# FORECAST
OFFICES

October 2022

MARKET CONDITIONS

The Central Bank published **a revised forecast** for macroeconomic development and monetary policy 2022-2025 on September 27th, 2022. The regulator presents 3 scenarios: baseline forecast, accelerated adaptation, global crisis.

According to the **baseline scenario**, the **drop in GDP** may reach **4-6% in 2022** and **1-4% in 2023**. The recession is therefore not expected to end until 2024. However, the regulator allows other scenarios. Thus, under the "global crisis" scenario, the drop in the indicator in 2023 may reach 8.5%, and the exit to the neutral zone will begin no earlier than 2025. An intermediate version of these two scenarios seems realistic.

	Baseline forecast				Accelerated adaptation				Global crisis			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
Inflation, %, Dec 2022 on Dec 2021	11–13	5–7	4	4	11–13	3,5–5,5	4	4	11–13	13–16	8–9	4
Key Rate, annual average, %	10,5–10,8	6,5–8,5	6–7	5–6	10,5–10,8	5,5–7,5	5–6	5–6	10,5–10,8	11,5–13,5	12–13	6–7
GDP, %	(-6) – (-4)	(-4) – (-1)	1,5–2,5	1,5–2,5	(-6) – (-4)	(-2) – (+1)	2,5–3,5	2–3	(-6) – (-4)	(-8,5) – (-5,5)	(-3) – (-2)	0–1

Source: The Central Bank Of the Russian Federation
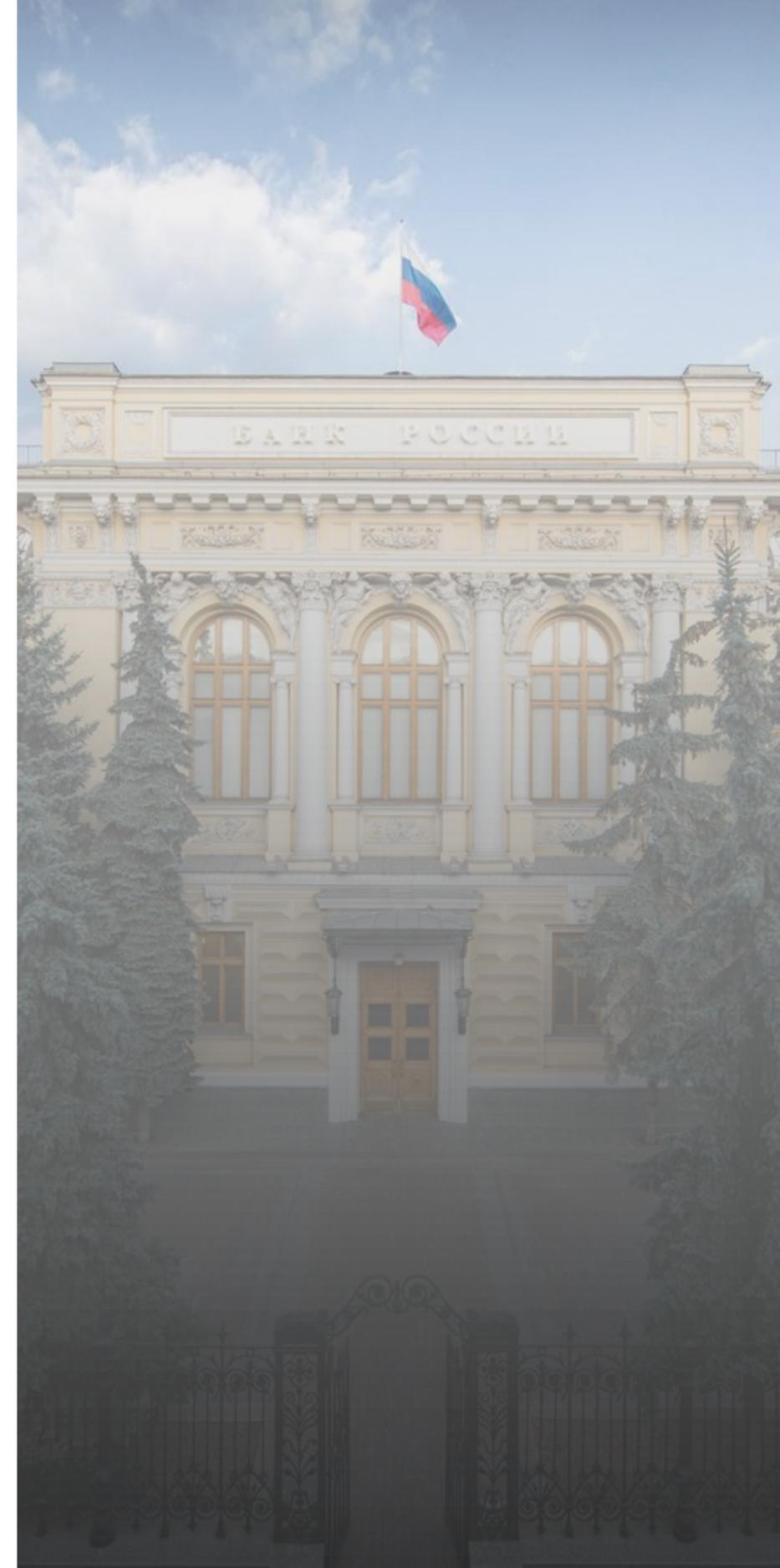
MOSCOW OFFICE MARKET

