

# **10 YEARS OF OFFICE MARKET ACCELERATED PACE!**

**2007–2017: MARKET CYCLES**

**2017: WHAT IS VACANT?**

**2017–2020: WHAT WILL BE VACANT?**

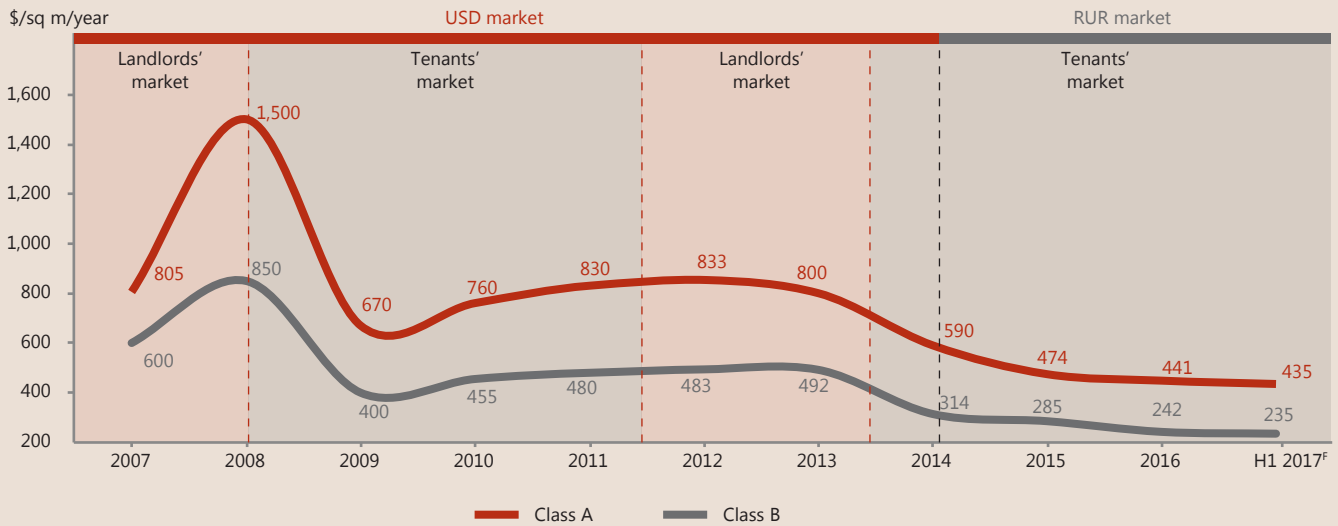


## Commercial terms 2007–2017

Moscow office real estate market has reached the balance at its lowest point by the end of 2016 after getting over several cycles. The highest rental rates recorded in 2008 gave way to a dramatic drop and a further

period of stabilization in 2011–2013. Current Tenant's market has been forming for 3 years, offers today historically the most attractive commercial terms on the Moscow office market.

Recent rental rates change from foreign currency into Russian rubles have been an important event in the Moscow office market, which gave tenants the opportunity to reduce the risk of rental rates increase due to currency fluctuations.



