

The total volume of office completion in 2021 exceeded the total completion of 2020 more than twice and amounted to **587.4 thousand sq m.**

The vacancy rate at the end of Q4 2021 reached **9.5%** in Class A offices and **5.6%** in Class B offices.



# OFFICE MARKET REPORT. MOSCOW

2021

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«In 2021, both developer and tenants fully recovered their activity at the market: commissioning and take-up rates increased by more than 2.5 times after the "crisis" 2020. In 2022, we expect that tenants' interest will remain, while large companies continue to show demand for large office blocks, which is already becoming difficult for the market to satisfy. Therefore, both a shift in the interest of office users towards other office real estate formats, such as flexible spaces, and an increase in rates in certain areas, especially in the premium segment of the market, are predicted.»

## Key conclusions

- ♦ The total volume of office completion in 2021 exceeded the total completion of 2020 more than twice and amounted to 587.4 thousand sq m.
- ♦ The vacancy rate at the end of Q4 2021 reached 9.5% in Class A offices and 5.6% in Class B offices.
- ♦ Asking rental rates at the end of Q4 2021 amounted to 25,827 roubles/sq m/year in Class A and 17,556 roubles/sq m/year in Class B.

### Key indicators. Dynamics\*

	2020	2021
Total supply of high-quality space, '000 sq m	16,998	17,585
Class A	4,594	5,050
Class B	12,404	12,534
Commissioned since the beginning of the year, '000 sq m	224.4	587.4
Class A	129.7	456.1
Class B	94.7	131.3
Vacancy rate, %		
Class A	11.7	9.5
Class B	6.1	5.6
Average weighted asked rental rates*, roubles/ sq m/year**		
Class A	25,528	25,827
Class B	17,135	17,556
Average weighted operating expense rates, roubles/sq m/year		
Class A	7,100	7,100
Class B	4,800	4,800

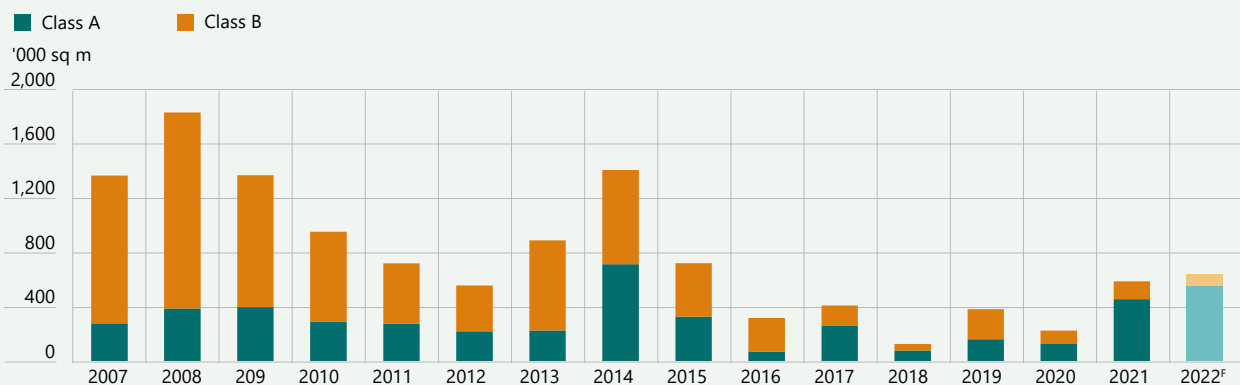
\* Compared to Q4 2020

\*\* Net of operating expenses and VAT (20%)

\*\*\* The category of Prime Class facilities is distinguished in Class A. It includes the highest quality, efficient in terms of layout, high-tech buildings located in the most developed and significant business clusters of Moscow (Central Business District, Belorussky Business District, Moscow City). The basic average weighted rental rate is 44,968 roubles/sq m/year

