

OFFICE MARKET REPORT. MOSCOW

H1 2024




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«In H2 2024, we expect the shell&core format to grow in popularity, in line with tenants' desire to adapt office spaces to their needs. An increase in the number of sale deals in office market is also predicted, which indicates a growing interest in flexible and scalable business solutions. These trends emphasize the dynamic development of the market and the desire of companies to create efficient workspaces that meet modern requirements and standards».

Main conclusions:

- > In H1 2024, office commissioning volume amounted to 329,800 sq m.
- > The vacancy rate decreased to 9.1% in Class A offices and to 5.9% in Class B offices, the overall indicator decreased to 6.9%.
- > By the end of H1 2024, asking rental rates amounted to 26,811 roubles/sq m/year in Class A and 18,976 roubles/sq m/year in Class B.

Key indicators. Dynamics*

		2023	H1 2024
Total supply of high-quality space, '000 sq m		18,206	18,536
including:	Class A	5,550	5,835
	Class B	12,655	12,701
Commissioned since the beginning of the year, '000 sq m		279,800	329,800
including:	Class A	240,900	284,600
	Class B	38,900	45,200
Vacancy rate, %	Class A	12.4	9.1
	Class B	6.9	5.9
Average weighted asking rental rates, roubles/ sq m/year**	Class A***	26,303	26,811
	Class B	18,276	18,976
Average weighted OPEX rates, roubles/sq m/year	Class A	7,900	8,100
	Class B	5,600	5,600

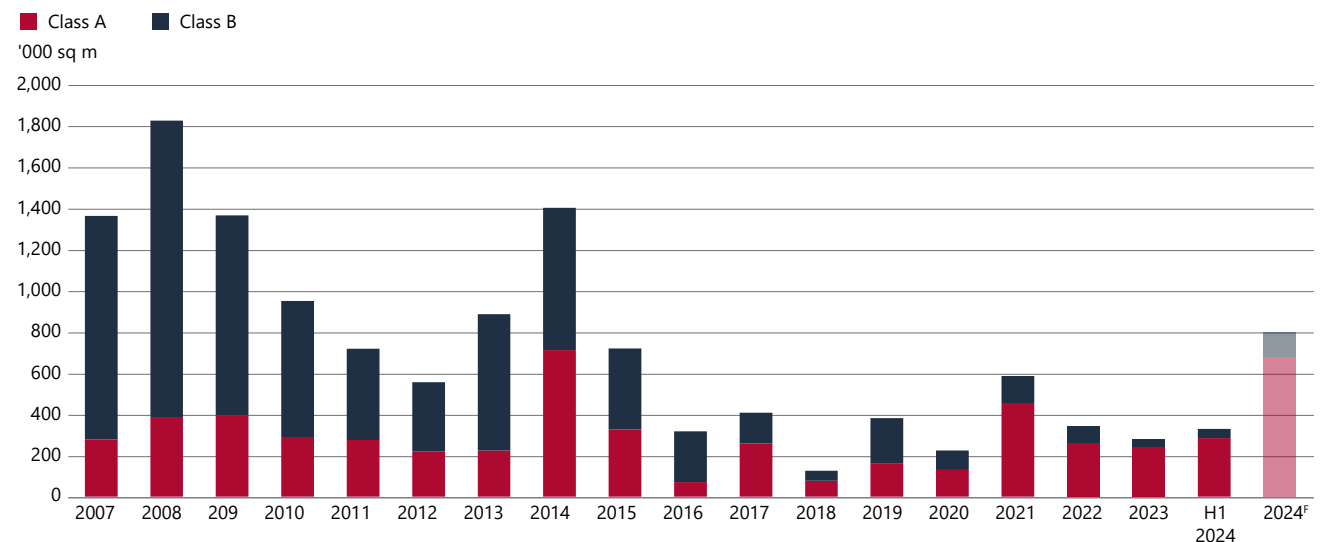
* Compared to Q4 2023

** 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 weighted average rental rate is 42,260 roubles/sq m/year in 2024.

Source: NF Group Research, 2024

Class A and B new supply dynamics



Source: NF Group Research, 2024

Supply

The total supply volume of the Moscow office real estate market in H1 2024 amounted to about 18.5 m sq m, of which 5.8 m sq m belong to Class A, and 12.7 m sq m belong to Class B.

