Consul Group

Analysis of the Moscow commercial real estate market: office, retail, warehouse and hotel segments — balance of supply and demand and main trends

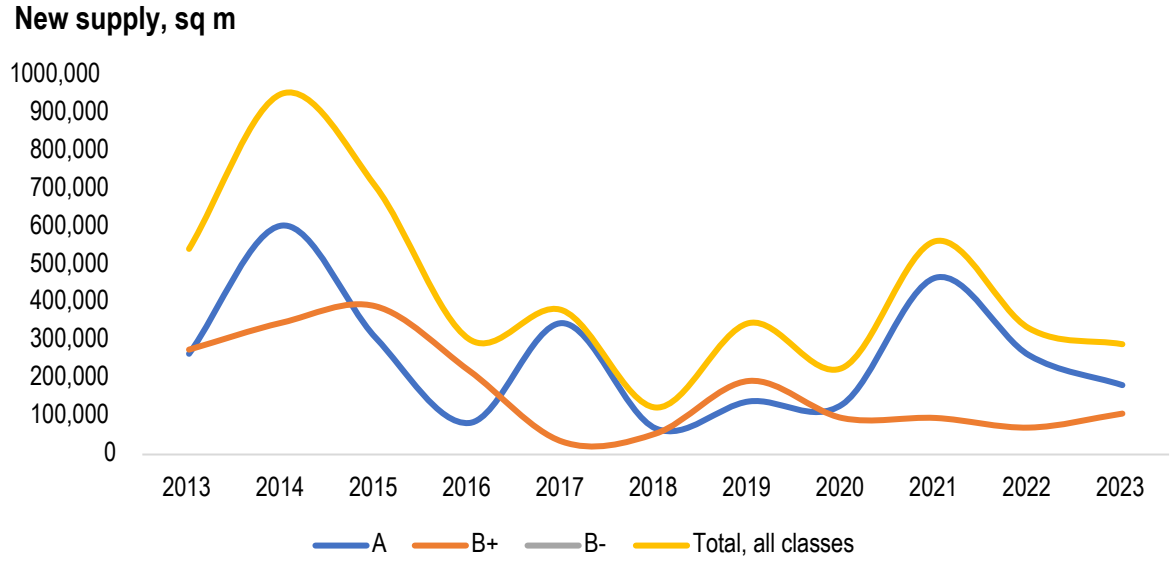


Analysis of the Moscow commercial real estate market: office, retail, warehouse and hotel segments — balance of supply and demand and main trends.

OFFICE REAL ESTATE

Office real estate is one of the most active and most developed segments of the Moscow commercial property market.

Below is key information on new supply over the last 10 years by class, together with summary data on total office completions:

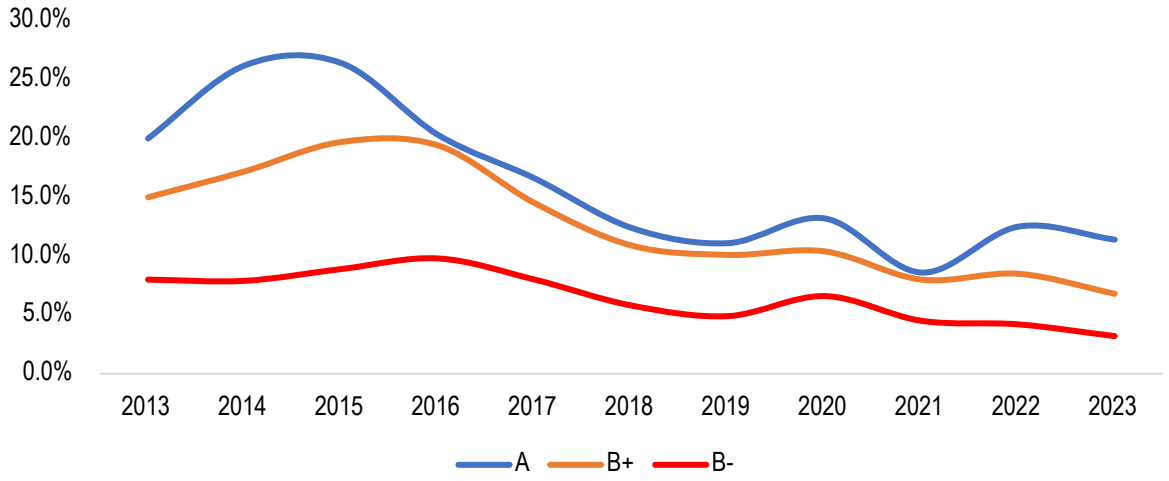


Over 9 years, 2.6 mn m2 of Class A offices were built against 1.7 mn m2 of Class B+ — a gap of more than 35%.

