without the volume of leased spaces.

Source: NF Group Research, 2023

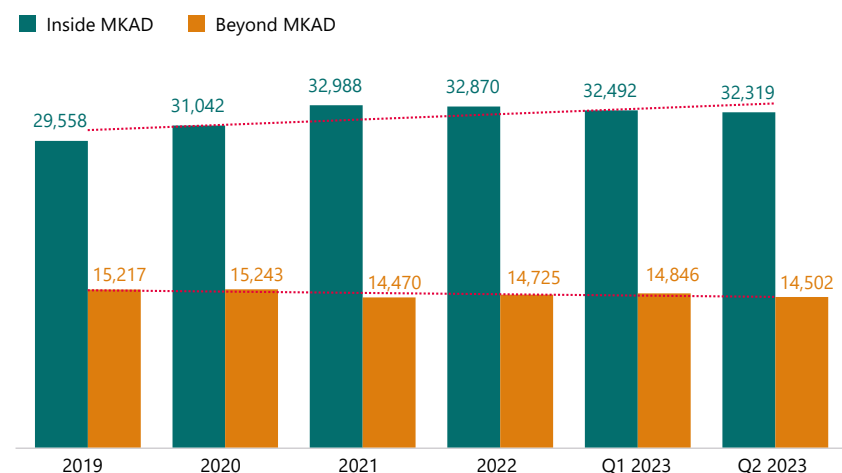
Commercial terms

In H1 2023, the average weighted asking rate in Class A decreased by 0.7% to 25,850 RUB/sq m/year (excluding OPEX and VAT), and by 1% in Class B to 17,405 RUB/sq m/year (excluding OPEX and VAT). The dynamics of rates is backed by the fact of that a part of the supply available on the market at high rates at the beginning of 2022 is gradually being occupied; no significant reduction in the asking rates are recorded. The average weighted asking rents in premium offices also decreased to 41,704 RUB/sq m/year at the end of June, i.e. by 3.6% lower than at the end 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 indexation of rents in many contracts 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

