

Research and market analysis  
department

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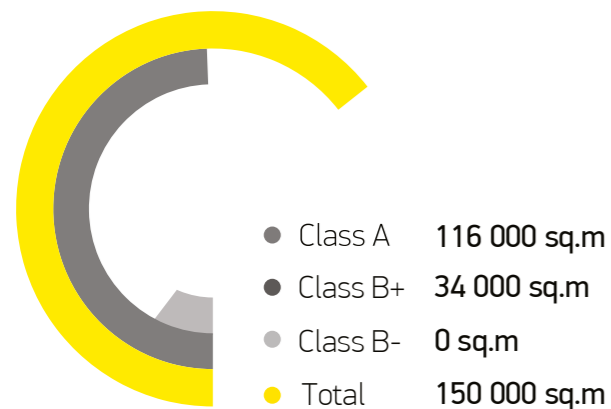
Moscow, 3rd quarter 2017

# Office market report

# Main indicators of the office market

Moscow, 2 quarter 2017

The number of square meters of office space delivered in Q3 2017

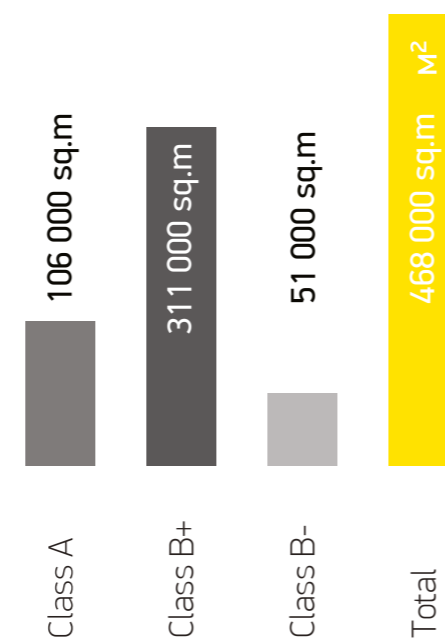


The total absorption for the third quarter of 2017 showing changes in the occupancy has increased by 150,000 square meters representing a total of 450,000 square meters for the first nine months, up by 60% compared with the same period last year.

The majority of office space has been absorbed in Class B+ properties which is a natural trend in the crisis and post-crisis times when occupiers seek more affordable solutions. Thanks to a good number of new leases, the net absorption for the first three quarters has reached 305,000 square meters.

The net absorption for the last nine months has outpaced the volume of new construction by 60% which in turn led to lower vacancy rates across the board. In the course of Q3 2017 the average vacancy rate has dropped by 0.4 points or by 1.9 points as of the beginning of the year representing 2.8M square

Absorption in Q3 of 2017

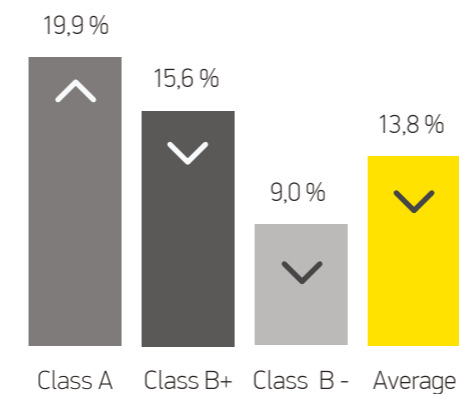


**The delivery of  
the new office  
space has  
decreased**

**by 50%**

by the end of Q3

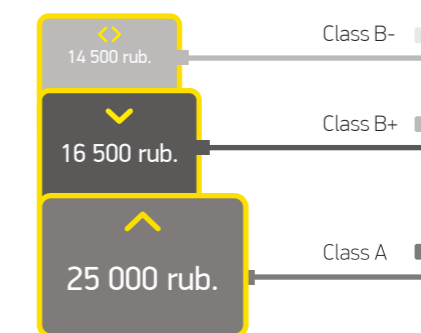
Vacancy rates as of the end of Q3 of 2017\*



meters of vacant space. The largest drop in vacancy rates due to a higher absorption rate has taken place in Class B+ offices where it reached 3.8 points.

For the past six months of the year average base rents have stopped falling and taken on an even keel. Changes in rental rates in the third quarter comparing with Q2 of 2017 vary from property to property depending on the building class. Rental rates in Class A properties as of the end of June 2017 have risen by 2% and have reached 25,000 ₺/sq.m/year while this trend in Class B+ and Class B- spaces has not followed suit. Average base rents in Class B+ properties have decreased by 3%. Rental rates in Class B- properties have remained unchanged.

Average asking base rents as of Q3 of 2017 \*



\* Changes compared to the end of Q2, 2017.