Source: Knight Frank Research, 2022

### Class A and B new supply dynamics



Source: Knight Frank Research, 2022

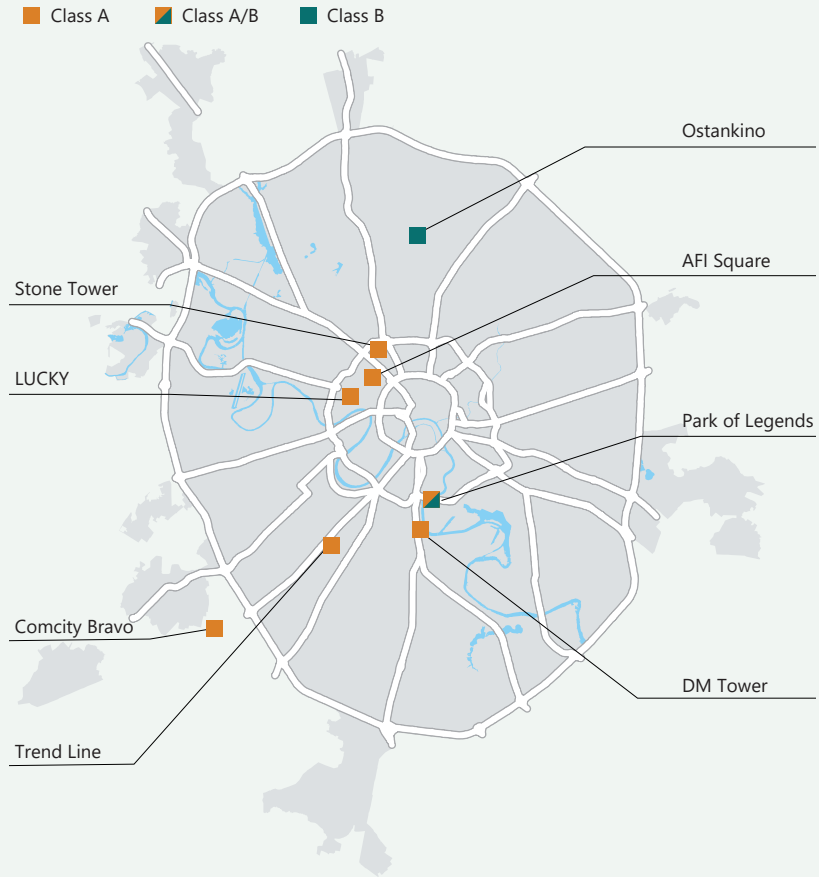
# Supply

At the end of 2021, the total office space in Moscow market amounted to 17.6 million sq m, including 5.1 million sq m of Class A offices and 12.5 million sq m of Class B offices.

Following the market uncertainty and the reduced developers' activity resulting in the total completion of office space in 2020 amounting to only 224.4 thousand sq m, 2.6 times more than 587,000 sq m, the space was commissioned in 2021. This figure exceeds the annual figures of 2016–2020. The largest projects commissioned during the year were those built for certain structures of Rostekh City, the leased area of which is 173.6 thousand sq m, for Rostekh, Sber City on Kutuzovsky Avenue for Sberbank and BC Two Captains built for the government bodies. The largest facilities among the speculative commissioning were AFI2B (37.9 thousand sq m), Huaming Park (22.9 thousand sq m) and Arcus IV (18,000 sq m) put into operation in H2 of 2021.

The completion of about 620,000–660,000 sq m is expected in 2022, including such projects as Comcity Bravo (61.6 thousand sq m), the 1st stage of the Oostankino Business Park (33.1 thousand sq m), tower A of Stone Towers (14,000 sq m), and Trend Line (12.6 thousand sq m).

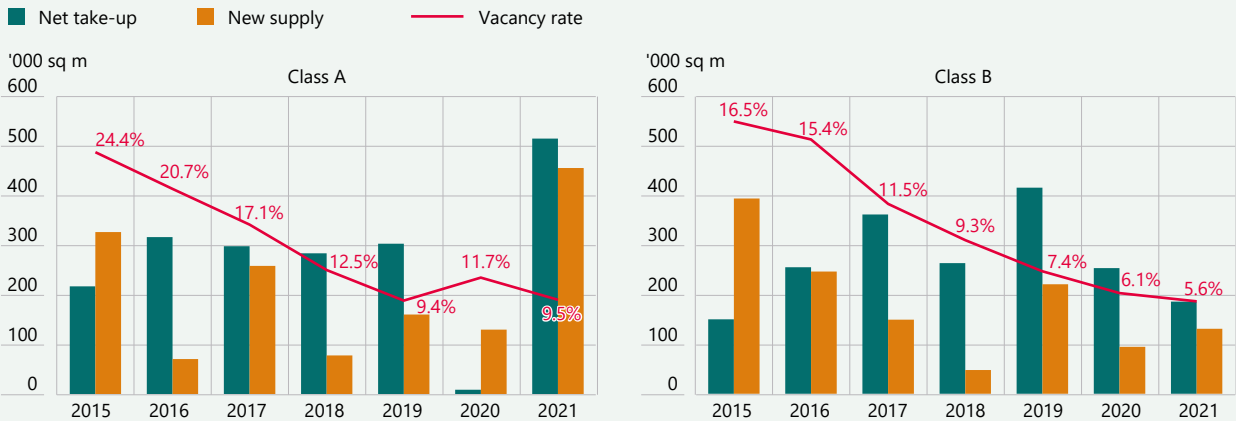
Map of Facilities Scheduled for Commissioning in 2022\*



