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'Moskva-City' Skyscrapers Set to Be Emptier Than Ever

By Sam Skove

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Ruble devaluation has hit Moskva-City particularly hard.

"Moskva-City," a financial district of glass-fronted skyscrapers meant to be Russia's answer to New York's Wall Street, will be nearly half vacant this year, according to elite Moscow-based real estate consulting company Blackwood.

Around 45 percent of the district, which includes the tallest towers in Europe, is expected to be vacant as the construction of new buildings wraps up amid Russia's economic slump, Blackwood said in a recent press release.

Russia's economy is expected to shrink by as much as 5 percent this year, weighed down by Western sanctions, low oil prices and a halving of the value of the ruble against the U.S. dollar since last summer.

Ruble devaluation has hit Moskva-City particularly hard: Rents in the district, as with many

high-end properties in Russia, are denominated in now-pricey dollars.

Western sanctions on Russia over Moscow's actions in Ukraine are meanwhile ravaging the fortunes of many of the companies that Moskva-City was aimed at: banks and foreign firms.

Companies are struggling to stay profitable as the economy tanks, and banks have long been braced for a wave of bankruptcies forced by restrictions on borrowing in the West.

But the economy's plunge comes too late for construction schedules, and Moskva-City will gain 284,000 square meters of new office space this year, accounting for around 30 percent of the 1 million square meters of new offices set to come online this year in Moscow.

The new buildings include the Evolution tower, a 54-story skyscraper shaped like a strand of double helix DNA (64,000 square meters), the IQ-Quarter skyscrapers (134,000 square meters) and the Federation Tower East skyscraper (86,000 square meters).

As supply outstrips demand, developers are expected to decouple rents from the dollar and either charge only in rubles or peg rents to a ruble trading corridor. The Federation Tower West has already fixed sale prices in rubles for several lots, according to Blackwood.

Konstantin Kovalyev, managing partner at Blackwood, said average rents for high-end office spaces such as Moskva-City may fall to an average of $500-600 per square meter this year, down from a 2014 average of $700 per square meter.

"2015 is a buyer's market," said Kovalyev.

The tough economic conditions have already led to some unusual tenants. The High Level hostel advertises itself as the worlds "first skyscraper hostel," perched 170 meters above the city in the Imperia Tower building, completed in 2011. The building is at least 54 percent empty, according to real estate agency Cushman & Wakefield.

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