Source: Knight Frank Research, 2017

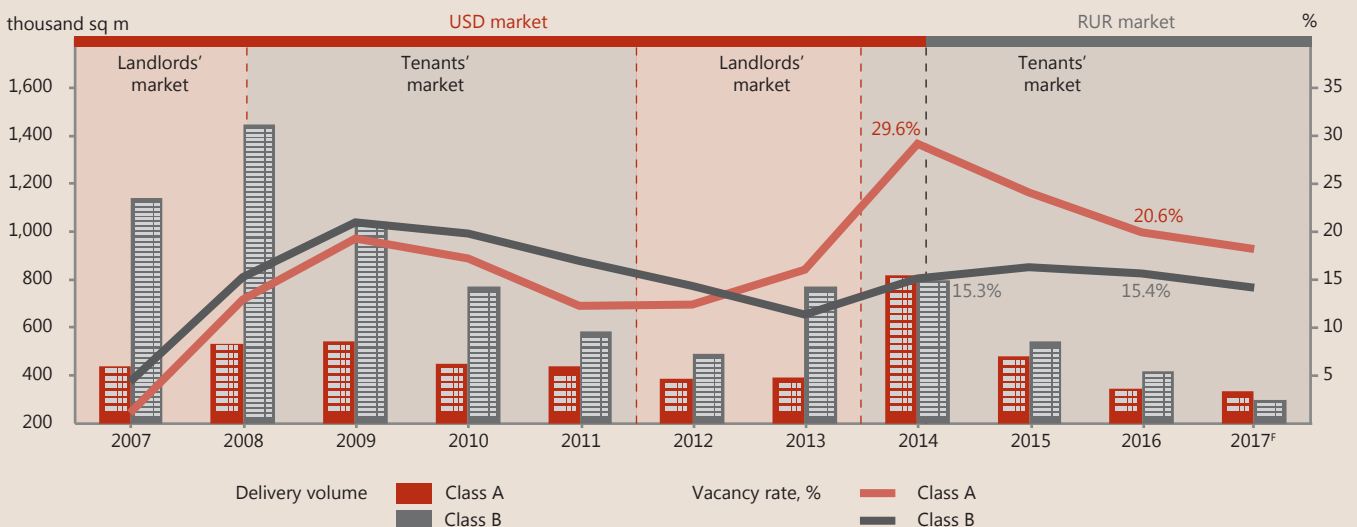
## Supply 2007–2017

Rental rates increase and high take-up volume have resulted in rising developers' activity on the stage of the Moscow market formation as well as in the recovery period after 2008–2009 crisis. A record volume of offices delivered in 2008 and 2014 was a result of active

construction. Both periods were accompanied by a decrease in demand for office space due to the slowdown in the economy in addition to increasing vacancy rate.

1 million sq m of office space delivered in 2012–2014 is still available in the primary

lease market. The oversupply has forced some developers to delay office buildings delivery dates as well as to revise the projects' concepts reducing or completely abandoning the office component.



Source: Knight Frank Research, 2017



## Lease Agreement

Slowdown both in the economy of the country and real estate market has had an impact on lease agreements terms. On the current Tenant's market companies are trying to minimize risks, thus, lease terms have been changing.



## Quality

Office buildings and work space have undergone significant changes since the time of market development due to the improvement of construction technology and the changing tenants' requests. Today, the most successful business centres offer effective planning solutions and high infrastructure level.

### Typical Class A office lease agreement terms comparison

	2007	2017
<b>Lease terms</b>		
Commercial terms	<ul style="list-style-type: none"> <li>♦ USD (Central Bank exchange rate)</li> <li>♦ (EUR+USD)/2</li> </ul>	<ul style="list-style-type: none"> <li>♦ RUR</li> <li>♦ USD (fixed currency rate or currency rate range)</li> <li>♦ USD (Central Bank exchange rate)</li> </ul>
Lease structure	♦ Preliminary lease contract + short-term lease contract + long-term lease contract	<ul style="list-style-type: none"> <li>♦ Short-term lease contract + long-term lease contract</li> <li>♦ Long-term lease contract only</li> </ul>
Security deposit	3 months (indexation required; fixation in the lease contract currency)	3 months (without indexation; fixation in RUR)
Lease period	5–10 years	3–5 years
Indexation	<ul style="list-style-type: none"> <li>♦ 5%</li> <li>♦ According to USA CPI index (not lower than 2-3%)</li> </ul>	<ul style="list-style-type: none"> <li>♦ 8-10%, Russian CPI index for RUR lease contracts</li> <li>♦ USA CPI for USD lease contracts. Not higher than 3%,</li> </ul>
Operational expenses	USD (Open-book scheme have been introduced in 2008-2009)	RUR (open-book with a limit of controlled part)
<b>Lease terms flexibility</b>		
Early lease termination option	No (possible in a 10-year lease contract)	Yes (after 3 years)
Surrender option	No	Yes (in a determined period and share of the area occupied)
Rent review option	Infrequent	Yes (with an opportunity for tenant to terminate LA)
Extension option	Yes	No (or for adjacent floors)
Offices' condition	Shell&Core	<ul style="list-style-type: none"> <li>♦ Fitted-out</li> <li>♦ Individual fit-out</li> <li>♦ Shell&amp;Core</li> </ul>