In H1 2024, four facilities with a total leasable space of 329'800 sq m were approved for commissioning, which already exceeds the annual result of 2023 by 18%. In January-June 2024, about 80% of new construction was made up of the Moscow Towers

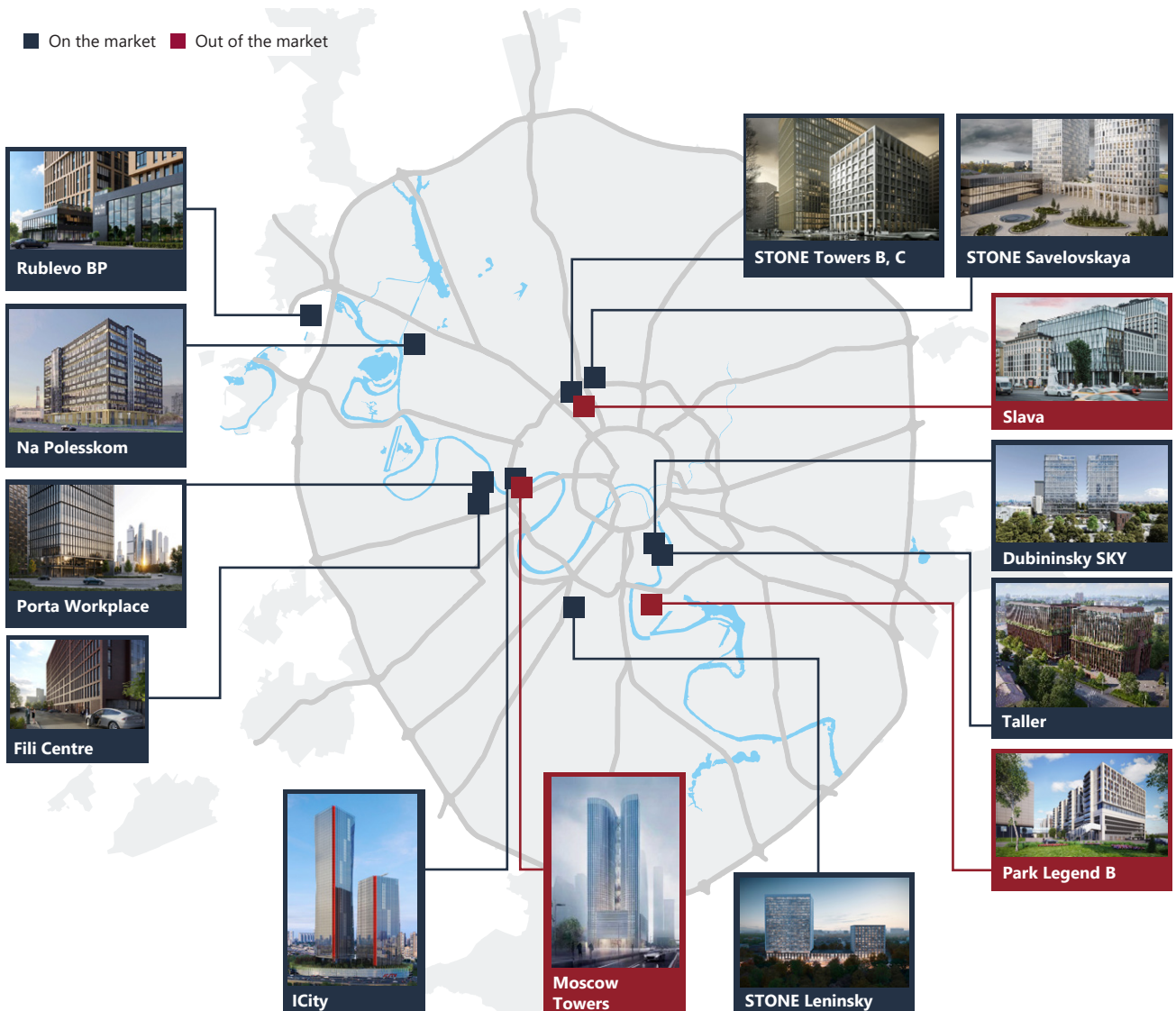
skyscraper spaces (262'800 sq m), the remaining 20% was made up of Class A projects spaces: Ostankino Business Park (15'500 sq m), White Sea (6'200 sq m) and Class B+ project spaces: Park of Legends (45'200 sq m). Most offices in the new construction facilities were sold by commissioning phase, only 1% of the total six-month volume was in speculative supply. In 2024, about 800'000 sq m of office real estate are scheduled for commissioning in total, Class A premises will account for 85% of it. Most of the forecasted commissioning will be supplied for sale

(57%), 42% - in a lease format; and 2% of the forecasted volume will be BTS projects.

Vacancy

During the first six months of 2024, interest in buying/leasing office space remained high, and no new space appeared on the market due to office commissioning, as a result of which vacancy decreased in all classes: the indicator decreased by 3.3 ppt in class A (to 9.1%), by 0.9 ppt -in class B (to 5.9%) since the beginning of the year.