YEAR-TO-DATE INDICATORS

	January - October 2022 (YTD) Classes A & B	Indicator's change compared to the same period last year
New Construction, '000 sq. m	209	▼
Take-up, '000 sq. m	1,260	▼
Vacancy Rate	10.3%	▲
Average Rental Rate*, RUB / sq. m / annum	20,733	▼
Net Absorption, '000 sq. m	-294	▼

Average Weighted Rental Rates excl. VAT and Operating Expenses

Market indicators are still in the **red zone**. *We do not expect sharp changes in their dynamics.*

- Average rental rate decreased by 7% YoY.

- Vacancy rate growth is approaching 2.5 p.p. For comparison, the increase was 1.3 p.p. back in August.

- The decrease in take-up amounted to 14%.

- Despite the significant new construction volume in Q3 2022 (151,000 sq. m), the indicator of Q1-3 2022 is 59% less YoY. But the last year's record is a result of large built-to-suit properties delivery.

- Net absorption is still negative. The depth of the decrease is more noticeable in class B. Lease terms in class B are traditionally more flexible than in class A, i.e., it is easier to move out from the office in short order.

MOSCOW OFFICE MARKET

The latest forecasts of the Central Bank indicate that economic will be more protracted than it was expected. In accordance with the baseline scenario, the economic contraction will continue in 2023, and stabilization will begin no earlier than 2024.

Market mechanisms will weaken, and voluntaristic decisions will determine the market and new construction activity. The importance of the project in the context of the integrated development of territories / state projects and demand for the property will be the main drivers for deliveries.

We will see transformation in net absorption structure in 2023. In 2022, the negative value of the indicator is determined by class B. In 2023 we will see an outflow of tenants from class A. Net absorption will enter the positive zone in 2024.

The gap between requested and real rental rates is increasing. We expect tenants of large high-quality offices to make final decisions regarding lease terminations/surrenders by the end of 2022. The reflection of the current market situation on rental rates and vacancy rates will become noticeable in H1 2023.

	2021	2022 Jan - Oct	2022*	2023*
Office stock, mn sq. m	19.2	19.4	19.5	19.7
New Construction, '000 sq. m	605	209	260	200
Take-up, mn sq. m	1.9	1.3	1.4	1.0
Vacancy Rate	7.8%	10.3%	11.8%	14%
Average Rental Rate**, RUB / sq. m / annum	21,780	20,733	20,643	18,780
Net Absorption, '000 sq. m	906	-294	-530	-253

*Forecast for the year end

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

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