OFFICE MARKET REPORT. MOSCOW

2023

Na Polesskom

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«The development of the office market in 2024 will be determined by several main trends. Firstly, there is a limited number of new offices for lease: most of the facilities are being built for sale, and the choice for tenants is quite small. Secondly, there is a limited number of offices with good finishing – most of the new facilities are being introduced in shell&core condition, and the owners of the premises will offer options to help tenants with finishing. Furthermore, the uncertainty of the economic and financial indicators will support the need of clients to save money in real estate, and we can expect a high volume of office sales transactions to remain».

Key findings:

- Volume of office commissioning in 2023 amounted to 279,800 sq m
- Vacancy rate at the end of 2023 decreased to 12.4% in Class A offices and 6.9% in Class B offices, with annual and quarterly declines.
- Asking rental rates for 2023 amounted to 26,303 roubles/sq m/year in Class A and 18,276 roubles/sq m/year in Class B.

Key indicators. Dynamics*

		2022	2023
Total supply of high-quality space, '000 sq m		17,926	18,206
including:	Class A	5,310	5,550
	Class B	12,616	12,655
Commissioned since the beginning of the year, '000 sq m		340.8	279.8
including:	Class A	259.2	240.9
	Class B	81.6	38.9
Vacancy rate, %	Class A	13.0	12.4
	Class B	7.4	6.9
Average weighted asking rental rates, roubles/ sq m/year**	Class A***	26,044	26,303
	Class B	17,581	18,276
Average weighted OPEX rates, roubles/sq m/year	Class A	7,700	7,900
		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 44,311 roubles/sq m/year

Source: NF Group Research, 2024

Stone Towers, towers A

Supply

The total supply volume of the Moscow office real estate market by the end of 2023 amounted to more than 18.2 m sq m, of which 5.6 m belong to class A, and 12.7 m belong to class B.

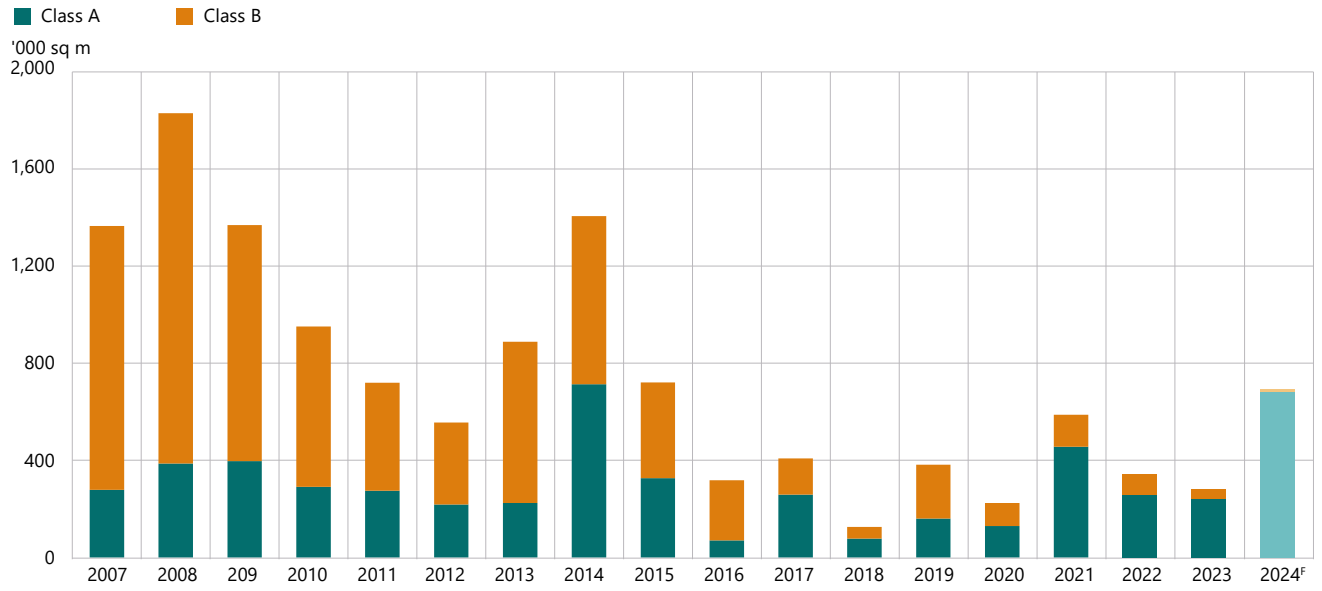
In 2023, facilities with a total leased area of 279,763 sq m were completed, 19% lower less than in 2022. The largest facilities among them are Park of Legends Business Center, class A (41,873 sq m), Nagatino i-Land Cluster on Likhachev Avenue (30,059 sq m), DM Tower (27,125 sq m). More than 30% of the annual volume was commissioned during Q4 2023 (92,372 sq m). The majority of the commissioned volume (76%) was built for sale.