**The vacancy rate  
has decreased**

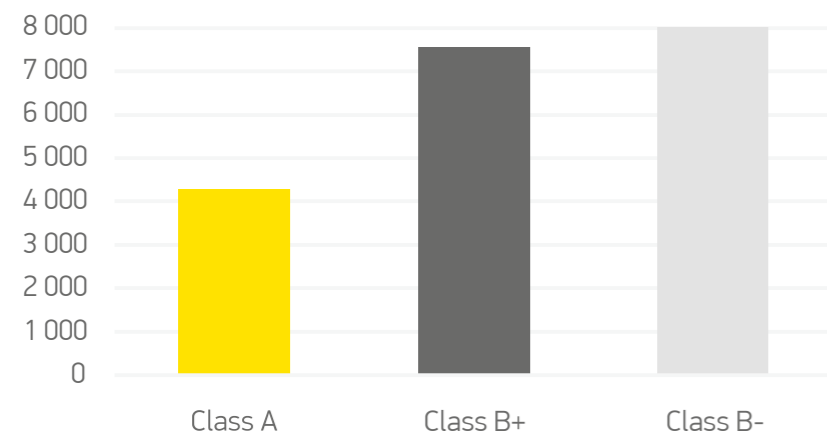
**by 1.9**

points as of the beginning of the year

# Supply

## Total volume of high-quality office premises 20 Million sq.m by the end of Q3 2017

Total number of office premises by the end of Q3 2017, thousand sq.m



In Q3 2017, the total volume of high-quality office premises in Moscow is 20.2 million sq.m: 21% or 4.3 million sq.m of Class A, 38% or 7.6 million sq.m of Class B + and 41% or 8.3 million sq. m of class B- office premises.

5 office buildings were delivered in Q3, adding 94,000 sq.m. to the market, which is 37,000 sq.m more than in Q2. The most notable ones: Fili-Grad, Phase II (totalling 22,000 sq.m of office space) and a multifunctional complex Forum City (totaling 28,000 sq.m of office space).

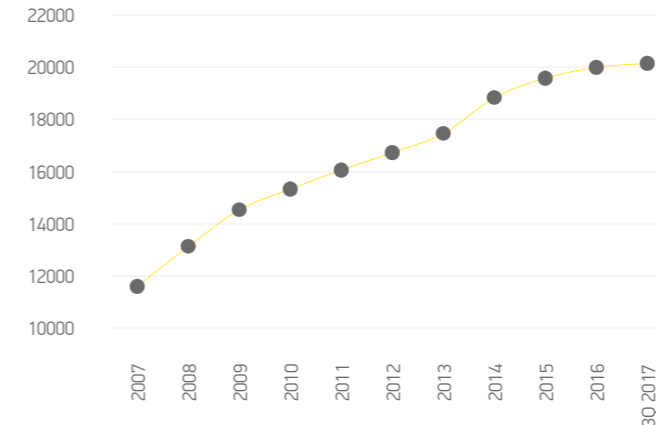
The annual dynamics turned out to be reversed; the growth rates still remain minimal. During the last three months, were delivered 22% less office space than in the same period in 2016. The low volume of the new offer for three quarters also reflects a further slowdown in the rate of new construction.

**21%**  
Class A

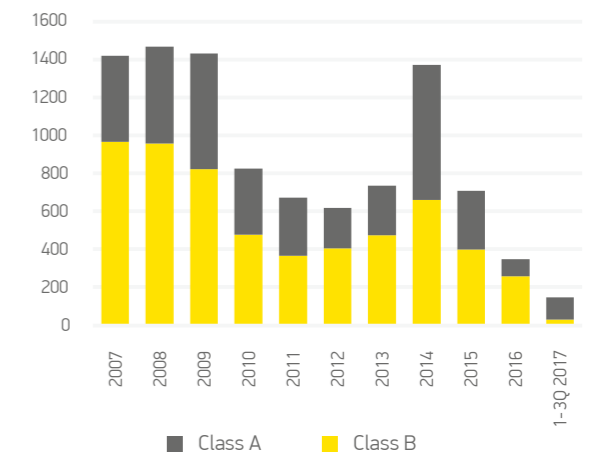
**38%**  
Class B+

**41%**  
Class B-

Trend in the total stock of office space, thousand sq.m



Dynamics of delivery of new high-quality office premises, thousand sq.m



Within nine months of 2017, were delivered 150 thousand sq.m of office space, which is less than a half of the supply as of the same period last year. In the context of high level of unclaimed space, the owners continue to postpone the delivery or change its zoning from offices to apartments. Many developers postpone or freeze the construction of the new projects. However, a number of large developers announced several new projects expected for delivery to the market this year.

According to our forecast approx. 230 thousand sq.m will be delivered by the end of the year. Among the expected projects there are several large projects on the territory of MIBC Moscow City. The total volume of the expected office space will be mostly determined by the objects which delivery was postponed earlier. That's why the total volume of delivered office space in 2017 won't exceed 380 thousand sq.m and will again set the lowest record as compared to the results of the last 11 years on the commercial real estate market of Moscow.



