

City Office Boom Moving Toward the Suburbs

By [Irina Filatova](#)

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Some experts say changing policies in City Hall could lead to a deficit of office space in Moscow in a few years. **Vladimir Filonov**

Information technology companies were the leading tenants of new offices in Moscow this year, taking the largest portion of space in a segment that is expected to exceed \$3 billion in value.

The country's IT sector is burgeoning, and companies are moving to bigger offices of higher quality, as they are expanding their business, Olga Pobukovskaya, head of the office property department at Colliers International said Friday.

IT companies accounted for 24 percent of the overall number of tenants of office space in 2011, according to a presentation by the consulting company.

Other segments that made up significant portions of the rental market include fast-moving

consumer goods companies, banks and financial companies and natural resources firms, the presentation said.

Serious competition for personnel in the booming IT industry makes the market players seek high-quality offices to ensure maximum comfort for employees, said Leonid Kaprov, head of the commercial management and housing sales department at Hals-Development, at an industry round table earlier this month.

Hals-Development — which focuses on office and residential construction and is majority owned by the state-controlled bank VTB — signed a seven-year agreement in early December with Internet company Mail.ru Group, in what analysts said was the biggest office lease deal this year.

Mail.ru Group leased a total of 29,932 square meters of Class A office space in the SkyLight business center on Leningradsky Prospekt, which will come online next year.

The second-largest tenant of office space in Moscow was Kaspersky Lab, which leased 29,840 square meters in the Olympia Park business center on Leningradskoye Shosse.

"The number of employees in Mail.ru Group is 2,500, the company is growing. The current space is not sufficient for all the company's projects," Mail.ru Group said in e-mailed comments.

We have been looking for a long time for a new convenient office, which will become a real headquarters and whose space will allow us to locate all employees in one place, the company said.

With more big companies seeking to move to high-quality offices, the share of Class A space in the total construction volume is expected to increase in the future, said participants in the round table, which included real estate consulting companies Cushman & Wakefield, Jones Lang LaSalle, Colliers International, Knight Frank and S.A. Ricci.

The share of vacant Class A offices currently amounts to about 17 percent of the overall office space in the capital.

Spending on office property, including both rented and purchased space, is expected to reach at least \$3.3 billion this year — in line with last year's figures, while the volume of occupied office space in the capital is likely to total 1.7 million square meters, said Mikhail Mindlin, senior director of the office property department at Cushman & Wakefield.

The overall volume of Class A and B office space in Moscow — both occupied and free — totals 13 million square meters.

According to Cushman & Wakefield, spending on office space amounted to more than a third of overall investment in commercial property in Moscow — which also includes warehouses, hotels and retail space, and is expected to reach \$8.5 billion this year. This is more than twice as much as was invested last year.

"People see that the market is more or less stable and invest money," Mindlin told The Moscow Times after the round table.

Meanwhile some experts warned that the office property market could face a deficit in a couple of years due to policy changes by City Hall.

Construction of new offices in Moscow declined almost threefold from 2008, to reach about 800,000 square meters this year, after Mayor Sergei Sobyenin revised or terminated many investment contracts, said Pobukovskaya of Colliers International.

Though the lack of office space is unlikely to be felt next year, with developers announcing new construction projects that are expected to add up to 1.5 million square meters of new offices in Moscow, City Hall's policy might result in a shortage starting in 2013, she told The Moscow Times.

Developers have announced plans to build only 500,000 square meters of new office space in Moscow in 2013 so far, and usually just half of the volumes announced wind up being completed, she said.

She also said office space concentration is expected to gradually move outside the city center and the Moscow Ring Road in light of the Kremlin's initiative to extend Moscow boundaries.

The "Greater Moscow" territory has good potential for office construction, but it will take companies a while to start developing this area because building infrastructure is the first step to be taken, said Sergei Kalinin, president of Hals-Development.

"It's a perspective of three to seven years. ... Developers will gladly invest in the new Moscow if there's infrastructure there," he told the round table.

The average rental rate for Class A office space in Moscow in the fourth quarter of the year was \$730 per square meter, according to the Cushman & Wakefield research department Monday. The same property sold for \$5,000 to \$6,000 per square meter, and Class B office space fetched \$3,500 to \$4,500 per square meter. Those figures do not include VAT and maintenance fees.

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