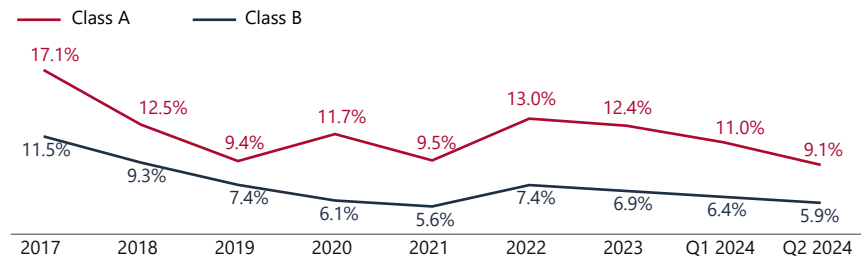
Map of key projects in 2024-2026*



* Office facilities where the commissioning certificate has been/will be received in 2024-2026.
Source: NF Group Research, 2024

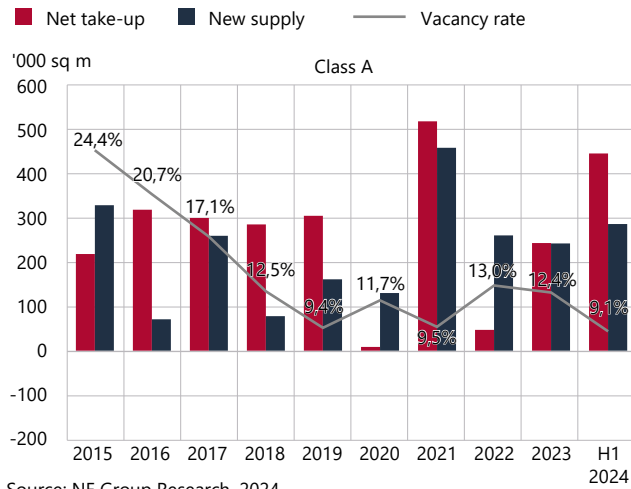
The total office vacancy rate decreased to 6.9%, approaching the historical vacancy rate minimum in 2021 (then the indicator was 6.7%). More than 530'000 sq m Class A office space and more than 750'000 sq m of Class B office space remain vacant on the market. In general, the vacancy decrease trend will continue until the end of 2024.