Sergey Kruzhilin | Director, Office Agency Department

**The volume of fitted-out office space is constantly reducing**

The rental rates are close to their minimum for various reasons. A slowdown in the fall of rental rates is caused by a reduction of high-quality areas with a large vacancy, the delay in delivery of large projects, and other factors. At the moment, tenants will try to reduce their rental costs at the current location, and new relocations will be mostly caused either by an opportunity to cut the rental costs or to improve the quality of the leased premises. While relocating, great holdings will have to choose shell@core premises due to the constantly reducing number of fitted-out office space. We will most likely observe the volatility of the rental rates, however significant changes are less possible.

## The main projects delivered in Q3 2017\*

Property	Address	Developer	Class	Total office area, sq.m
Oasis	3 Korovy Val St.	BIN	A	29 000
Forum City	37 Vernadskogo prospect, Bld. 2	TPI Company	B+	28 978
MFC Fili Grad , Phase II	5 Beregovoy proezd	MR Group	A	22 000
Quadrat	11 Vereyskaya St.	Prime Property Management	A	8 954
Gruzinka 30	Bol. Gruzinskay St. , Bld. 1	UK Belaya Sfera	B+	4 587

\*Projects delivered / reconstructed in Q3

## The main objects expected for delivery by the end of 2017

Property	Address	Developer	Class	Total office area, sq.m
MFC IQ-Quarter	11 Presnenskaya emb. , Moscow City	Gals-Development	A	108 600
Federation Tower I - Vostok	12 Presnenskaya emb.	AEON-Development	A	82 000
SKY House	40 Mytnaya St.	Mos City Group	A	17 500
20 Nagornaya St., Bld 7	20 Nagornaya St., Bld. 7	Sojuzprominvest	B+	14 800
Bernikov	11 Nikoloyamskaya St., Bld. 2	BIN	B+	11500



# Demand

Total net absorption in Q3 of 2017 made up 468 thousand sq.m and increased the results of the last 9 months by 167 thousand sq.m., which exceeds the results of the same period last year by 60%, when the total net absorption rate was determined by several big transactions. This year net absorption tendency is more stable due to a large number of expansion projects.

The structure of the total net absorption indicates that the demand on office premises is still being determined by migration of anchor tenants to higher quality office buildings. The majority of companies continue consolidating offices to reduce their rent and logistics expenses leaving lower quality offices unoccupied.

In Q3 the highest net absorption was fixed at Class B+ office buildings, which are more accessible in comparison with Class A in current post-crisis economic conditions. Due to a relatively big number of transactions the total net absorption made up 311 thousand sq.m by the beginning of September.

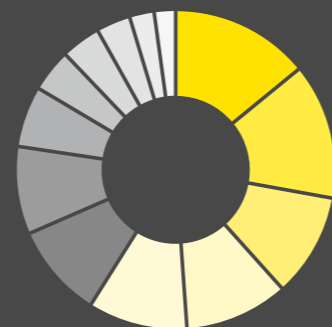
Total net absorption in Class A office buildings made up 106 thousand sq.m by the end of Q3. In Class B- the total net absorption finally achieved positive values and reached 51 thousand sq.m.

According to our observations for the first nine months of 2017, most of the transactions for renting offices did not exceed 1,000 sq. m. This shows that small and medium-sized companies are ready to relocate to new, more modern offices. While "heavyweights" are more likely to extend the lease for a new term in the current location renegotiating their current lease terms.

## Companies in the services sector

remain the main consumer of high-quality office premises

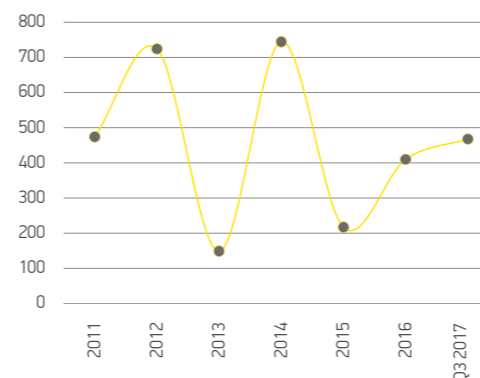
The structure of demand according to the branch of business activity, H1 2017



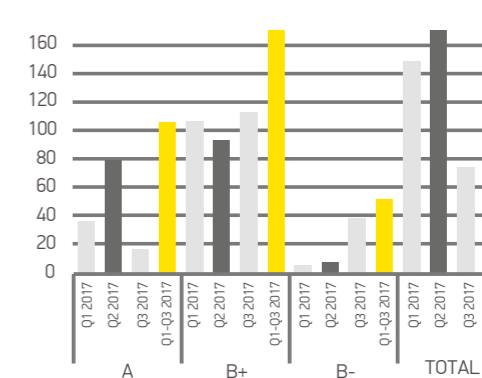
- Trading companies
- Consumer services
- IT, telecommunication and media companies
- Other
- Developers
- Manufacturing companies
- Professional services
- Banks and finance companies
- Logistics and transport companies
- FMCG and pharmaceutical companies
- Government institutions
- Energetics