In 2024, more than 708,000 sq m of office real estate are scheduled for commissioning, Class A premises will account for 91% of it. Most of the projected commissioning will be offered for sale (62%), 6% is planned to build for lease; 32% of the projected volume will be BTS projects or those that are leased/purchased in a single unit before the commissioning.

Map of Facilities Scheduled for Commissioning and Commissioned in 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, 2024

Class A and B new supply dynamics

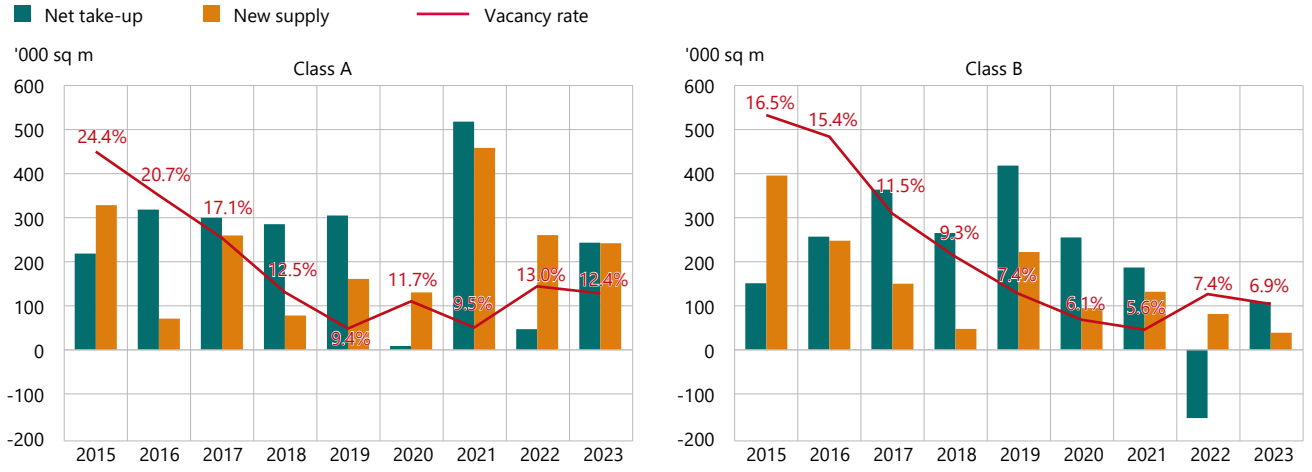


Source: NF Group Research, 2024

Vacancy

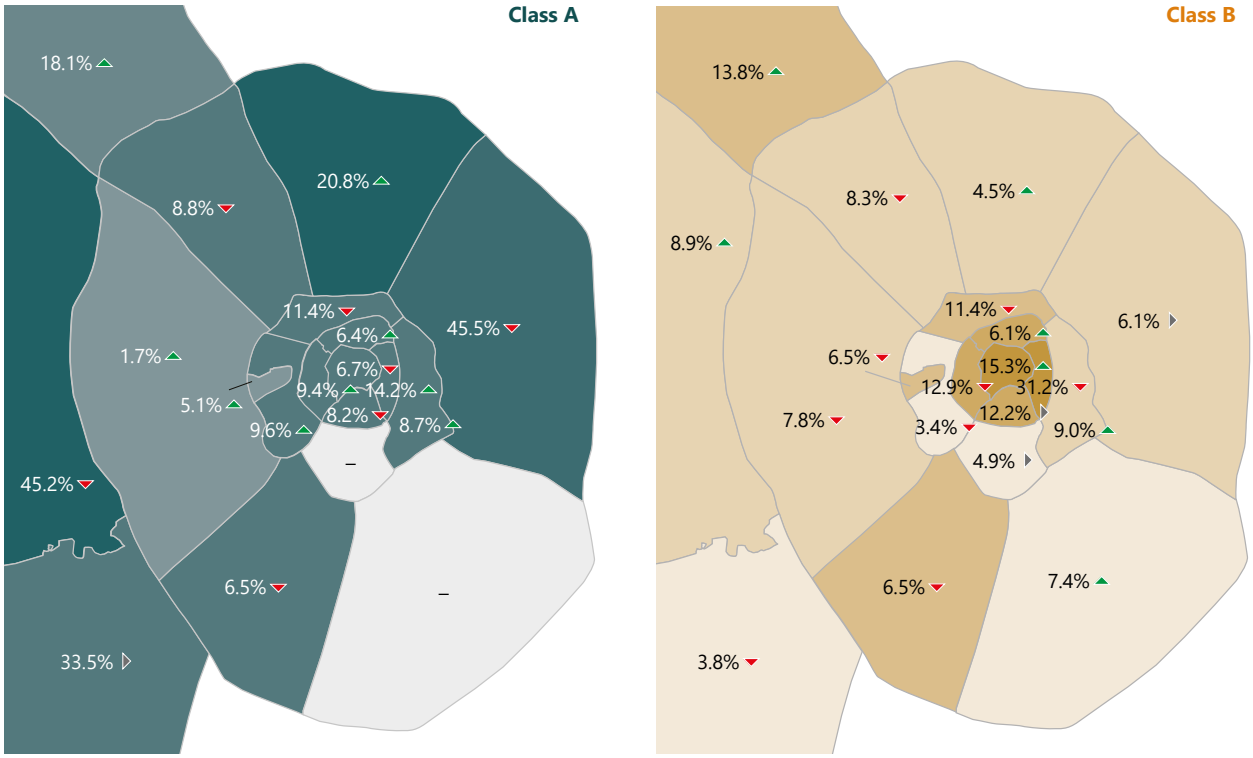
Most of the facilities commissioned in 2023 were partially or completely realized before commissioning, only 35% of new construction entered the speculative market. Due to the small volume of new space on the market and high demand for offices, vacancy in class A decreased by 0.6 ppt (to 12.4%) and by 0.6 ppt in class B (to 6.9%). The total vacancy of office space has decreased to 8.6%, about 691,000 sq m of Class A office space and about 871,000 sq m of Class B office space remain available on the market. In general, the trend towards a decrease in vacancy rates has been observed throughout the year, but the pre–crisis figures of 9.5% and 5.6% in class A and B have not yet been achieved.

Net absorption, new supply and vacancy rate dynamics



