Rental rates for office spaces are beginning to rise due to the lack of available supply

▲ **589,000** sq m
New Supply

▲ **1.6** mln sq m
Take-up

▼ **7.7%**
Vacancy

▲ **1.1** mln sq m
Net Absorption

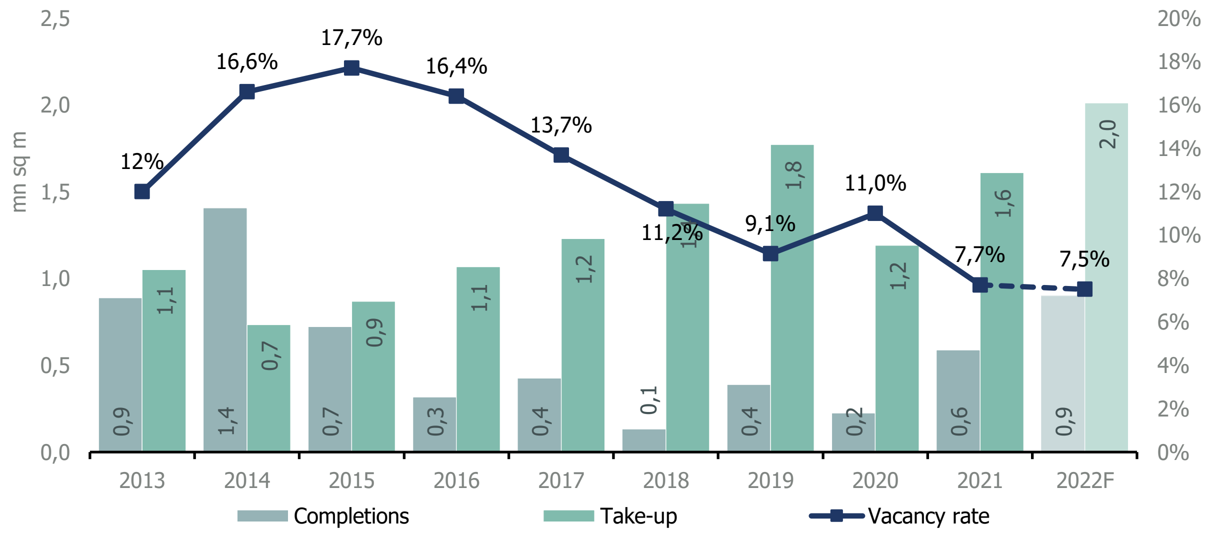
Note: Arrows indicate change from 2020

"In H2 2021, there was a noticeable recovery in the market. Companies began to show more active interest in renting modern office space that, by leveraging flexible, environmentally friendly office planning solutions and technology, supports creating a comfortable environment for employees for office and remote work alike. By the end of the year, the possibilities to meet this demand became largely limited by the available supply. Given the availability of new-built supply, this situation is expected to persist on the market for at least the coming two years. Against the backdrop of an imbalance in supply and demand, rental rates will rise. In 2022, we expect at least a 10% increase in the average office rental rate in Moscow."

Irina Khoroshilova,

Senior Director, Head of Offices

Figure 1. Dynamics of completions, take-up and vacancy rate



Source: CBRE, Q4 2021

New supply. Vacancy rate

In Q4 2021, five office centers were commissioned with a total office floor space of 91,014 sq m. Among them are AFI2B, Technopark Plaza, Huaming Park Phase I. Notwithstanding the lower quarterly figure in 2021 compared to 2020 (109,000 sq m), the annual completion was twice higher in 2021 than in 2020.

In total, almost 600,000 sq m of office space was commissioned in 2021. This is the highest performance during the past 6 years and slightly higher than the average annual commissioning volume over the past 10 years (566,000 sq m). Three projects built for own use — Rostec City, new buildings as part of Sber City, and Two Captains — accounted for about 65% of the total new supply in 2021.

In 2022, we expect an increase in new-built supply. According to the developers' plans, close to one million sq m of office space is expected to be completed in 2022. However, in practice this figure may turn out to be lower.

