

# MOSCOW Q1 2019

## OFFICE MARKET



### Key market indicators

|   | Q1 2017 | Q1 2018 | Q1 2019 |
|---|---------|---------|---------|
| Completions, thousand sq m                  | 21      | 37      | 27.5    |
| Take-up, thousand sq m                      | 139.2   | 322.9   | 312.9   |
| Vacancy rate, %                             | 11.9    | 9.8     | 7.9     |
| Class A                                     | 17.0    | 13.1    | 11.6    |
| Class B+/-                                  | 10.4    | 8.8     | 6.8     |
| Weighted average rental rate, RUB/sq m/year | 16,820  | 16,833  | 18,400  |
| Class A                                     | 25,154  | 24,558  | 26,515  |
| Class B+/-                                  | 12,589  | 12,973  | 13,899  |

### Supply

The Moscow office market is still showing a low completion rate. The total area of high-quality office space completed in Q1 2019 amounted to 27,500 sq m, which is 26% less than during the same period of 2018. It is worth noting that all the office space completed in Q1 2019 was in Class B+.

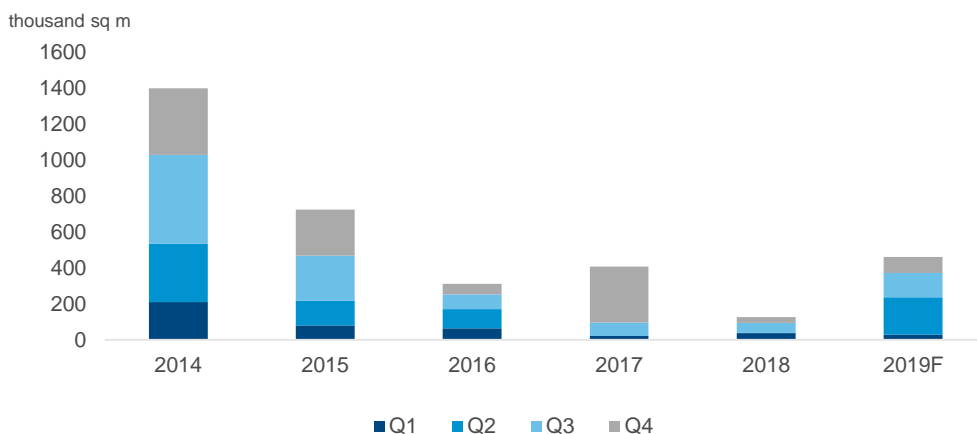
Despite the low rates of new construction in Q1 2019, during the year the volume of completed high-quality office space will increase by 3.6 times compared with the previous year and will be about 450,000 sq m.

The vacancy rate in Class A office buildings decreased by 0.7 p. p. compared to the end of 2018. At the end of Q1 2019, the corresponding value amounted to 11.6%, or 489,000 sq m. The area of vacant space in Class B+/- office buildings decreased by 0.8 p. p. At the end of Q1 2019, the corresponding value was 956,000 sq m, which in turn amounts to a vacancy rate of 6.8%. It is worth noting that for the first time since 2014, the volume of free space was less than 1 million sq m in offices of class B +/-.



Dynamics of completions

Source: Colliers International



Buildings completed in Q1 2019

Source: Colliers International

| PROPERTY                | ADDRESS                    | CLASS | TYPE OF CONSTRUCTION | GBA, SQM | GLA, SQM |
|-------------------------|----------------------------|-------|----------------------|----------|----------|
| Rassvet (phase I)       | 3 bld 14-16 Stolyarny Lane | B+    | Refurbishment        | 17,230   | 12,880   |
| Krunit                  | 3 bld 1 Nagornaya St       | B+    | New construction     | 13,790   | 9,240    |
| MFK Residence Tverskaya | 6 2-nd Brestskaya St       | B+    | New construction     | 32,940   | 5,400    |

## Rental rates

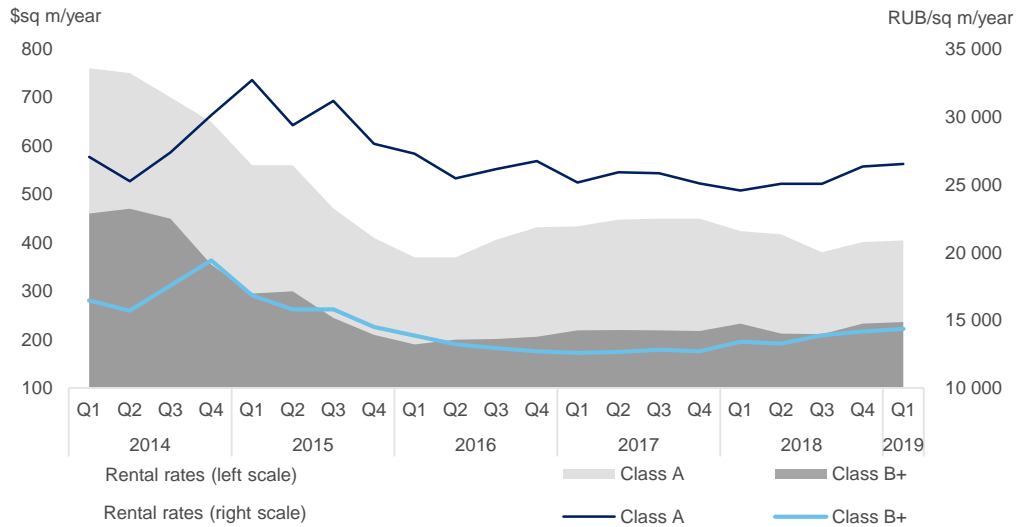
The growth of rent rates that started in 2018 continued throughout in Q1 2019. The weighted average rental rate decreased by 0.7% to 26,515 rub/sq m/year in Class A offices buildings and by 1.5% to 14,867 rub/sq m/year in Class B+/- offices buildings.