Source: NF Group Research, 2024

Moscow submarket data. Vacancy rate



Source: NF Group Research, 2024

Demand

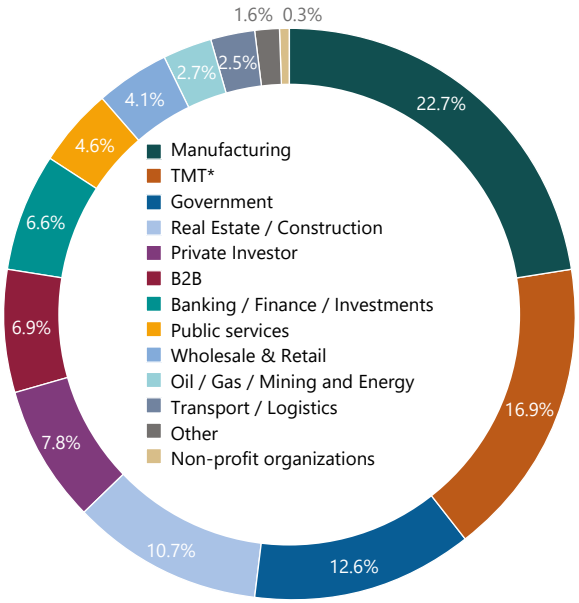
The volume of net absorption (an indicator of the difference between the volume of occupied space at the end and at the beginning of the period under review) for the year turned out to be positive and amounted to about 350,000 sq m compared to a negative value (-101,600 sq m) in 2022.

That being said, in Q1, the indicator was still negative (-75,000 sq m), yet more premises entered the market than office users bought/ leased. In Q2, the situation changed, the net absorption indicator amounted to 110,000 sq m, in Q3 and Q4 the indicator amounted to 202,000 sq m and 113,000 sq m, respectively.

The limited volume of commission with realized space that did not add new vacancy to the market, as well as the high level of demand, brought net absorption to positive values.

In 2023, a significant share of the demand for office space was formed by companies in the manufacturing sector (22.7%), the TMT sector (16.9%), as well as parastatal companies (12.6%). Over the year, the leaders structure has changed slightly: in 2022, companies in the manufacturing and TMT sectors (19.8% and 15.8%), as well as the financial organizations sector with a share of 13.2%, led the way. Parastatal companies occupied the sixth place with a share of 7.6% of the total volume.