Despite a significant increase in the completion volume, approximately 20% of the new-built supply and about 60% of the space scheduled for commissioning in 2022 was available for lease or sale at the end of 2021.

Low speculative construction activity and rising demand determine the decrease in the available supply on the market. At the end of 2021, the vacancy rate was 7.7% of the total existing supply, the lowest since 2007, when the rate dropped to 4.8%.

At the beginning of 2021, the vacancy rate was 12.2% in Class A and 10.6% in Class B. By the end of the year, the figures dropped to 9.45% and 7.32%, respectively.

A slight increase in the vacancy in Class A in late 2021 is explained by the commissioning of several unleased development projects.

We expect the shortage of available space to persist throughout 2022 and 2023.

Table 1. Key business centres delivered in Q4 2021

Property	Class	Office area, sq m	Location
AFI2B	A	37,900	CBD
YE'S Technopark	B+	23,350	South Southwest
Huaming Park Phase I	A	20,400	North

Figure 2. Vacancy rate by Class

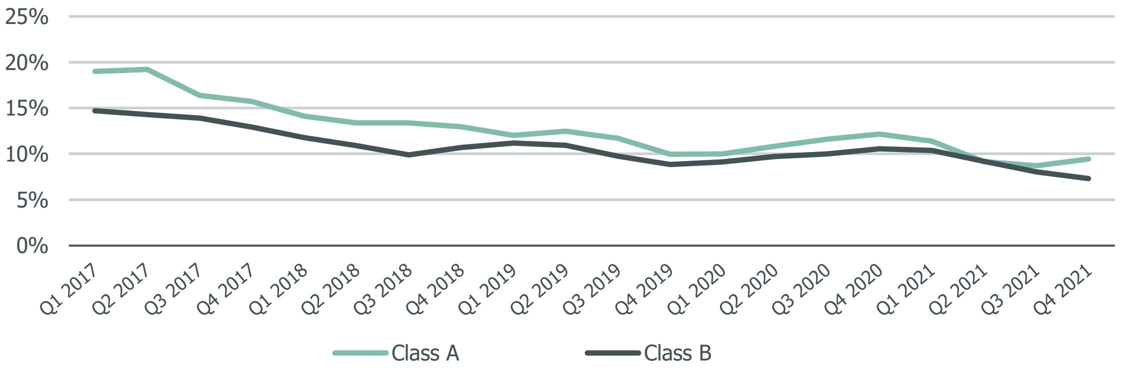
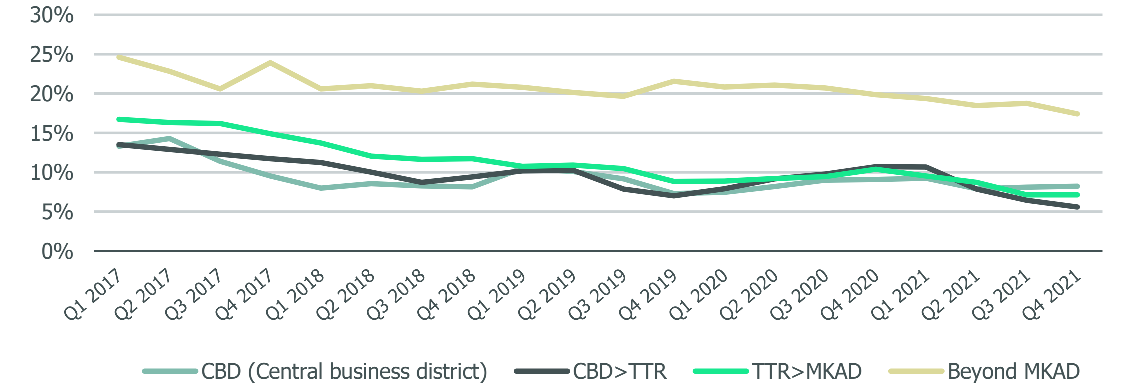


Figure 3. Vacancy rate by location



Source: CBRE, Q4 2021

Demand

In Q4 2021, the take-up remained unchanged compared to Q3 and amounted to 503,000 sq m.