\* Office facilities planning to obtain commissioning certificates in Q1–Q4 2021. The class of buildings is indicated according to the classification of the Moscow Research Forum 2013.

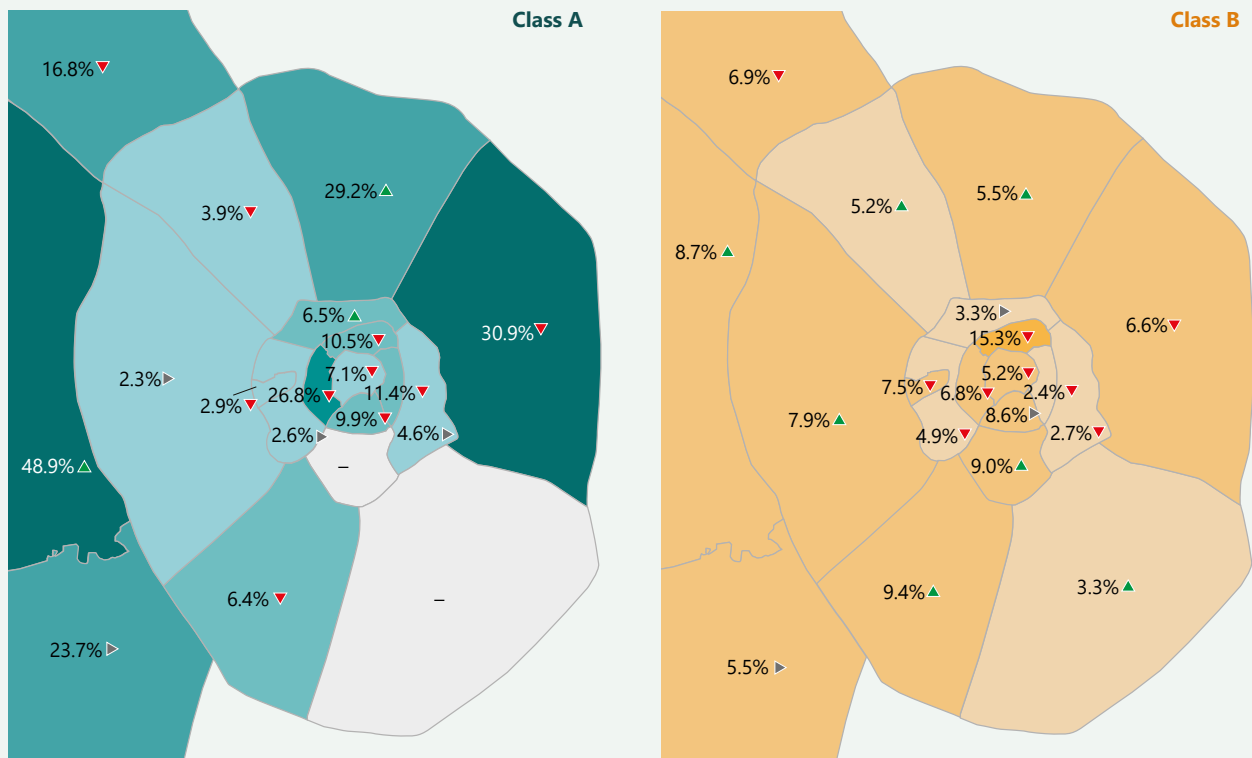
Source: Knight Frank Research, 2022

Net absorption, new supply and vacancy rate dynamics



Source: Knight Frank Research, 2022

### Moscow submarket data. Vacancy rate



Source: Knight Frank Research, 2022

The vacancy rate in Class A has decreased since the beginning of the year by 2.3 p.p. to 9.5%. Less than 480,000 sq m of offices remain vacant at the moment. The Class B indicator is at around 5.6%, which is 0.5 p. p. lower than the result of 2020. The total vacancy is 704,000 sq m. At the same time, the vacancy rate in class A within the Moscow Ring Road has already reached 6.5% (-1.7 p. p. YoY). The factors behind such dynamics of indicators include the high rental activity since early 2021: the share of new lease transactions in the structure of transactions is growing, making a high figure of office absorption. It is also worth noting that over 60% of the commissioned facilities are projects built for corporations, and only a small speculative part of the commissioned facilities appeared on the market, the largest share of which is formed by AFI2B (37.9 thousand sq m), Huaming Park (22.9 thousand sq m), Arcus IV (18 thousand sq m), and Smolensky Bulvar, 13 (15.7 thousand sq m), projects, which turned out to be empty.

