



FORECAST

OFFICES

July 2022

MOSCOW OFFICE MARKET: YEAR-TO-DATE INDICATORS

	January - July 2022 (YTD) Classes A & B	Indicator's change compared to the same period last year
New Construction, '000 sq. m	38	▼
Take-up, '000 sq. m	828	▼
Vacancy Rate	9.3%	▲
Average Rental Rate*, RUB / sq. m / annum	19 870	▼
Net Absorption, '000 sq. m	-260	▼

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

Market indicators still show **negative** dynamics

- Average base rental rate decreased by 6% YoY.
- Net Absorption is still negative.
- Vacancy rate has already increased by more than 1 p.p.
- Take-up is 16% lower YoY.

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*The key change compared to the previous forecast version :
Take-up forecast was revised upwards, vacancy rate growth will be smoother and more restrained.*

Our forecast is based on the thesis that the largest decline in economic activity will take place in H2 2023. Previously, we expected the market to show a sharper slowdown in business processes and to bottom in early-mid 2023. Year-to-date indicators entered the red zone quite smoothly, so the recovery will also be gradual. In the optimistic scenario, the market will start to show positive dynamics in 2024.

Business contraction along with exodus of international brands will determine vacancy rate growth. Some premises from tenants that decided to leave the market/reduce the occupied space /move to cost-effective option have already entered the market. Such companies prefer premium office buildings. As a result, vacancy rate growth is more rapid in class A, than in class B (+1.5 p.p. and + 1.2 p.p., respectively). The increased sublease supply may also affect indicator. However, its share in the total vacancy is still insignificant – 3.2%. We expect vacancy rate to be at the level of 13% by the end of 2022. The indicator will reach 15% by the end of 2023.

Rental rates will decrease by 8% in 2022. Most relocation cases will be a result of cost optimization processes.

Increased construction costs and demand shrinkage will lead to low construction activity. In 2022-23 we expect the delivery of properties that were at the final stage of construction. New construction will be at the level of 120,000 - 150,000 sq. m.

Release of office premises by shrinking businesses and weak demand will keep absorption in negative zone until 2024.

	2021	2022 01.01.2022- 11.07.2022	2022*	2023*
New Construction, '000 sq. m	605	38	150	120
Take-up, '000 sq. m	1 940	828	1 200	900
Vacancy Rate	8.1%	9.3%	12.8%	14.8%
Average Rental Rate**, RUB / sq. m / annum	21 672	19 870	19 938	19 333
Net Absorption, '000 sq. m	902	-260	-778	-292

* Forecast for the year end

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



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