Demand is recovering at a faster pace than expected. By the end of 2021, new transactions with leased and purchased office space reached 1.6 million sq m, which is 26% higher than in 2020 and 9% lower than in 2019.

On the one hand, this increase in the take-up volume was brought by the deferred demand from those companies that had opted for a wait-and-see strategy the previous year. On the other hand, there have been no severe restrictions imposed this year on office work, which has accelerated the return to the office.

Considering the existing demand for office spaces, we expect that the transaction volume in 2022 might exceed the 2021 figure and reach 2 million sq m.

In Q4 2021, renewal and renegotiation transactions stood at 116,000 sq m, while the total transaction volume in 2021 was 388,000 sq m, which is 65% higher than in 2020 (235,000 sq m). In case of limited office space supply, we expect this figure to grow in 2022.

In 2021, new transaction volume in the lease and purchase segments increased. During the year, 1.45 million sq m office space was leased out, which is 36% higher than in 2020. Demand for office space for lease is almost the same as in 2019.

The volume of sale and purchase transactions increased in 2021 by a quarter compared to the previous year and reached 173,000 sq m, though this is still lower than in 2018-2019. The purchase and sale transaction volume in 2021 was supported by stronger demand from retail buyers.

Demand for Class A office space in 2021 increased to 531,000 sq m, exceeding the figures for 2019 and 2020 by 16% and 44%, respectively. The volume of leased and purchased Class B offices grew quarterly in 2021 and by the end of the year reached almost 1.1 million sq m (31% more than in 2020).

Figure 4. Take-up dynamics, thousand sq m

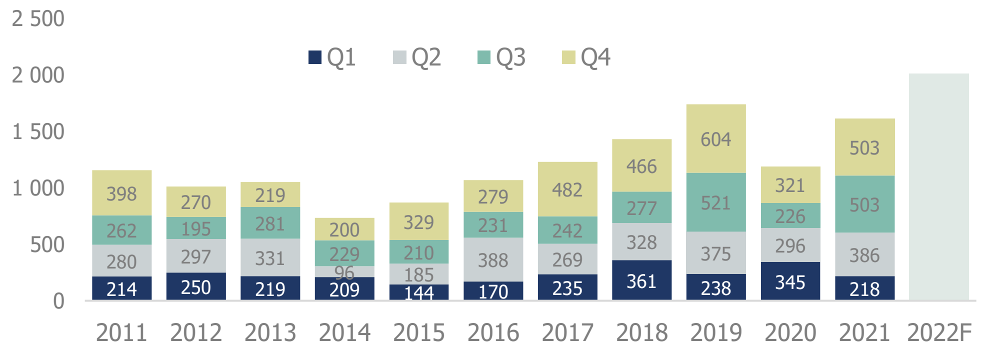
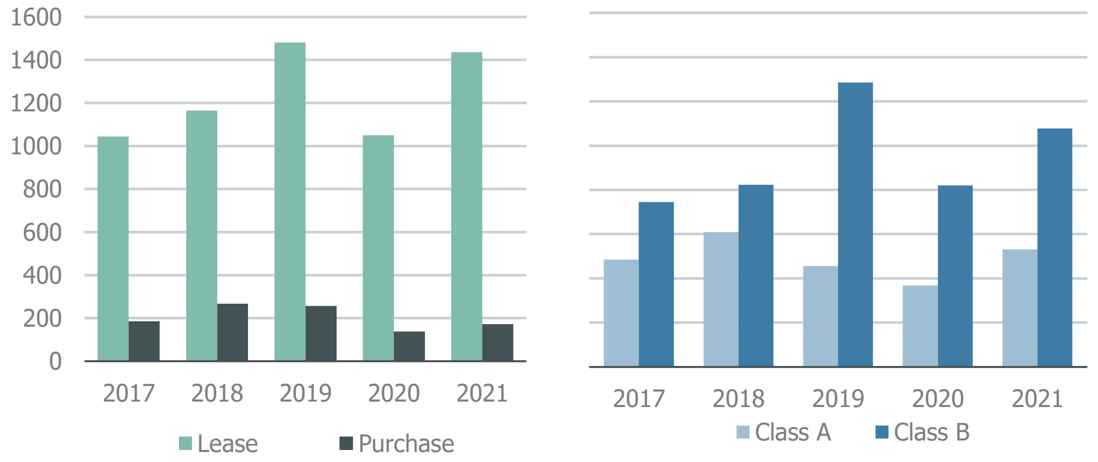