Office vacancy rate dynamics by class

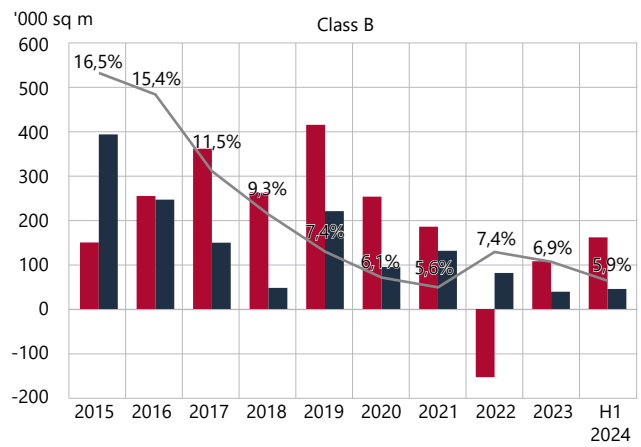


Source: NF Group Research, 2024

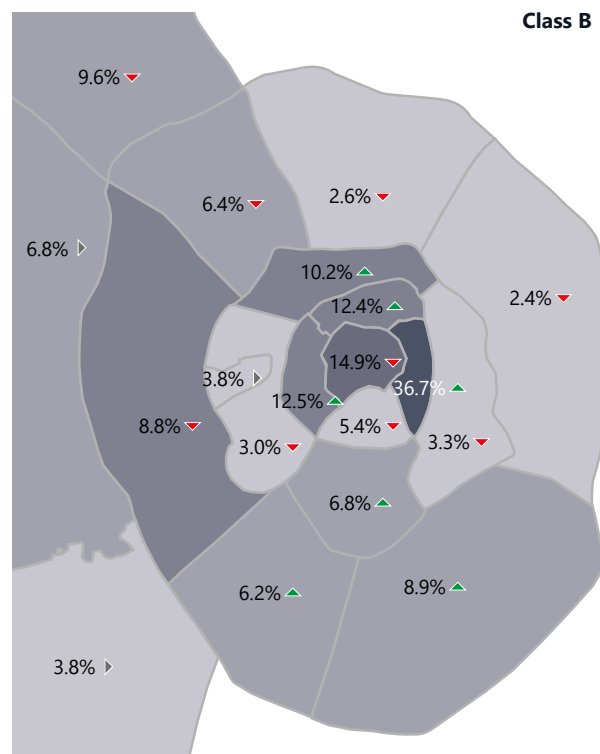
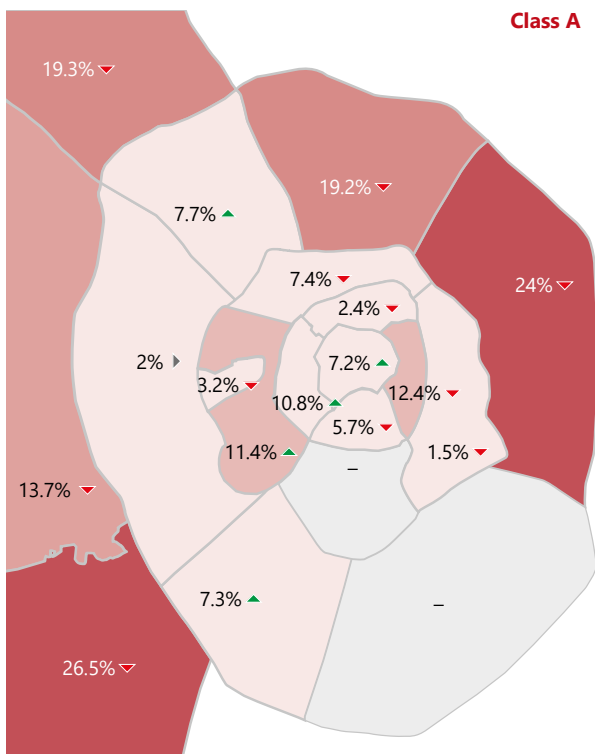
Net absorption, new supply and vacancy rate dynamics



Source: NF Group Research, 2024



Moscow business districts. Office vacancy rate



Source: NF Group Research, 2024

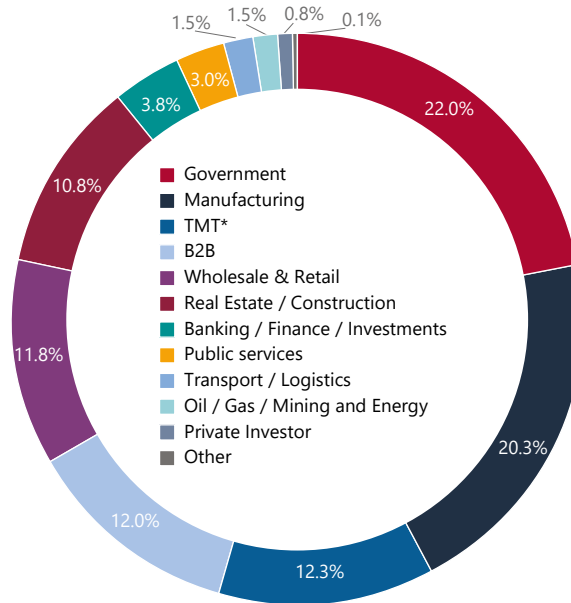
Demand

The net absorption volume (an indicator of the difference between the occupied space volume at the end and at the beginning of the period under review) amounted to about 604'800 sq m for H1 2024 compared to the total annual indicator of 350'000 sq m in 2023.

The average lease transaction size in H1 2024 amounted to 1,321 sq m, which is 181 sq m more than in 2023.

In H1 2024, a significant office space demand share was formed by government companies (22.0%), manufacturing companies (20.3%), as well as TMT* companies (12.3%).





Take-up structure by business sector



*Technology/Media/Telecommunications.

Source: NF Group Research, 2024

Key lease and sale deals in Moscow office market in H1 2024

Office building	Volume of transaction, sq m	Company	Type of transaction
Stratos	39,500	Technopolis Moscow	Sale
AFI2B 	9,165	Confidential	Lease
Iskra-Park	6,000	Wildberries	Sublease
Gazetny lane, 17 	5,388	BusinessClub	Lease
Iskra-Park 	4,707	Confidential	Sublease
Sofiyskaya emb., 30 bldg.2 	4,550	AEM	Lease