\* The analysis is based on the total number of applications received by ILM in H1 2017

Net absorption as of H1 2017, thousand sq.m



Net absorption trend, thousand sq.m



\*Net absorption shows the volatility in the leased office premises for a certain time frame. It is measured according to the following formula: S1+ Snew -S2, S1 — vacant office premises; Snew — new office premises delivered, within the preset time frame; S2 — vacant office premises by the end of the term, chosen for the analysis.



Artem Nevolko | Director, Office Agency Department

**In Q3 tenants traditionally get even more active**

By the end of the third quarter we are watching a traditional revival of demand for offices on the part of tenants. After coming out of summer vacations companies started optimizing costs and searching for new premises with renewed vigor. The number of high-quality premises with blocks totaling 8 thousand square meters is extremely small, since most of them were leased in previous periods, and the increase in the new supply remains minimal. The owners are interested in large tenants and are ready to make concessions to them, offering attractive commercial conditions.

Therefore, the largest transactions are settled in shell & core offices. As a result, some tenants will move to their new offices later which will negatively affect the total net absorption.

Taking into account deficit of large vacant office premises on the real estate market and lack of new options we expect the increase of tenants activity on real estate market while relocation will still be based on reduction of occupancy costs.

Currently we are watching the restored demand on office premises in all categories of tenants. As of Q3 2017 the number of inquiries is almost equal in all sectors. The biggest number of inquiries still comes from the consumer section and makes up about 15% of all inquiries. During the last 3 months the number of inquiries from IT and trading companies increased by 2 points.

### Net absorption on the market of high-quality office space at the end of Q2, 2017

District	Class A	Class B+	Class B-
Central District	38,3	27,3	-0,3
Moscow City	-2,2	7,2	-*
NED before FRR	6,6	19,3	-4,4
NED after FRR	-*	18,0	5,1
ED before FRR	-5,5	-1,2	-4,6
ED after FRR	-*	-0,1	2,7
SED before FRR	-*	15,4	2,3
SED after FRR	-*	0,8	-3,5
SD before FRR	2,6	72,9	28,4
SD after FRR	-*	-4,0	-7,6
SWD before FRR	2,1	11,0	5,8
SWD after FRR	28,0	-24,6	30,4
WD before FRR	10,0	76,0	-0,2
WD after FRR	-4,8	70,2	15,2
NWD before FRR	-*	9,3	0,4
NWD after FRR	-11,7	13,3	-0,7
ND before FRR	-0,3	19,6	-17,5
ND after FRR	38,5	-0,5	-0,2

FRR – Fourth Ring Road

\*Buildings are not available in the indicated district

### Key deals of Q3 2017

Company	Number sq.m	Type of transaction	Property	Address
Tele2	13 000	lease	Comcity	2 km from MKAD, Kievskoye sh..6, Bld. 1
Deutsche bank	8 200	lease	Aquamarine 3	24 Ozerkovskaya emb.
Informzashita	5 000	lease	Solutions	3 Teatralnaya alleya St., Bld. 1
Gorn Development	3 010	lease	1-st Zachatievsky per. 3, Bld. 1	1-st Zachatievskiy per., 3, Bld. 1
Tander	2 715	lease	Varshavsky	148 Varshavskoye sh., Bld. 3
World Class	2 500	lease	Yam Plaza	36 Nikoloyalamskaya St.
Karcher	2 000	lease	Leningradskoye sh. 47, Bld. 2	47 Leningradskoye sh., Bld. 2
Mostransavto	1 800	lease	Krylatsky, Phase 2	11 Osennaya St.
Mezhdunarodnaya Zernovaya kompaniya*	1 500	lease	Poklonka Place	3 Poklonnaya St., Bld. 3.4.5
PR-Technologies*	1 200	lease	Moscow Silk	23 Savvinskaya emb., Bld. 1
Plus Bank*	1 000	lease	Aquamarine 3	24 Ozerkovskaya emb.

\* in this transaction ILM acted as a consultant

# Vacancy rates

The decrease of the new space delivery continues to impact the market calibrating the balance between demand and supply. For the last 3 months the net absorption has exceeded the volume of new construction by 78%, which has led to the decrease in the vacancy rate. Within Q3 the vacancy rate decreased by 0,4 points and by the end of Q3 made up 13,8%. As compared to the beginning of the year the vacancy rate has decreased by 1,9 points, leaving 2,8 million sq.m vacant.