Source: Knight Frank Research, 2017

### Class A office buildings characteristics comparison

	2007	2017
Floor area	<ul style="list-style-type: none"> <li>♦ 1,000–1,200 sq m</li> <li>♦ Various sometimes up to 5,000 sq m (without atrium)</li> </ul>	♦ 1,800–2,500 sq m
Floor shape	Various shapes	Square/rectangular
Parking	Ground/underground	Underground (compulsory for Class A office buildings)
Building's infrastructure	Café/canteen	Canteen, café/restaurant, retail infrastructure
Ceiling height	Various 2.7–3.5 m (most of the office buildings have been designed with a ceiling height of 2.7 m)	2.9–3 m (in clear fit-out)
Loss factor	10–14%	7–10%

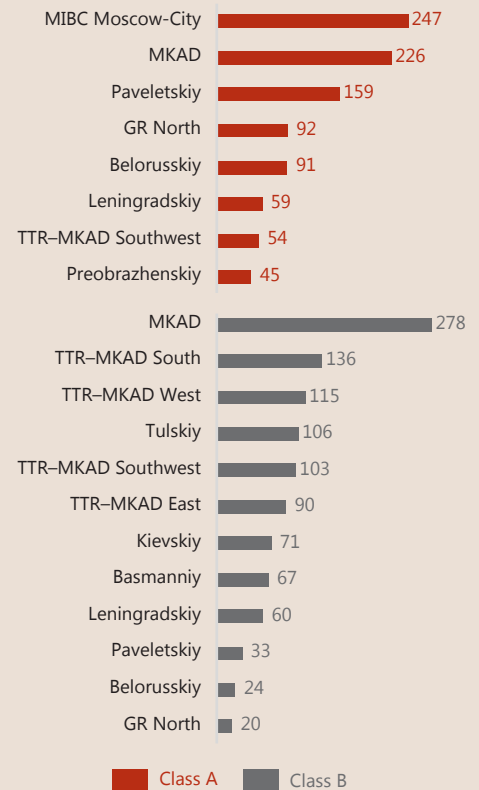
Source: Knight Frank Research, 2017

## Supply structure 2017

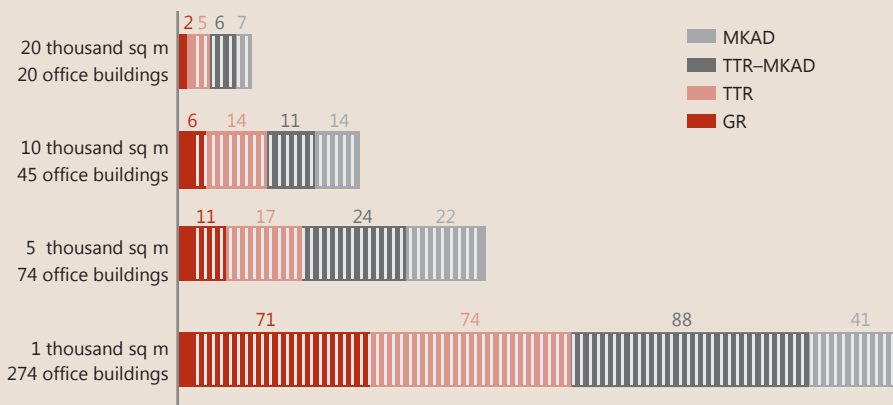
Total stock of quality office space is currently 15.8 million sq m, where 2.6 million sq m are vacant. Despite this fact, Moscow office market is characterized by the shortage of large office units: companies in search of 20 thousand sq m for lease can choose among just 20 office buildings, 7 of which are located outside the Moscow Ring Road. In particular, office units of 10–20 thousand sq m within the boundaries of MIBC Moscow City are only available in two office towers – OKO Multifunctional Complex and iQ-quarter.

Today, there are 260 thousand sq m available in MIBC Moscow City (including buildings under construction which are due to be delivered in 2016–2017). It is comparable with the volume of vacant space in decentralized business zones (close to the Moscow Ring Road). However, the minimum possible units in buildings of this business district are mainly of 1–3 thousand sq m.

### Volume of vacant office premises distribution in the key business districts, thousand sq m



### Office buildings distribution in terms of location and size of the vacant office blocks



## Supply structure\* 2017–2020



\* Office buildings under construction and design stage offered for lease

\*\* Construction in the following phases may be suspended



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