



POSITION PAPER

OFFICES

25 March 2022

MARKET CONDITIONS



Outlook reflects our position at the current date. It is based on the current market conditions which are highly variable nowadays. The scenario presented below is moderately positive including assumption that the governmental reaction allows to keep market structures in the local economy at the background of the persisting pressure of sanctions.

By the end of March, new configuration of the Russian economy is formed. Protracted military operation in Ukraine suggests the economy will shift from mobilization to prolonged resistance.

Key rate is a basic indicator showing general situation in the economy. All forecasts (GDP, CPI, mortgage market, etc.) are now based on the 20%-key rate. The Central Bank kept the indicator unchanged on March, 18, the next review is scheduled for April, 29.

The consensus position of GDP fall by 10% does not mean that all industries will fall evenly. Moreover, some sectors will lose 70-80% (e.g., financial, business services) while others may grow 30-50% (e.g., production of raw materials and goods). The most attractive business for the mid-term is a food sector, from agricultural products to retail.

Some businessmen and officials are optimistic about import and business substitution opportunities arising with exit of many Western companies. This will be the main investment idea for the retail sector in the mid-term.

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Earlier we expected that the market slowdown in 2022 will be followed by gradual recovery in 2023. However, considering recent events we assume that decline in business activity will last till the end of 2023.

All business processes are frozen and there is no market recovery expected in the short-term. Along with economic turbulence, market players will face a shortening of a planning horizon. As a result, demand will shrink, and tenants will be interested in moving to cost-effective options and office areas optimization.

In 2022-23 completion of new properties will be postponed to later periods. In 2021 we expected decrease in new construction mainly associated with properties at the initial stage of development due to the sharp increase in prices for construction materials. Nowadays office centers that are at the final stage of development are also under pressure. Construction of some properties may be frozen. We expect annual new construction to be at about 150,000-250,000 in 2022-23.

Hundreds of international companies have announced plans to suspend or halt operations in Russia and that is now a major risk for the office market. The shrinkage of economy will also affect local market players, and vacancy rate will increase in 2022-23.

Previously, we expected that high inflation will inevitably affect rental rates in 2023. The current forecast assumes that, due to a significant decrease in tenant activity, rental rates growth will begin at the end of 2023, and it will become noticeable only in 2024.

	2021	2022 Jan-Mar	2022*	2023*
New construction, ‘ 000 sq. m	591	14	250	400
Take-up, ‘ 000 sq. m	1,950	364	1,000	900
Vacancy Rate	8.2%	8.3%	11.8%	12.8%
Average Rental Rate**, RUB / sq. m / annum	21,774	19,614	20,600	20,500
Net Absorption, ‘ 000 sq. m	884	-14	-468	-63

* Forecast from 25.03.2022

** Average Weighted Rental Rates excl. VAT and Operating Expenses

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