Figure 5. Take-up dynamics by type of deal and by Class, thousand sq m



Source: CBRE, Q4 2021

Demand

In 2021, tenants and buyers continued to show greater interest in central business districts. More than a half of the total new transaction volume was within Moscow's Third Transport Ring (TTR).

Less than a third of the transaction volume in 2021 was offices with an area of up to 500 sq m, an increase of 1 p.p. compared to 2020. Demand grew most for medium-sized offices — from 1,001 to 3,000 sq m. In this segment, 377 transactions were closed in 2021 for a total area of 585,000 sq m, which accounted for 36% of the total annual demand. The share of large transactions, more than 5,000 sq m, shrank in 2021 by 19 p.p. One of the reasons for this was the limited supply of large office space in Moscow in 2021.

Tech and Real Estate & Construction companies remained some of the most active tenants in 2021. Technology companies lease and buy space for their own use. Demand growth from the Real Estate & Construction industry was facilitated by the willingness of flexible office space operators to make use of the opportunity to expand their portfolios in the context of tenants' interest in such spaces.

Figure 6. Take-up structure by location

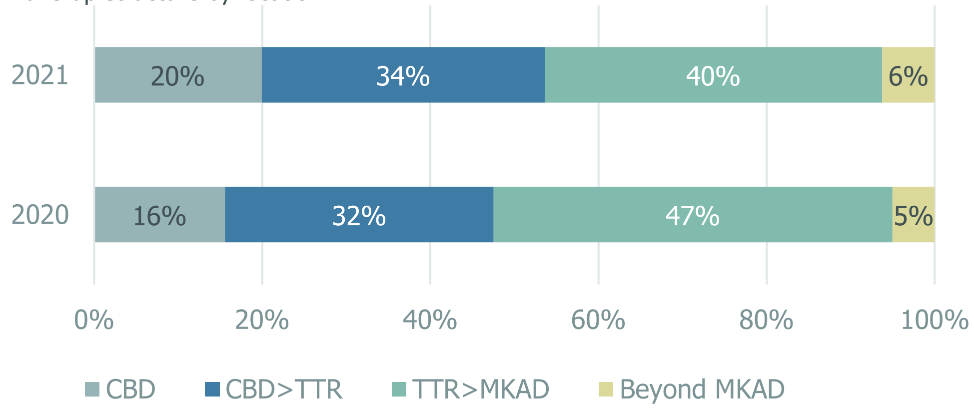


Figure 7. Take-up structure by deal size

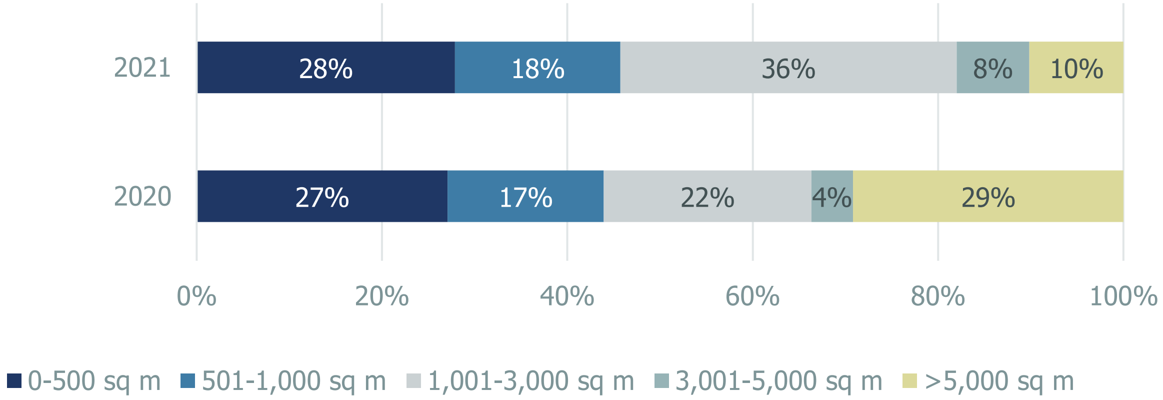