Class B+ is closest in quality to Class A, yet construction of such offices has fallen sharply over the last 4 years. In theory, the cost of building Class B+ offices is close to that of Class A, as B+ offices are very similar to Class A in specification, materials and location.

Owing to the obsolescence of Class B- and C offices, their construction has effectively ceased.

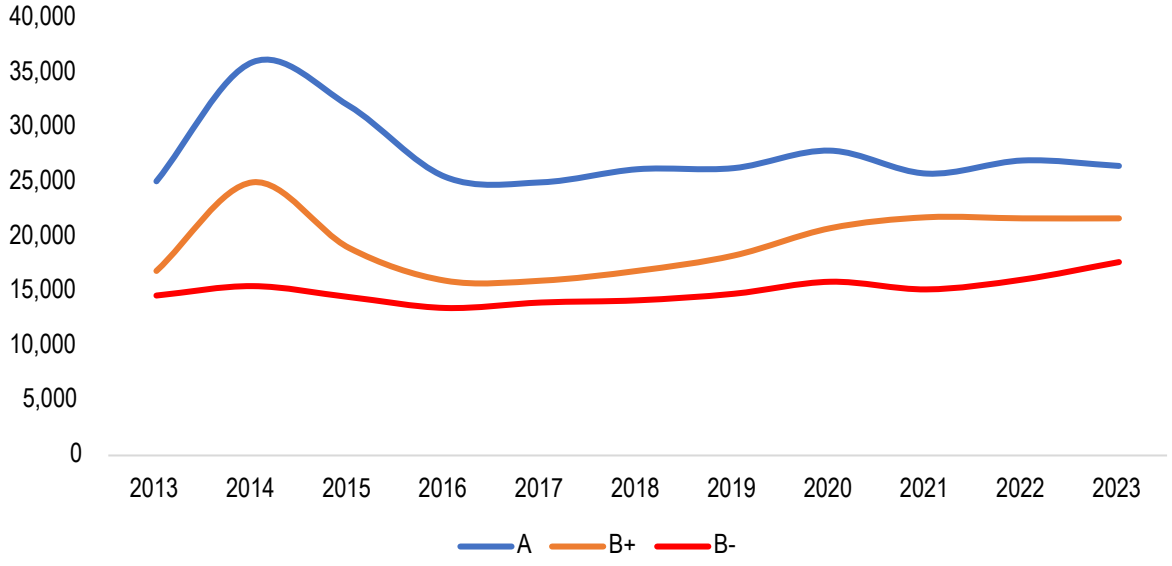
Vacancy rate



Without data on the total number of properties by class, the average vacancy rate does not support firm conclusions, but the overall trend can be traced. Despite the smaller stock, vacancy in Class B+ is consistently lower than in Class A: the median vacancy for Classes A/B+ is 15%/13% over 9 years and 12%/9% over the last 4 years. Class B- shows the most stable vacancy dynamics.

The vacancy caused by the exit of foreign companies might have called into question the need for high new supply in the near term, but the domestic market keeps growing. For comparison, vacancy in Classes A/B+ was 12.5%/8.5% in 2022 and 12.5%/5.1% in 2023.

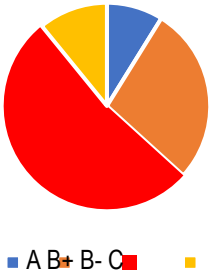
Asking rents, RUB/sq m per year



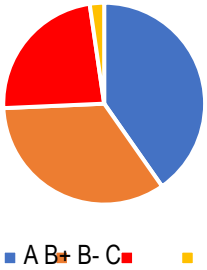
Rents have been stable in recent years, with growth only in Class B+. Class B+ rents are about 20% below Class A (21,700 vs 27,000 in 2022; in earlier years of the series the gap reached 40% (19,000 vs 32,000 in 2015)).