## Demand

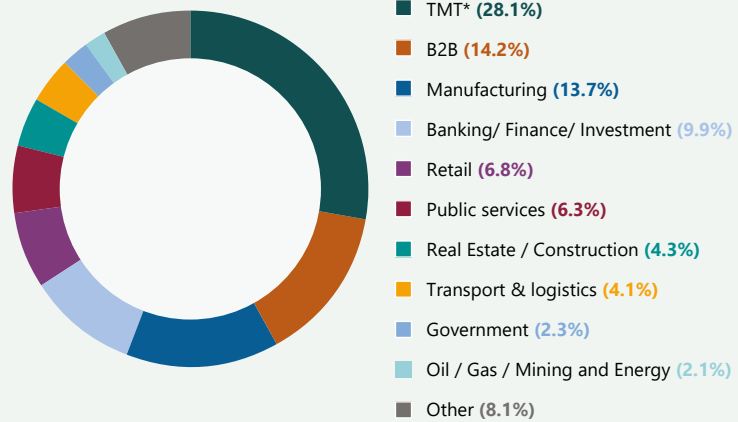
Net absorption – a key indicator of demand, demonstrating a certain period's difference between all areas filled and all that have entered the market vacant, has grown significantly at the end of 2021 and amounted to 701.5 thousand sq m against 262.1 thousand sq m for the whole of 2020. The absorption figure growth is associated both with the increased activity of office users, who not only change the office location but also increase the area occupied, and with the appearance on the market of BTS buildings created for a specific user and entering the market full. Moreover, fairly large transactions in terms of area are noted, which is associated with the expansion of large corporations that have not yet selected or built their own headquarters. In particular, the largest deals in 2021 were the deals of Ozon and Yandex in Iskra-Park BusinessClub and Neva Towers, respectively (both deals amounted to more than 20,000 sq m). IT companies are also expected to continue to form a significant part of the demand in 2022.



Due to the high activity of IT companies in the structure of demand for offices, TMT companies (Technology/Media/Telecommunications) turned out to be leaders in 2021 with a share of almost 28.1%. The second place is taken by the B2B sector with a share of 14.2%. The average size of a lease transaction was 1,364 sq m in 2021.