Table 2. Key sectors in take-up structure

Industry	2020		2021
IT & Telecom	15%	+2	17%
Financial sector	37%	-28	9%
Medical, Pharmaceutical & Chemical	3%	+8	11%
Real Estate & Construction	9%	+8	17%
Raw materials & Energy	9%	-1	8 %
FMCG	3%	+2	5%

Source: CBRE, Q4 2021

Rental Rates

By the end of Q4 2021, the weighted average annual asking rental rate in Class A Prime decreased by 2% compared to Q3 and amounted to RUB 41,500 per sq m. This is due to the take-up of office space in the premium segment, as well as the strengthening of the Russian ruble, as some landlords keep their rates in US dollars.

In Class A, the annual asking rental rates grew to RUB 26,500 per sq m (+5% to Q3 as a result of high-priced offerings on centrally located sub-markets in Q4 2021). In Class B, due to the active take-up of centrally located office space, the bulk of the available supply is gradually shifting to the TTK-MKAD zone and further beyond the MKAD, where the rental rate is lower. The consequence of this is a reduction in the weighted average annual rental rate for Class B vacant space to RUB 16,300 per sq m (-7% compared to Q3 2021).

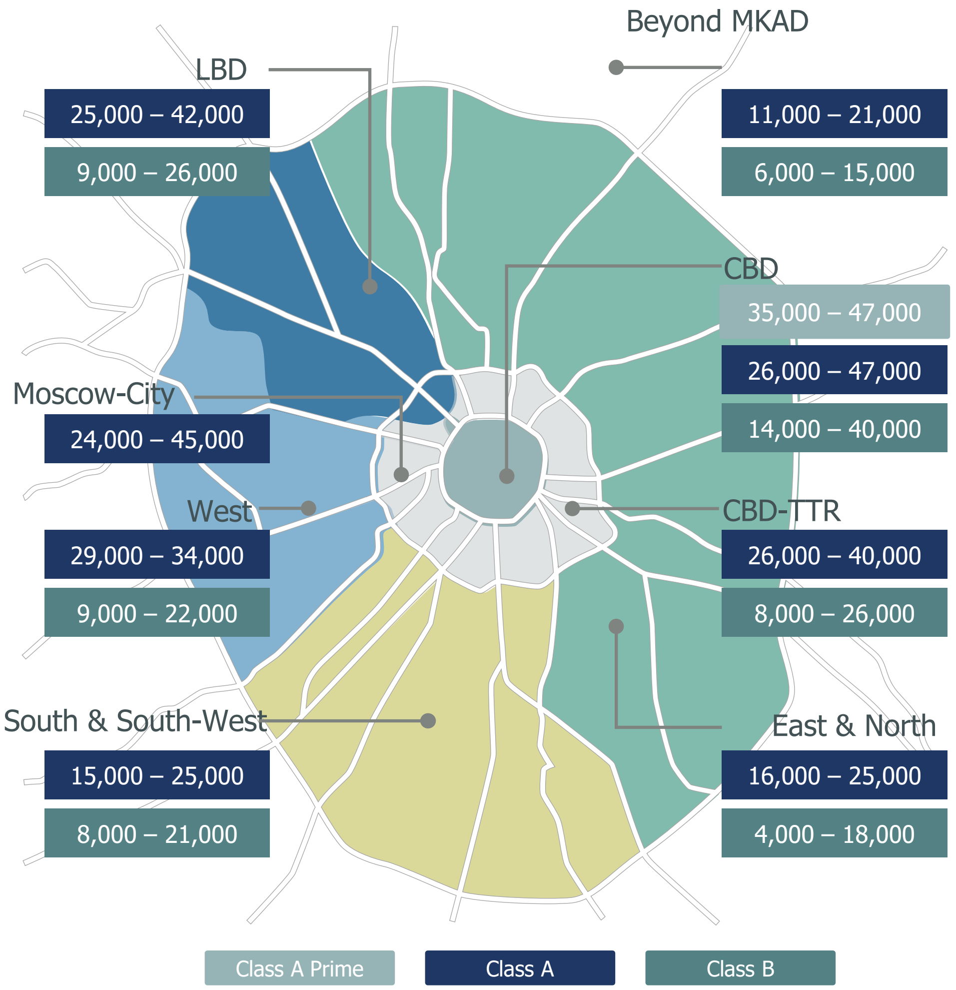
Due to the size of the office real estate market in Moscow, the commercial terms may vary significantly depending on the sub-market and property class. The range of asking rental rates in Q4 2021 has remained mostly unchanged.*