For a fuller picture of rental income, we analysed the revenue of office owners in 2018–2022 (the latest published company accounts). The sample is limited to companies whose main activity is leasing their own real estate and whose balance sheets hold no properties of other formats.

Share of classes by number of properties

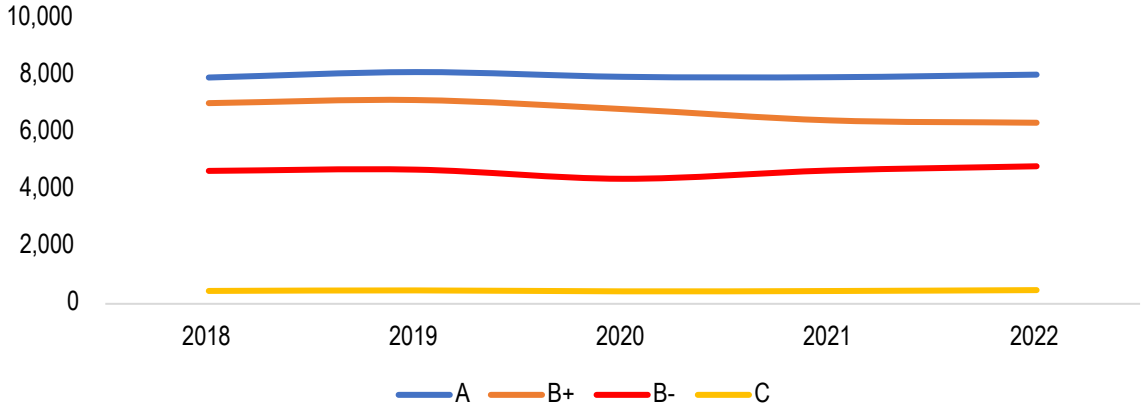


Share of classes by total revenue



Lower-class offices (B- and C) dominate the sample by number of properties (63%), yet this group accounts for only 25% of total revenue.

Rental revenue, RUB mn



Revenue dynamics show that Classes A, B- and C are the most stable, having also come through the pandemic with minimal losses. In Class B+, revenue is falling despite lower vacancy and a higher average asking rent.

The above data point to the following main trends:

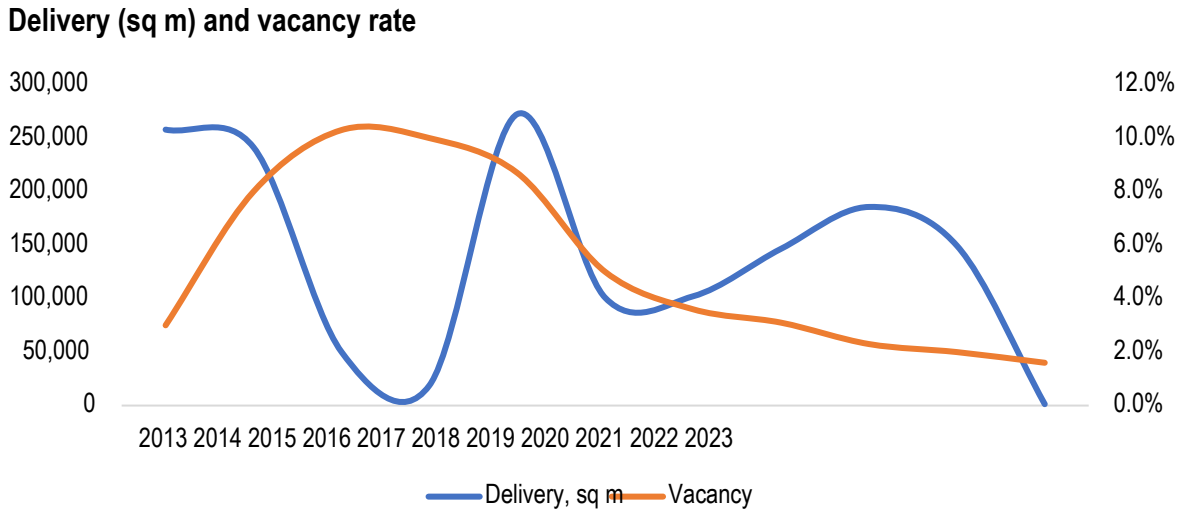
- Falling new supply in Class A (around 24% of projects were frozen in 2023); stagnation or cessation of construction in the other classes;
- Steadily falling vacancy in all classes;
- Minimal rent growth with stagnant revenue; in Class B+, falling revenue.