In 2019, the rapid growth of rental rates is not predicted, but a moderate correction within 5% will continue. The market is in a comfortable recovery phase and a fairly stable demand, which allows owners, even despite an increase completions, to raise rental rates.



Dynamics of base rental rates\*

Source: Colliers International



\*The base rental rate in roubles is calculated by recalculating rates denominated in dollars into roubles at the average US dollar to rouble exchange rate for the reporting period and at a rate fixed by a landlord where applicable. The base rental rate excludes VAT (20%), operational expenses and utility bills

## Demand

According to figures from Q1 2019, the total volume of leased and purchased office space amounted to 312,900 sq m, which is comparable with the figure for 2018. The volume of net absorption amounted to 180,000 sq m. Compared with Q1 2018, when the share of deals for renegotiation and renewal in the total volume of transactions was 3%, in Q1 2019 this indicator reached 10%. 70% of transactions for renegotiation and renewal were for space within the Third Transport Ring, while the share of new leases in this area is about 50%.

As a result of record low completions and a reduction in vacant space, especially in the most liquid locations, large companies are actively signing lease agreements at the construction stage. In Q1 2019, the largest lease deal was signed at the Oko business centre (phase II), for which completion is planned before the end of the year. A building in the Rassvet business park, the reconstruction of which was completed in Q1 2019, was immediately completely rented by the company PIK.

While last year leaders among tenants were all companies from the IT and retail sectors, in Q1 2019 newly emerging companies of the banking sector (21%) were important, like 2-3 years ago. Manufacturing (16%), IT (15%), professional services (15%) and construction companies (15%) were also active in Moscow office real estate transactions.

| COMPANY                       | PROPERTY               | ADDRESS                    | CLASS     | DEAL TYPE    | AREA, SQM (GLA) |
|-------------------------------|------------------------|----------------------------|-----------|--------------|-----------------|
| Rosbank                       | Oko (phase II)         | 16B Presnenskaya Emb       | B+        | Lease        | 15,420          |
| PIK                           | Rassvet (phase I)      | 3 bld 14-16 Stolny Lane    | B+        | Lease        | 11,000          |
| <b>Coca-Cola HBC Eurasia*</b> | <b>Comcity</b>         | <b>Kievskoe Hwy, 22 km</b> | <b>B+</b> | <b>Lease</b> | <b>5,400</b>    |
| Tele2                         | Comcity                | Kievskoe Hwy, 22 km        | A         | Lease        | 5,150           |
| O'KEY                         | Kristal                | 23A Kirovogradskaya St     | B+        | Lease        | 5,000           |
| SOK                           | Federation Tower. East | 12 Presnenskaya Emb        | B+        | Lease        | 3,400           |
| Sberbank-Service              | Novosushevsky          | 18 Sushevskiy Val St       | B+        | Lease        | 3,200           |



Key deals in Q1 2019

Source: Colliers International

\*Colliers International acted as a consultant of the transaction

## Office Sales

In the office sales market, there has been a reduction in the volume of available supply due to an increase in demand, accompanied by a limited amount of new construction. The volume of vacant supply of Q1 2019 decreased 10% and amounted to 292,000 sq m. At the same time, 67% of office space for sale is located outside the Third Ring Road.

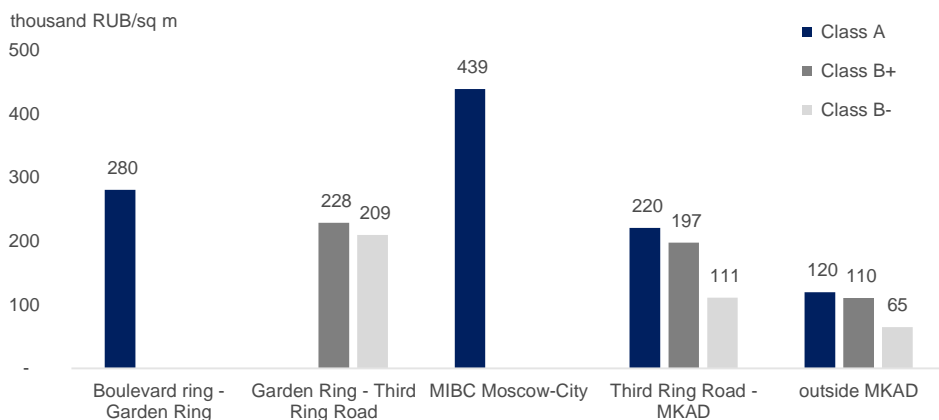
In Q1 2019, the volume of office space sales amounted to 47,700 sq m and comprised the fully finished business center Lotos and the business center Vodny developed by MR Group. Developers are beginning to show interest in finding new locations for the construction of office space for subsequent sale.