 NF Group transactions

Source: NF Group Research, 2024



AFI2B

Flex offices

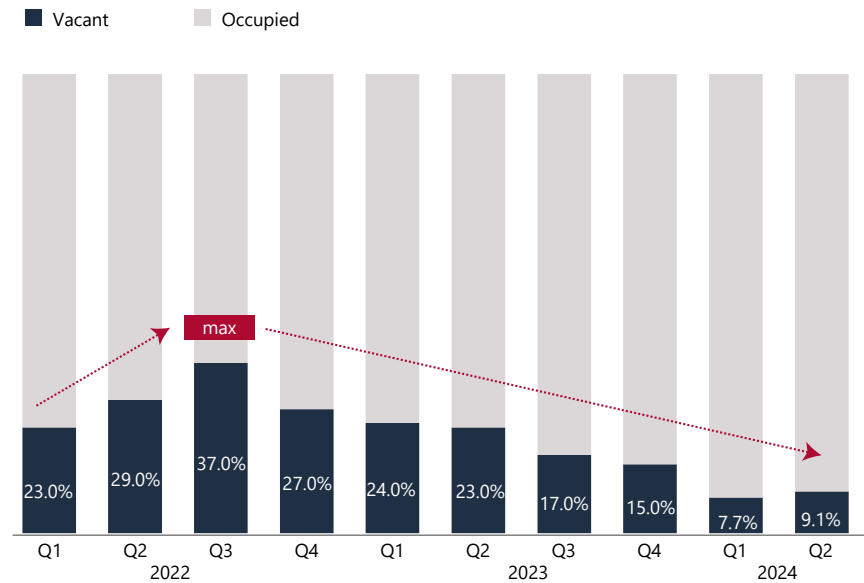
At the end of June 2024, the open flex offices space amounted to 356'900 sq m in Moscow, they provide 51'000 workstations in total. In the H1 2024, three new flex offices with a total area of 4'000 sq m were opened, providing 608 workspaces. By the end of 2024, it is planned to open seven network operator sites with a total space of more than 20'000 sq m and a capacity of more than 3'000 workstations.

By the end of H1 2024, the flex office vacancy rate* amounted to 9.1%, having decreased by 5.9 ppt since the end of 2023. The number of vacant workstations decreased from 7,659 to 4,421 for the six months. During April-June 2024, the vacancy rate increased slightly due to the opening of several sites and the emergence of vacant workstations in separately existing flex offices. At the same time, it is expected that vacancy rates may decrease in H2 2024. The average rental rate for a workstation is 36,127 roubles/workplace/month (including VAT, if applicable). The indicator increased by 0.3% for the quarter.

Commercial terms

Since the beginning of the year, the average weighted rents in both classes have increased: in Class A by 3.7% to 26,811 roubles/sq m/year (excluding OPEX and VAT), in Class B - by 3.8% to 18,976 roubles/sq m/year (excluding OPEX and VAT). The reason for the increase in rental rates is the active demand for office real estate, the washing out of a more budget-friendly supply, as well as rising rates in individual office projects and business districts. The average weighted asking rental rate in premium offices decreased by 0.5% compared to the beginning of 2024 and amounted to 42,260 roubles/sq m/year (excluding OPEX and VAT), the decrease is due to the washing out of certain expensive blocks. A shortage of high-quality vacant premises, as well as a limited number of areas under construction for lease, may cause a further increase in the asking rental rates in 2024.