Class A average weighted asking rents dynamics by zone



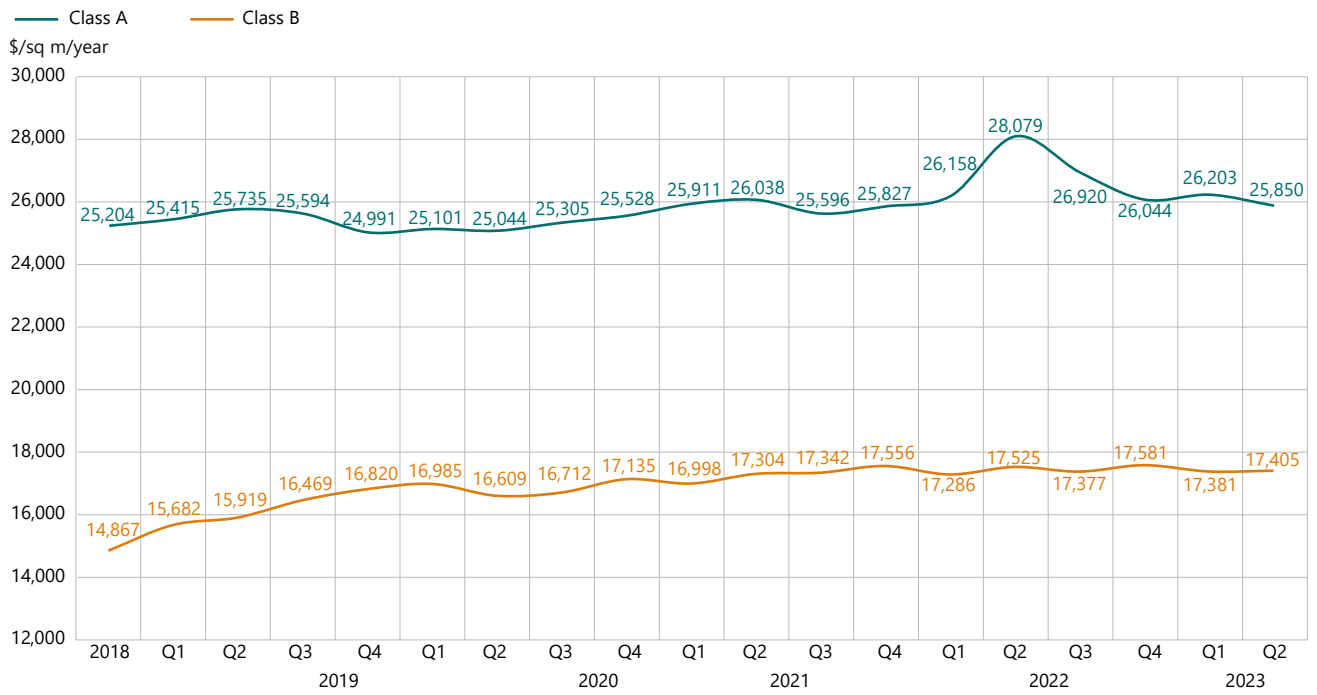
Source: NF Group Research, 2023

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.

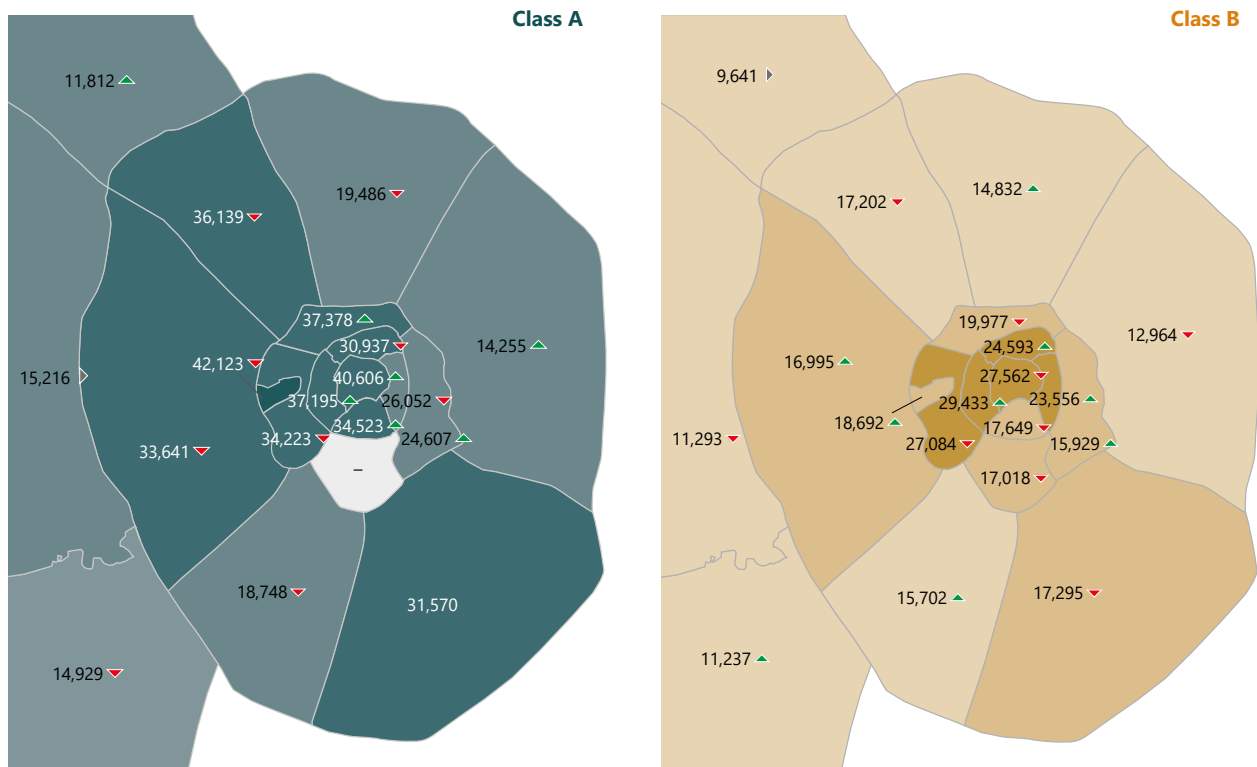
Offices are rented primarily «as is», with a minimum or no compensation for finishing works by office owners in most scenarios.

Class A and B average weighted asking rents dynamics



Source: NF Group Research, 2023

Moscow submarket data. Average weighed rent



Source: NF Group Research, 2023

Office Sales Market

In 2019-2021, a product representing offices for sale in blocks, floors or buildings began to actively develop in the Moscow office market. The growing activity in the Moscow market generates demand for such offices from both small investors and end users, represented, among other things, by large corporations that are planning to locate in their own headquarters.