Table 3. Key deals in Q4 2021

Company	Area, sq m	Property	Type of deal	Class
Ozon	23,200	Ovchinnikovskaya nab., 18/1, Flexity	Lease	B
Gazprom-Media	9,200	AICON I, New-York	Lease	A
TEK Mosenergo	7,500	Dom Park Cultury	Lease	A
AniCura	5,900	Pomorskaya 5A	Purchase	B
Sovcombank	5,400	Rassvet I	Lease	B
Rosneft	4,900	Concord	Lease	A

* for more information on indicators and sub-markets, please contact CBRE.

Map 1. Average ranges of asking rental rates* by Class and submarket



* RUB/sq m/year excluding OpEx and VAT

Source: CBRE, Q4 2021

Moscow-City

In 2021, no new office properties were commissioned on the Moscow-City territory. Total office floor space in Moscow-City remains unchanged at a little over 1.2 million sq m. The next new development, the Grand City Tower, with a leasable office area of 192,500 sq m will be commissioned in 2022.

Demand for office space in Moscow-City remains high. In Q4, the total transaction volume was 28,000 sq m, while the total rent and purchase volume in 2021 reached 155,000 sq m. Any further transactions will be restrained by the available supply.

The share of vacant office space dropped to 3.2% by the end of the year. Low levels were previously observed only in the very early development phases of Moscow-City, when the buildings had been fully pre-leased before the construction was completed.

In 2022, due to the expected completion of a major development, in case of its incomplete take-up, the vacancy rate is expected to increase, but will not exceed 10% of the threshold.

The weighted average annual rental rate for the office space in Moscow-City increased to RUB 37,000 per sq m due to new rental offerings on the top floors in several of the buildings.