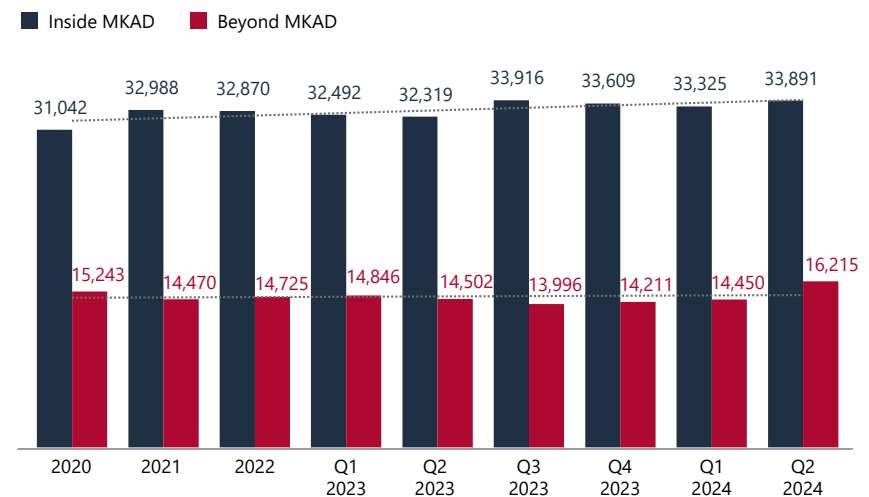
Serviced offices vacancy rate dynamics



*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

Class A average weighted asking rents dynamics by zone



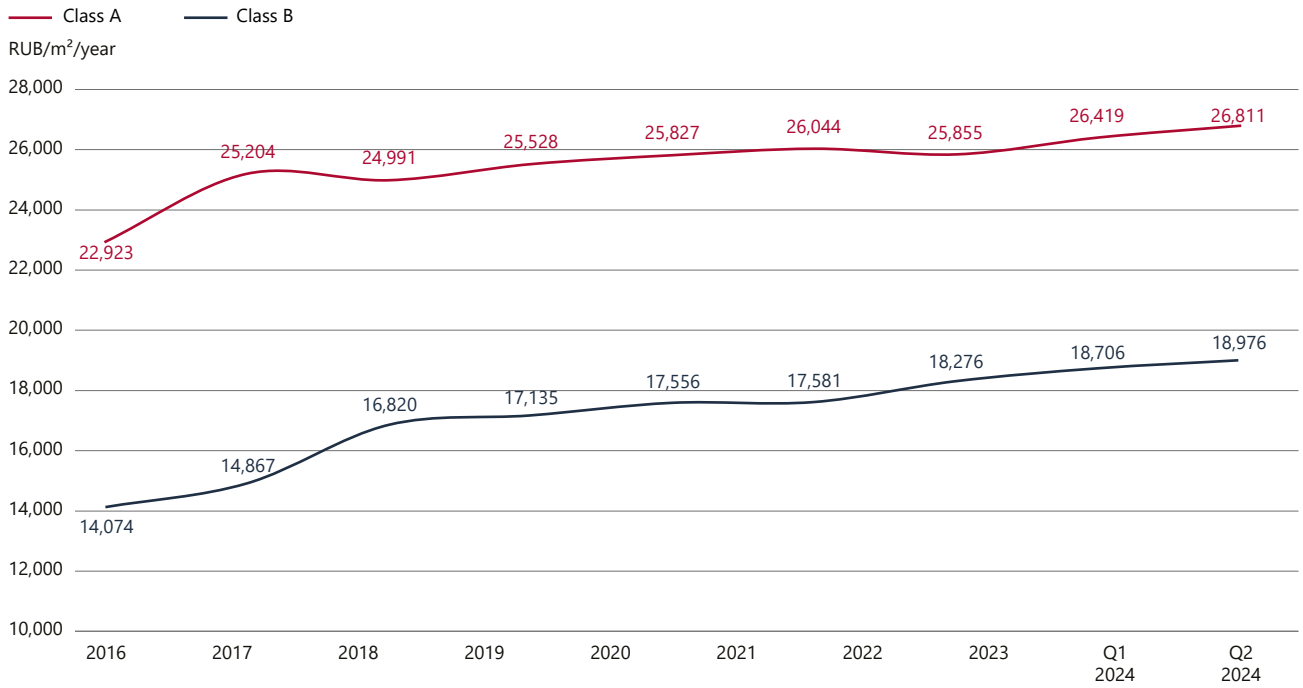
Source: NF Group Research, 2024

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

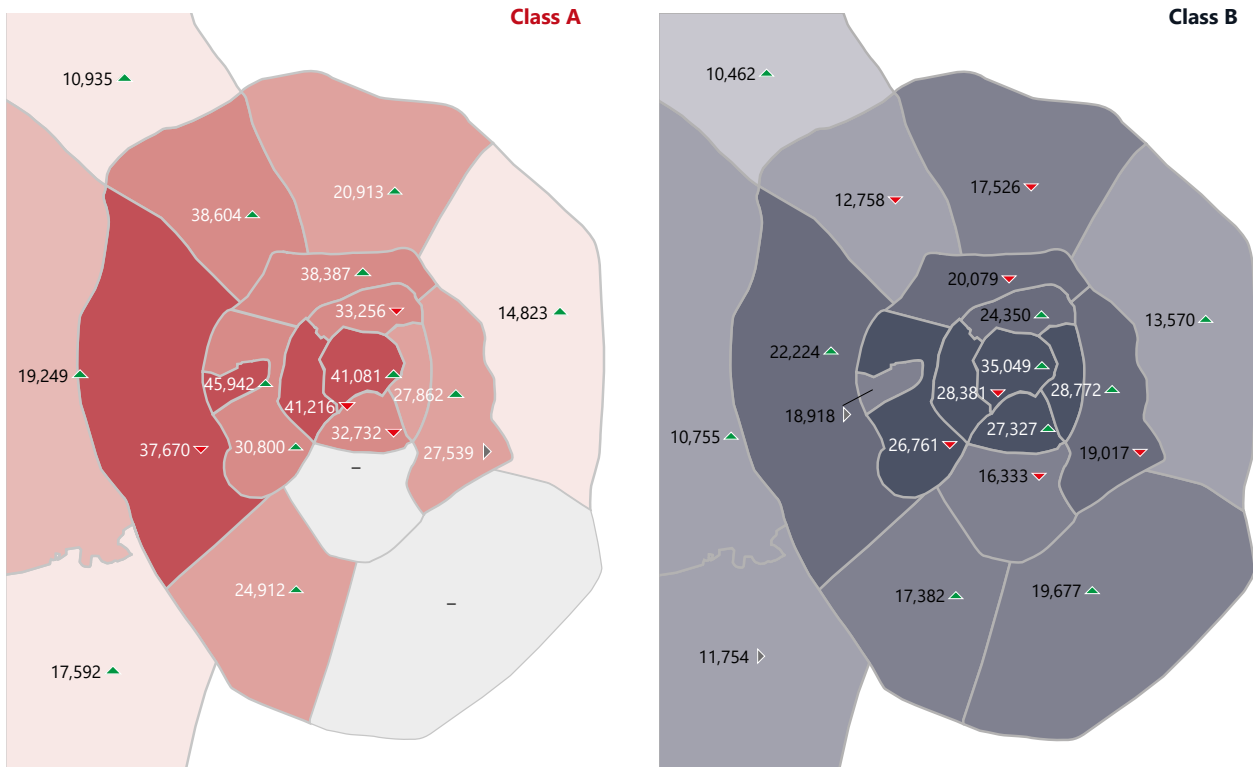
rate from the asking one: developers often prefer to lease the building to several large tenants rather than a single tenant or split the space into small blocks. For them, this creates a stable rental income, which is less dependent on rotation, on the one hand, and not so difficult to administer, on the other.

