

# RUSSIA

# Office Market Snapshot

Second Quarter | 2018



## MARKET INDICATORS

### Market Outlook

- Prime Rents: Rental rates increase mostly due to growing rental rates in class A. ▼
- Prime Yields: Yields decreased slightly due to the market stabilization. ▲
- Supply: New construction is decreasing and in 2018 - 2019 will remain at a low level. ▲
- Demand: Demand is strong, activity of tenants is at the level of a record high 2017. ▼

### Prime Office rents – June 2018

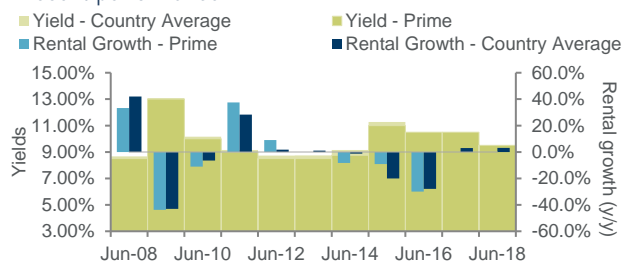
| LOCATION          | US\$       | €          | US\$        | GROWTH % |             |
|-------------------|------------|------------|-------------|----------|-------------|
|                   | SQ.M<br>YR | SQ.M<br>YR | SQ.FT<br>YR | 1YR      | 5YR<br>CAGR |
| Moscow (Downtown) | 700        | 598        | 65.0        | 0.0      | -10.2       |
| Moscow (Central)  | 530        | 453        | 49.2        | 6.0      | -8.6        |
| Moscow (OOT)      | 280        | 239        | 26.0        | 3.7      | -10.9       |

### Prime Office yields – June 2018

| LOCATION<br>(FIGURES ARE GROSS, %) | CURRENT<br>Q | LAST<br>Q | LAST<br>Y | 10 YEAR<br>HIGH | LOW  |
|------------------------------------|--------------|-----------|-----------|-----------------|------|
| Moscow (Downtown)                  | 9.50         | 10.00     | 10.50     | 13.00           | 8.50 |
| Moscow (Central)                   | 9.50         | 10.00     | 10.50     | 13.00           | 8.50 |
| Moscow (OOT)                       | 9.50         | 10.00     | 10.50     | 13.50           | 8.50 |

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



## Overview

Despite the volatility of the economy and certain geopolitical factors, the market shows signs of a slow-paced improvement. In Q2 2018, only 2,310 sq. m were delivered into the market, though the biggest share of new construction will be delivered by the end of the year. Against the background of low new construction and activity of tenants at the record high level of 2017, the vacancy rate is gradually decreasing. By the end of the year the vacancy rate throughout Moscow will not exceed 11.5 %. Decrease in vacancy rate in Q2 2018 occurred mainly due to class A, which was in high demand this quarter.

## Occupier focus

Take-up in H1 2018 amounted to 950,000 sq. m which is at the level of record high occupier activity in 2017. We expect a slight decline in demand in 2019 due to increasing pressure on business according to the recent governmental initiatives. In 2020, demand will return to the level of 2017.

Against the backdrop of loyal rental conditions for the high-quality premises, the demand for office space in class A has grown significantly.

## Investment focus

The year start is relatively slow. Investment activity in H1 2018 is low compared to the same period of the last year – 0.495 bn EUR and 1.8 bn EUR, correspondingly. Offices continue to dominate the investment market (50%).

## Outlook

All indicators of the office real estate market show positive dynamics despite the general negative background. The economy is still volatile, while the office market achieved balance and will show a slight increase this year.

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| LOCATION                | BUILT STOCK<br>(SQ.M) | AVAILABILITY<br>(SQ.M) | VACANCY RATE<br>(%) | TAKE-UP<br>(SQ.M) | TAKE-UP YTD<br>(SQ.M) | UNDER CONSTRUCTION<br>(SQ.M) |
|-------------------------|-----------------------|------------------------|---------------------|-------------------|-----------------------|------------------------------|
| Moscow (Downtown)       | 1,902,199             | 199,211                | 10.5%               | 65,197            | 105,187               | 116,734                      |
| Moscow (Central)        | 8,658,864             | 891,588                | 10.0%               | 221,565           | 483,804               | 509,970                      |
| Moscow (OTA)            | 6,436,044             | 874,071                | 13.6%               | 185,438           | 355,456               | 1,028,980                    |
| <b>Moscow (Overall)</b> | <b>16,997,107</b>     | <b>1,964,870</b>       | <b>11.6%</b>        | <b>472,200</b>    | <b>944,747</b>        | <b>1,655,684</b>             |

Source: Cushman & Wakefield

### Key Occupier Transactions

| PROPERTY           | SUBMARKET        | TENANT               | SIZE<br>(SQ.M) | TRANSACTION TYPE |
|--------------------|------------------|----------------------|----------------|------------------|
| Arbat St., 1       | Moscow, Downtown | Aeroflot             | 18,447         | Lease (New deal) |
| VEB Arena          | Moscow, Central  | Transneft Technology | 12,666         | Lease (New deal) |
| Naberezhnaya Tower | Moscow, CTY      | Ozon.ru              | 11,221         | Lease (New deal) |
| Levashovskiy       | St. Petersburg   | EPAM                 | 7,896          | Lease (New deal) |

Source: Cushman & Wakefield

### Key Investment Transactions

| PROPERTY         | SUBMARKET        | SELLER / BUYER                                            | YIELD | PRICE<br>€ MILLIONS |
|------------------|------------------|-----------------------------------------------------------|-------|---------------------|
| Metropolis II    | Moscow, Central  | Heitman / Hines                                           | n/a   | 129.40              |
| Romanov Dvor III | Moscow, Downtown | Duel Construction Constructions Limited / Anatoly Chubais | n/a   | 46.67               |

Source: Cushman & Wakefield, Real Capital Analytics

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