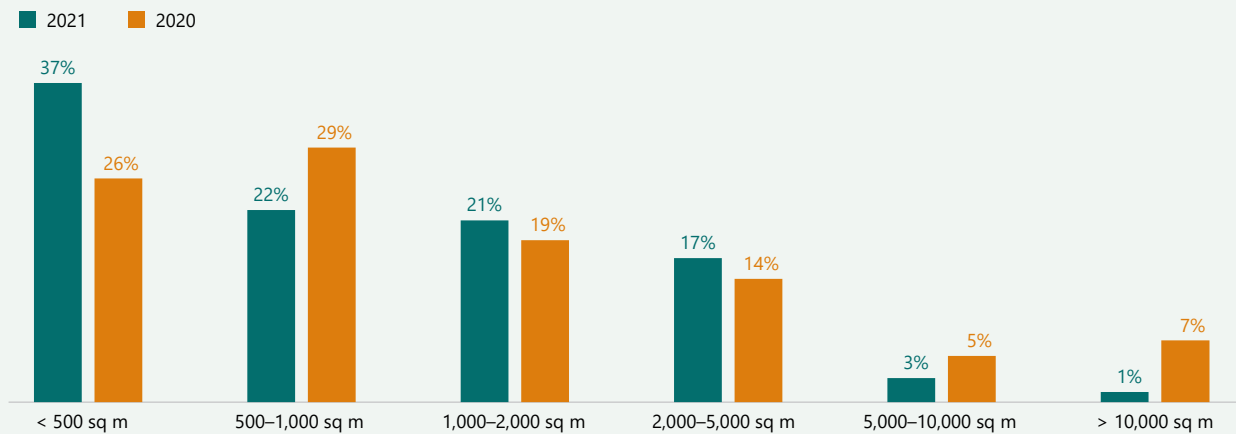
Major flexible office lease deals were also recorded in 2021. In addition to the lease of the BusinessClub site in Iskra-Park by Ozon, the company leased significant flexible space within the Moscow City MIBC in Q2 2021. One of the major deals was also the lease of about 6,000 sq m by the Sitronics Group at the sites of OOO "Gibky Office" at the beginning of the year.

### Take-up structure by business sector



\*(Technology/Media/Telecommunications)  
Source: Knight Frank Research, 2022

### Distribution of leased office units by size



Source: Knight Frank Research, 2022

### Key lease and sale deals in Moscow office market, 2021

Company	Transaction volume, sq m	Transaction type	Office building
OZON	24,000	Rent	BusinessClub Iskra-Park
Yandex	20,834	Rent	Neva Towers
INEX Group	10,888	Rent	VTB Arena Park
Sovcombank	9,049	Rent	1st Zemelny lane, 7/2
Gazprom-Media	9,266	Rent	Alcon
Apollax Space	6,500	Rent	Ryabovskaya Manufaktura
GKU Organizator Perevozok	6,228	Rent	Yuzhny Port
Sitronics	5,959	Rent	RTS Volgogradsky
Yandex	4,960	Rent	Amalteya

🚩 Knight Frank transactions

Source: Knight Frank Research, 2022



## Business Terms

In 2021, office rental rates in both classes have increased. In Class A, the requested office rental rate increased by 1.2% compared to the beginning of the year and now amounts to 25,827 roubles/sq m/year (excluding operating expenses and VAT). In Class B, the rental rate also increased by 2.5% compared to the beginning of the year, i. e. up to 17,556 roubles/sq m/year (excluding operating expenses and VAT).

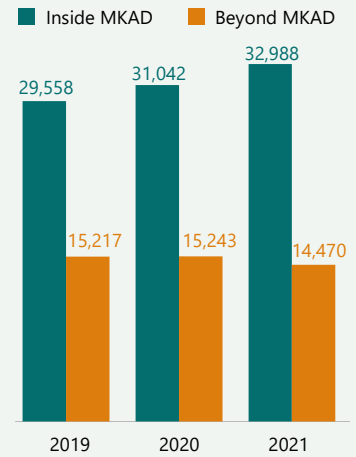
At the same time, the dynamics in Class A for the facilities within the Moscow Ring Road is more indicative: the figure has been steadily growing over the past years, and over the past year, the average weighted rate has increased by almost 2,000 roubles (+6.3% YoY) – up to 32,988 roubles/sq m/year (excluding operating expenses and VAT).

If previously the growth in rental rate was mainly market-driven and was due to increased tenants' activity and a shortage of high-quality facilities in key business districts, now the growth is also due to the increased construction costs, which will particularly affect the business terms in new projects that will appear on the market in 2023–2024.

The existing market practices remain unchanged. The average term of office lease agreement is still 5 years, with a possibility of early termination. The indexation of rental rates in most contracts is tied to the consumer price index, but remains a reason for negotiations, since tenants and business center owners understand that both rental rates, and the inflation rate may increase in 5 years.