The total project volume of offices in newly commissioned facilities/buildings after constructions for sale is 1.13 million sq m as of May 2023.

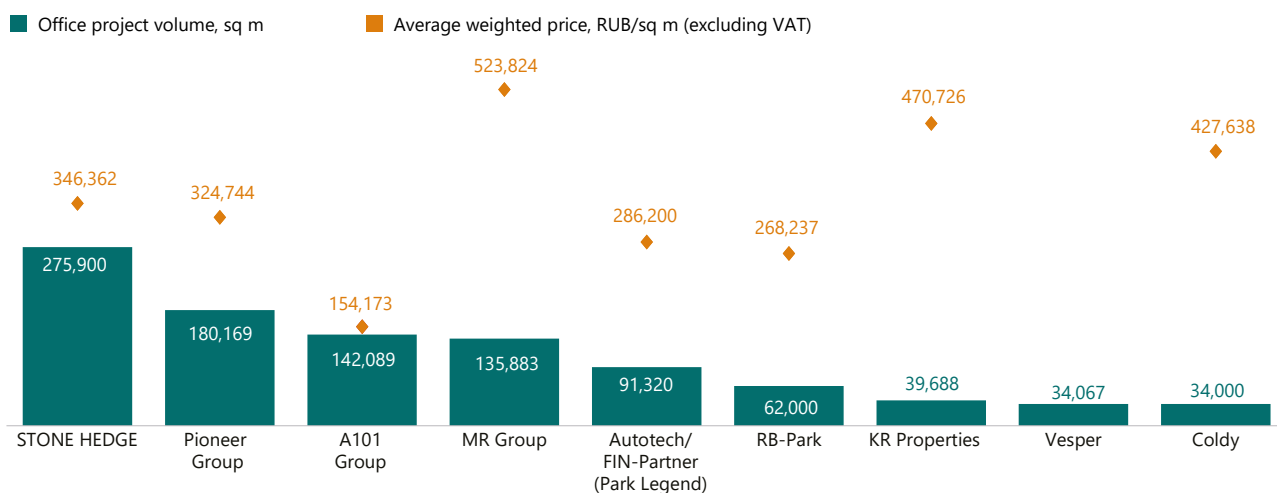
The total volume of offices for sale is 315,500 sq m; the number of lots represented by floors or blocks is 658 units, the average lot area is 480 sq m. The weighted average sale price of offices is 360,357 RUB/sq m/year (including VAT, if applicable).

According to the project volume of office space, the leader is the developer STONE HEDGE, within whose portfolio 275,900 sq m of offices (5 projects). The weighted average sale price in the developer's portfolio is

346,362 RUB/sq m*. The second largest is Pioneer Group – the total project volume is 180,169 sq m (4 projects), and the weighted average asking price is 324,744 thousand RUB/sq m*. The third in terms of the project volume of offices for sale is A101 Group – 142,089 sq m (1 project), the weighted average asking price for the portfolio is 154,173 RUB/sq m*.

* including VAT, if applicable

Office project volume and weighted average price by developers*



*Indicators are given for May 2023
Source: NF Group Research, 2023

Forecast

In 2023, the commissioning of new facilities may exceed 410,000 sq m, where 85% will fall on 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. Nevertheless, if negative external factors enhance, the office vacancy indicator may grow

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

Depending on the external situation development, the asking rental rates in Class A may increase to 26,000-27,000 RUB/sq m/year (excluding OPEX and VAT) and remain at the level of 17,500-17,600 RUB/sq m/year