The price level of office sales has not changed despite the declining supply and growing demand: landlords of offices for sale are waiting for a more active growth in rental rates before making price adjustments.



Average sale prices by distance from the centre in Q1 2019 (Excl. VAT)

Source: Colliers International



## Forecast



Dynamics of Key Indicators for classes A and B+/-

Source: Colliers International



Top business centres expected for delivery in Moscow in 2019\*

Source: Colliers International



| No | PROPERTY              | ADDRESS                 | CLASS | DEVELOPER         | GLA, SQM |
|----|-----------------------|-------------------------|-------|-------------------|----------|
| 1  | Iskra-Park            | 35 Leningradskiy Ave    | A     | Hals Development  | 49,710   |
| 2  | Vereyskaya Plaza IV   | 29 bld 34 Vereyskaya St | B+    | Plaza Development | 40,000   |
| 3  | Stratos               | 1 Nikola Tesly St       | A     | Corporation A.N.D | 34,980   |
| 4  | MFC Aminevskoe Hwy    | 15 Aminevskoe Hwy       | B+    | Tashir            | 28,880   |
| 5  | OKO (phase II)        | 16B Presnenskaya Emb    | B+    | Capital Group     | 27,350   |
| 6  | Academic              | 41 Vernadskogo Ave      | A     | Action            | 26,430   |
| 7  | Orbion                | 2 Minskoe Hwy           | A     | Corporation A.N.D | 24,000   |
| 8  | SKY House             | 40-44 Mytnaya St        | A     | MOS CITY GROUP    | 17,500   |
| 9  | Otradnoye (phase III) | 2V Otradnaya St         | B+    | LTD MOTEK-TS      | 16,500   |
| 10 | Park Huaming          | 14 Vilgelma Pika St     | A     | LTD Park Huaming  | 16,000   |
| 11 | Smolenskiy Passage II | 7-9 Smolenskaya Sq      | A     | Corporation A.N.D | 15,350   |

\*Business centres are marked on the map, p. 4

# Vacancy, rental rates and key buildings expected to be completed in 2019



| SUBMARKET                       | VACANCY |     |    | BASE RENT*, RUB/SQ M/YEAR |        |        | SUBMARKET  | VACANCY |     |     | BASE RENT*, RUB/SQ M/YEAR |        |        |
|---------------------------------|---------|-----|----|---------------------------|--------|--------|------------|---------|-----|-----|---------------------------|--------|--------|
|                                 | A       | B+  | B- | A                         | B+     | B-     |            | A       | B+  | B-  | A                         | B+     | B-     |
| <b>1, 5, 9</b> Premium          | 16%     | 6%  | 5% | 41 331                    | 24 124 | 19 055 | North      | -       | 13% | 4%  | -                         | 10 914 | 9 826  |
| <b>1-14</b> (excl. Premium) CBD | 6%      | 4%  | 4% | 32 728                    | 22 407 | 16 345 | North-East | -       | 5%  | 3%  | -                         | 12 477 | 6 353  |
| <b>15</b> Moscow City           | 9%      | 3%  | -  | 33 527                    | 19 600 | -      | North-West | 14%     | 11% | 3%  | 12 982                    | 7 699  | 8 589  |
| <b>16</b> Leningradskiy         | 15%     | 4%  | 5% | 28 293                    | 15 416 | 9 855  | West       | 4%      | 10% | 8%  | 27 903                    | 9 807  | 10 428 |
| <b>17</b> Sushevskiy            | 6%      | 4%  | 4% | 23 261                    | 12 724 | 15 666 | East       | -       | 4%  | 4%  | -                         | 13 826 | 8 509  |
| <b>18</b> Elektrozvodskiy       | 49%     | 6%  | 3% | 14 561                    | 12 247 | 11 833 | South      | -       | 4%  | 6%  | -                         | 10 728 | 14 792 |
| <b>19</b> Tultskiy              | 0%      | 14% | 7% | -                         | 14 088 | 12 336 | South-East | 65%     | 11% | 7%  | 25 000                    | 9 844  | 7 577  |
| <b>20</b> Leninskiy             | 15%     | 4%  | 5% | 15 000                    | 17 074 | 9 878  | South-West | 32%     | 15% | 17% | 13 714                    | 12 469 | 5 943  |
| <b>21</b> Kutuzovskiy           | 11%     | 9%  | 3% | 22 900                    | 17 166 | 10 800 |            |         |     |     |                           |        |        |

\* The base rental rate excludes VAT(18%), operational expenses and utility bills

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