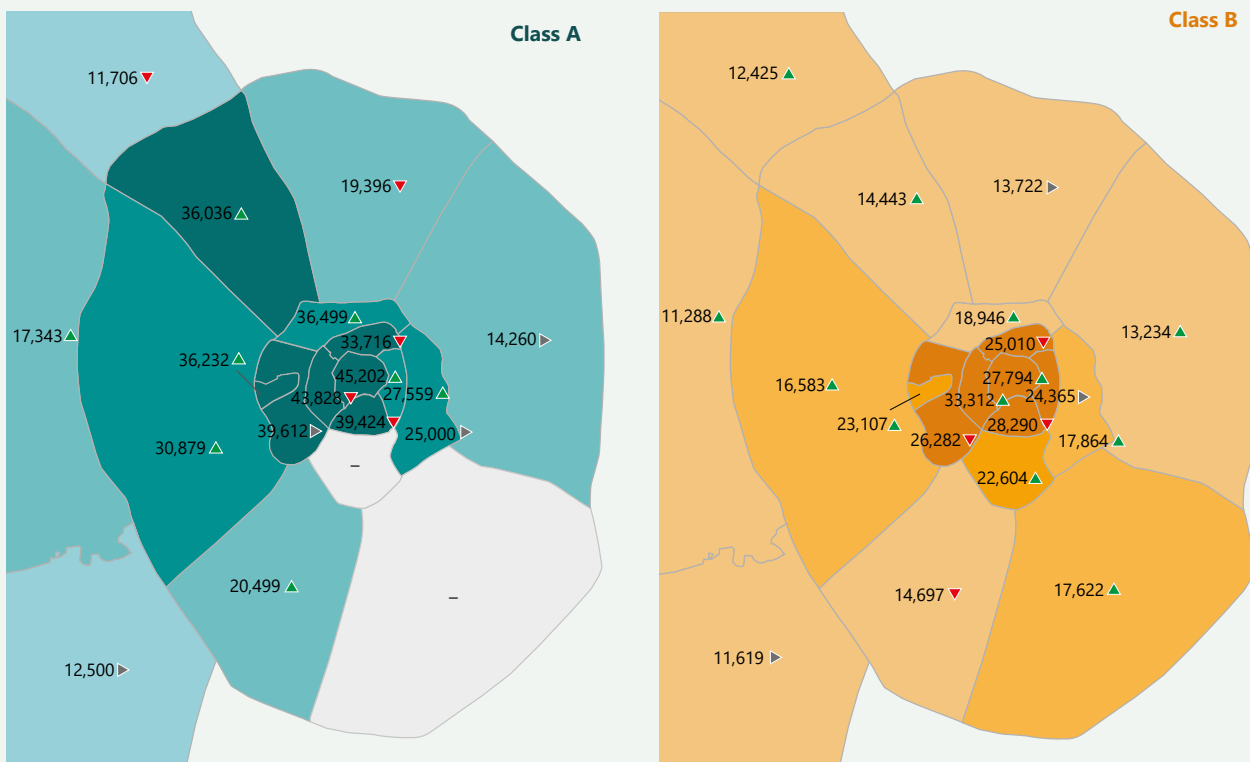
The area of the leased office unit is the main factor in the deviation of the achievable rental rate from the asked one: developers often prefer to lease a building to several