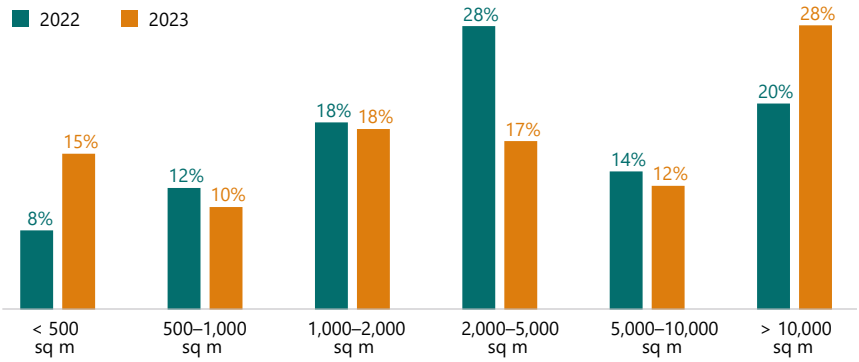
Take-up structure by business sector



* (Technology/Media/Telecommunications)

Source: NF Group Research, 2024

Distribution of leased office volume by size



Source: NF Group Research, 2024

Key lease and sale deals in Moscow office market in 2023

Company	Volume of transaction, sq m	Type of transaction	Office building
iCity	47,000	Government of Moscow	Sale
Orbital NF GROUP	27,271	Confidential	Sale
Ostankino Business Park, bldg. 2	20,132	Euromir Group	Sale
Ostankino Business Park, bldg. 5	17,479	VARTON JSC	Sale
Ducat Place II	14,249	Tinkoff University	Lease
B. Sadovaya Street, 8, bldg. 1 NF GROUP	13,740	Private investor	Sale
OKO Phase II	13,396	Rosselkhozbank	Sale
Aurora Business Park	13,000	Yandex	Lease
Alcon III	11,071	Lukoil structure	Sale
Champion Park	10,000	Doshirak	Sale

NF GROUP NF Group transactions

Source: NF Group Research, 2024

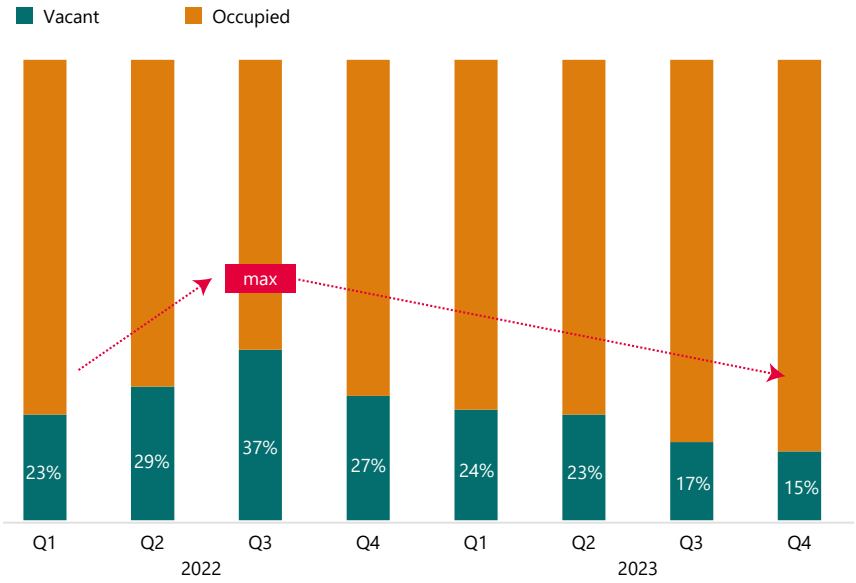
Serviced offices

At the end of 2023, the area of open serviced offices in Moscow amounted to 374,000 sq m, collectively they provide 54,400 workstations. In 2023, twelve new locations of network operators with a total area of about 50,000 sq m were opened in Moscow, offering more than 7,200 workstations for lease.

By the end of 2023, the vacancy rate of serviced offices was 15%. The average rental rate for a workstation is 36,721 roubles/workplace/month (including VAT).

It is worth noting that in 2023, several sites ceased to function as serviced offices and switched to the format of direct lease from the owner, in connection with which the absolute increase in the area of open serviced offices amounted to only 13,200 sq m.