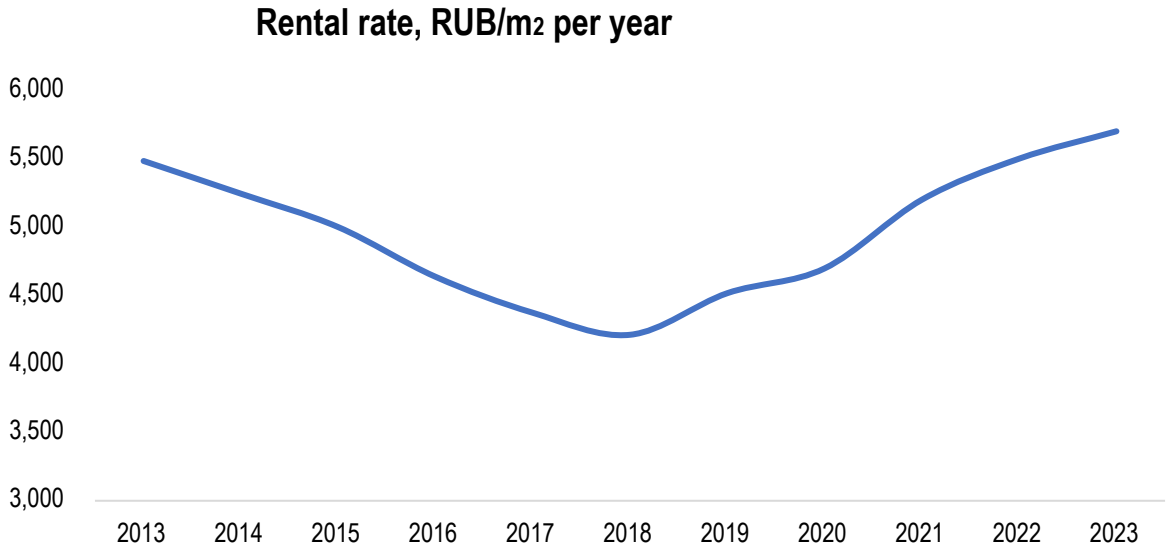
From an investment standpoint the question is this: if Class A and B+ offices cost about the same to build, and Class A earns higher rent with similar vacancy dynamics, why invest in building offices that earn less rent?

The question of existing obsolete buildings also remains open. Given that Moscow is among the most densely built-up cities in Europe, why not launch a renovation programme — for offices?

WAREHOUSE REAL ESTATE

Given the problems faced by warehouse users in Moscow (owners and tenants alike) — logistics, rental cost and the small number of new completions — most warehouses are located outside the city.





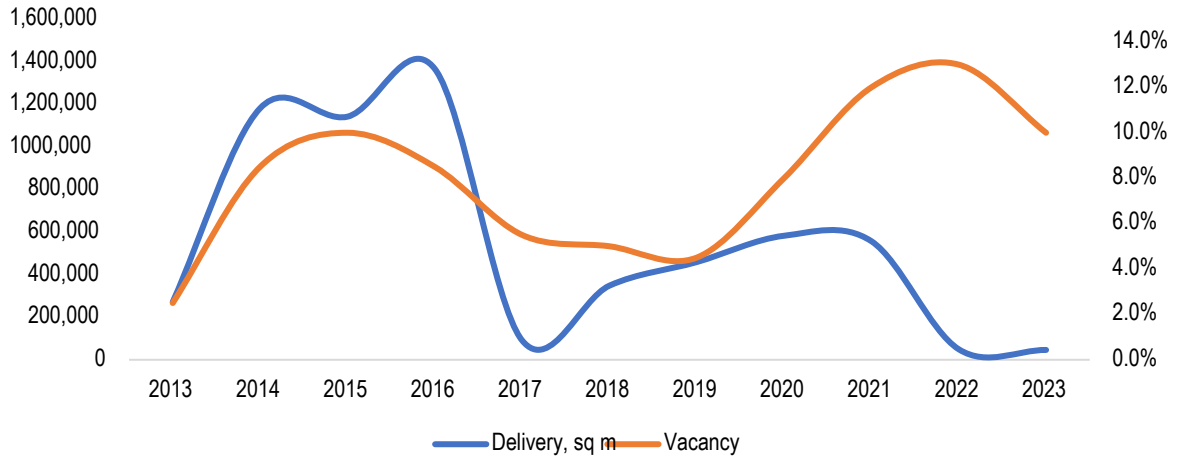
Warehouse indicators show predictable trends: falling construction volumes alongside falling vacancy, and steadily rising rents.