At the same time the vacancy rate varies depending on Class.

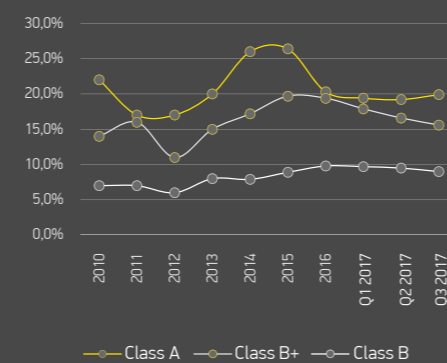
In Class A office buildings the decrease has given way to small growth. Within the 3 months of Q3 the vacancy rate in this Class has increased by 0,7 points and by the end of September reached 19,9%. The increase is determined by the delivery of several big projects, which total area has exceeded the volume of the total net absorption. Nevertheless as compared by the beginning of 2017 the vacancy rate in Class A office buildings has decreased by 0,4 points. There is also a lack of big blocks in this Class of buildings. Big companies are still struggling while searching for a new office space. By the end of September office blocks totaling more than 15 thousand sq.m are available only in 12 Class A office buildings.

Due to the increase in the volumes of net absorption the share of vacant areas in class B+ decreased by 1 point in the last quarter and at the end of September amounted to 15,6%. Exactly in Class B+ office buildings we are watching the greatest decrease of the vacancy rate as compared to the beginning of the year, the difference makes up 3.8 points. Here, the value of the indicator gradually approaches the equilibrium level of 10-12%.

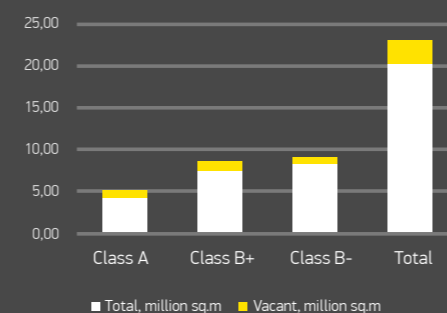
## 2,8 Millions sq.m

Of office premises remain vacant.

### Vacancy rate dynamics, %



### Vacancy rate by the end of Q3 2017, millions sq.m



Yuri Yudakov | Director, Corporate solutions

**We are currently watching a dynamic decrease in the vacancy rate**

Despite the fact that the office market is still far from pre-crisis figures, the results of the 3rd quarter show a positive trend in terms of a decrease in the vacancy rate and the growth of net absorption. The increase in demand and activity in the market is also confirmed by our colleagues in the consulting department (legal and audit companies). Technological and manufacturing international companies believe in the prospects of the Russian market and continue to localize, build new production facilities, warehouses and distribution centers.

Despite a low, but still positive trend in the net absorption of Class B- office premises the vacancy rate has decreased in this Class as well. As compared to the beginning of the year the rate has decreased by 0,8 points and by the end of September made up 9,0%.

There is vacant high-quality office space almost in all Moscow districts. However the vacancy rate still depends on the location.

In the CD vacancy rate is probably the lowest. By the end of September it has made up 9.9%, however in absolute terms it makes up about 655,000 square meters or 1/4 of all vacant office space in Moscow.