Serviced offices vacancy rate dynamics



*the currently offered workstations of network spaces are taken into account without the BTS format (construction for the client) and facilities which have not yet been completed, as well as without the volume of leased space

Source: NF Group Research, 2024

Commercial terms

By the end of 2023, the average weighted asking rents in Class A increased by 1.0% compared to the end of 2022 and amounted to 26,303 roubles/sq m/year (excluding OPEX and VAT). In class B, it increased by 4.0% and amounted to 18,276 roubles/sq m/year. The dynamics of rates during the year was mainly due to the fact of the «washout» of a less expensive supply, the exchange rate difference and the appearance of new office space on the market.

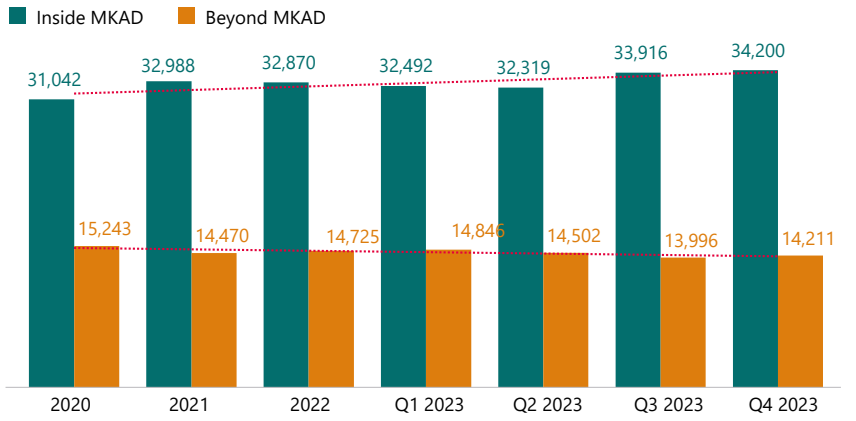
The average weighted asking rent in premium offices also increased and at the end of December amounted to 44,311 roubles/sq m/year, which turned out to be 2.4% higher than the rate at the end of 2022.

The existing market practices remain virtually unchanged. The average term of the office lease agreement is 3 years with the possibility of early termination. The indexation of rental rates in most contracts is linked to the consumer price index, at the level of 5-8%.

The size of the leased office is the main factor in the deviation of the achievable rental rate from the asking one: developers often prefer to lease the building to several large tenants rather than a single tenant or split 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.

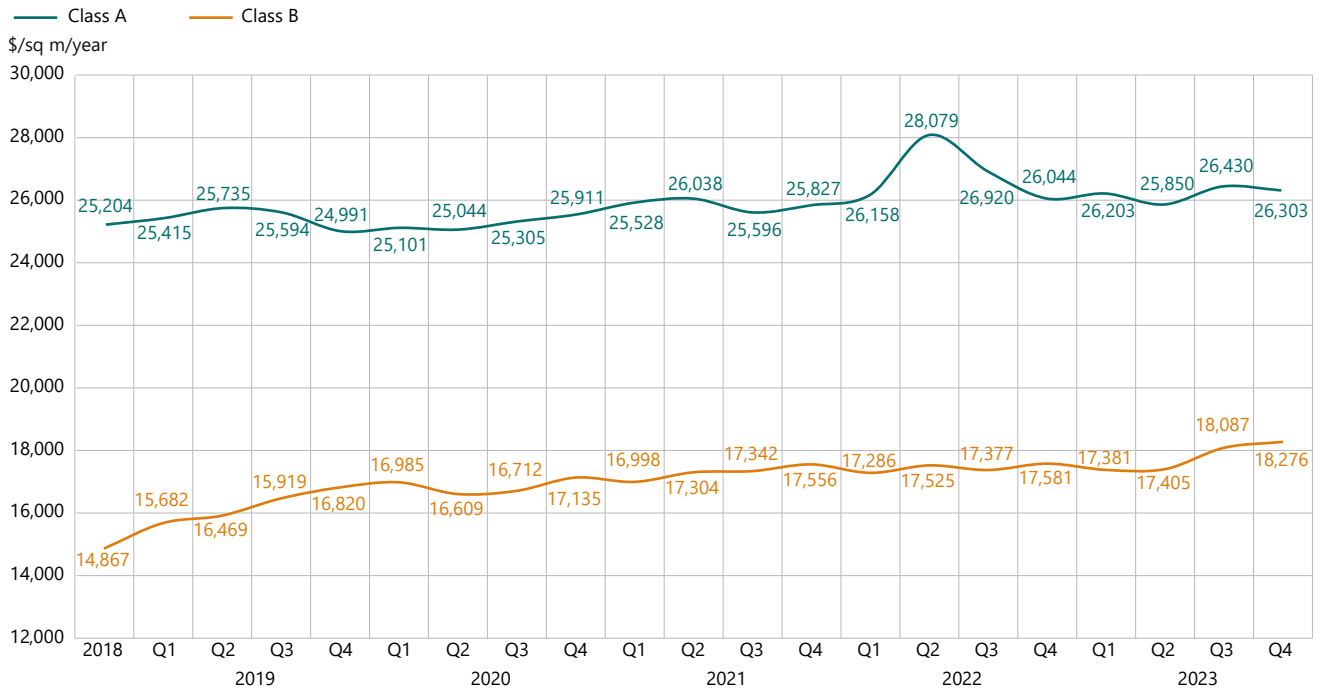
Offices are rented mostly in an «as is» state, and compensation for finishing work on the part of the owner is often minimal or absent at all.