Class A and B average weighted asking rents dynamics



Source: NF Group Research, 2024

Moscow business districts. Weighted average rental rate, RUB/sq m/year



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 where sales have already started amounted to 1.5 m sq m at the end of Q2 2024.

The total volume of offices for sale was 407,400 sq m. The average weighted asking price for office sale is 409,7 roubles/sq m/year (including VAT, if applicable).

In H1 2024, about 254,000 sq m were sold both in new facilities under construction and in completed ones. At the same time, 58% of demand was for lots in buildings under construction, 42% for blocks and entire office buildings that had long been commissioned: demand for them was primarily from parastatal companies.

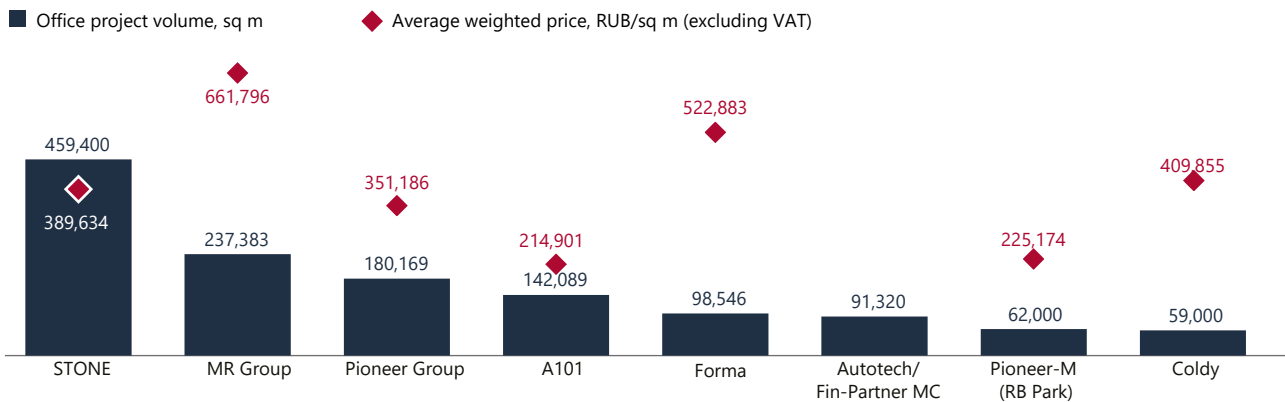
In January-June 2024, the main demand for block sales – 50% – was for small transactions – up to 100 sq m (by number of transactions), while in terms of transaction volume, the segment of 100–300 sq m of office space was in the lead (33%), followed by the segment of 1,000–2,000 sq m (22%).

According to the project volume of office space, the leader is the developer Stone, whose portfolio includes 459,400 sq m

of offices (9 projects). The average weighted sale price in the developer's portfolio is 389,600 roubles/sq m**. The second largest developer is MR Group: the total project volume of the company is 237,400 sq m (2 projects), the average weighted asking price is 661,800 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 351,200 roubles/sq m**. The top three did not change compared to the previous quarter.

** including VAT, if applicable

Project volume of offices and average weighted prices by developers*



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

Forecast

In 2024, the commissioning of new facilities may amount to about 800,000 sq m, of which about 85% will be Class A projects. New projects will be primarily located in the GR-TTR (45%) and TTR-MKAD (41%) zones.