Class A average weighted asking rents dynamics by zone



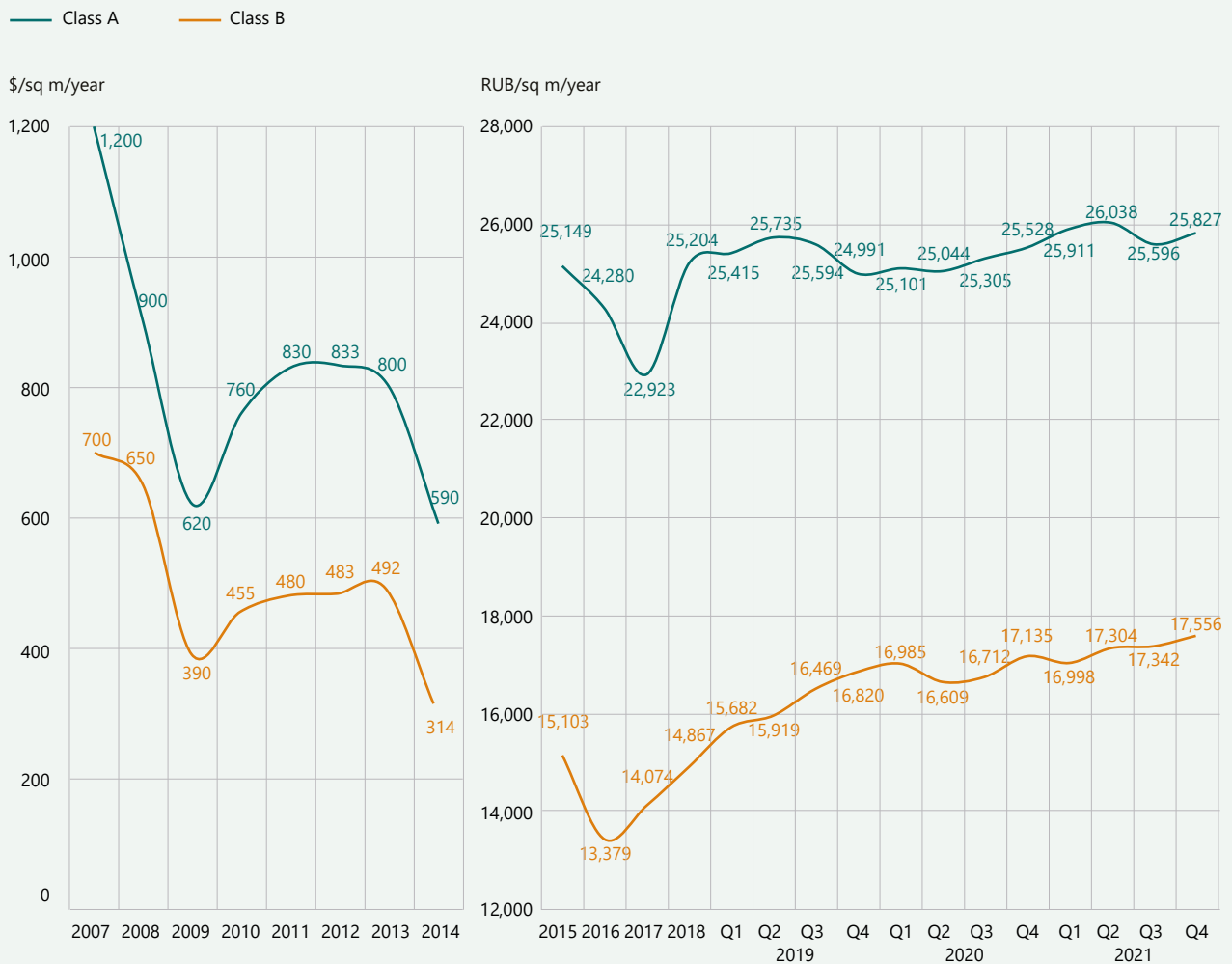
Source: Knight Frank Research, 2022

Moscow submarket data. Average weighed rent



Source: Knight Frank Research, 2022

### Class A and B average weighted asking rents dynamics



Source: Knight Frank Research, 2022

large tenants instead of a mono-tenant or division of space into small units. This creates for them a stable rental income that is less dependent on rotation, on the one hand, and less difficult to administer, on the other hand.

Offices are mostly leased “as is”, and the owner’s compensation for finishing is often minimal or absent at all.

## Forecast

In 2022, the commissioning of new

facilities may amount to 620,000–640,000 sq m, where about 85–87% will be Class A projects. In case of unforeseen negative situations, the deadlines for project commissioning may be postponed, and the indicator by the end of 2022 may turn out to be at a lower level.

Due to the continued high activity of tenants, the net absorption rate in 2022 is forecast to be at the level of 2021: 700,000–720,000 sq m.

Despite the potentially high rate of new construction, the vacancy share in both classes will not increase, but, on the

contrary, will decrease to 8.3–8.5% in Class A and 4.9–5.1% in Class B due to a significant area constructed for specific structures and corporations, as well as a large number of new lease transactions.

In the near future an increase in rental rates may be expected, which will be influenced by high rental activity and growth in the cost of new construction.