Class A average weighted asking rents dynamics by zone



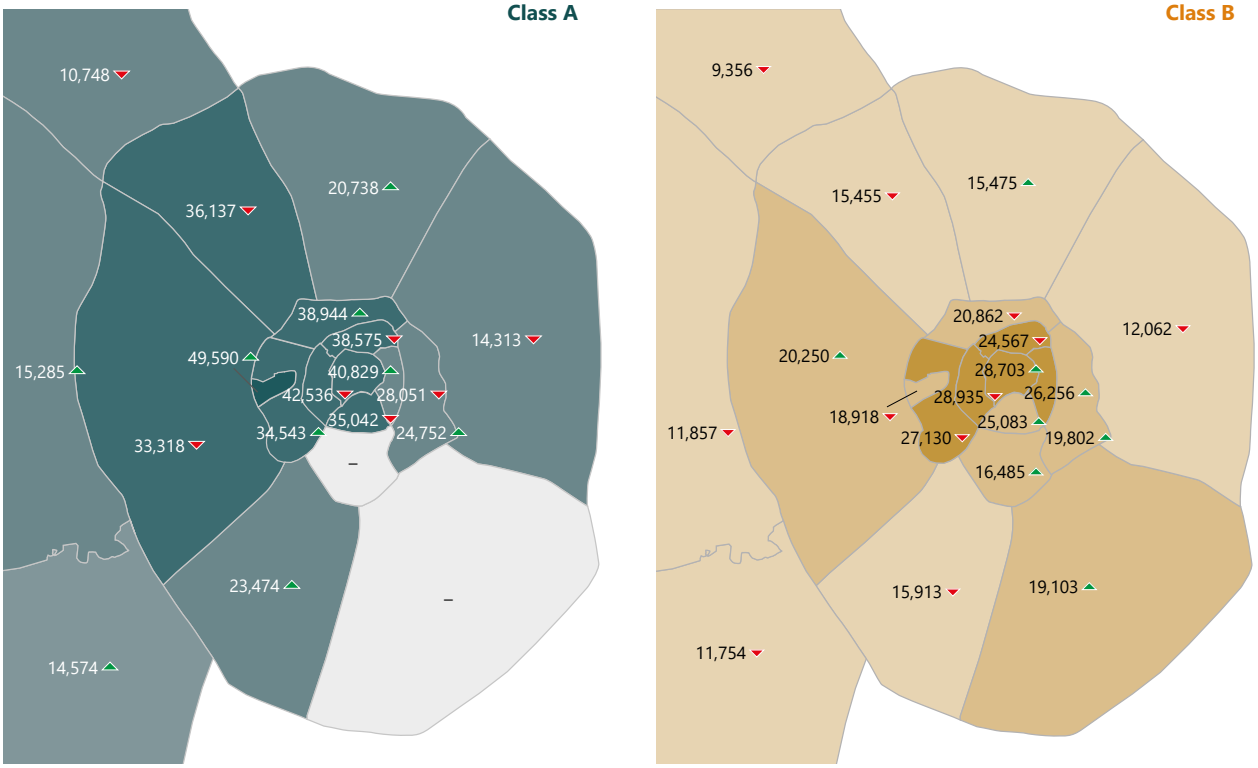
Source: NF Group Research, 2024

Class A and B average weighted asking rents dynamics



Source: NF Group Research, 2024

Moscow submarket data. Average weighed rent



Source: NF Group Research, 2024

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, including large corporations that plan to locate in their own headquarters.

The total project volume of offices in under construction / newly commissioned facilities for sale amounted to 1.5 m sq m at the end of 2023.