For warehouse investment within Moscow, given the minimal stock and extremely low delivery, redevelopment of old industrial sites is a possible avenue. Demand for such investment is assured.

RETAIL REAL ESTATE

Retail real estate has proved the most exposed to adverse economic and geopolitical change.

Delivery (sq m) and vacancy rate



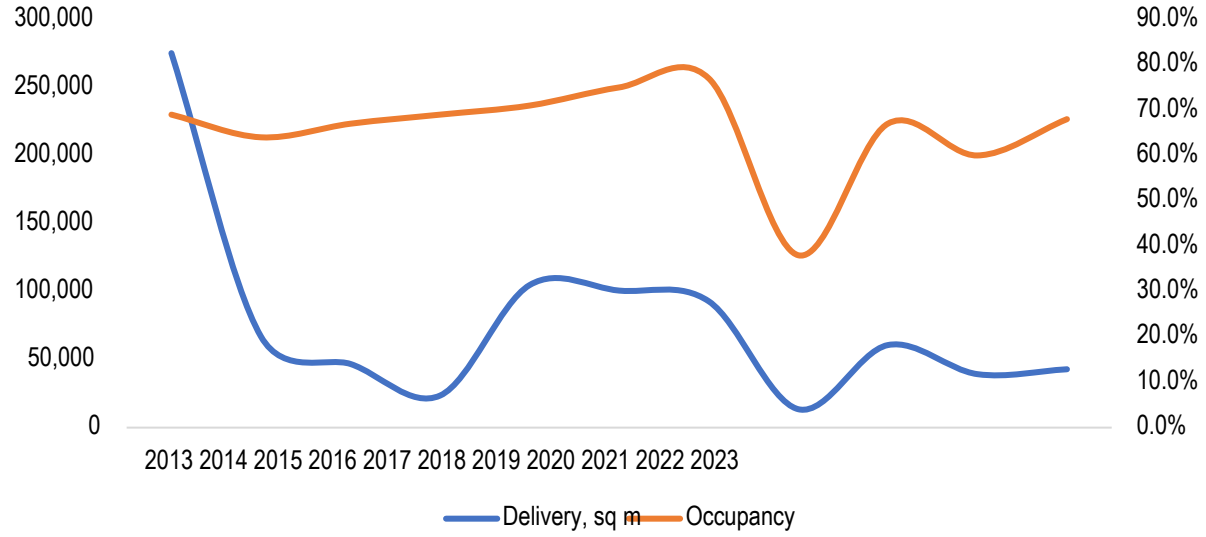
In recent years construction of new shopping centres has slowed sharply, owing both to the exit of many foreign brands and to general economic conditions, including higher construction costs and dearer borrowing. At the same time, the vacancy peak was passed in 2023: departed foreign tenants have been replaced by companies from friendly (other) countries or by domestic retailers.

Demand for retail space should not change materially over a 5-year horizon, so the market needs only minimal investment in this segment.