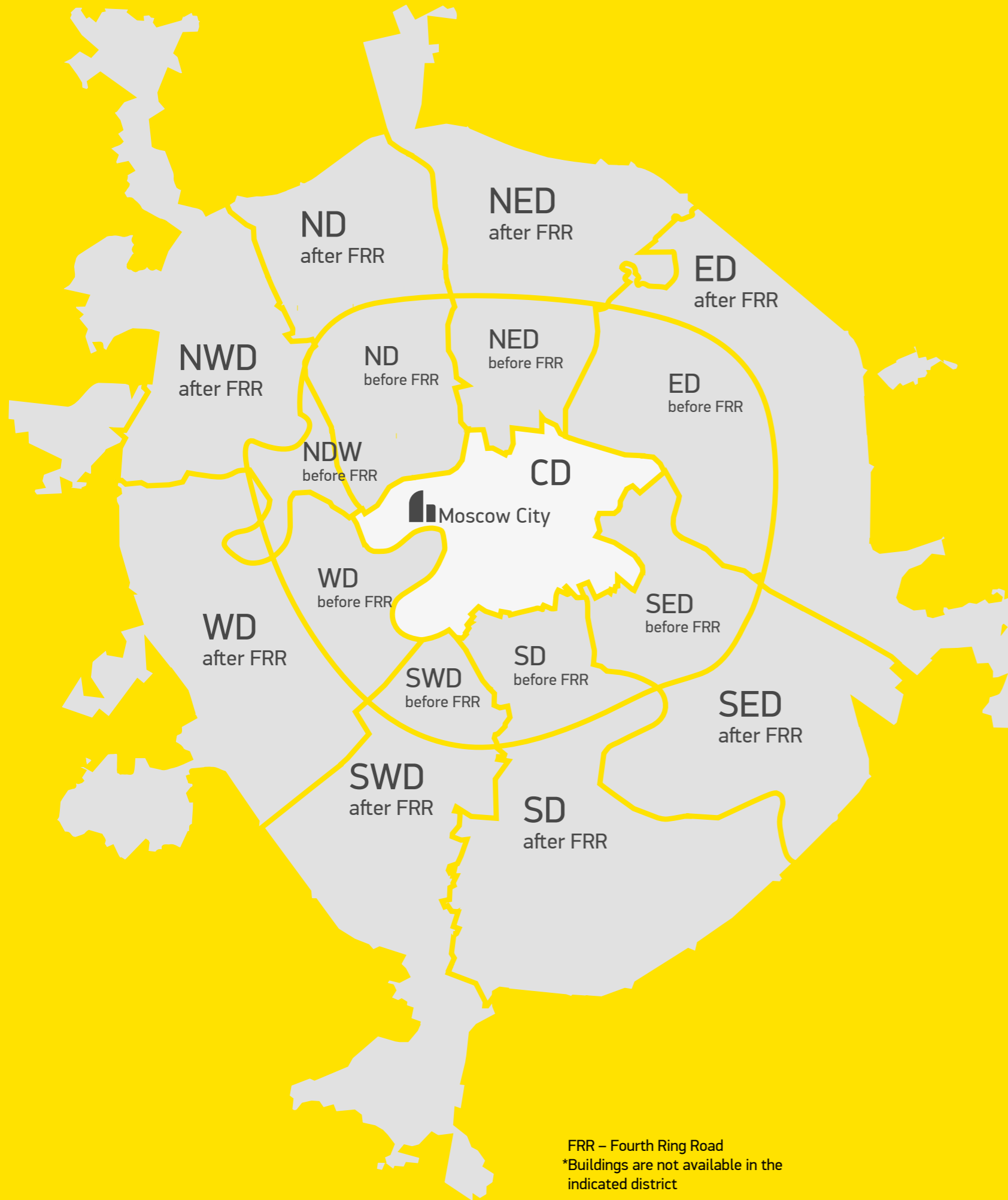
The highest vacancy rate remains in Class A office buildings located in SED before FRR (65.4%) and ED before FRR (57%). Several big Class A office projects are located here and are still unoccupied. In the CD vacancy rate in Class A office premises reduced by 0.7 points and by the end of the quarter reached 15.7%.

The number of vacant office space in MIBC Moscow City has made up approx. 193 thousand sq.m. Due to the release of a certain amount of office space, during the last three months the level of vacant space increased by 1 point and reached 19.5%. At the same time, since the beginning of the year, the indicator showed a decrease by 0.5 points.

Analyzing vacancy rates in Class B+ office buildings, we came to the conclusion that the highest vacancy rate remains in NED before FRR (38,3%) and SED after FRR (33,6%). In CD vacancy rate has made up 7,8% and in the period of 3 months decreased by 1.1 point within the Q3 2017.

**13,8 %**

Average vacancy rate makes up 13,8% as of Q3 2017



Vacancy rate of high-quality office space as of the end of Q3 2017

District	Class A	Class B+	Class B-
Central District	15,7%	7,8%	8,1%
Moscow City	20,1%	6,8%	-*
NED before FRR	1,7%	11,4%	10,9%
NED after FRR	-*	20,6%	5,7%
ED before FRR	57,0%	24,3%	10,0%
ED before FRR	-*	0,7%	4,2%
SED before FRR	65,4%	10,5%	5,8%
SED before FRR	-*	22,5%	15,1%
SD before FRR	1,2%	16,9%	9,3%
SD after FRR	-*	33,9%	9,7%
SWD before FRR	29,1%	9,1%	18,1%
SWD before FRR	25,3%	33,6%	8,2%
WD before FRR	32,1%	19,8%	3,4%
WD after FRR	37,3%	23,2%	19,6%
NWD before FRR	-*	38,3%	14,0%
NWD after FRR	43,4%	14,9%	6,6%
ND before FRR	9,5%	20,0%	10,9%
ND after FRR	13,9%	25,9%	7,1%



# Rental rates

During the last half-year, the average requested base rental rates stabilized. As compared to the second quarter in the last three months, we are watching volatility in the average asking base rents by 2-3%, depending on the class.

In Class A objects, after a continuous decline, which was observed since the end of 2014, the average rental rate grew by 2% during the last quarter and reached 25,000 rubles / sq.m/ year at the end of September.