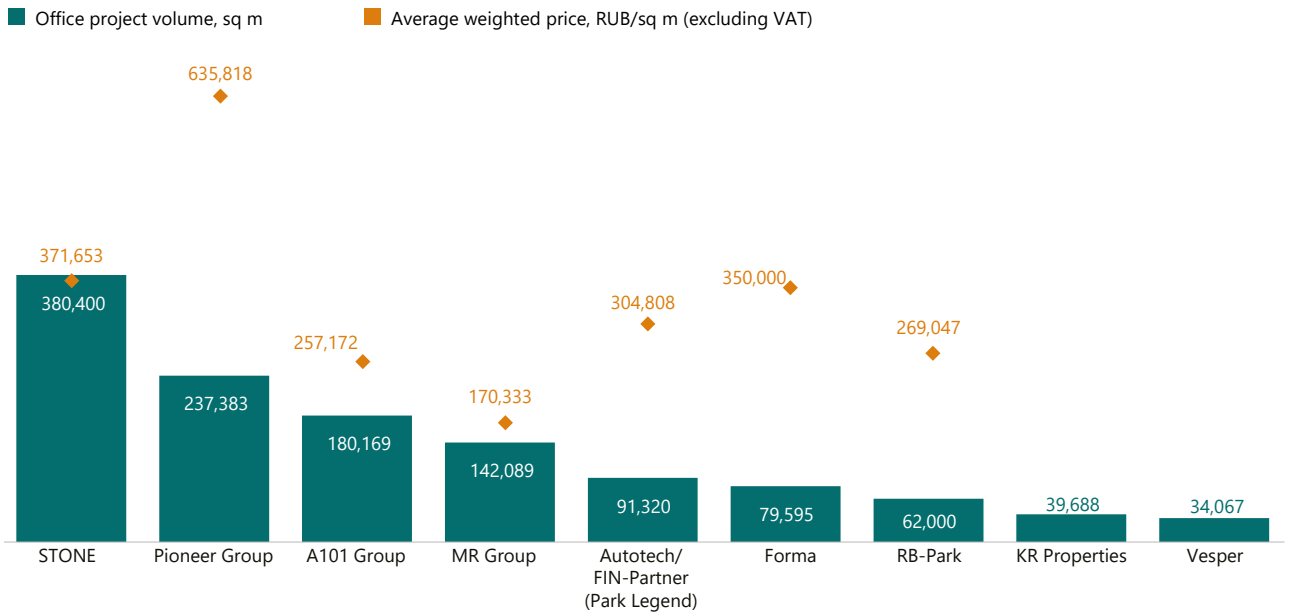
The total volume of offices for sale was 429,600 sq m. The average weighted selling price of offices is 360,357 roubles/sq m/year (including VAT, if applicable).

In 2023, more than 403,000 sq m were sold (both in new facilities under construction and in completed ones). At the same time, the volume of transactions exceeded the result of 2022 by more than 2 times. The main demand fell on small transactions of 100-300 sq m (in terms of the number of transactions), while the segment of 1,000-3,000 sq m of office space is leading in terms of transaction volume.

According to the project volume of office space, the leader is the developer STONE, whose portfolio includes 380,400 sq m of offices (7 projects). The average weighted sale price in the developer's portfolio is 371,700 roubles/sq m**. The second largest is MR Group: the total project volume is 237,400 sq m (2 projects), the average weighted asking price is 635,800 roubles/sq m**. Pioneer Group is the third largest in terms of the project volume of offices for sale: the total project volume is 180,200 sq m (4 projects), and the average weighted asking price is 257,200 roubles/sq m**.

* including VAT, if applicable

Project volume of offices and average weighted prices by developers*



*Data presented as of December 2023
Source: NF Group Research, 2024

Forecast

In 2024, the commissioning of new facilities may amount to more than 700,000 sq m, where Class A projects will account for more than 90%; mainly new projects will be located in the Garden Ring-Third Ring Road (43%) and Third Ring Road-MKAD (41%) zones.

By the end of 2024, the vacancy rate may amount to 11-12% in class A and 6.9–7.0% in class B. The average weighted asking rents in Class A may amount to 27,000 roubles/sq m/year (excluding OPEX and VAT) and 18,500 roubles/sq m/year (excluding OPEX and VAT) in Class B (with a stable external background).