(excluding OPEX and VAT) in Class B (with stable external background) and decrease to 24,000-26,000 RUB/sq m/year (excluding OPEX and VAT) in Class A and 17,000-17,500 RUB/sq m/year (excluding OPEX and VAT) in Class B (with mounted 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	40,606		11.2%		27,562		14.3%	
Garden Ring	South	1,017	34,523	33,532	11.9%	12.2%	17,649	22,326	22.6%	20.7%
	West	577	42,667		14.0%		29,433		10.5%	
	North	673	30,937		8.2%		24,593		8.8%	
	East	410	26,052		19.7%		23,556		48.4%	
Third Transport Ring	South	1,295	-	35,561	-	10.7%	17,018	20,171	4.4%	8.1%
	West	825	34,500		12.0%		27,084		5.8%	
	North	1,136	37,378		10.3%		19,977		13.5%	
	East	1,142	24,607		11.3%		15,929		10.0%	
		MIBC Moscow-City	1,233	42,123		5.9%		18,692		15.0%
TTR-MKAD	North	1,122	19,486	26,355	40.7%	9.1%	14,832	15,832	5.7%	7.4%
	Northwest	1,075	36,139		8.2%		17,202		10.7%	
	West	2,220	33,641		6.2%		16,995		8.3%	
	South	1,566	31,570		6.7%		17,295		6.1%	
	Southwest	732	18,748		8.6%		15,702		8.2%	
	East	1,005	14,255		28.2%		12,924		6.7%	
Beyond MKAD	Khimki	271	11,812	14,522	20.5%	33.7%	9,641	10,428	13.3%	9.8%
	West	612	15,285		45.2%		11,293		6.8%	
	New Moscow	406	14,929		36.0%		11,237		9.2%	
Total		18,031	25,850		13.2%		17,405		7.8%	

* Excluding OPEX and VAT (20%)

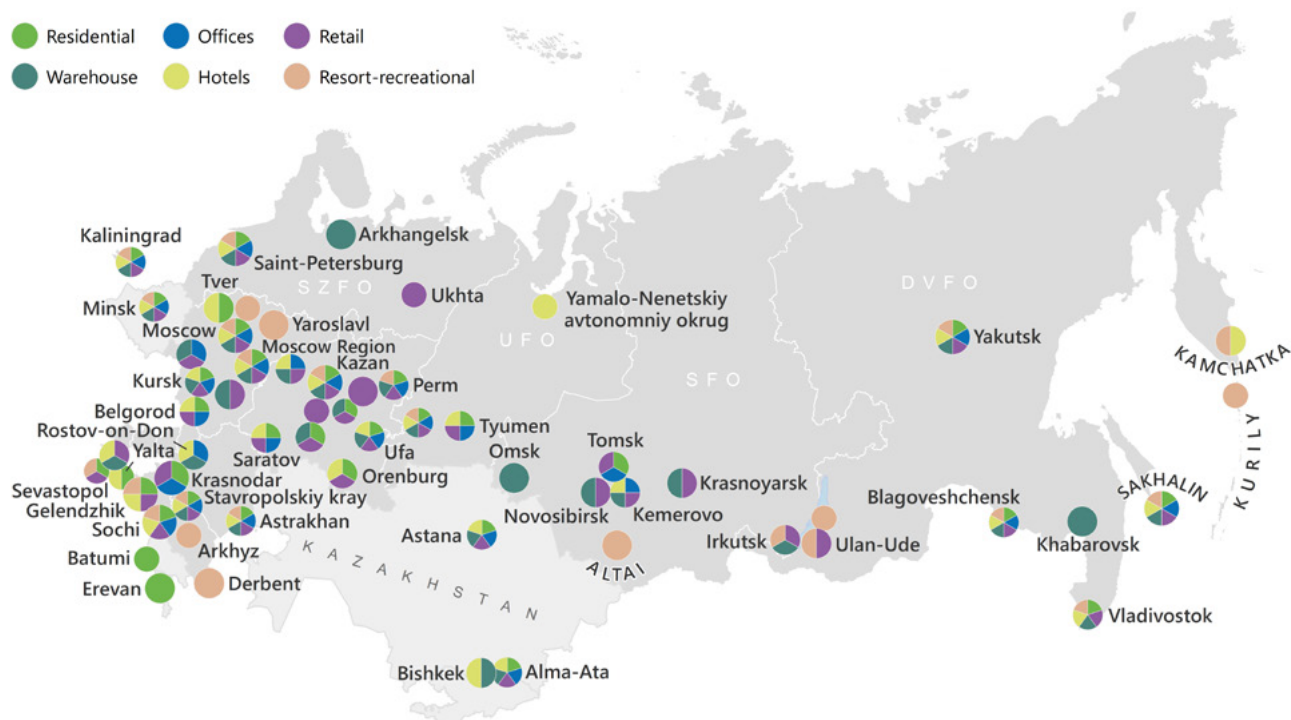
Source: NF Group Research, 2023

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