In the Class B + and B-, the growth in the average level of rental rates did not continue in the third quarter. In the Class B + the average basic asking rates for three months decreased by 3% and by the end of September amounted to 16 500 rubles / sq.m/ year. Compared to the beginning of the year, the average asking base rents in Class+ grew by 3%.

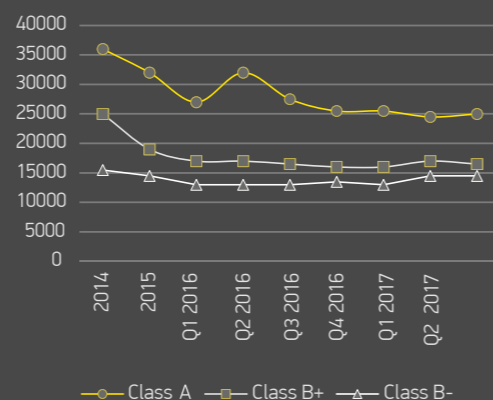
In the Class B- office premises rates remained at the same level and by the end of the third quarter amounted to 14,500 rubles / sq.m/ year.

The rental rates will continue to be influenced by economic and political conditions until the end of the year. According to our expectations, while maintaining stability on the part of external factors, the requested rental rates will not undergo significant changes and will be stable. At the same time, the average level may volatile depending on the changes in the supply structure, as well as on the behavior of individual landlords, some of whom will gradually increase the rental rates in case of stabilization of economics.

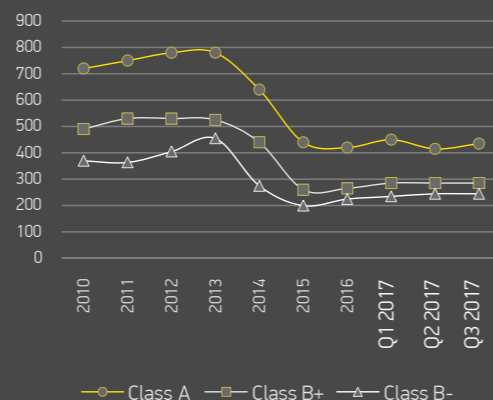
**2%**

Rental rates for Class B+ office premises have increased by 2% by the end of H1.