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	40,829		6.7%		28,703		8.9%	
Garden Ring	South	1,017	35,042	35,597	8.2%	8.6%	25,083	26,521	12.2%	14.9%
	West	577	42,536		9.4%		28,935		12.9%	
	North	673	38,575		6.4%		24,567		6.1%	
	East	410	28,051		14.2%		26,256		31.2%	
Third Transport Ring	South	1,295	–	36,888	–	10.8%	16,485	20,463	4.9%	7.0%
	West	846	34,543		9.6%		27,130		3.4%	
	North	1,136	38,944		11.4%		20,862		11.4%	
	East	1,155	24,752		8.7%		19,802		9.0%	
	MIBC Moscow-City	1,233	49,590		5.1%		18,918		6.5%	
TTR-MKAD	North	1,156	20,738	25,104	20.8%	11.3%	15,475	16,798	4.5%	6.8%
	Northwest	1,085	36,137		8.8%		15,455		8.3%	
	West	2,248	33,318		1.7%		20,250		7.8%	
	South	1,622	–		–		19,103		7.4%	
	Southwest	744	23,474		6.5%		15,913		6.5%	
	East	1,005	14,313		45.5%		12,062		6.1%	
Beyond MKAD	Khimki	271	10,748	14,211	18.1%	32.0%	9,356	10,505	13.8%	10.0%
	West	612	15,285		45.2%		11,857		8.9%	
	New Moscow	406	14,574		33.5%		11,754		3.8%	
Total		**18,206**	**26,303**		**12.4%**		**18,267**		**6.9%**	

* Excluding OPEX and VAT (20%)

Source: NF Group Research, 2024

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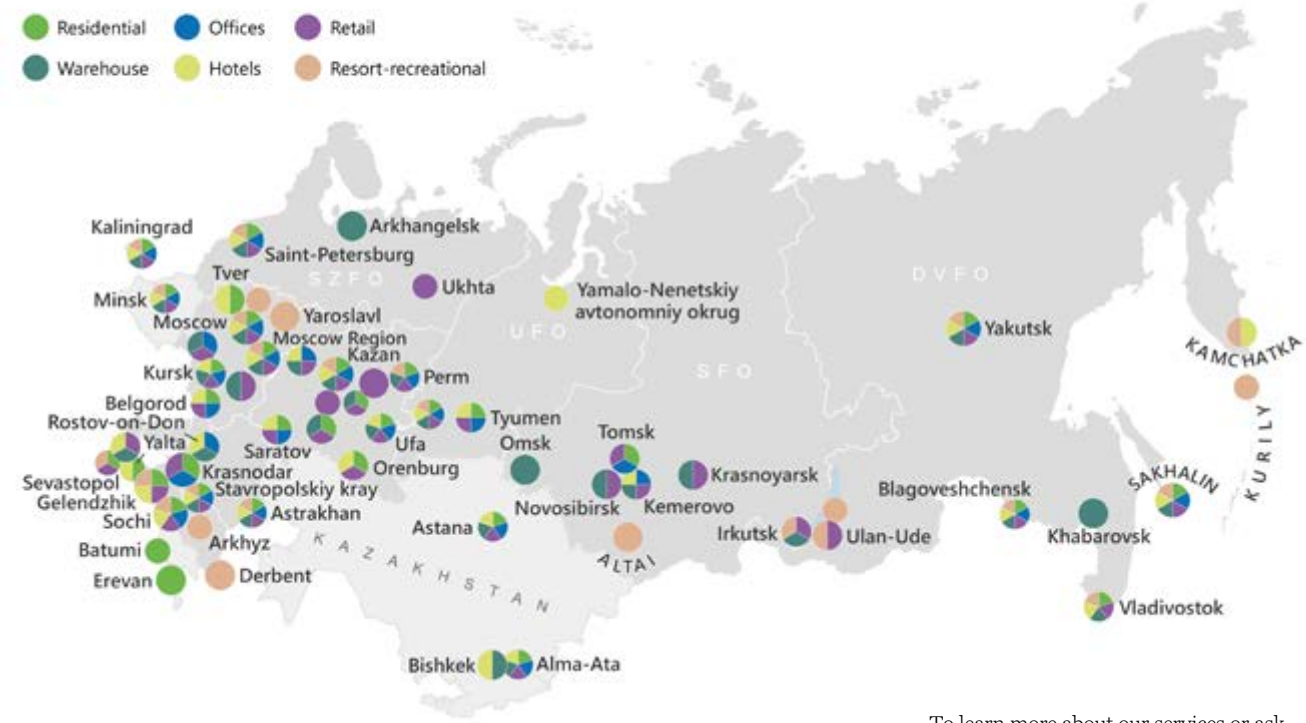

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