Key indicators

Stock
1.22 million sq m

Class A – 0.98 mln sq m
Class B – 0.24 mln sq m

Vacancy
3.2%

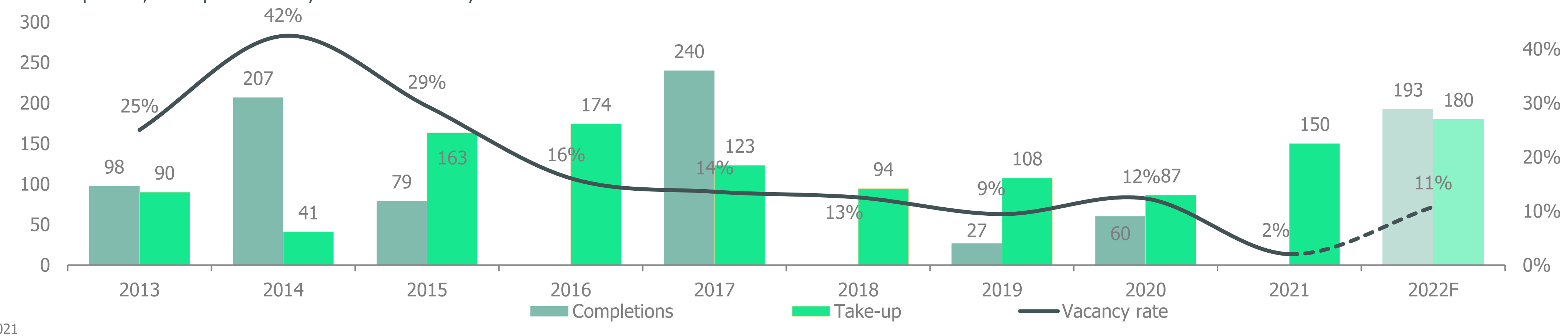
New Supply, 2021
-

Take-up, Q4 2021
28 000 sq m

Take-up, 2021
155 000 sq m

Asking rental rates
(net of OpEx and VAT)
24,000-55,000 RUB/sq m/year

Figure 8. Dynamics of completions, take-up and vacancy rate in Moscow-City



Source: CBRE, Q4 2021

Flexible office market

At the end of 2021, the total supply of flexible office space amounted to 303,300 sq m. During the year, new opened spaces have reached 86,700 sq m, 46,400 sq m of which completed in Q4. Among the larger developments, the Space 1 flexible office space as part of Novy Balchug.

In 2022, nineteen flexible office spaces are announced to open with a total area of 131,400 sq m. Build-to-suit projects, totaling 58,800 sq m, expected to be completed in 2021, were postponed until 2022. In addition to build-to-suit projects, seven flexible office space developments with an area of 72,600 sq m are planned to open in 2022.

In Q4 2021, players continue to expand their portfolio. Space 1 has announced plans to open a 11,471 sq m space in Nevis business center. The Key Space rented 4,260 sq m at 30 Sofiyskaya nab., for a flexible office for SberMegaMarket. Apollax Group rented two premises: 2,600 sq m in Brigantina Hall and 2,444 sq m in the Federation Tower, East. In 2021, the total transaction volume was 72,700 sq m, which is close to the 2019 figure, when a record high transaction volume was observed of 74,000 sq m. We expect that operators will remain highly active in 2022, but their activity will be limited by the available supply.

The share of large operators of flexible office spaces continues to decline, on the one hand, due to the growth of the portfolios held by other players, on the other hand, due to new companies entering the market. The ten largest open flexible office space operators account for 60% of the market. Space 1 (10%) is the leader in terms of open space by the end of 2021, followed by SOK (8%) and IWG (Regus brand) with a share of 7.3%. Other major players: The Key Space (6.7%), MyCabinet and WeWork with an equal share of 5.4%, Meeting Point (5.2%), Workki (4.4%), Grow up (4.1%), Atmosphere coworking (3.5%).

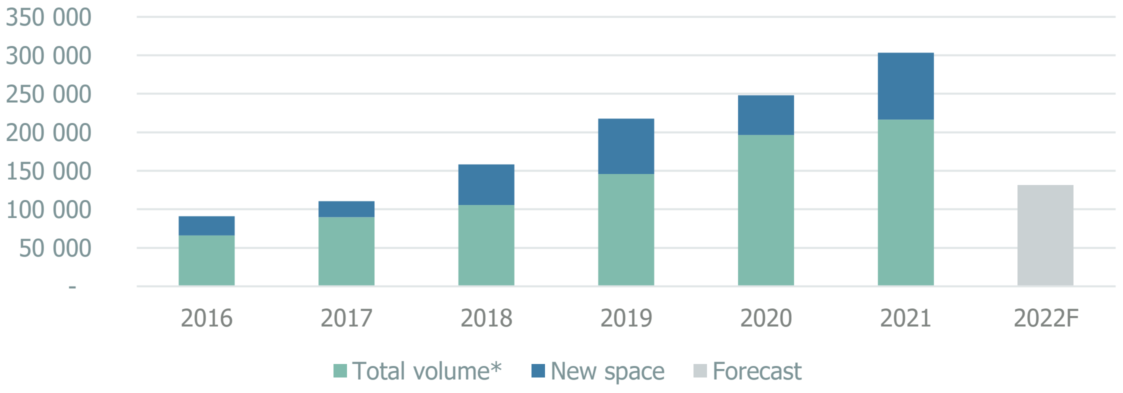
Against the background of the continuing shortage of available space in the market, corporate tenants are willing to consider flexible office space. In 2021, the transaction volume in this segment amounted to 127,700 sq m. In 2020, the transaction volume was 3.4 times smaller at 37,700 sq m.