By the end of 2024, the vacancy rate may amount to 8.0–8.5% in Class A and 5.0–5.5% in Class B. The average weighted asking rental rates in Class A may amount to 27,000–28,000 roubles/sq m/year (excluding OPEX and VAT)

and 19,000–19,500 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	41,081		7.2%		35,049		14.9%	
Garden Ring	South	1,017	32,732	33,782	5.7%	6.4%	27,327	27,555	5.4%	15.3%
	West	577	41,216		10.8%		28,381		12.5%	
	North	673	33,256		2.4%		24,350		12.4%	
	East	410	27,862		12.4%		28,772		36.7%	
Third Transport Ring	South	1,295	–	37,454	#Н/Д	7.6%	16,333	19,675	6.8%	5.5%
	West	846	30,800		11.4%		26,761		3.0%	
	North	1,136	38,387		7.4%		20,079		10.2%	
	East	1,155	27,539		1.5%		19,017		3.3%	
	MIBC Moscow-City	1,496	45,942		3.2%		18,918		3.8%	
TTR-MKAD	North	1,172	20,913	27,487	19.2%	10.0%	17,526	18,575	2.6%	6.1%
	Northwest	1,091	38,604		7.7%		12,758		6.4%	
	West	2,248	37,670		2.0%		22,224		8.8%	
	South	1,667	24,192		41.5%		19,677		8.9%	
	Southwest	744	24,912		7.3%		17,382		6.2%	
	East	1,005	14,823		23.6%		13,570		2.4%	
Beyond MKAD	Khimki	271	10,935	16,215	19.3%	21.7%	10,462	10,707	9.6%	7.4%
	West	612	19,249		13.7%		10,755		6.8%	
	New Moscow	406	17,592		26.5%		11,754		3.8%	
Total		18,535	26,811		9.1%		18,976		5.9%	

* Excluding OPEX and VAT (20%)

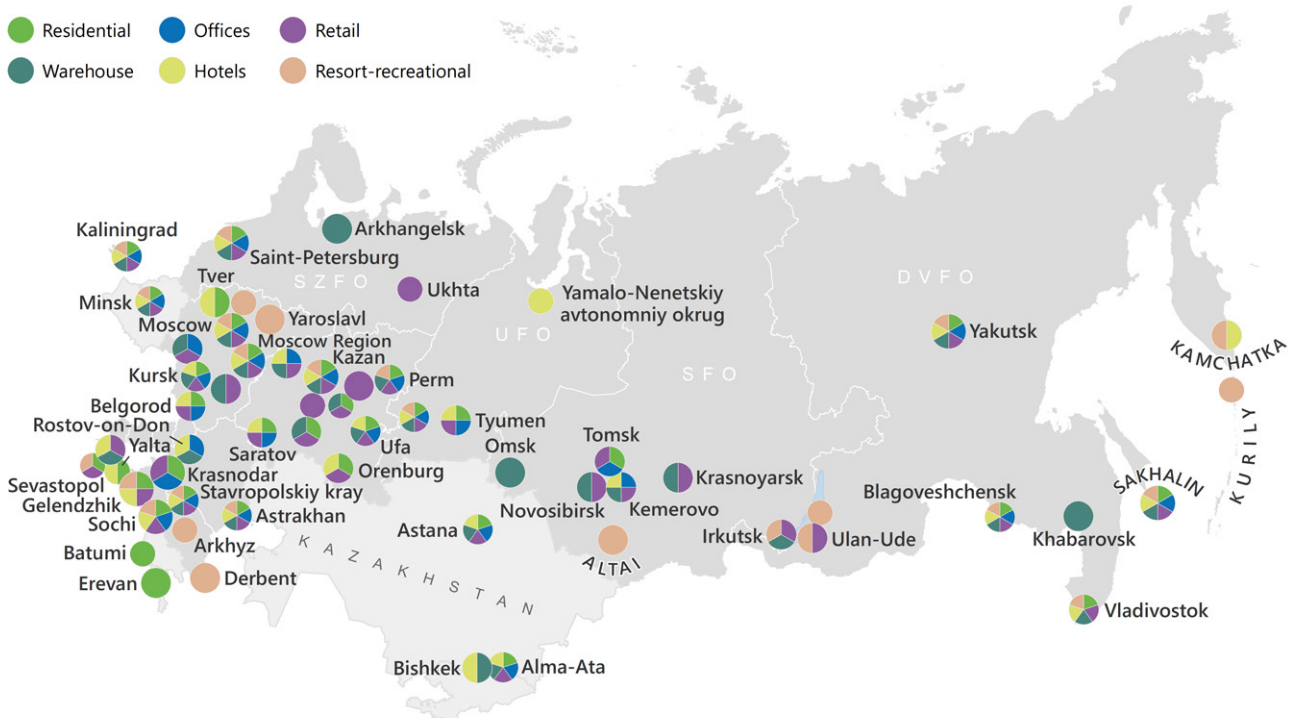
Source: NF Group Research, 2024

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