Average asking rental rates, RUB



Average asking base rents trend, USD

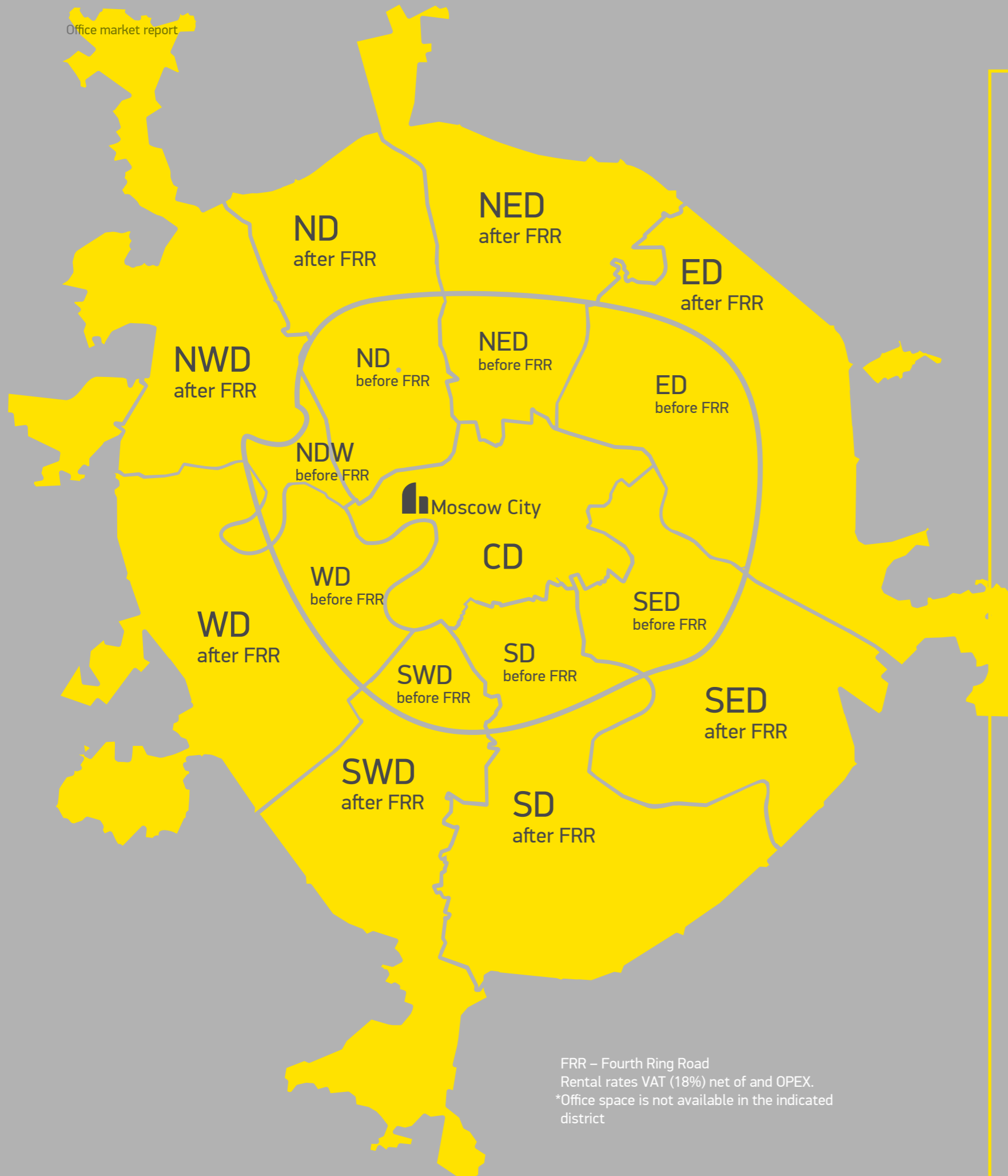


Andrei Protasov | Director, Investment and Asset Management

## Increased attention from investors

The elections of 2018 create uncertainty among real estate market players, which does not contribute to the decision-making regarding sale or purchase. There is no certainty about the monetary policy of the authorities after 2018, which is noticeable in the high risk of increasing inflation. Uncertainty with the ruble exchange rate made many investors with dollar liquidity take a wait-and-see attitude. In any case, both combinations of "low inflation rate + moderate key rate" and "moderate inflation + low key" rate are positive in terms of real estate investments.

The difficulties associated with the withdrawal and preservation of capital abroad continue to have a positive impact on the vacancy rate in the investment market in Russia. Against the backdrop of a slowdown in falling rental rates, a gradual decrease in vacancies and a fall in sales prices, commercial real estate receives a significant portion of investor attention.



FRR – Fourth Ring Road  
 Rental rates VAT (18%) net of and OPEX.  
 \*Office space is not available in the indicated district

Average asking base rents for high-quality offices, Q3 2017

District	Class A	Class B+	Class B-
Central District	31 700 rub.	24 600rub.	18 000 rub.
Moscow City	31 700 rub.	22 400rub.	-*
NED before FRR	24 500 rub.	14 700rub.	11 400 rub.
NED after FRR	-*	9 100rub.	11 000 rub.
ED before FRR	23 000 rub.	15 500 rub.	11 300 rub.
ED after FRR	-*	16 900 rub.	10 500 rub.
SED before FRR	21 600 rub.	14 100 rub.	8 900 rub.
SED after FRR	-*	12 500 rub.	11 500 rub.
SD before FRR	31 100 rub.	14 600 rub.	13 000 rub.
SD after FRR	-*	13 700 rub.	12 000 rub.
SWD before FRR	18 300 rub.	27 700 rub.	9 800 rub.
SWD before FRR	15 300 rub.	13 300 rub.	14 200 rub.
WD before FRR	19 100 rub.	19 000 rub.	15 500 rub.
WD after FRR	12 700 rub.	13 000 rub.	16 000 rub.
NWD before FRR	-*	17 500 rub.	12 700 rub.
NWD after FRR	12 000 rub.	11 100 rub.	13 900 rub.
ND before FRR	29 600 rub.	15 800 rub.	14 600 rub.
ND after FRR	11 200 rub.	10 500 rub.	10 700 rub.

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**772**  
deals

**680 140**  
sq. m marketed

**2009**  
year of foundation

**139**  
employees

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”



**Secure online agency service aimed at providing a variety of offices available for lease or sale.**

We rigorously collect information on available properties and have built an extensive and up-to-date property database perfect for a quick search of any office property. More than 700 companies have taken residence in different business centers and business parks throughout Moscow and Russia thanks to AMO.ru online service. The key principle of AMO.ru online service is to help you quickly find the most suitable office. AMO.ru is the best and most trustworthy website for commercial real estate and finding properties online



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Skladium.ru tracks more than 2,500 warehouse properties in 90 cities across Russia. We provide full access to the property online database without any registration or restrictions. This database contains detailed information about each property option, rental rates, sale prices, photos and floor plans. We provide a professional support at every stage of the warehouse transaction beginning with a property search all the way through a lease execution.



**Online agency service designed to make the investment market more transparent and reliable.**

We will help you find the most viable investment property taking into account your investment criteria and return on investments and assisting you with any other post-transaction services including asset management.



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in the Russian real estate market:

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- Market research and analysis
- Investment and asset management
- Property search
- Real estate brokerage
- Cadastral value revaluation
- Estimation of the real estate portfolio
- Reduction of occupancy costs

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