Top asking rental rates per flexible workplace and workplace in a service office are growing. The average rental rate for a flexible workplace was RUB 13,000-30,000 and RUB 20,000-50,000 for a workplace in a service office. The maximum rental rates reach RUB 35,000-70,000 for workplaces in the CBD and Moscow-City. Rates include VAT.

Table 4. Key deals in Q4 2021

Property	Address	Tenant	Area, sq m
Ovchinnikovskaya nab., 18	Ovchinnikovskaya nab., 18	Ozon	23,000
Sofiyskaya nab., 30	Sofiyskaya nab., 30	SberMegaMarket	4,260
B. Yakimanka , 26	B. Yakimanka , 26	ByteDance	2,550
Kadashevskaya nab., 6/1/2	Kadashevskaya nab., 6/1/2	Nielsen	1,100

Figure 9. Dynamics of growth in areas occupied by flexible office spaces, thousand sq m



Source: CBRE, Q4 2021

* Adjusted in each period excluding closed spaces

Methodology

Terms and definitions:

Total Office Stock. Includes the gross leasable floorspace in all types of A and B Class buildings regardless of quality, age and ownership. It must include office space in owner occupied buildings, while applying the Class A/B limitation. Ancillary Office space should not be included: If office space cannot be reasonably used independently of the primary use of the building in which it is located, then it should not be included in ‘Total Office Stock’. Office space in mixed-use schemes should generally be included in ‘Total Office Stock’. Such office space is intended to be leased independently of the other types of space in the scheme.

New supply. Represents the total amount of gross leasable space of Class A/B properties where construction has completed at the survey date. Includes built-to-suit and speculative projects.

Take-up. Represents the sum of all total space known to have been let or sold by end-users for the survey period. Take-up exclude following types of deals: Renewal, Renegotiation, Sublease, Investment deals, Sale & Leaseback.

Types of Flexible Office Space. The concept of flexible office space combines three formats of leasable office space: co-working, serviced offices and their hybrid versions, including co-working space with a serviced office. The user of a flexible office space shifts the functions of managing and provision of leased workplaces to the operator.

Vacant area. Total leasable area in existing buildings which a relevant to definition ‘Total Office Stock’ legally free and active offered on the market for the survey period. Vacant area does not include sublease and premises in under construction buildings.

Vacancy rate. Is the percentage ratio of total vacant area divided by total stock.

Net Absorption. Refers the change in total occupied area from one period to another.

Rental rate. The weighted average value of asking rental rate. It does not include operating expenses, utility costs and VAT, calculated as the sum productions of the blocks offered and rental rate divided by the total volume of vacant space.

Average range of asking rental rates. Indicates the lower and upper limit of the base asking rental rate (excluding operating expenses, utility costs and VAT) for available premises, excluding extreme values that do not exceed 20% of the total number of available premises in total.

Class A Prime. The highest quality Class A office buildings located in premium district.

Statistical data from the previous reports cannot be used for comparison with each other due to the possible changes in methodology. For historical data contact CBRE Research.

Contacts

Irina Khoroshilova
Senior Director,
Head of Offices, Russia
+7 495 258 3990
Irina.Khoroshilova@cbre.com

Vasiliy Grogoriev
Director,
Head of Research, Russia
+7 495 258 3990
Vasiliy.Grigoriev@cbre.com

CBRE