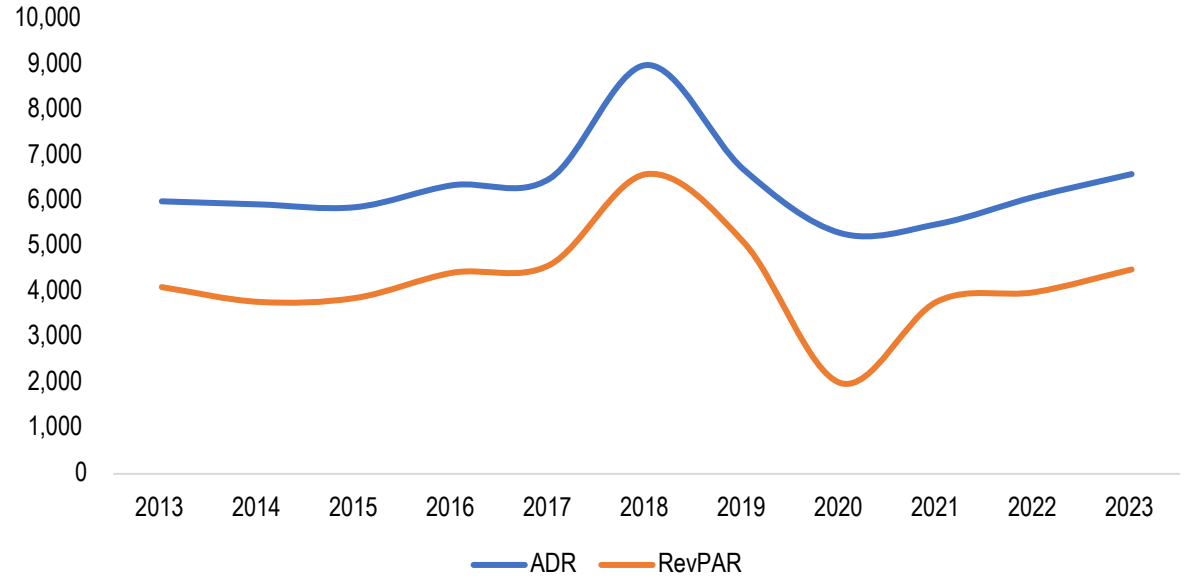
HOTEL REAL ESTATE

The Moscow hotel market is traditionally the hardest to manage and the least attractive to outside investors.