## Moscow submarket data. Key indicators\*

Submarket		Lease Area, thousand. 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	45,202		7.1%		27,794		5.2%	
Garden Ring	South	999	39,424	38,930	9.9%	12.5%	28,290	27,801	8.6%	8.2%
	West	577	43,828		26.8%		33,312		6.8%	
	North	672	33,716		10.5%		25,010		15.3%	
	East	407	27,559		11.4%		24,365		2.4%	
Third Transport Ring	South	1,282	-	35,985	-	5.4%	22,604	22,460	9.0%	5.1%
	West	813	39,612		2.6%		26,282		4.9%	
	North	1,034	36,499		6.5%		18,946		3.3%	
	East	1,142	25,000		4.6%		17,864		2.7%	
	MIBC Moscow-City	1,233	36,232		2.9%		23,107		7.5%	
TTR-MKAD	North	1,083	19,396	24,777	29.2%	6.8%	13,722	15,000	5.5%	6.3%
	Northwest	1,062	36,036		3.9%		14,443		5.2%	
	West	2,200	30,879		2.3%		16,583		7.9%	
	South	1,478	-		-		17,622		3.3%	
	Southwest	662	20,499		6.4%		14,697		9.4%	
	East	1,005	14,260		30.9%		13,234		6.6%	
Beyond MKAD	Khimki	266	11,706	14,470	16.8%	27.9%	12,425	11,746	6.9%	7.4%
	West	612	17,343		48.9%		11,288		8.7%	
	New Moscow	345	12,500		23.7%		11,619		5.5%	
<b>Total</b>		<b>17,584</b>	<b>25,827</b>		<b>9.5%</b>		<b>17,556</b>		<b>5.6%</b>	

\* Excluding OPEX and VAT (20%)

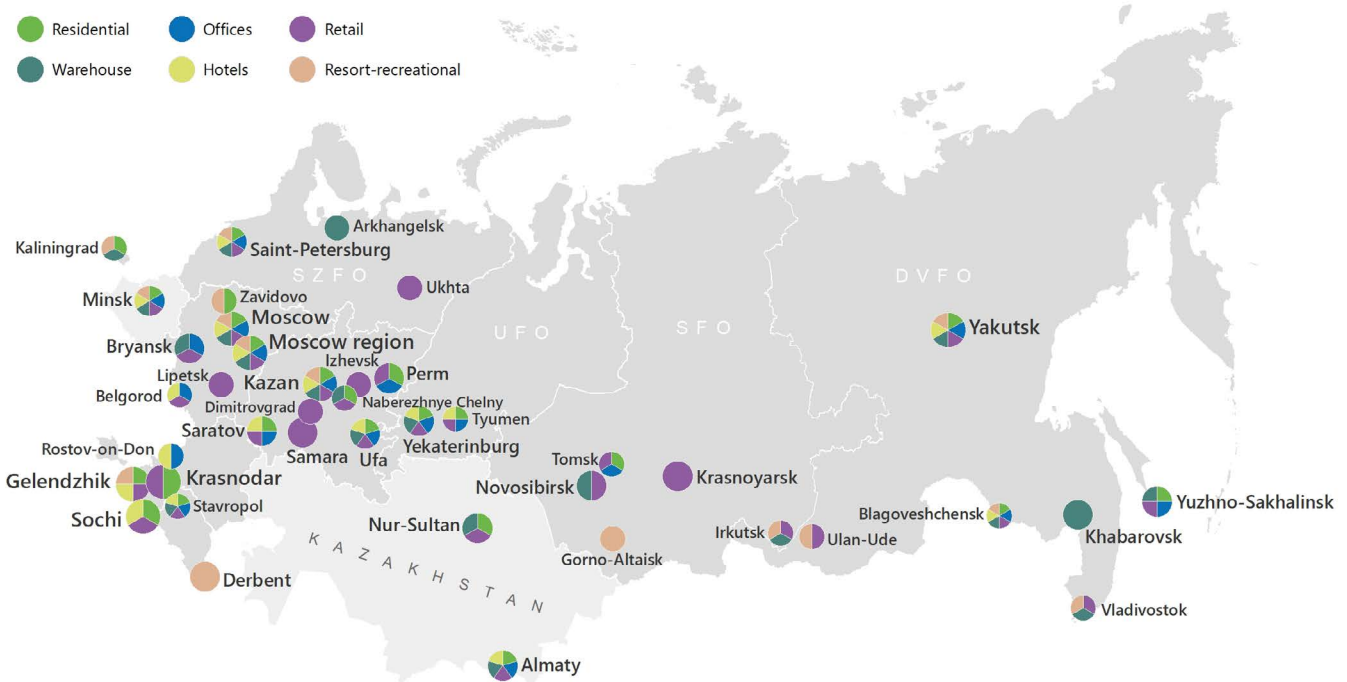
Source: Knight Frank Research, 2022



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