Delivery (sq m) and occupancy



ADR and RevPAR

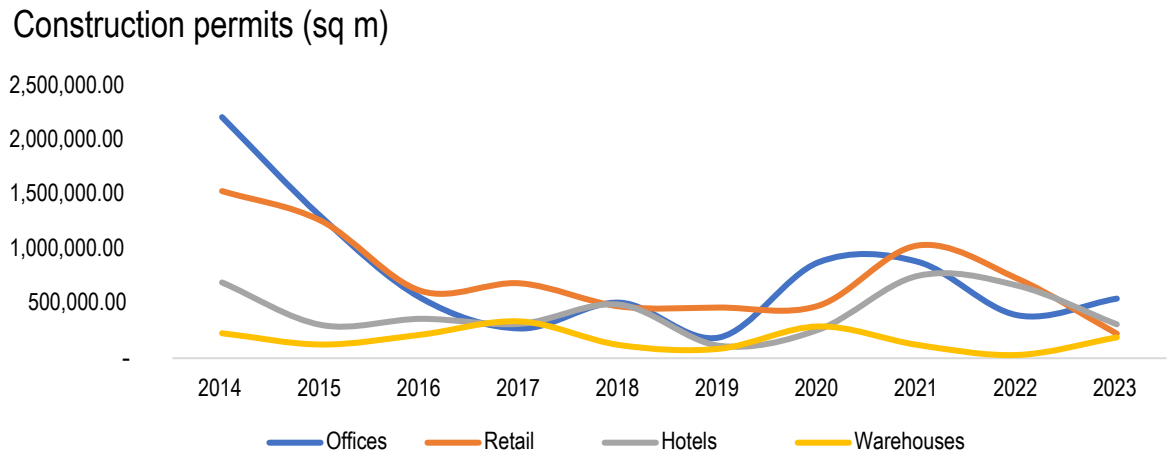


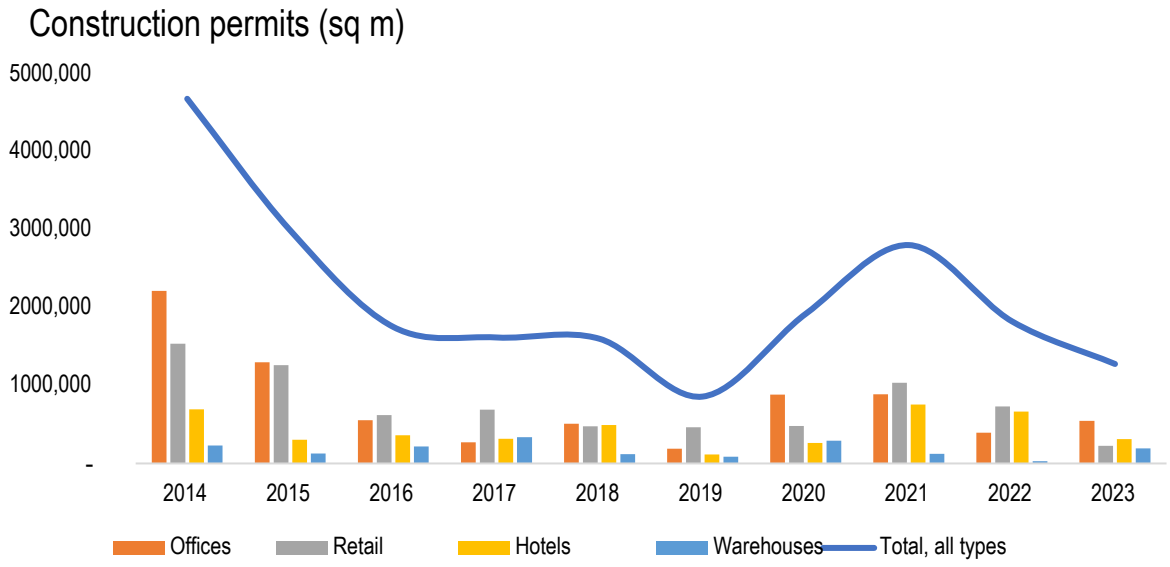
In recent years the Moscow market has seen low delivery and occupancy still below pre-crisis levels, although operating indicators (ADR and RevPAR) are recovering.

The market has already adapted to the exit of foreign operators, but competition within it remains intense and the segment is not popular with investors.

CONSTRUCTION PERMITS ISSUED FOR COMMERCIAL PROPERTIES IN MOSCOW

Below is key information on construction permits obtained for commercial properties over the last 10 years.





Our analysis of construction permits for commercial properties shows that the commercial real estate market has not recovered in 10 years, and the coronavirus pandemic and the “special military operation” are clearly visible on the curve. Before obtaining a permit, a developer must prepare the design and the site and complete many other steps that can take years. The chart shows that after the 2014 crisis, permit applications fell every year and only began to rise in 2020 and 2021, which suggests the market began to revive and move towards building new commercial space from around 2018. After 2021 the curve turns down again, in line with the change in behaviour of commercial space users after the pandemic — the trend towards emptying shopping centres and remote work.

CONCLUSION

Of all the Moscow commercial real estate segments analysed, office and warehouse property have investment potential.

In the office segment, Class A delivery and vacancy are both falling, which may lead to a shortage of quality offices in the coming years. In terms of rental revenue stability and developer margin, Class A looks considerably more attractive than Class B+.

Class B- and C offices have not interested investors over the last 10 years, and there is no sign of this changing.

The warehouse segment looks highly attractive: a sharp slowdown in new construction and near-full occupancy of existing facilities are accompanied by rising rents. Besides building conventional logistics parks near Moscow, redevelopment of Moscow's industrial zones unsuited to residential or office projects may be of interest.

As for new space, we see the following trends:

- conventional shopping centres will continue to be built at a slow pace, as not all districts have them yet, but their size will shrink, partly under the influence of e-commerce;
- offices will be built at a substantial pace, as Moscow still lacks quality office space;
- there are no grounds for a surge in construction of large hotel complexes in "old" Moscow, as the effects of the pandemic and the drop in tourist flows after the start of the "special military operation" are still felt, but given state support for the industry, interest in hotel development will remain steady;
- no surge in construction of large warehouses is expected in "old" Moscow, given the lack of suitable sites and the fact that major logistics parks are better located outside the city limits.

At the same time, a steady trend is emerging towards mixed-use complexes with anchor attractions, combining premises of various uses (offices, retail, food service, consumer services, etc.), both within residential developments and outside them.